

YRC WORLDWIDE INC  
Form 10-Q  
August 07, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

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(Mark One)

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

For the quarterly period ended June 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

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**YRC Worldwide Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**48-0948788**  
(I.R.S. Employer

Identification No.)

10990 Roe Avenue, Overland Park, Kansas

66211

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(Address of principal executive offices)

(913) 696-6100

(Zip Code)

(Registrant's telephone number, including area code)

No Changes

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

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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 ☒ 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 ☒ 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 ☒

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

| Class                                 |
|---------------------------------------|
| Common Stock, \$1 Par Value Per Share |

| Outstanding at July 31, 2007 |
|------------------------------|
| 57,668,645 shares            |

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****CONSOLIDATED BALANCE SHEETS****YRC Worldwide Inc. and Subsidiaries**

(Amounts in thousands except per share data)

|                                             | <b>June 30,<br/>2007<br/>(Unaudited)</b> | <b>December 31,<br/>2006</b> |
|---------------------------------------------|------------------------------------------|------------------------------|
| <b>Assets</b>                               |                                          |                              |
| Current Assets:                             |                                          |                              |
| Cash and cash equivalents                   | \$ 56,675                                | \$ 76,391                    |
| Accounts receivable, net                    | 1,214,541                                | 1,190,818                    |
| Prepaid expenses and other                  | 294,129                                  | 323,882                      |
| Total current assets                        | 1,565,345                                | 1,591,091                    |
| Property and Equipment:                     |                                          |                              |
| Cost                                        | 3,988,391                                | 3,841,657                    |
| Less accumulated depreciation               | 1,614,005                                | 1,571,811                    |
| Net property and equipment                  | 2,374,386                                | 2,269,846                    |
| Goodwill                                    | 1,325,318                                | 1,326,583                    |
| Intangibles, net                            | 684,172                                  | 691,417                      |
| Other assets                                | 68,144                                   | 73,300                       |
| <b>Total assets</b>                         | <b>\$ 6,017,365</b>                      | <b>\$ 5,952,237</b>          |
| <b>Liabilities and Shareholders' Equity</b> |                                          |                              |
| Current Liabilities:                        |                                          |                              |
| Accounts payable                            | \$ 406,999                               | \$ 397,586                   |
| Wages, vacations and employees' benefits    | 442,123                                  | 413,759                      |
| Other current and accrued liabilities       | 386,019                                  | 324,124                      |
| Asset backed securitization borrowings      | 250,000                                  | 225,000                      |
| Current maturities of long-term debt        | 150,000                                  |                              |
| Total current liabilities                   | 1,635,141                                | 1,360,469                    |
| Other Liabilities:                          |                                          |                              |
| Long-term debt, less current portion        | 903,702                                  | 1,058,496                    |
| Deferred income taxes, net                  | 611,882                                  | 609,193                      |
| Pension and postretirement                  | 238,107                                  | 349,723                      |
| Claims and other liabilities                | 351,655                                  | 381,807                      |
| Commitments and contingencies               |                                          |                              |
| Shareholders' Equity:                       |                                          |                              |
| Common stock, \$1 par value per share       | 61,231                                   | 60,876                       |

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|                                                   |                     |                     |
|---------------------------------------------------|---------------------|---------------------|
| Preferred stock, \$1 par value per share          |                     |                     |
| Capital surplus                                   | 1,201,723           | 1,180,578           |
| Retained earnings                                 | 1,166,146           | 1,115,246           |
| Accumulated other comprehensive loss              | (42,605)            | (54,534)            |
| Treasury stock, at cost (3,679 shares)            | (109,617)           | (109,617)           |
| Total shareholders' equity                        | 2,276,878           | 2,192,549           |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 6,017,365</b> | <b>\$ 5,952,237</b> |

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 Six Months Ended June 30

(Amounts in thousands except per share data)

(Unaudited)

|                                                  | Three Months |              | Six Months   |              |
|--------------------------------------------------|--------------|--------------|--------------|--------------|
|                                                  | 2007         | 2006         | 2007         | 2006         |
| <b>Operating Revenue</b>                         | \$ 2,486,505 | \$ 2,565,779 | \$ 4,814,847 | \$ 4,939,940 |
| <b>Operating Expenses:</b>                       |              |              |              |              |
| Salaries, wages and employees' benefits          | 1,464,840    | 1,459,881    | 2,886,365    | 2,861,813    |
| Operating expenses and supplies                  | 469,644      | 468,422      | 911,572      | 918,349      |
| Purchased transportation                         | 273,184      | 280,618      | 524,952      | 533,904      |
| Depreciation and amortization                    | 60,345       | 74,722       | 119,336      | 148,162      |
| Other operating expenses                         | 113,464      | 105,600      | 229,788      | 212,466      |
| (Gains) losses on property disposals, net        | (2,788)      | (3,226)      | 161          | (2,344)      |
| Reorganization and settlements                   | (606)        | 7,481        | 13,851       | 7,481        |
| Total operating expenses                         | 2,378,083    | 2,393,498    | 4,686,025    | 4,679,831    |
| <b>Operating Income</b>                          | 108,422      | 172,281      | 128,822      | 260,109      |
| <b>Nonoperating (Income) Expenses:</b>           |              |              |              |              |
| Interest expense                                 | 21,766       | 23,111       | 41,804       | 43,659       |
| Other                                            | 2,012        | (563)        | 278          | (1,359)      |
| Nonoperating expenses, net                       | 23,778       | 22,548       | 42,082       | 42,300       |
| <b>Income Before Income Taxes</b>                | 84,644       | 149,733      | 86,740       | 217,809      |
| Income tax provision                             | 29,277       | 57,481       | 30,094       | 83,421       |
| <b>Net Income</b>                                | \$ 55,367    | \$ 92,252    | \$ 56,646    | \$ 134,388   |
| <b>Average Common Shares Outstanding Basic</b>   | 57,514       | 57,464       | 57,426       | 57,419       |
| <b>Average Common Shares Outstanding Diluted</b> | 58,511       | 58,422       | 58,546       | 58,801       |
| <b>Basic Earnings Per Share</b>                  | \$ 0.96      | \$ 1.61      | \$ 0.99      | \$ 2.34      |
| <b>Diluted Earnings Per Share</b>                | \$ 0.95      | \$ 1.58      | \$ 0.97      | \$ 2.29      |

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 Six Months Ended June 30

(Amounts in thousands)

(Unaudited)

|                                                             | 2007             | 2006             |
|-------------------------------------------------------------|------------------|------------------|
| <b>Operating Activities:</b>                                |                  |                  |
| Net income                                                  | \$ 56,646        | \$ 134,388       |
| Noncash items included in net income:                       |                  |                  |
| Depreciation and amortization                               | 119,336          | 148,162          |
| (Gains) losses on property disposals, net                   | 161              | (2,344)          |
| Deferred income tax benefit                                 | (842)            | (228)            |
| Other noncash items                                         | 4,725            | 2,915            |
| Changes in assets and liabilities, net:                     |                  |                  |
| Accounts receivable                                         | (32,794)         | (89,195)         |
| Accounts payable                                            | 8,418            | (38,879)         |
| Other operating assets                                      | 19,774           | 27,479           |
| Other operating liabilities                                 | (12,521)         | (24,375)         |
| <b>Net cash provided by operating activities</b>            | <b>162,903</b>   | <b>157,923</b>   |
| <b>Investing Activities:</b>                                |                  |                  |
| Acquisition of property and equipment                       | (241,860)        | (250,162)        |
| Proceeds from disposal of property and equipment            | 27,939           | 24,045           |
| Acquisition of companies                                    |                  | (14,842)         |
| Other                                                       | (103)            | (2,548)          |
| <b>Net cash used in investing activities</b>                | <b>(214,024)</b> | <b>(243,507)</b> |
| <b>Financing Activities:</b>                                |                  |                  |
| Asset backed securitization borrowings, net                 | 25,000           | 74,530           |
| Borrowing of long-term debt, net                            |                  | 10,000           |
| Proceeds from exercise of stock options                     | 6,405            | 2,296            |
| <b>Net cash provided by financing activities</b>            | <b>31,405</b>    | <b>86,826</b>    |
| <b>Net Increase (Decrease) In Cash and Cash Equivalents</b> | <b>(19,716)</b>  | <b>1,242</b>     |
| <b>Cash and Cash Equivalents, Beginning of Period</b>       | <b>76,391</b>    | <b>82,361</b>    |
| <b>Cash and Cash Equivalents, End of Period</b>             | <b>\$ 56,675</b> | <b>\$ 83,603</b> |

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 Six Months Ended June 30

(Amounts in thousands)

(Unaudited)

|                                                                                  | <b>2007</b>         |
|----------------------------------------------------------------------------------|---------------------|
| <b>Common Stock</b>                                                              |                     |
| Beginning balance                                                                | \$ 60,876           |
| Exercise of stock options                                                        | 216                 |
| Employer contribution to 401(k) plan                                             | 121                 |
| Issuance of equity awards, net                                                   | 18                  |
| Ending balance                                                                   | \$ 61,231           |
| <b>Capital Surplus</b>                                                           |                     |
| Beginning balance                                                                | \$ 1,180,578        |
| Exercise of stock options, including tax benefits                                | 6,189               |
| Employer contribution to 401(k) plan                                             | 5,140               |
| Share-based compensation                                                         | 7,203               |
| Other, net                                                                       | 2,613               |
| Ending balance                                                                   | \$ 1,201,723        |
| <b>Retained Earnings</b>                                                         |                     |
| Beginning balance                                                                | \$ 1,115,246        |
| Cumulative effect adoption of FIN 48, Accounting for Uncertainty in Income Taxes | (5,746)             |
| Net income                                                                       | 56,646              |
| Ending balance                                                                   | \$ 1,166,146        |
| <b>Accumulated Other Comprehensive Loss</b>                                      |                     |
| Beginning balance                                                                | \$ (54,534)         |
| Amortization of pension costs                                                    | 2,814               |
| Foreign currency translation adjustment                                          | 9,115               |
| Ending balance                                                                   | \$ (42,605)         |
| <b>Treasury Stock, At Cost</b>                                                   |                     |
| Beginning and ending balance                                                     | \$ (109,617)        |
| <b>Total Shareholders' Equity</b>                                                | <b>\$ 2,276,878</b> |

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 June 30, 2007, approximately 70% of our labor force is subject to various collective bargaining agreements, which predominantly expire in 2008.

**2. Principles of Consolidation**

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 registered 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

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conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006.

**Table of Contents****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 \$13.6 million and \$27.1 million would have been recorded during the three and six months ended June 30, 2007, respectively. Accordingly, the changes in estimates resulted in an increase in income from continuing operations of approximately \$13.6 million and \$27.1 million (an \$8.9 million and \$17.7 million increase in net income) for the three and six months ended June 30, 2007, respectively. The change in estimate also increased diluted earnings per share by \$0.15 and \$0.30 for the three and six months ended June 30, 2007, respectively.

**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 of \$0.4 million.

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<br>Separation | Contract<br>Termination<br>and Other<br>Costs | Total  |
|------------------------------|------------------------|-----------------------------------------------|--------|
| Balance at December 31, 2006 | \$ 1.0                 | \$ 6.5                                        | \$ 7.5 |
| Restructuring charges        | 8.4                    | 1.1                                           | 9.5    |
| Adjustments <sup>(a)</sup>   | (0.5)                  | (3.2)                                         | (3.7)  |
| Payments                     | (2.5)                  | (1.6)                                         | (4.1)  |
| Balance at June 30, 2007     | \$ 6.4                 | \$ 2.8                                        | \$ 9.2 |

(a) Amounts credited to goodwill in accordance with purchase accounting requirements.

In addition to the above restructuring charges of \$9.5 million, we incurred reorganization and other closure related charges of \$1.4 million and \$7.8 million during the three and six months ended June 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 June 30, 2007:

(in millions)

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|                                                                                    | Three<br>Months | Six<br>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             | 1.4           |
| Other USF Bestway closure related charges                                          |                 | 4.1           |
| Total                                                                              | \$ 1.4          | \$ 7.8        |

**Table of Contents****4. Debt and Financing**

Total debt consisted of the following:

| (in millions)                                  | June 30, 2007     | December 31, 2006 |
|------------------------------------------------|-------------------|-------------------|
| ABS borrowings, secured by accounts receivable | \$ 250.0          | \$ 225.0          |
| Floating rate notes                            | 150.0             | 150.0             |
| USF senior notes                               | 262.3             | 264.7             |
| Roadway senior notes                           | 231.9             | 234.3             |
| Contingent convertible senior notes            | 400.0             | 400.0             |
| Other                                          | 9.5               | 9.5               |
| <b>Total debt</b>                              | <b>\$ 1,303.7</b> | <b>\$ 1,283.5</b> |
| ABS borrowings                                 | (250.0)           | (225.0)           |
| Current maturities                             | (150.0)           |                   |
| <b>Long-term debt</b>                          | <b>\$ 903.7</b>   | <b>\$ 1,058.5</b> |

**5. Employee Benefits****Components of Net Periodic Pension and Other Postretirement Cost**

The following table sets forth the components of our company-sponsored pension and other postretirement costs for the three and six months ended June 30:

| (in millions)                      | Three Months   |                | Six Months     |                |
|------------------------------------|----------------|----------------|----------------|----------------|
|                                    | 2007           | 2006           | 2007           | 2006           |
| Service cost                       | \$ 9.8         | \$ 11.1        | \$ 19.6        | \$ 22.0        |
| Interest cost                      | 16.3           | 15.9           | 32.7           | 31.6           |
| Expected return on plan assets     | (17.3)         | (14.8)         | (34.9)         | (29.6)         |
| Amortization of prior service cost | 0.3            | 0.4            | 0.6            | 0.8            |
| Amortization of net loss           | 2.0            | 3.0            | 4.0            | 5.5            |
| <b>Net periodic pension cost</b>   | <b>11.1</b>    | <b>15.6</b>    | <b>22.0</b>    | <b>30.3</b>    |
| Settlement cost                    |                | 0.6            | 1.4            | 0.6            |
| Special termination benefit cost   |                |                | 1.5            |                |
| <b>Total periodic pension cost</b> | <b>\$ 11.1</b> | <b>\$ 16.2</b> | <b>\$ 24.9</b> | <b>\$ 30.9</b> |

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 six months ended June 30, 2007.

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

| (in millions)                      | Three Months |        | Six Months |        |
|------------------------------------|--------------|--------|------------|--------|
|                                    | 2007         | 2006   | 2007       | 2006   |
| Service cost                       | \$ 0.1       | \$ 0.1 | \$ 0.2     | \$ 0.3 |
| Interest cost                      | 0.5          | 0.5    | 1.0        | 1.0    |
| Amortization of prior service cost | 0.1          | 0.1    | 0.2        | 0.1    |

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|                            |        |        |        |        |
|----------------------------|--------|--------|--------|--------|
| Amortization of net (gain) | (0.1)  | (0.1)  | (0.2)  | (0.2)  |
| Other postretirement cost  | \$ 0.6 | \$ 0.6 | \$ 1.2 | \$ 1.2 |

**Table of Contents****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 pre-FIN 48 treatment as components of the income tax provision.

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 three months ended June 30, 2007, to reflect the reclass of deferred tax assets associated with certain indirect federal benefits. We accrued \$1.6 million of interest on uncertain tax positions during the six months ended June 30, 2007. 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 June 30, 2007:

|                                                      | <b>Pre-acquisition tax years</b> |                                       |                               |
|------------------------------------------------------|----------------------------------|---------------------------------------|-------------------------------|
|                                                      | <b>YRC Worldwide</b>             | <b>USF Corporation <sup>(a)</sup></b> | <b>Roadway <sup>(b)</sup></b> |
| Statute remains open                                 | 2003-2006                        | 2000-2005                             | 2001-03                       |
| Tax years currently under examination/exam completed | 2003-2005                        | 2000-2005                             | 2001-03                       |
| 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. This audit could be resolved by June 30, 2008.

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 \$50 million. This audit could be resolved by June 30, 2008. Any tax liability resulting from the audit would affect only goodwill recognized in the allocation of the purchase price of the acquired subsidiary.

There have been no significant changes in the status of uncertain tax positions during the six months ended June 30, 2007.

*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 June 30, 2007, the Company recorded income tax expense of \$29.3 million, resulting in an effective rate of 34.6% compared to 38.4% for the three months ended June 30, 2006.





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For the six months ended June 30, 2007, the Company recorded income tax expense of \$30.1 million resulting in an effective rate of 34.7% compared to 38.3% for the six months ended June 30, 2006. During the three months ended June 30, 2007, the Company recorded an income tax benefit of \$1.9 million for a propane fuel tax credit related to 2006. Additionally, the second quarter 2007 effective tax rate is favorably impacted by a projected \$7.6 million benefit related to a propane fuel credit for 2007.

**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 700,000 and 650,000 for the three and six months ended June 30, 2007, respectively, and 573,000 and 584,000 for the three and six months ended June 30, 2006, respectively. In addition, dilutive securities related to our net share settle contingent convertible notes were 297,000 and 470,000 for the three and six months ended June 30, 2007, respectively, and 385,000 and 798,000 for the three and six months ended June 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 relationship is such that the year-to-date average stock price is less than the stated conversion price, the computed shares would be antidilutive under the treasury stock method. Data regarding antidilutive securities for the three and six months ended June 30 is summarized below:

| (in thousands except per share data)                    | Three Months |          | Six Months |      |
|---------------------------------------------------------|--------------|----------|------------|------|
|                                                         | 2007         | 2006     | 2007       | 2006 |
| Weighted average exercise price per share               | \$ 43.46     | \$ 43.46 | \$ 43.46   | \$   |
| Antidilutive weighted average option shares outstanding | 23           | 23       | 23         |      |
| Antidilutive convertible senior note conversion shares  | 472          | 420      | 371        | 179  |

**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 adjusted 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, 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:

|                                                | National       | Regional       |           | Corporate/<br>Eliminations | Consolidated |
|------------------------------------------------|----------------|----------------|-----------|----------------------------|--------------|
| (in millions)                                  | Transportation | Transportation | Logistics |                            |              |
| As of June 30, 2007                            |                |                |           |                            |              |
| Identifiable assets                            | \$ 3,351.5     | \$ 2,227.9     | \$ 449.3  | \$ (11.3)                  | \$ 6,017.4   |
| As of December 31, 2006                        |                |                |           |                            |              |
| Identifiable assets                            | 3,269.1        | 2,179.2        | 413.5     | 90.4                       | 5,952.2      |
| Three months ended June 30, 2007               |                |                |           |                            |              |
| External revenue                               | 1,702.5        | 628.5          | 155.5     |                            | 2,486.5      |
| Intersegment revenue                           | 1.0            |                | 2.7       | (3.7)                      |              |
| Operating income                               | 92.8           | 14.8           | 1.5       | (0.7)                      | 108.4        |
| Adjustments to operating income <sup>(a)</sup> | (5.1)          | 1.8            | 2.6       | (2.7)                      | (3.4)        |
| Adjusted operating income <sup>(b)</sup>       | 87.7           | 16.6           | 4.1       | (3.4)                      | 105.0        |
| Three months ended June 30, 2006               |                |                |           |                            |              |
| External revenue                               | 1,759.5        | 654.1          | 152.2     |                            | 2,565.8      |
| Intersegment revenue                           | 1.0            |                | 1.4       | (2.4)                      |              |
| Operating income                               | 124.2          | 53.6           | 2.7       | (8.2)                      | 172.3        |
| Adjustments to operating income <sup>(a)</sup> | 1.7            | (0.3)          | 1.5       | 1.3                        | 4.2          |
| Adjusted operating income <sup>(b)</sup>       | 125.9          | 53.3           | 4.2       | (6.9)                      | 176.5        |
| Six months ended June 30, 2007                 |                |                |           |                            |              |
| External revenue                               | 3,309.9        | 1,204.4        | 300.5     |                            | 4,814.8      |
| Intersegment revenue                           | 2.0            |                | 7.4       | (9.4)                      |              |
| Operating income                               | 125.9          | 9.8            | 0.4       | (7.3)                      | 128.8        |
| Adjustments to operating income <sup>(a)</sup> | 1.7            | 8.3            | 2.7       | 1.3                        | 14.0         |
| Adjusted operating income <sup>(b)</sup>       | 127.6          | 18.1           | 3.1       | (6.0)                      | 142.8        |
| Six months ended June 30, 2006                 |                |                |           |                            |              |
| External revenue                               | 3,402.0        | 1,246.1        | 291.8     |                            | 4,939.9      |
| Intersegment revenue                           | 2.4            |                | 1.6       | (4.0)                      |              |
| Operating income                               | 193.4          | 75.0           | 5.2       | (13.5)                     | 260.1        |
| Adjustments to operating income <sup>(a)</sup> | 1.6            | (0.3)          | 1.5       | 2.3                        | 5.1          |
| Adjusted operating income <sup>(b)</sup>       | 195.0          | 74.7           | 6.7       | (11.2)                     | 265.2        |

- (a) Management excludes these items when evaluating operating income and segment performance to better evaluate the results of our core operations. The 2007 adjustments relate to reorganization charges, gains and charges for settlements of obligations and losses (gains) on property disposals. The 2006 adjustments relate to reorganization charges and losses (gains) on property disposals.
- (b) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles.

## 9. Comprehensive Income

Comprehensive income for the three and six months ended June 30 follows:

| (in millions)                                       | Three Months<br>2007 | 2006    | Six Months<br>2007 | 2006     |
|-----------------------------------------------------|----------------------|---------|--------------------|----------|
| Net income                                          | \$ 55.4              | \$ 92.3 | \$ 56.6            | \$ 134.4 |
| Other comprehensive income, net of tax:             |                      |         |                    |          |
| Amortization of pension costs                       | 1.4                  |         | 2.8                |          |
| Changes in foreign currency translation adjustments | 8.5                  | 2.2     | 9.1                | 4.5      |
| Other comprehensive income                          | 9.9                  | 2.2     | 11.9               | 4.5      |

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|                      |         |         |         |          |
|----------------------|---------|---------|---------|----------|
| Comprehensive income | \$ 65.3 | \$ 94.5 | \$ 68.5 | \$ 138.9 |
|----------------------|---------|---------|---------|----------|

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**10. Commitments and Contingencies**

*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 has agreed to pay the Gonzalez Family and Grupo Almex \$2.0 million and forgive 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 previously written off as uncollectible debt in 2005 as part of the Company's acquisition consideration for USF Corporation. The Company previously accrued \$0.6 million 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 June 2007, we reached a settlement agreement with one 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 settlement, we agreed to pay \$26.4 million to be released from the obligation. This amount was paid in July 2007 and was classified as a short-term liability at June 30, 2007. 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.

**Table of Contents****11. 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 principle 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. 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 June 30, 2007 and December 31, 2006 with respect to the financial position and for the three and six months ended June 30, 2007 and 2006 for results of operations and for the six months ended June 30, 2007 and 2006 for the statements 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 asset backed securitization ( ABS ) agreement.

**Condensed Consolidating Balance Sheets****June 30, 2007**

| (in millions)                            | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
| Cash and cash equivalents                | \$ 15    | \$ 23                     | \$ 19                         | \$           | \$ 57        |
| Intercompany advances receivable         |          | (78)                      | 78                            |              |              |
| Accounts receivable, net                 | 4        | (12)                      | 1,239                         | (16)         | 1,215        |
| Prepaid expenses and other               | 3        | 102                       | 189                           |              | 294          |
| Total current assets                     | 22       | 35                        | 1,525                         | (16)         | 1,566        |
| Property and equipment                   |          | 3,401                     | 587                           |              | 3,988        |
| Less accumulated depreciation            |          | (1,495)                   | (119)                         |              | (1,614)      |
| Net property and equipment               |          | 1,906                     | 468                           |              | 2,374        |
| Investment in subsidiaries               | 3,863    | 458                       | (31)                          | (4,290)      |              |
| Receivable from affiliate                | (658)    | 635                       | 23                            |              |              |
| Goodwill and other assets                | 262      | 1,856                     | 309                           | (350)        | 2,077        |
| Total assets                             | \$ 3,489 | \$ 4,890                  | \$ 2,294                      | \$ (4,656)   | \$ 6,017     |
| Intercompany advances payable            | \$ 402   | \$ (527)                  | \$ 334                        | \$ (209)     | \$           |
| Accounts payable                         | 31       | 306                       | 77                            | (7)          | 407          |
| Wages, vacations and employees' benefits | 25       | 369                       | 48                            |              | 442          |
| Other current and accrued liabilities    | 71       | 132                       | 186                           | (3)          | 386          |
| Asset backed securitization borrowings   |          |                           | 250                           |              | 250          |
| Current maturities of long-term debt     | 150      |                           |                               |              | 150          |

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|                                            |          |          |          |            |          |
|--------------------------------------------|----------|----------|----------|------------|----------|
| Total current liabilities                  | 679      | 280      | 895      | (219)      | 1,635    |
| Payable to affiliate                       | (125)    | 52       | 223      | (150)      |          |
| Long-term debt, less current portion       | 400      | 504      |          |            | 904      |
| Deferred income taxes, net                 | 19       | 431      | 162      |            | 612      |
| Pension and postretirement                 | 238      |          |          |            | 238      |
| Claims and other liabilities               | 106      | 4        | 242      |            | 352      |
| Commitments and contingencies              |          |          |          |            |          |
| Shareholders' equity                       | 2,172    | 3,619    | 772      | (4,287)    | 2,276    |
| Total liabilities and shareholders' equity | \$ 3,489 | \$ 4,890 | \$ 2,294 | \$ (4,656) | \$ 6,017 |

**Table of Contents****December 31, 2006**

| (in millions)                              | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>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 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 June 30, 2007**

| (in millions)                             | Parent | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|--------|---------------------------|-------------------------------|--------------|--------------|
| Operating revenue                         | \$ 11  | \$ 2,100                  | \$ 466                        | \$ (91)      | \$ 2,486     |
| Operating expenses:                       |        |                           |                               |              |              |
| Salaries, wages and employees' benefits   | 9      | 1,199                     | 257                           |              | 1,465        |
| Operating expenses and supplies           | 8      | 419                       | 127                           | (84)         | 470          |
| Purchased transportation                  |        | 209                       | 67                            | (3)          | 273          |
| Depreciation and amortization             |        | 46                        | 14                            |              | 60           |
| Other operating expenses                  |        | 94                        | 20                            |              | 114          |
| (Gains) losses on property disposals, net |        | (5)                       | 2                             |              | (3)          |
| Reorganization and settlements            | 1      | 1                         | (3)                           |              | (1)          |
| Total operating expenses                  | 18     | 1,963                     | 484                           | (87)         | 2,378        |
| Operating income (loss)                   | (7)    | 137                       | (18)                          | (4)          | 108          |



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## Nonoperating (income) expenses:

|                                     |         |       |       |        |       |
|-------------------------------------|---------|-------|-------|--------|-------|
| Nonoperating (income) expenses:     |         |       |       |        |       |
| Interest expense                    | 8       | 9     | 5     |        | 22    |
| Other, net                          | 3       | 58    | (60)  | 1      | 2     |
| Nonoperating (income) expenses, net | 11      | 67    | (55)  | 1      | 24    |
| Income (loss) before income taxes   | (18)    | 70    | 37    | (5)    | 84    |
| Income tax provision (benefit)      | (5)     | 23    | 13    | (2)    | 29    |
| Net income (loss)                   | \$ (13) | \$ 47 | \$ 24 | \$ (3) | \$ 55 |

**Table of Contents****For the three months ended June 30, 2006**

| (in millions)                           | Parent  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------|---------|---------------------------|-------------------------------|--------------|--------------|
| Operating revenue                       | \$ 12   | \$ 2,173                  | \$ 482                        | \$ (101)     | \$ 2,566     |
| Operating expenses:                     |         |                           |                               |              |              |
| Salaries, wages and employees' benefits | 12      | 1,235                     | 227                           | (14)         | 1,460        |
| Operating expenses and supplies         | 7       | 416                       | 127                           | (82)         | 468          |
| Purchased transportation                |         | 210                       | 75                            | (4)          | 281          |
| Depreciation and amortization           |         | 60                        | 15                            |              | 75           |
| Other operating expenses                |         | 91                        | 14                            |              | 105          |
| Gains on property disposals, net        |         | (2)                       | (1)                           |              | (3)          |
| Reorganization and settlements          | 1       | 6                         | 1                             |              | 8            |
| Total operating expenses                | 20      | 2,016                     | 458                           | (100)        | 2,394        |
| Operating income (loss)                 | (8)     | 157                       | 24                            | (1)          | 172          |
| Nonoperating (income) expenses:         |         |                           |                               |              |              |
| Interest expense                        | 2       | 4                         | (11)                          | 28           | 23           |
| Other, net                              | 9       | 38                        | (18)                          | (30)         | (1)          |
| Nonoperating (income) expenses, net     | 11      | 42                        | (29)                          | (2)          | 22           |
| Income (loss) before income taxes       | (19)    | 115                       | 53                            | 1            | 150          |
| Income tax provision (benefit)          | (5)     | 43                        | 19                            | 1            | 58           |
| Net income (loss)                       | \$ (14) | \$ 72                     | \$ 34                         | \$           | \$ 92        |

**For the six months ended June 30, 2007**

| (in millions)                             | Parent | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|--------|---------------------------|-------------------------------|--------------|--------------|
| Operating revenue                         | \$ 24  | \$ 4,089                  | \$ 886                        | \$ (184)     | \$ 4,815     |
| Operating expenses:                       |        |                           |                               |              |              |
| Salaries, wages and employees' benefits   | 20     | 2,372                     | 494                           |              | 2,886        |
| Operating expenses and supplies           | 15     | 815                       | 252                           | (170)        | 912          |
| Purchased transportation                  |        | 406                       | 129                           | (10)         | 525          |
| Depreciation and amortization             |        | 92                        | 27                            |              | 119          |
| Other operating expenses                  |        | 193                       | 37                            |              | 230          |
| (Gains) losses on property disposals, net |        | (4)                       | 4                             |              |              |
| Reorganization and settlements            | 4      | 7                         | 3                             |              | 14           |
| Total operating expenses                  | 39     | 3,881                     | 946                           | (180)        | 4,686        |
| Operating income (loss)                   | (15)   | 208                       | (60)                          | (4)          | 129          |
| Nonoperating (income) expenses:           |        |                           |                               |              |              |
| Interest expense                          | 16     | 16                        | 10                            |              | 42           |
| Other, net                                | 14     | 107                       | (122)                         | 1            |              |
| Nonoperating (income) expenses, net       | 30     | 123                       | (112)                         | 1            | 42           |
| Income (loss) before income taxes         | (45)   | 85                        | 52                            | (5)          | 87           |

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|                                |         |       |       |        |       |
|--------------------------------|---------|-------|-------|--------|-------|
| Income tax provision (benefit) | (13)    | 28    | 18    | (3)    | 30    |
| Net income (loss)              | \$ (32) | \$ 57 | \$ 34 | \$ (2) | \$ 57 |

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**Table of Contents****For the six months ended June 30, 2006**

| (in millions)                           | Parent  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------|---------|---------------------------|-------------------------------|--------------|--------------|
| Operating revenue                       | \$ 30   | \$ 4,206                  | \$ 906                        | \$ (202)     | \$ 4,940     |
| Operating expenses:                     |         |                           |                               |              |              |
| Salaries, wages and employees' benefits | 23      | 2,427                     | 433                           | (21)         | 2,862        |
| Operating expenses and supplies         | 19      | 829                       | 240                           | (170)        | 918          |
| Purchased transportation                |         | 406                       | 136                           | (8)          | 534          |
| Depreciation and amortization           |         | 118                       | 30                            |              | 148          |
| Other operating expenses                |         | 180                       | 32                            |              | 212          |
| Gains on property disposals, net        |         | (2)                       |                               |              | (2)          |
| Reorganization and settlements          | 1       | 6                         | 1                             |              | 8            |
| Total operating expenses                | 43      | 3,964                     | 872                           | (199)        | 4,680        |
| Operating income (loss)                 | (13)    | 242                       | 34                            | (3)          | 260          |
| Nonoperating (income) expenses:         |         |                           |                               |              |              |
| Interest expense                        | 17      | 15                        | 12                            |              | 44           |
| Other, net                              | 3       | 69                        | (70)                          | (4)          | (2)          |
| Nonoperating (income) expenses, net     | 20      | 84                        | (58)                          | (4)          | 42           |
| Income (loss) before income taxes       | (33)    | 158                       | 92                            | 1            | 218          |
| Income tax provision (benefit)          | (8)     | 59                        | 35                            | (2)          | 84           |
| Net income (loss)                       | \$ (25) | \$ 99                     | \$ 57                         | \$ 3         | \$ 134       |

**Condensed Consolidating Statements of Cash Flows****For the six months ended June 30, 2007**

| (in millions)                                        | Parent  | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------|---------|---------------------------|-------------------------------|--------------|--------------|
| Operating activities:                                |         |                           |                               |              |              |
| Net cash provided by (used in) operating activities  | \$ (75) | \$ 316                    | \$ (78)                       | \$           | \$ 163       |
| Investing activities:                                |         |                           |                               |              |              |
| Acquisition of property and equipment                |         | (198)                     | (44)                          |              | (242)        |
| Proceeds from disposal of property and equipment     |         | 13                        | 15                            |              | 28           |
| Other                                                |         |                           |                               |              |              |
| Net cash used in investing activities                |         | (185)                     | (29)                          |              | (214)        |
| Financing activities:                                |         |                           |                               |              |              |
| Asset backed securitization borrowings, net          |         |                           | 25                            |              | 25           |
| Proceeds from exercise of stock options              | 7       |                           |                               |              | 7            |
| Intercompany advances / repayments                   | 63      | (129)                     | 66                            |              |              |
| Net cash provided by (used in) financing activities  | 70      | (129)                     | 91                            |              | 32           |
| Net increase (decrease) in cash and cash equivalents | (5)     | 2                         | (16)                          |              | (19)         |

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|                                                |       |       |       |       |
|------------------------------------------------|-------|-------|-------|-------|
| Cash and cash equivalents, beginning of period | 20    | 21    | 35    | 76    |
| Cash and cash equivalents, end of period       | \$ 15 | \$ 23 | \$ 19 | \$ 57 |

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For the six months ended June 30, 2006

| (in millions)                                        | Parent   | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------|----------|---------------------------|-------------------------------|--------------|--------------|
| <b>Operating activities:</b>                         |          |                           |                               |              |              |
| Net cash provided by (used in) operating activities  | \$ (111) | \$ 235                    | \$ 34                         | \$           | \$ 158       |
| <b>Investing activities:</b>                         |          |                           |                               |              |              |
| Acquisition of property and equipment                |          | (220)                     | (30)                          |              | (250)        |
| Proceeds from disposal of property and equipment     |          | 24                        |                               |              | 24           |
| Acquisition of companies                             | (15)     |                           |                               |              | (15)         |
| Other                                                |          | 4                         | (6)                           |              | (2)          |
| Net cash used in investing activities                | (15)     | (192)                     | (36)                          |              | (243)        |
| <b>Financing activities:</b>                         |          |                           |                               |              |              |
| Asset backed securitization borrowings, net          |          |                           | 75                            |              | 75           |
| Issuance of long-term debt                           | 10       |                           |                               |              | 10           |
| Proceeds from exercise of stock options              | 2        |                           |                               |              | 2            |
| Intercompany advances / repayments                   | 146      | (52)                      | (94)                          |              |              |
| Net cash provided by (used in)                       |          |                           |                               |              |              |
| financing activities                                 | 158      | (52)                      | (19)                          |              | 87           |
| Net increase (decrease) in cash and cash equivalents | 32       | (9)                       | (21)                          |              | 2            |
| Cash and cash equivalents, beginning of period       | 20       | 18                        | 44                            |              | 82           |
| Cash and cash equivalents, end of period             | \$ 52    | \$ 9                      | \$ 23                         | \$           | \$ 84        |

**Table of Contents****12. Guarantees of the Senior Notes Due 2008**

In connection with the senior notes due 2008, 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 June 30, 2007 and December 31, 2006 with respect to the financial position, and for the three and six months ended June 30, 2007 and 2006 for results of operations and for the six months ended June 30, 2007 and 2006 for 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

**June 30, 2007**

| (in millions)                            | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------|--------------------|---------------------------|-------------------------------|--------------|--------------|
| Cash and cash equivalents                | \$                 | \$ 32                     | \$ 25                         | \$           | \$ 57        |
| Intercompany advances receivable         |                    | (15)                      | 15                            |              |              |
| Accounts receivable, net                 |                    | (44)                      | 1,272                         | (13)         | 1,215        |
| Prepaid expenses and other               |                    | 29                        | 265                           |              | 294          |
| Total current assets                     |                    | 2                         | 1,577                         | (13)         | 1,566        |
| Property and equipment                   |                    | 1,075                     | 2,913                         |              | 3,988        |
| Less accumulated depreciation            |                    | (228)                     | (1,386)                       |              | (1,614)      |
| Net property and equipment               |                    | 847                       | 1,527                         |              | 2,374        |
| Investment in subsidiaries               | 97                 | 3,888                     | 201                           | (4,186)      |              |
| Receivable from affiliate                | 172                | (577)                     | 405                           |              |              |
| Goodwill and other assets                | 651                | 1,255                     | 1,021                         | (850)        | 2,077        |
| Total assets                             | \$ 920             | \$ 5,415                  | \$ 4,731                      | \$ (5,049)   | \$ 6,017     |
| Intercompany advances payable            | \$                 | \$ 69                     | \$ 140                        | \$ (209)     | \$           |
| Accounts payable                         |                    | 134                       | 277                           | (4)          | 407          |
| Wages, vacations and employees' benefits |                    | 182                       | 260                           |              | 442          |
| Other current and accrued liabilities    | 11                 | 114                       | 264                           | (3)          | 386          |
| Asset backed securitization borrowings   |                    |                           | 250                           |              | 250          |
| Current maturities of long-term debt     |                    | 150                       |                               |              | 150          |
| Total current liabilities                | 11                 | 649                       | 1,191                         | (216)        | 1,635        |
| Payable to affiliate                     |                    | 524                       | 126                           | (650)        |              |
| Long-term debt, less current portion     | 232                | 400                       | 272                           |              | 904          |
| Deferred income taxes, net               | (5)                | 238                       | 379                           |              | 612          |
| Pension and postretirement               |                    | 238                       |                               |              | 238          |
| Claims and other liabilities             |                    | 108                       | 244                           |              | 352          |
| Commitments and contingencies            |                    |                           |                               |              |              |

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|                                            |        |          |          |            |          |
|--------------------------------------------|--------|----------|----------|------------|----------|
| Shareholders' equity                       | 682    | 3,258    | 2,519    | (4,183)    | 2,276    |
| Total liabilities and shareholders' equity | \$ 920 | \$ 5,415 | \$ 4,731 | \$ (5,049) | \$ 6,017 |



**Table of Contents****December 31, 2006**

| (in millions)                              | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-Guarantor<br>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 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 June 30, 2007**

| (in millions)                             | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|--------------------|---------------------------|-------------------------------|--------------|--------------|
| Operating revenue                         | \$                 | \$ 881                    | \$ 1,706                      | \$ (101)     | \$ 2,486     |
| Operating expenses:                       |                    |                           |                               |              |              |
| Salaries, wages and employees' benefits   |                    | 504                       | 961                           |              | 1,465        |
| Operating expenses and supplies           |                    | 175                       | 389                           | (94)         | 470          |
| Purchased transportation                  |                    | 88                        | 192                           | (7)          | 273          |
| Depreciation and amortization             |                    | 18                        | 42                            |              | 60           |
| Other operating expenses                  |                    | 39                        | 75                            |              | 114          |
| (Gains) losses on property disposals, net |                    | (5)                       | 2                             |              | (3)          |
| Reorganization and settlements            |                    | 1                         | (2)                           |              | (1)          |
| Total operating expenses                  |                    | 820                       | 1,659                         | (101)        | 2,378        |

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|                                     |      |      |       |
|-------------------------------------|------|------|-------|
| Operating income                    | 61   | 47   | 108   |
| Nonoperating (income) expenses:     |      |      |       |
| Interest expense                    | 3    | 8    | 22    |
| Other, net                          | (13) | 42   | (27)  |
| Nonoperating (income) expenses, net | (10) | 50   | (16)  |
| Income before income taxes          | 10   | 11   | 63    |
| Income tax provision                | 4    | 5    | 22    |
|                                     |      |      | (2)   |
| Net income                          | \$ 6 | \$ 6 | \$ 41 |
|                                     |      |      | \$ 2  |
|                                     |      |      | \$ 55 |

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| Non-                                     |                    |                           |                           |              |              |
|------------------------------------------|--------------------|---------------------------|---------------------------|--------------|--------------|
| For the three months ended June 30, 2006 |                    |                           |                           |              |              |
| (in millions)                            | Primary<br>Obligor | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Operating revenue                        | \$                 | \$ 929                    | \$ 1,736                  | \$ (99)      | \$ 2,566     |
| Operating expenses:                      |                    |                           |                           |              |              |
| Salaries, wages and employees' benefits  |                    | 537                       | 937                       | (14)         | 1,460        |
| Operating expenses and supplies          |                    | 173                       | 372                       | (77)         | 468          |
| Purchased transportation                 |                    | 97                        | 190                       | (6)          | 281          |
| Depreciation and amortization            |                    | 24                        | 51                        |              | 75           |
| Other operating expenses                 |                    | 36                        | 69                        |              | 105          |
| Gains on property disposals, net         |                    | (3)                       |                           |              | (3)          |
| Reorganization and settlements           |                    | 3                         | 5                         |              | 8            |
| Total operating expenses                 |                    | 867                       | 1,624                     | (97)         | 2,394        |
| Operating income                         |                    | 62                        | 112                       | (2)          | 172          |
| Nonoperating (income) expenses:          |                    |                           |                           |              |              |
| Interest expense                         | 3                  | (11)                      | (7)                       | 38           | 23           |
| Other, net                               | (13)               | 47                        | 5                         | (40)         | (1)          |
| Nonoperating (income) expenses, net      | (10)               | 36                        | (2)                       | (2)          | 22           |
| Income before income taxes               | 10                 | 26                        | 114                       |              | 150          |
| Income tax provision                     | 5                  | 12                        | 40                        | 1            | 58           |
| Net income                               | \$ 5               | \$ 14                     | \$ 74                     | \$ (1)       | \$ 92        |

| Non-                                      |                    |                           |                           |              |              |
|-------------------------------------------|--------------------|---------------------------|---------------------------|--------------|--------------|
| For the six months ended June 30, 2007    |                    |                           |                           |              |              |
| (in millions)                             | Primary<br>Obligor | Guarantor<br>Subsidiaries | Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Operating revenue                         | \$                 | \$ 1,713                  | \$ 3,294                  | \$ (192)     | \$ 4,815     |
| Operating expenses:                       |                    |                           |                           |              |              |
| Salaries, wages and employees' benefits   |                    | 1,002                     | 1,884                     |              | 2,886        |
| Operating expenses and supplies           |                    | 333                       | 756                       | (177)        | 912          |
| Purchased transportation                  |                    | 172                       | 369                       | (16)         | 525          |
| Depreciation and amortization             |                    | 37                        | 82                        |              | 119          |
| Other operating expenses                  |                    | 77                        | 153                       |              | 230          |
| (Gains) losses on property disposals, net |                    | (4)                       | 4                         |              |              |
| Reorganization and settlements            |                    | 5                         | 9                         |              | 14           |
| Total operating expenses                  |                    | 1,622                     | 3,257                     | (193)        | 4,686        |
| Operating income                          |                    | 91                        | 37                        | 1            | 129          |
| Nonoperating (income) expenses:           |                    |                           |                           |              |              |
| Interest expense                          | 7                  | 16                        | 19                        |              | 42           |
| Other, net                                | (26)               | 84                        | (59)                      | 1            |              |
| Nonoperating (income) expenses, net       | (19)               | 100                       | (40)                      | 1            | 42           |

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|                                   |       |        |       |            |
|-----------------------------------|-------|--------|-------|------------|
| Income (loss) before income taxes | 19    | (9)    | 77    | 87         |
| Income tax provision              | 7     |        | 26    | (3) 30     |
| Net income (loss)                 | \$ 12 | \$ (9) | \$ 51 | \$ 3 \$ 57 |

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**Table of Contents****For the six months ended June 30, 2006**

| (in millions)                           | Primary Obligor | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------|-----------------|------------------------|----------------------------|--------------|--------------|
| Operating revenue                       | \$              | \$ 1,778               | \$ 3,355                   | \$ (193)     | \$ 4,940     |
| Operating expenses:                     |                 |                        |                            |              |              |
| Salaries, wages and employees' benefits |                 | 1,040                  | 1,843                      | (21)         | 2,862        |
| Operating expenses and supplies         |                 | 341                    | 736                        | (159)        | 918          |
| Purchased transportation                |                 | 179                    | 365                        | (10)         | 534          |
| Depreciation and amortization           |                 | 46                     | 102                        |              | 148          |
| Other operating expenses                |                 | 70                     | 142                        |              | 212          |
| Gains on property disposals, net        |                 | (2)                    |                            |              | (2)          |
| Reorganization and settlements          |                 | 3                      | 5                          |              | 8            |
| Total operating expenses                |                 | 1,677                  | 3,193                      | (190)        | 4,680        |
| Operating income (loss)                 |                 | 101                    | 162                        | (3)          | 260          |
| Nonoperating (income) expenses:         |                 |                        |                            |              |              |
| Interest expense                        | 7               | 17                     | 20                         |              | 44           |
| Other, net                              | (27)            | 53                     | (25)                       | (3)          | (2)          |
| Nonoperating (income) expenses, net     | (20)            | 70                     | (5)                        | (3)          | 42           |
| Income before income taxes              | 20              | 31                     | 167                        |              | 218          |
| Income tax provision                    | 8               | 16                     | 62                         | (2)          | 84           |
| Net income                              | \$ 12           | \$ 15                  | \$ 105                     | \$ 2         | \$ 134       |

**Condensed Consolidating Statements of Cash Flows****For the six months ended June 30, 2007**

| (in millions)                                       | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------------------|--------|------------------------|----------------------------|--------------|--------------|
| Operating activities:                               |        |                        |                            |              |              |
| Net cash provided by operating activities           | \$ 15  | \$ 61                  | \$ 87                      | \$           | \$ 163       |
| Investing activities:                               |        |                        |                            |              |              |
| Acquisition of property and equipment               |        | (72)                   | (170)                      |              | (242)        |
| Proceeds from disposal of property and equipment    |        | 17                     | 11                         |              | 28           |
| Other                                               |        |                        |                            |              |              |
| Net cash used in investing activities               |        | (55)                   | (159)                      |              | (214)        |
| Financing activities:                               |        |                        |                            |              |              |
| Asset backed securitization borrowings, net         |        |                        | 25                         |              | 25           |
| Proceeds from exercise of stock options             |        | 7                      |                            |              | 7            |
| Intercompany advances / repayments                  | (15)   | (19)                   | 34                         |              |              |
| Net cash provided by (used in) financing activities | (15)   | (12)                   | 59                         |              | 32           |
| Net decrease in cash and cash equivalents           |        | (6)                    | (13)                       |              | (19)         |
| Cash and cash equivalents, beginning of Period      |        | 38                     | 38                         |              | 76           |

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|                                          |    |    |    |    |    |    |    |    |
|------------------------------------------|----|----|----|----|----|----|----|----|
| Cash and cash equivalents, end of period | \$ | \$ | 32 | \$ | 25 | \$ | \$ | 57 |
|------------------------------------------|----|----|----|----|----|----|----|----|

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For the six months ended June 30, 2006

| (in millions)                                        | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|------------------------------------------------------|--------------------|---------------------------|-------------------------------|--------------|--------------|
| <b>Operating activities:</b>                         |                    |                           |                               |              |              |
| Net cash provided by operating activities            | \$ 18              | \$ 15                     | \$ 124                        | \$ 1         | \$ 158       |
| <b>Investing activities:</b>                         |                    |                           |                               |              |              |
| Acquisition of property and equipment                |                    | (90)                      | (160)                         |              | (250)        |
| Proceeds from disposal of property and equipment     |                    | 7                         | 17                            |              | 24           |
| Acquisition of companies                             |                    | (15)                      |                               |              | (15)         |
| Other                                                | 4                  |                           | (6)                           |              | (2)          |
| Net cash provided by (used in) investing activities  | 4                  | (98)                      | (149)                         |              | (243)        |
| <b>Financing activities:</b>                         |                    |                           |                               |              |              |
| Asset backed securitization borrowings, net          |                    |                           | 75                            |              | 75           |
| Issuance of long-term debt                           |                    | 10                        |                               |              | 10           |
| Proceeds from exercise of stock options              |                    | 2                         |                               |              | 2            |
| Intercompany advances / repayments                   | (22)               | 100                       | (77)                          | (1)          |              |
| Net cash provided by (used in) financing activities  | (22)               | 112                       | (2)                           | (1)          | 87           |
| Net increase (decrease) in cash and cash equivalents |                    | 29                        | (27)                          |              | 2            |
| Cash and cash equivalents, beginning of period       |                    | 34                        | 48                            |              | 82           |
| Cash and cash equivalents, end of period             | \$                 | \$ 63                     | \$ 21                         | \$           | \$ 84        |

**Table of Contents****13. Guarantees of the Senior Notes Due 2009 and 2010**

In connection with the senior notes due 2009 and 2010 that YRC Worldwide assumed by virtue of its merger with USF, and in addition to the primary obligor, USF, YRC Worldwide and its following 100% owned subsidiaries have issued guarantees in favor of the holders of the senior notes due 2009 and 2010: USF Sales Corporation, USF Holland Inc., USF Bestway Inc., USF Bestway Leasing Inc., USF Reddaway Inc., USF Glen Moore Inc., YRC Logistics Services, Inc., and IMUA Handling 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 such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of Yellow Roadway 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 June 30, 2007 and December 31, 2006 with respect to the financial position and for the three and six months ended June 30, 2007 and 2006 for results of operations and for the six months ended June 30, 2007 and 2006 for the statement of cash flows. The primary obligor column presents the financial information of Regional Transportation (formerly USF Corporation). The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the senior notes due 2009 and 2010 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**

|                                          | <b>Non-</b>            |                               |                               |                     |                     |
|------------------------------------------|------------------------|-------------------------------|-------------------------------|---------------------|---------------------|
| <b>June 30, 2007</b>                     |                        |                               |                               |                     |                     |
| <b>(in millions)</b>                     | <b>Primary Obligor</b> | <b>Guarantor Subsidiaries</b> | <b>Guarantor Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Cash and cash equivalents                | \$                     | \$ 18                         | \$ 39                         | \$                  | \$ 57               |
| Intercompany advances receivable, net    |                        | (11)                          | 11                            |                     |                     |
| Accounts receivable, net                 |                        | 1                             | 1,217                         | (3)                 | 1,215               |
| Prepaid expenses and other               | 3                      | 49                            | 242                           |                     | 294                 |
| <b>Total current assets</b>              | <b>3</b>               | <b>57</b>                     | <b>1,509</b>                  | <b>(3)</b>          | <b>1,566</b>        |
| Property and equipment                   | 2                      | 874                           | 3,112                         |                     | 3,988               |
| Less accumulated depreciation            | (1)                    | (133)                         | (1,480)                       |                     | (1,614)             |
| <b>Net property and equipment</b>        | <b>1</b>               | <b>741</b>                    | <b>1,632</b>                  |                     | <b>2,374</b>        |
| Investment in subsidiaries               | 334                    | 3,865                         | 5                             | (4,204)             |                     |
| Receivable from affiliate                | 489                    | (949)                         | 460                           |                     |                     |
| Goodwill and other assets                | 798                    | 380                           | 1,249                         | (350)               | 2,077               |
| <b>Total assets</b>                      | <b>\$ 1,625</b>        | <b>\$ 4,094</b>               | <b>\$ 4,855</b>               | <b>\$ (4,557)</b>   | <b>\$ 6,017</b>     |
| Intercompany advances payable            | \$ 65                  | \$ 114                        | \$ 21                         | \$ (200)            | \$                  |
| Accounts payable                         | 9                      | 101                           | 300                           | (3)                 | 407                 |
| Wages, vacations and employees' benefits | 3                      | 115                           | 324                           |                     | 442                 |
| Other current and accrued liabilities    | 27                     | 76                            | 286                           | (3)                 | 386                 |
| Asset backed securitization borrowings   |                        |                               | 250                           |                     | 250                 |
| Current maturities of long-term debt     |                        | 150                           |                               |                     | 150                 |
| <b>Total current liabilities</b>         | <b>104</b>             | <b>556</b>                    | <b>1,181</b>                  | <b>(206)</b>        | <b>1,635</b>        |
| Payable to affiliate                     |                        | (53)                          | 203                           | (150)               |                     |
| Long-term debt, less current portion     | 262                    | 400                           | 242                           |                     | 904                 |
| Deferred income taxes, net               | 79                     | 115                           | 418                           |                     | 612                 |
| Pension and postretirement               |                        | 238                           |                               |                     | 238                 |



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|                                            |          |          |          |            |          |
|--------------------------------------------|----------|----------|----------|------------|----------|
| Claims and other liabilities               | 1        | 106      | 245      |            | 352      |
| Commitments and contingencies              |          |          |          |            |          |
| Shareholders' equity                       | 1,179    | 2,732    | 2,566    | (4,201)    | 2,276    |
| Total liabilities and shareholders' equity | \$ 1,625 | \$ 4,094 | \$ 4,855 | \$ (4,557) | \$ 6,017 |

**Table of Contents****December 31, 2006**

|                                            |                 |            | Non-       |              |              |
|--------------------------------------------|-----------------|------------|------------|--------------|--------------|
| (in millions)                              | Primary Obligor | Guarantors | Guarantors | Eliminations | Consolidated |
| Cash and cash equivalents                  | \$              | \$ 23      | \$ 53      | \$           | \$ 76        |
| Intercompany advances receivable           |                 | (10)       | 10         |              |              |
| Accounts receivable, net                   |                 | 1          | 1,192      | (2)          | 1,191        |
| Prepaid expenses and other                 | (17)            | 96         | 245        |              | 324          |
| Total current assets                       | (17)            | 110        | 1,500      | (2)          | 1,591        |
| Property and equipment                     | 2               | 836        | 3,004      |              | 3,842        |
| Less accumulated depreciation              | (1)             | (115)      | (1,456)    |              | (1,572)      |
| Net property and equipment                 | 1               | 721        | 1,548      |              | 2,270        |
| Investment in subsidiaries                 | 247             | 3,373      | 6          | (3,626)      |              |
| Receivable from affiliate                  | 399             | (714)      | 315        |              |              |
| Goodwill and other assets                  | 809             | 380        | 1,252      | (350)        | 2,091        |
| Total assets                               | \$ 1,439        | \$ 3,870   | \$ 4,621   | \$ (3,978)   | \$ 5,952     |
| Intercompany advances payable              | \$              | \$ 193     | \$ 7       | \$ (200)     | \$           |
| Accounts payable                           | 3               | 97         | 300        | (2)          | 398          |
| Wages, vacations and employees' benefits   | (1)             | 105        | 310        |              | 414          |
| Other current and accrued liabilities      | 6               | 55         | 263        |              | 324          |
| Asset backed securitization borrowings     |                 |            | 225        |              | 225          |
| Total current liabilities                  | 8               | 450        | 1,105      | (202)        | 1,361        |
| Payable to affiliate                       |                 | (29)       | 179        | (150)        |              |
| Long-term debt, less current portion       | 265             | 550        | 243        |              | 1,058        |
| Deferred income taxes, net                 | 80              | 117        | 412        |              | 609          |
| Pension and postretirement                 |                 | 350        |            |              | 350          |
| Claims and other liabilities               | 1               | 45         | 336        |              | 382          |
| Commitments and contingencies              |                 |            |            |              |              |
| Shareholders' equity                       | 1,085           | 2,387      | 2,346      | (3,626)      | 2,192        |
| Total liabilities and shareholders' equity | \$ 1,439        | \$ 3,870   | \$ 4,621   | \$ (3,978)   | \$ 5,952     |

**Condensed Consolidating Statements of Operations**

|                                           |                 |                        | Non-                   |              |              |
|-------------------------------------------|-----------------|------------------------|------------------------|--------------|--------------|
|                                           | Primary Obligor | Guarantor Subsidiaries | Guarantor Subsidiaries | Eliminations | Consolidated |
| (in millions)                             |                 |                        |                        |              |              |
| Operating revenue                         | \$ 5            | \$ 627                 | \$ 1,942               | \$ (88)      | \$ 2,486     |
| Operating expenses:                       |                 |                        |                        |              |              |
| Salaries, wages and employees' benefits   | 2               | 361                    | 1,102                  |              | 1,465        |
| Operating expenses and supplies           | 1               | 166                    | 388                    | (85)         | 470          |
| Purchased transportation                  |                 | 32                     | 245                    | (4)          | 273          |
| Depreciation and amortization             | 2               | 17                     | 41                     |              | 60           |
| Other operating expenses                  | 1               | 36                     | 77                     |              | 114          |
| (Gains) losses on property disposals, net |                 | 2                      | (5)                    |              | (3)          |
| Reorganization and settlements            |                 | 3                      | (4)                    |              | (1)          |
| Total operating expenses                  | 6               | 617                    | 1,844                  | (89)         | 2,378        |

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|                                     |      |         |       |      |       |
|-------------------------------------|------|---------|-------|------|-------|
| Operating income (loss)             | (1)  | 10      | 98    | 1    | 108   |
| Nonoperating (income) expenses:     |      |         |       |      |       |
| Interest expense                    | 4    | 8       | 10    |      | 22    |
| Other, net                          | (12) | 31      | (17)  |      | 2     |
| Nonoperating (income) expenses, net | (8)  | 39      | (7)   |      | 24    |
| Income (loss) before income taxes   | 7    | (29)    | 105   | 1    | 84    |
| Income tax provision (benefit)      | 2    | (8)     | 37    | (2)  | 29    |
| Net income (loss)                   | \$ 5 | \$ (21) | \$ 68 | \$ 3 | \$ 55 |

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For the three months ended June 30, 2006

| (in millions)                           | Primary Obligor | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Consolidated |
|-----------------------------------------|-----------------|------------------------|----------------------------|--------------|--------------|
| Operating revenue                       | \$ 6            | \$ 641                 | \$ 2,020                   | \$ (101)     | \$ 2,566     |
| Operating expenses:                     |                 |                        |                            |              |              |
| Salaries, wages and employees' benefits | 3               | 355                    | 1,115                      | (13)         | 1,460        |
| Operating expenses and supplies         | 2               | 160                    | 388                        | (82)         | 468          |
| Purchased transportation                |                 | 36                     | 249                        | (4)          | 281          |
| Depreciation and amortization           | 2               | 19                     | 54                         |              | 75           |
| Other operating expenses                |                 | 29                     | 76                         |              | 105          |
| Gains on property disposals, net        |                 | (1)                    | (2)                        |              | (3)          |
| Reorganization and settlements          |                 | 1                      | 7                          |              | 8            |
| Total operating expenses                | 7               | 599                    | 1,887                      | (99)         | 2,394        |
| Operating income (loss)                 | (1)             | 42                     | 133                        | (2)          | 172          |
| Nonoperating (income) expenses:         |                 |                        |                            |              |              |
| Interest expense                        | 4               | 2                      | (11)                       | 28           | 23           |
| Other, net                              | (8)             | 31                     | 5                          | (29)         | (1)          |
| Nonoperating (income) expenses, net     | (4)             | 33                     | (6)                        | (1)          | 22           |
| Income before income taxes              | 3               | 9                      | 139                        | (1)          | 150          |
| Income tax provision                    | 2               | 5                      | 50                         | 1            | 58           |
| Net income                              | \$ 1            | \$ 4                   | \$ 89                      | \$ (2)       | \$ 92        |

Non-

For the six months ended June 30, 2007

| (in millions)                             | Primary Obligor | Guarantor Subsidiaries | Guarantor Subsidiaries | Eliminations | Consolidated |
|-------------------------------------------|-----------------|------------------------|------------------------|--------------|--------------|
| Operating revenue                         | \$ 11           | \$ 1,209               | \$ 3,775               | \$ (180)     | \$ 4,815     |
| Operating expenses:                       |                 |                        |                        |              |              |
| Salaries, wages and employees' benefits   | 4               | 714                    | 2,168                  |              | 2,886        |
| Operating expenses and supplies           | 2               | 324                    | 757                    | (171)        | 912          |
| Purchased transportation                  |                 | 62                     | 473                    | (10)         | 525          |
| Depreciation and amortization             | 4               | 33                     | 82                     |              | 119          |
| Other operating expenses                  | 1               | 69                     | 160                    |              | 230          |
| (Gains) losses on property disposals, net |                 | 3                      | (3)                    |              |              |
| Reorganization and settlements            |                 | 10                     | 4                      |              | 14           |
| Total operating expenses                  | 11              | 1,215                  | 3,641                  | (181)        | 4,686        |
| Operating income (loss)                   |                 | (6)                    | 134                    | 1            | 129          |
| Nonoperating (income) expenses:           |                 |                        |                        |              |              |
| Interest expense                          | 8               | 16                     | 18                     |              | 42           |
| Other, net                                | (20)            | 64                     | (45)                   | 1            |              |
| Nonoperating (income) expenses, net       | (12)            | 80                     | (27)                   | 1            | 42           |

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|                                   |      |         |        |      |       |
|-----------------------------------|------|---------|--------|------|-------|
| Income (loss) before income taxes | 12   | (86)    | 161    |      | 87    |
| Income tax provision (benefit)    | 4    | (28)    | 57     | (3)  | 30    |
| Net income (loss)                 | \$ 8 | \$ (58) | \$ 104 | \$ 3 | \$ 57 |

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| For the six months ended June 30, 2006  |                    |                           |                                   |              |              |
|-----------------------------------------|--------------------|---------------------------|-----------------------------------|--------------|--------------|
| (in millions)                           | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Operating revenue                       | \$ 12              | \$ 1,239                  | \$ 3,891                          | \$ (202)     | \$ 4,940     |
| Operating expenses:                     |                    |                           |                                   |              |              |
| Salaries, wages and employees' benefits | 5                  | 696                       | 2,181                             | (20)         | 2,862        |
| Operating expenses and supplies         | 3                  | 318                       | 767                               | (170)        | 918          |
| Purchased transportation                |                    | 71                        | 471                               | (8)          | 534          |
| Depreciation and amortization           | 4                  | 39                        | 105                               |              | 148          |
| Other operating expenses                |                    | 60                        | 152                               |              | 212          |
| Gains on property disposals, net        |                    |                           | (2)                               |              | (2)          |
| Reorganization and settlements          |                    | 1                         | 7                                 |              | 8            |
| Total operating expenses                | 12                 | 1,185                     | 3,681                             | (198)        | 4,680        |
| Operating income (loss)                 |                    | 54                        | 210                               | (4)          | 260          |
| Nonoperating (income) expenses:         |                    |                           |                                   |              |              |
| Interest expense                        | 8                  | 17                        | 19                                |              | 44           |
| Other, net                              | (10)               | 41                        | (30)                              | (3)          | (2)          |
| Nonoperating (income) expenses, net     | (2)                | 58                        | (11)                              | (3)          | 42           |
| Income (loss) before income taxes       | 2                  | (4)                       | 221                               | (1)          | 218          |
| Income tax provision                    | 1                  | 4                         | 81                                | (2)          | 84           |
| Net income (loss)                       | \$ 1               | \$ (8)                    | \$ 140                            | \$ 1         | \$ 134       |

**Condensed Consolidating Statement of Cash Flows**

| For the six months ended June 30, 2007              |                    |                           |                                   |              |              |
|-----------------------------------------------------|--------------------|---------------------------|-----------------------------------|--------------|--------------|
| (in millions)                                       | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Operating activities:                               |                    |                           |                                   |              |              |
| Net cash provided by (used in) operating activities | \$ 21              | \$ (65)                   | \$ 207                            | \$           | \$ 163       |
| Investing activities:                               |                    |                           |                                   |              |              |
| Acquisition of property and equipment               |                    | (60)                      | (182)                             |              | (242)        |
| Proceeds from disposal of property and equipment    |                    | 4                         | 24                                |              | 28           |
| Other                                               |                    |                           |                                   |              |              |
| Net cash used in investing activities               |                    | (56)                      | (158)                             |              | (214)        |
| Financing activities:                               |                    |                           |                                   |              |              |
| Asset backed securitization borrowings, net         |                    |                           | 25                                |              | 25           |
| Proceeds from exercise of stock options             |                    | 7                         |                                   |              | 7            |
| Intercompany advances / repayments                  | (21)               | 109                       | (88)                              |              |              |
| Net cash provided by (used in) financing activities | (21)               | 116                       | (63)                              |              | 32           |
| Net decrease in cash and cash equivalents           |                    | (5)                       | (14)                              |              | (19)         |

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|                                                |    |    |    |    |    |    |    |    |
|------------------------------------------------|----|----|----|----|----|----|----|----|
| Cash and cash equivalents, beginning of Period |    |    | 23 |    | 53 |    |    | 76 |
| Cash and cash equivalents, end of period       | \$ | \$ | 18 | \$ | 39 | \$ | \$ | 57 |

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| For the six months ended June 30, 2006               |                    |                           |                                   |              |              |
|------------------------------------------------------|--------------------|---------------------------|-----------------------------------|--------------|--------------|
| (in millions)                                        | Primary<br>Obligor | Guarantor<br>Subsidiaries | Non-<br>Guarantor<br>Subsidiaries | Eliminations | Consolidated |
| Operating activities:                                |                    |                           |                                   |              |              |
| Net cash provided by (used in) operating activities  | \$ (22)            | \$ 28                     | \$ 152                            | \$           | \$ 158       |
| Investing activities:                                |                    |                           |                                   |              |              |
| Acquisition of property and equipment                |                    | (52)                      | (198)                             |              | (250)        |
| Proceeds from disposal of property and equipment     | 1                  | 10                        | 13                                |              | 24           |
| Acquisition of companies                             |                    | (15)                      |                                   |              | (15)         |
| Other                                                |                    |                           | (2)                               |              | (2)          |
| Net cash provided by (used in) investing activities  | 1                  | (57)                      | (187)                             |              | (243)        |
| Financing activities:                                |                    |                           |                                   |              |              |
| Asset backed securitization borrowings, net          |                    |                           | 75                                |              | 75           |
| Issuance of long-term debt                           |                    | 10                        |                                   |              | 10           |
| Proceeds from exercise of stock options              |                    | 2                         |                                   |              | 2            |
| Intercompany advances / repayments                   | 21                 | 29                        | (50)                              |              |              |
| Net cash provided by (used in) financing activities  | 21                 | 41                        | 25                                |              | 87           |
| Net increase (decrease) in cash and cash equivalents |                    | 12                        | (10)                              |              | 2            |
| Cash and cash equivalents, beginning of period       |                    | 42                        | 40                                |              | 82           |
| Cash and cash equivalents, end of period             | \$                 | \$ 54                     | \$ 30                             | \$           | \$ 84        |



**Table of Contents****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements of YRC Worldwide Inc. (also referred to as "YRC Worldwide," "we" or "our"). MD&A and certain statements in the Notes to Consolidated Financial Statements include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21 of the Securities Exchange Act of 1934, as amended (each a "forward-looking statement"). Forward-looking statements include those preceded by, followed by or include the words "should," "could," "would," "will," "may," "expect," "believe," "estimate" or similar expressions. Our actual results could differ materially from those projected in forward-looking statements due to a number of factors, including (without limitation), inflation, inclement weather, price and availability of fuel, sudden changes in the cost of fuel or the index upon which the Company bases its fuel surcharge, competitor pricing activity, expense volatility, including (without limitation) expense volatility due to changes in rail service or pricing for rail service, ability to capture cost reductions, including (without limitation) those cost reduction opportunities arising from acquisitions, changes in equity and debt markets, a downturn in general or regional economic activity, effects of a terrorist attack, and labor relations, including (without limitation), the impact of work rules, work stoppages, strikes or other disruptions, any obligations to multi-employer health, welfare and pension plans, wage requirements and employee satisfaction.

**Results of Operations**

Our Results of Operations section focuses on the highlights and significant items that impacted our operating results during the second quarter. We have presented a discussion regarding the operating results of each of our three operating segments: National Transportation, Regional Transportation and Logistics. Prior to 2007, we reported results for four operating segments that included Yellow Transportation and Roadway whose management structures were combined in January 2007 to form National Transportation. The prior year results for Yellow Transportation and Roadway have been combined, including proper eliminations, to present comparative information. Prior year segments also included Regional Transportation, which is unchanged in the current year, and Meridian IQ, which underwent a formal name change to YRC Logistics and is now being referred to as our Logistics segment. Our discussion also identifies the adjustments to operating income that management excludes when internally evaluating segment performance because the items are not related to the segments' core operations.

In June 2007, we announced that we have entered into a preliminary purchase agreement to acquire majority ownership of Jiayu Logistics Limited, a Shanghai, China ground transportation company. The acquisition is subject to the parties entering into a definitive acquisition agreement, the results of due diligence and regulatory and board approvals. Given the remaining projected timeline and requirements, we do not expect this acquisition to contribute material operating revenue or income in 2007.

**Consolidated Results**

Our consolidated results for the three and six months ended June 30, 2007 include the results of each of the operating segments discussed below together with unallocated corporate expenses. A more detailed discussion of the operating results of our segments is presented below.

*Three months ended June 30, 2007 compared to three months ended June 30, 2006*

The table below provides summary consolidated financial information for the three and six months ended June 30:

| (in millions)              | Three months |            |                | Six months |            |                |
|----------------------------|--------------|------------|----------------|------------|------------|----------------|
|                            | 2007         | 2006       | Percent Change | 2007       | 2006       | Percent Change |
| Operating revenue          | \$ 2,486.5   | \$ 2,565.8 | (3.1)%         | \$ 4,814.8 | \$ 4,939.9 | (2.5)%         |
| Operating income           | 108.4        | 172.3      | (37.1)%        | 128.8      | 260.1      | (50.5)%        |
| Nonoperating expenses, net | 23.8         | 22.5       | 5.8%           | 42.1       | 42.3       | (0.5)%         |
| Net income                 | \$ 55.4      | \$ 92.3    | (40.0)%        | \$ 56.6    | \$ 134.4   | (57.9)%        |

Our consolidated operating revenue decreased slightly during the three months ended June 30, 2007 versus 2006 primarily due to weak economic conditions in the United States transportation related industries and the resulting intense competitive environment. While we have encountered lower volumes throughout our entire network, the Upper Midwest has been especially challenging. In general, pricing or yield increased modestly for our National Transportation segment yet declined slightly in our Regional Transportation segment when comparing the three months ended June 30, 2007 versus 2006.



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Consolidated operating revenue includes fuel surcharge revenue. Fuel surcharges are common throughout our industry and represent an amount that we charge to customers that adjusts with changing fuel prices. We base our fuel surcharge on a published national index and adjust it weekly. Rapid material changes in the index or our cost of fuel can positively or negatively impact our revenue and operating income versus prior periods as there is a lag in the Company's adjustment of base rates in response to changes in fuel surcharge. Fuel surcharge is an accepted and important component of the overall pricing of our services to our customers. Without an industry accepted fuel surcharge program, our base pricing for our transportation services would require changes. We believe the distinction between base rates and fuel surcharge has been blurring over time, and it is impractical to clearly separate all the different factors that influence the price that our customers are willing to pay. In general, under our present fuel surcharge program, we believe rising fuel costs are beneficial to us in the short term.

Consolidated operating income decreased significantly during the three months ended June 30, 2007 as compared to 2006 and is reflective of decreased operating revenue at all of our operating companies. Despite a relatively consistent decline in revenue between our national and regional providers, our Regional Transportation segment experienced a much greater decline in operating income during the same three month period. Given its regional concentration, the weak economy in the Upper Midwest impacted this segment more severely. Additionally, we were less effective in reducing our variable costs in the regional market in response to the decline in revenue than in our national market. This is partly attributable to continued challenges associated with the USF Reddaway and USF Bestway February 2007 consolidation. The declines in consolidated operating income were partially offset by a \$13.6 million reduction in depreciation expense for the three months ended June 30, 2007 versus 2006 resulting from a change in depreciable lives and salvage values effective July 1, 2006.

Corporate net operating expenses during the three months ended June 30, 2007 decreased \$3.6 million versus the comparable prior year period primarily related to lower incentive compensation expense of \$1.8 million and reduced legal and other expense of \$1.4 million associated with a discontinued operation.

Our consolidated operating income for the three months ended June 30, 2007 included reorganization charges of \$2.6 million resulting from the write-off of signage and other assets associated with the name Meridian IQ and other closure costs. In July 2007, we announced the formal name change of Meridian IQ to YRC Logistics to better reflect the Company's expertise in logistics and its relationship to YRC Worldwide. The reorganization charges also included costs related to closure of a certain flow-through and warehousing center in the YRC Logistics segment. The three months ended June 30, 2007 also include a charge of \$1.4 million to settle a USF pre-acquisition liability offset by a \$4.9 million gain on settlement of a USF Red Star multi-employer pension withdrawal obligation. During the three months ended June 30, 2006, we incurred \$7.5 million related to work force reduction and costs associated with realigning portions of our operations. Gains and losses on property disposals also impact our operating income. During the three months ended June 30, 2007 and 2006, we recognized gains on disposition of \$2.8 million and \$3.2 million, respectively.

Nonoperating expenses consist primarily of interest expense, which decreased approximately \$3.5 million from 2006 due to decreased borrowings for the three months ended June 30, 2007 versus 2006. Offsetting a portion of the decline in interest expense related to borrowings is an increase in interest expense related to income tax items of \$1.6 million. In conjunction with our adoption of FIN No. 48, Accounting for Uncertainty in Income Taxes effective January 1, 2007, we now classify interest related to income tax items in interest expense as opposed to the 2006 classification in income tax expense. Nonoperating expenses also include interest income and effects of foreign currency.

Our effective tax rate for the three months ended June 30, 2007 was 34.6% compared to 38.4% for the three months ended June 30, 2006. The current period rate was favorably impacted by a \$1.9 million propane tax fuel credit related to 2006. Additionally, the 2007 rate reflects an estimated annual benefit of \$7.6 million for the same type of credit in 2007. Variations in our effective tax rate could result from our income allocation among subsidiaries and their relative state tax rates, in addition to any additional tax planning strategies that may be implemented throughout the year.

Adjustments to operating income presented in the segment discussion below represent charges that management excludes when evaluating segment performance to better understand the results of our core operations. With the exception of property disposals, these charges do not occur on a regular basis and can distort our operating results. Management excludes the impact of gains and losses from the disposal of property in its evaluation of segment performance as these items are not related to the segment's primary business.

### *Six months ended June 30, 2007 compared to six months ended June 30, 2006*

Consolidated operating revenue decreased by \$125.1 million during the six months ended June 30, 2007 as compared to the year ago period, which is reflective of decreased revenue at all of our operating companies. We believe the general economy continues to be soft, especially in the tangible goods sector, which directly impacts our ability to grow operating revenue. Pricing or yield has been especially challenging during 2007 in our regional segment where competition is severe and capacity is abundant.



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Consolidated operating income decreased by \$131.3 million or 50.5% during the six months ended June 30, 2007 as compared to the year ago period. The decrease in consolidated operating income was a result of reduced operating revenue and challenging economic conditions as previously discussed. The operating income decline was partially offset by a \$27.1 million reduction in depreciation expense for the six months ended June 30, 2007 versus 2006 resulting from a change in depreciable lives and salvage values effective July 1, 2006. Corporate expenses for the six months ended June 30, 2007 decreased \$5.3 million as compared to the six months ended June 30, 2006. This decrease is primarily related to lower incentive compensation expense of \$1.6 million and reduced legal and other expense of \$1.3 million associated with a discontinued operation. Additionally, certain former operations included in the Corporate segment experienced favorable trends in development of prior year worker's compensation claims resulting in a benefit of \$1.7 million during the six months ended June 30, 2007.

Our consolidated operating income during the first half of 2007 was also unfavorably impacted by a \$17.3 million charge related to restructuring and reorganization offset by net gains on settlement of USF pre-acquisition obligations of \$3.5 million. During the first quarter of 2007, we combined USF Reddaway and USF Bestway and after February 12, 2007 no longer market the USF Bestway brand. This combination contributed to approximately \$5.8 million of the reorganization and restructuring charges. In addition, as previously discussed, we combined the management structures of Yellow Transportation and Roadway during the first quarter of 2007, which also resulted in certain reorganization charges of approximately \$6.1 million, primarily severance. The \$17.3 million reorganization charge also included \$2.6 million resulting from the write-off of signage and other assets associated with the name Meridian IQ and other closure costs, and \$2.8 million in the Corporate segment of severance and expense associated with the acceleration of vesting of restricted stock units due to certain management separations. This charge is a non-cash item and is included in the Reorganization and settlements line in our consolidated Statement of Operations. During the six months ended June 30, 2006, we incurred \$7.5 million related to work force reduction and costs associated with realigning portions of our operations. During the six months ended June 30, 2007, we recognized losses on disposition of \$0.2 million. During the six months ended June 30, 2006, we recognized gains on disposition of \$2.3 million.

Nonoperating expenses for the six months ended June 30, 2007 are consistent with those for the six months ended June 30, 2006. Included in these periods is interest expense which decreased \$1.9 million from the prior period due to reduced financing costs of \$3.6 million offset by interest expense of \$1.6 million related to income tax items. Any such interest was included in income tax expense in 2006. Nonoperating expenses also included interest income and effects of foreign currency.

Our effective tax rate for the six months ended June 30, 2007 was 34.7% compared to 38.3% for the six months ended June 30, 2006. The current period rate was favorably impacted by a \$1.9 million propane fuel tax credit related to 2006. Additionally, the 2007 rate reflects an estimated annual benefit of \$7.6 million for the same type of credit in 2007. Variations in our effective tax rate could result from our income allocation among subsidiaries and their relative state tax rates, in addition to tax planning strategies that may be implemented throughout the year.

**National Transportation Results**

National Transportation represented approximately 69% of our consolidated revenue in the second quarters of 2007 and 2006, as well as in the six months ended June 30, 2007 and 2006. The table below provides summary financial information for National Transportation for the three and six months ended June 30:

| (in millions)                                  | Three Months |            |                | Six Months |            |                        |
|------------------------------------------------|--------------|------------|----------------|------------|------------|------------------------|
|                                                | 2007         | 2006       | Percent Change | 2007       | 2006       | Percent Change         |
| Operating revenue                              | \$ 1,703.5   | \$ 1,760.5 | (3.2)%         | \$ 3,311.9 | \$ 3,404.4 | (2.7)%                 |
| Operating income                               | 92.8         | 124.2      | (25.3)%        | 125.9      | 193.4      | (34.9)%                |
| Adjustments to operating income <sup>(a)</sup> | (5.1)        | 1.7        | n/m            | 1.7        | 1.6        | 4.1% <sup>(c)</sup>    |
| Adjusted operating income <sup>(b)</sup>       | 87.7         | 125.9      | (30.3)%        | 127.6      | 195.0      | (34.6)%                |
| Operating ratio                                | 94.6%        | 92.9%      | (1.7)pp        | 96.2%      | 94.3%      | (1.9)pp <sup>(d)</sup> |
| Adjusted operating ratio                       | 94.9%        | 92.9%      | (2.0)pp        | 96.1%      | 94.3%      | (1.8)pp                |

(a) Represents charges that management excludes when evaluating segment performance to better understand our core operations (see discussion below).

(b) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles

(c) Not meaningful.

(d) Percentage points.

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### *Three months ended June 30, 2007 compared to three months ended June 30, 2006*

National Transportation reported second quarter 2007 operating revenue of \$1,703.5 million, representing a decrease of \$57.0 million or 3.2% from the second quarter of 2006. The two primary components of operating revenue are volume, comprised of the number of shipments and the weight per shipment, and price, usually evaluated on a per hundred weight basis for less-than-truckload ( LTL ) business. With the same number of workdays in both quarters, the decline in operating revenue was largely driven by a 5.3% decline in total tonnage picked up per day, with truckload tonnage being down more dramatically at 7.4% and LTL tonnage down 4.8%. Our volume decline is primarily the result of a slowing economy, and we believe the majority of the freight transportation sector has also experienced softening business levels based on reports of tonnage declines. As the economy has slowed, capacity has become more readily available, particularly in the truckload portion of our business, and competition for available loads has increased. The decline in LTL tonnage was made up of a 3.2% decrease in shipments per day and a 1.8% decline in weight per shipment. Also contributing to the lower operating revenue was a decline in fuel surcharge revenue.

Partially offsetting the reduction in volume was a 1.4% increase in LTL revenue per hundred weight. Although pricing remains positive on a year-over-year basis, it is getting more challenging to obtain notable increases. With the current capacity in the industry, caused by a combination of the slowing economy and increased presence in the long-haul market from regional carriers, the pricing environment has become more competitive.

Operating income for National Transportation was \$92.8 million, a decrease of \$31.4 million or 25.3% from the second quarter of 2006. Although revenue declined \$57.0 million, National Transportation was able to offset about 45% of the decline in revenues through reduced operating expenses. Cost reductions were mostly in lower salaries, wages and benefits of \$8.0 million, lower operating expenses and supplies of \$3.9 million and lower depreciation expense of \$12.1 million, partially offset by a \$3.8 million increase in purchased transportation.

The primary reasons for the decrease in salaries, wages and benefits were lower nonunion performance incentive accruals and salaries and benefits of \$10.5 million. Partly offsetting this decrease was \$3.1 million or 0.4% higher hourly wages and benefits, which were the result of annual contractual wage and benefit increases and a higher cost mix of workers. This increase was significantly less than our contractual increase of 3.5% primarily due to our lower volumes, resulting in a reduced workforce and improved efficiencies. The higher cost mix of workers is the result of having fewer new hire employees on union wage progression and also working fewer casual (i.e. supplemental) employees. Both of these employee groups have lower overall costs to the Company than regular full time employees. The lower use of casual employees is a direct result of lower tonnage levels, as these employees normally supplement our regular work force.

Operating expenses and supplies were lower due to a number of relatively small factors of which some were favorable and some unfavorable. Reduced operating expenses included items such as lower fuel cost and travel and employee expenses, while increased expenses related to additional investments in technology that could not be capitalized and facility maintenance costs.

Depreciation expense was lower primarily because of a change in depreciable lives and salvage values of property and equipment effective July 1, 2006.

Purchased transportation was higher due to an April 1, 2007 contractual increase with our primary rail provider and certain new business initiatives with one of our largest customers, partially offset by lower rail usage due largely to lower volumes.

During the second quarter of 2007, National Transportation reported net gains on property disposals of \$5.1 million compared to net gains on property disposals of \$2.6 million in the second quarter of 2006. Also during the second quarter of 2006, National Transportation incurred \$4.3 million of severance costs associated with a significant realignment of operations and a related reduction in workforce. The costs associated with the operations realignment were excluded from adjusted operating income due to their non-routine nature. Additionally, the gains and losses from property disposals were excluded from adjusted operating income as they were not related to the company's core operations.

Lower revenue partially offset by the decrease in expenses resulted in an operating ratio of 94.6 for the second quarter of 2007, or 1.7 percentage points higher than the prior year. Operating ratio refers to a common industry measurement calculated by dividing a company's operating expenses by its operating revenue.

### *Six months ended June 30, 2007 compared to six months ended June 30, 2006*

National Transportation revenue decreased \$92.5 million or 2.7% in the six months ended June 30, 2007 versus the year ago period. With the same number of workdays in both periods, the decline in operating revenue was largely driven by a 4.9% decline in total tonnage picked up per day, with truckload tonnage down 7.3% and LTL tonnage down 4.3%. As discussed in the quarterly results,





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these tonnage declines are primarily the result of a slowing economy. The decline in LTL tonnage was made up of a 2.9% decrease in shipments per day and a 1.5% decline in weight per shipment. Also contributing to the lower operating revenue was a decline in fuel surcharge revenue. Partially offsetting the reduction in volume was a 1.7% increase in LTL revenue per hundred weight.

Operating income for National Transportation decreased \$67.5 million or 34.9% in the six months ended June 30, 2007 as compared to the six months ended June 30, 2006. The decrease was primarily a result of the lower revenue, higher purchased transportation of \$7.5 million, higher other operating expenses of \$8.6 million and reorganization costs of \$6.1 million, partially offset by lower operating expenses and supplies of \$20.5 million and lower depreciation expense of \$22.1 million.

Purchased transportation was higher primarily due to certain new business initiatives with one of our largest customers, partially offset by lower rail usage due largely to lower volumes.

Other operating expenses were higher due to a \$6.8 million or 17.2% increase in cargo claims expense and a \$3.4 million or 20.4% increase in bodily injury and property damage claims. The cargo claims increase is mostly the result of higher claim frequency, which we have addressed by allocating additional resources to ensure a consistent approach to achieving our high standards of quality.

Operating expenses and supplies were lower due to a number of relatively smaller factors including fuel cost, vehicle maintenance, travel and employee expenses and miscellaneous operating expenses and supplies. Most of these lower expenses resulted from lower business levels and stringent cost controls put in place during this challenging economic time. Additionally, in the first quarter of 2006, Yellow Transportation incurred \$3.5 million of costs associated with hosting an industry conference. No such conference was held in 2007, resulting in lower costs compared to the prior year. Slightly offsetting these declines were increased costs in the first quarter of 2007 in several cost categories related to adverse weather.

Depreciation expense was lower primarily because of a change in depreciable lives and salvage values of property and equipment effective July 1, 2006.

Reorganization charges, primarily severance costs, of \$6.1 million in the first quarter of 2007 were a result of the combination of the management structures of Yellow Transportation and Roadway to form National Transportation, as discussed under the Consolidated results.

Operating expenses as a percentage of revenue increased for the first six months of 2007 by 1.9 percentage points compared to the first six months of 2006, resulting in a year-to-date 2007 operating ratio of 96.2.

## Regional Transportation Results

Regional Transportation represented approximately 25% of our consolidated revenue in the second quarter of 2007 and 2006, respectively, and 25% in the six months ended June 30, 2007 and 2006, respectively. The table below provides summary financial information for Regional Transportation for the three and six months ended June 30:

|                                                | Three months |          |                    | Six months |            |                        |
|------------------------------------------------|--------------|----------|--------------------|------------|------------|------------------------|
|                                                | Percent      |          |                    | Percent    |            |                        |
| (in millions)                                  | 2007         | 2006     | Change             | 2007       | 2006       | Change                 |
| Operating revenue                              | \$ 628.5     | \$ 654.1 | (3.9)%             | \$ 1,204.4 | \$ 1,246.1 | (3.3)%                 |
| Operating income                               | 14.8         | 53.6     | (72.4)%            | 9.8        | 75.0       | (86.9)%                |
| Adjustments to operating income <sup>(a)</sup> | 1.8          | (0.3)    | n/m <sup>(c)</sup> | 8.3        | (0.3)      | n/m                    |
| Adjusted operating income <sup>(b)</sup>       | 16.6         | 53.3     | (68.9)%            | 18.1       | 74.7       | (75.8)%                |
| Operating ratio                                | 97.6%        | 91.8%    | (5.8)pp            | 99.2%      | 94.0%      | (5.2)pp <sup>(d)</sup> |
| Adjusted operating ratio                       | 97.4%        | 91.8%    | (5.6)pp            | 98.5%      | 94.0%      | (4.5)pp                |

(a) Represents charges that management excludes when evaluating segment performance to better understand our core operations.

(b) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles.

(c) Not meaningful.

(d) Percentage points.

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### *Three months ended June 30, 2007 compared to three months ended June 30, 2006*

Regional Transportation reported operating revenue of \$628.5 million for the quarter ended June 30, 2007, representing a decrease of \$25.6 million or 3.9% from the quarter ended June 30, 2006. The decreased operating revenue is due to lower yield and volumes resulting from a challenging business environment. LTL revenue per hundred weight declined 1.3% in the second quarter 2007 as compared to the second quarter 2006, LTL weight per shipment declined 1.8% and LTL shipments per day declined by 0.2% compared to the second quarter of 2006.

Regional Transportation reported operating income of \$14.8 million for the quarter ended June 30, 2007, a decrease of \$38.8 million from the second quarter of 2006. Decreased operating income was due to: decreases in overall revenue of \$25.6 million; increased wage and benefit expenses of \$12.6 million resulting primarily from union contractual rate increases, benefit increases and lower productivity; and higher claims and insurance costs of \$7.0 million due mainly to two severe accidents. Offsetting these items were lower purchased transportation expense of \$6.5 million and lower depreciation expense of \$2.4 million due to a change in depreciable lives and salvage values of property and equipment effective July 1, 2006. Regional Transportation reported a second quarter operating ratio of 97.6%, a 5.8 percentage point deterioration over the second quarter of 2006.

The reduction in earnings at the Regional Transportation companies can be attributed to continued economic weakness in the Upper Midwest region of the country, which directly impacts USF Holland, the largest business unit, the consolidation of USF Bestway into USF Reddaway, which to date has not produced the results expected, and a very competitive pricing environment across the entire transportation sector. The shift in freight flows caused by the weak economic activity in the Upper Midwest has created network inefficiencies. These are being addressed through network changes that will reduce handling and increase velocity in the system. The consolidation of USF Bestway into USF Reddaway has also led to network inefficiencies, which are being addressed through terminal consolidations, specific focus on intra state service and service enhancements in our Southern California and Texas markets.

Results were also unfavorably impacted in the second quarter of 2007 by approximately \$1.8 million due primarily to losses on the sale of property at USF Glen Moore and USF Bestway.

### *Six months ended June 30, 2007 compared to six months ended June 30, 2006*

Regional Transportation reported operating revenue of \$1,204.4 million for the first half of 2007, representing a decrease of \$41.7 million or 3.3% from the comparable period in 2006. The decreased operating revenue is due to lower yield and volumes resulting from a challenging business environment. LTL revenue per hundred weight declined 0.2% in the first half as compared to the same period in 2006, LTL weight per shipment declined 1.7% and LTL shipments per day declined by 0.5% compared to the first half of 2006.

Regional Transportation reported operating income of \$9.8 million for the first half of 2007, a decrease of \$65.2 million over the same period in 2006. Decreased operating income was due to: decreases in overall revenue of \$41.7 million; increased wage and benefit expenses of \$20.3 million resulting primarily from union contractual rate increases, benefit increases and lower productivity; higher claims and insurance costs of \$9.2 million due mainly to unfavorable claims experience; and increased operating expenses and supplies of \$3.2 million. Offsetting these items were lower purchased transportation expense of \$10.0 million, lower depreciation expense of \$6.6 million due to a change in depreciable lives and salvage values of property and equipment effective July 1, 2006, and \$1.2 million lower operating taxes and licenses. Regional Transportation reported a first half operating ratio of 99.2%, a 5.2 percentage point deterioration over the same period of 2006.

Results were also unfavorably impacted in the first half of 2007 by approximately \$8.3 million due primarily to restructuring and reorganization charges related to the combination of USF Reddaway and USF Bestway, and losses on the sale of property at USF Glen Moore and USF Bestway.

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### Logistics Results

Logistics represented approximately 6% of our consolidated revenue in the second quarter of 2007 and 2006, and 6% in the six months ended June 30, 2007 and 2006, respectively. The table below provides summary financial information for Logistics for the three and six months ended June 30:

| (in millions)                                  | Three months |          |                        | Six months |          |                     |
|------------------------------------------------|--------------|----------|------------------------|------------|----------|---------------------|
|                                                | 2007         | 2006     | Percent Change         | 2007       | 2006     | Percent Change      |
| Operating revenue                              | \$ 158.2     | \$ 153.6 | 3.0%                   | \$ 307.9   | \$ 293.4 | 4.9% <sup>(c)</sup> |
| Operating income                               | 1.5          | 2.7      | (43.8)%                | 0.4        | 5.2      | (91.0)%             |
| Adjustments to operating income <sup>(a)</sup> | 2.6          | 1.5      | n/m                    | 2.7        | 1.5      | n/m                 |
| Adjusted operating income <sup>(b)</sup>       | 4.1          | 4.2      | (3.1)%                 | 3.1        | 6.7      | (53.3)%             |
| Operating ratio                                | 99.0%        | 98.2%    | (0.8)pp <sup>(d)</sup> | 99.8%      | 98.2%    | (1.6)pp             |
| Adjusted operating ratio                       | 97.4%        | 97.2%    | (0.2)pp                | 99.0%      | 97.7%    | (1.3)pp             |

(a) Represents charges that management excludes when evaluating segment performance to better understand our core operations.

(b) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles.

(c) Not meaningful.

(d) Percentage points.

*Three months ended June 30, 2007 compared to three months ended June 30, 2006*

In the second quarter of 2007, Meridian IQ was rebranded as YRC Logistics. Compared to the same period in 2006, YRC Logistics revenue increased by \$4.6 million or 3.0% during the second quarter of 2007. The increase in revenue resulted from additional business in domestic forwarding of \$1.9 million, dedicated fleet of \$2.2 million, flow through of \$4.3 million and Latin America of \$2.0 million offset by reductions in Asia of \$6.4 million caused primarily by a softer economic environment and the 2006 sale of our China operation to our China joint venture. Operating income benefited from the increased operating revenue, but reflects a decrease from \$2.7 million in the second quarter of 2006 to \$1.5 million in the second quarter of 2007. The lower operating results are primarily due to a \$2.6 million charge related to rebranding, restructuring and severance expenses.

*Six months ended June 30, 2007 compared to six months ended June 30, 2006*

In the first half of 2007, YRC Logistics revenue increased by \$14.5 million or 4.9% from the first half of 2006. The increase was driven by increases in domestic forwarding of \$3.0 million, dedicated fleet of \$4.8 million, flow through of \$9.3 million, transportation management of \$3.0 million, and Latin America of \$5.0 million offset by a reduction in Asia of \$12.2 million due to a softer economic environment and the 2006 sale of our China operation into our China joint venture. Operating income decreased from \$5.2 million in the first half of 2006 to \$0.4 million in the first half of 2007, resulting from difficult economic conditions, the restructuring mentioned above, increased health care costs and an influx of new business creating efficiency and productivity problems in isolated locations.

### Financial Condition

#### Liquidity

Our liquidity needs arise primarily from capital investment in new equipment, land and structures, and information technology, as well as working capital requirements. To provide short-term and longer-term liquidity, we maintain capacity under a \$850 million unsecured credit agreement and a \$650 million ABS agreement involving Yellow Transportation, Roadway, USF Holland and USF Reddaway accounts receivable. The expiration date of the 364-day ABS facility is May 16, 2008, at which time we expect to renew or replace the facility for an additional year.

We are currently negotiating with certain lenders to replace our existing \$850 million senior unsecured revolving credit facility. The new senior unsecured credit facility is expected to include a revolving credit facility of up to \$1.1-1.2 billion and a term loan facility of up to a \$150-250 million. The facility is expected to have a five year term.

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We are also negotiating with lenders to increase the financing limit available under our ABS facility to up to \$700 million from the existing limit of \$650 million. The remaining terms of the ABS facility are expected to remain the same.

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The purpose of increasing the capacity available under our existing ABS and revolving credit facilities is to increase liquidity and for working capital needs and general corporate purposes, including, without limitation, the refinancing of outstanding indebtedness, including potentially indebtedness that will become due over the next year. The completion of these financing transactions is subject to our entering into definitive agreements with our respective lenders.

Our expectations regarding the outcome of negotiations regarding our revolving credit facility and ABS facility, whether we actually complete these negotiations, enter into definitive agreements regarding these transactions, the amounts of these facilities and the terms of the facilities are only our expectations. Whether we ultimately enter into these facilities is subject to us and our lenders entering into definitive, binding agreements regarding these facilities. The terms, amount and prices of these facilities are subject to the parties' negotiations and market conditions at the time, including (without limitation) the debt and equity markets, our financial condition, our maintenance of our credit ratings, economic conditions, market capacity and the effects of any market disruptions such as (without limitation) a terrorist attack.

The following table provides details of the outstanding components and available unused capacity under the current credit agreement and ABS facility at each period end:

|                                                     | <b>December 31,</b> |              |
|-----------------------------------------------------|---------------------|--------------|
| <b>(in millions)</b>                                | <b>June 30,</b>     | <b>2006</b>  |
|                                                     | <b>2007</b>         |              |
| <b>Capacity:</b>                                    |                     |              |
| Revolving loan                                      | \$ 850.0            | \$ 850.0     |
| ABS facility                                        | 650.0               | 650.0        |
| <br>Total capacity                                  | <br>1,500.0         | <br>1,500.0  |
| <b>Amounts outstanding:</b>                         |                     |              |
| Letters of credit                                   | (471.4)             | (482.0)      |
| ABS facility borrowings                             | (250.0)             | (225.0)      |
| ABS usage for captive insurance company (see below) | (189.4)             | (189.4)      |
| <br>Total outstanding                               | <br>(910.8)         | <br>(896.4)  |
| <br>Available unused capacity                       | <br>\$ 589.2        | <br>\$ 603.6 |

YRC Assurance Co. Ltd. ( "YRC Assurance" ) is the Company's captive insurance company domiciled in Bermuda and a wholly owned and consolidated subsidiary of YRC Worldwide. YRC Assurance provides insurance services to certain wholly owned subsidiaries of YRC Worldwide. As a part of the structure of YRC Assurance, certain qualifying investments are made by YRC Assurance as defined by Bermuda regulations. These investments can include taking an ownership position in certain receivables that secure our ABS facility. As a result, as shown above, our capacity under the ABS facility is reduced by YRC Assurance's investment in receivables of \$189.4 million at June 30, 2007 and December 31, 2006.

*Contingent Convertible Notes*

The balance sheet classification of our contingently convertible notes between short-term and long-term is dependent upon certain conversion triggers, as defined. At June 30, 2007 and December 31, 2006, the conversion triggers had not been met. Accordingly, based on the stated maturity date, this obligation has been classified as a long-term liability on the accompanying balance sheets.

*Cash Flow Measurements*

We use free cash flow as a measurement to manage working capital and capital expenditures. Free cash flow indicates cash available to fund additional capital expenditures, to reduce outstanding debt (including current maturities) or to invest in our growth strategies. This measurement is used for internal management purposes and should not be construed as a better measurement than net cash from operating activities as defined by generally accepted accounting principles.



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The following table illustrates our calculation for determining free cash flow for the six months ended June 30:

| (in millions)                           | 2007      | 2006      |
|-----------------------------------------|-----------|-----------|
| Net cash from operating activities      | \$ 162.9  | \$ 157.9  |
| Net property and equipment additions    | (213.9)   | (226.1)   |
| Proceeds from exercise of stock options | 6.4       | 2.3       |
| Free cash flow                          | \$ (44.6) | \$ (65.9) |

Operating cash flows increased modestly during the six months ended June 30, 2007 versus 2006 due to differences in cash flows related primarily to taxes and pension. In the first half of 2007, we made pension payments of \$131.5 million and accrued pension expense of \$24.9 million versus payments of \$1.2 million and expense of \$30.9 million in the first half of 2006. Amounts for tax included net refunds of \$46.9 million and tax provision of \$30.1 million for the first half of 2007 versus net payments of \$106.8 million and tax provision of \$83.4 million for the first half of 2006. In addition, the 2007 period includes incentive compensation payments of \$13.2 million compared to \$58.6 million during 2006.

In the first six months of 2007, net property and equipment additions decreased \$12.2 million compared to the first six months of 2006 due to the timing of new equipment deliveries. Our planned total capital expenditures for 2007 have been reduced from our original projection to \$375-400 million in response to better asset utilization targets and expected volumes.

For the first six months of 2007, net cash provided by financing activities was \$31.4 million compared to \$86.8 million for the first six months 2006. The decrease is due to a reduction in ABS borrowings during the first six months of 2007 of \$49.5 million primarily related to the requirement to fund a \$55.0 million tax payment made in the first quarter of 2006. Proceeds from stock options increased \$4.1 million in 2007 compared to 2006.

We currently use cash generated from operations to fund capital expenditures, repay debt and fund working capital requirements. We expect that future cash requirements will generally be the same.

*Share Repurchase Program*

In April 2006, our Board of Directors authorized a \$100 million share repurchase program and we purchased \$20 million of our common stock in September 2006. No purchases have occurred during the six months ended June 30, 2007, and \$80 million remains authorized.

**Contractual Obligations and Other Commercial Commitments**

The following tables provide aggregated information regarding our contractual obligations and commercial commitments as of June 30, 2007. Most of these obligations and commitments have been discussed in detail either in the preceding paragraphs or the notes to the financial statements.

*Contractual Cash Obligations*

| (in millions)                                                                 | Payments Due By Period |           |           |               | Total    |
|-------------------------------------------------------------------------------|------------------------|-----------|-----------|---------------|----------|
|                                                                               | Less than 1 year       | 2-3 years | 4-5 years | After 5 years |          |
| Balance sheet obligations: <sup>(a)</sup>                                     |                        |           |           |               |          |
| ABS borrowings                                                                | \$ 250.0               | \$        | \$        | \$            | \$ 250.0 |
| Long-term debt including interest                                             | 216.1                  | 561.8     | 35.1      | 602.0         | 1,415.0  |
| USF Red Star multi-employer pension withdrawal obligations including interest | 33.5                   | 6.9       | 4.4       | 7.4           | 52.2     |
| Off balance sheet obligations:                                                |                        |           |           |               |          |
| Operating leases                                                              | 81.0                   | 134.0     | 40.9      | 24.1          | 280.0    |
| Capital expenditures                                                          | 89.1                   |           |           |               | 89.1     |



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|                               |          |          |         |          |            |
|-------------------------------|----------|----------|---------|----------|------------|
| Total contractual obligations | \$ 669.7 | \$ 702.7 | \$ 80.4 | \$ 633.5 | \$ 2,086.3 |
|-------------------------------|----------|----------|---------|----------|------------|

- 
- (a) Total liabilities for unrecognized tax benefits as of June 30, 2007, were \$78.3 million and are classified on the Company's consolidated balance sheet within Other Current and Accrued Liabilities.

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We expect in the ordinary course of business that our operating leases will be renewed or replaced as they expire. The leases provide for fixed and escalating rentals and contingent escalating rentals based on the Consumer Price Index not to exceed certain specified amounts. We record rent expense for our operating leases on a straight-line basis over the base term of the lease agreements. In many cases our leases are entered into by a subsidiary and a parent guarantee is issued. The maximum potential amount of undiscounted future payments under the guarantee are the same as the contractual cash obligations disclosed above.

The amounts presented above for the USF Red Star multi-employer pension withdrawal obligations have materially changed from the obligation by year presented in our Annual Report on Form 10-K for the year ended December 31, 2006, due to a settlement in June 2007 of a certain fund obligation. Based on this settlement agreement, we remitted \$26.4 million in July 2007 to satisfy a net present value amount of \$31.3 million previously requiring monthly repayment through 2022.

In our Annual Report on Form 10-K for the year ended December 31, 2006, we disclosed estimated cash contributions related to our pension plans of \$132.3 million, \$126.9 million and \$52.8 million for the years ended December 31, 2007, 2008 and 2009. We expect our estimate relative to 2007 to be materially accurate as we have made our primary contributions for the year of \$131.5 million during the six months ended June 30, 2007. Based upon our current actuarial valuation, our estimate for 2008 and beyond has changed considerably from our previous estimate due to better than expected asset return. As a result, our current estimate for future cash contributions for our pension plans is as follows:

| <b>(in millions)</b>                | <b>Cash Funding</b> |
|-------------------------------------|---------------------|
| 2008 Expected                       | \$ 57.0             |
| 2009 Expected                       | 48.0                |
| 2010 Expected                       | 48.0                |
| 2011 Expected                       | 48.0                |
| <i>Other Commercial Commitments</i> |                     |

The following table reflects other commercial commitments or potential cash outflows that may result from a contingent event, such as a need to borrow short-term funds due to insufficient free cash flow.

| <b>(in millions)</b>                | <b>Amount of Commitment Expiration Per Period</b> |                  |                  |                      | <b>Total</b>      |
|-------------------------------------|---------------------------------------------------|------------------|------------------|----------------------|-------------------|
|                                     | <b>Less than 1 year</b>                           | <b>2-3 years</b> | <b>4-5 years</b> | <b>After 5 years</b> |                   |
| Available line of credit            | \$ 83.0                                           | \$               | \$ 506.2         | \$                   | \$ 589.2          |
| Letters of credit                   | 471.4                                             |                  |                  |                      | 471.4             |
| Lease guarantees                    | 0.4                                               | 0.4              |                  |                      | 0.8               |
| Surety bonds                        | 88.0                                              | 0.1              | 0.1              |                      | 88.2              |
| <b>Total commercial commitments</b> | <b>\$ 642.8</b>                                   | <b>\$ 0.5</b>    | <b>\$ 506.3</b>  | <b>\$</b>            | <b>\$ 1,149.6</b> |

**Table of Contents****Item 3. Quantitative and Qualitative Disclosures About Market Risk**

We have exposure to a variety of market risks, including the effects of interest rates, foreign exchange rates and fuel prices.

**Risk from Interest Rates**

To provide adequate funding through seasonal business cycles and minimize overall borrowing costs, we utilize both fixed rate and variable rate financial instruments with varying maturities. At June 30, 2007, we had approximately 69% of our outstanding debt at fixed rates. If interest rates for our variable rate long-term debt had averaged 10% more during the period, our interest expense would have increased, and income before taxes would have decreased by \$0.6 million and \$1.1 million for the three and six months ended June 30, 2007.

The table below provides information regarding our interest rate risk related to fixed-rate debt as of June 30, 2007. Principal cash flows are stated in millions and weighted average interest rates are by contractual maturity. The fair values of our Roadway senior notes, USF senior notes and contingent convertible senior notes have been calculated based on the quoted market prices at June 30, 2007. The market price for the contingent convertible senior notes reflects the combination of debt and equity components of the convertible instrument.

| (in millions)         | 2007 | 2008     | 2009     | 2010     | 2011 | Thereafter | Total    | Fair Value |
|-----------------------|------|----------|----------|----------|------|------------|----------|------------|
| Fixed-rate debt       | \$   | \$ 227.5 | \$ 101.0 | \$ 156.0 | \$   | \$ 400.0   | \$ 884.5 | \$ 971.1   |
| Average interest rate |      | 8.22%    | 6.5%     | 8.41%    |      | 4.39%      |          |            |

**Foreign Exchange Rates**

Revenue, operating expenses, assets and liabilities of our Canadian, Mexican, Asian, South American and United Kingdom subsidiaries are denominated in local currencies, thereby creating exposure to fluctuations in exchange rates. The risks related to foreign currency exchange rates are not material to our consolidated financial position or results of operations. On June 30, 2007, we entered into a foreign currency hedge with a notional amount of approximately \$6.9 million and a maturity of December 31, 2007. The purpose of this instrument is to effectively hedge our exposure to foreign currency fluctuations on certain intercompany debt with GPS Logistics (EU) Ltd., a wholly owned subsidiary.

**Fuel Price Volatility**

National Transportation and Regional Transportation currently have effective fuel surcharge programs in place. As discussed previously, these programs are well established within the industry and customer acceptance of fuel surcharges remains high. Since the amount of fuel surcharge is based on average, national diesel fuel prices and is reset weekly, our exposure to fuel price volatility is significantly reduced.

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**Item 4. Controls and Procedures**

We maintain a rigorous set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this report and have determined that the Company's disclosure controls and procedures are effective.

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2007 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

We discuss legal proceedings in the Commitments and Contingencies note under Item 1. Financial Statements of this report.

**Item 4. Submission of Matters to a Vote of Security Holders**

We held our annual meeting of shareholders on May 17, 2007. At the meeting, the following matters were voted on by the shareholders:

Election of directors.

| <b>Nominees</b>    | <b>For</b> | <b>Withheld</b> |
|--------------------|------------|-----------------|
| Cassandra C. Carr  | 49,195,253 | 389,622         |
| Howard M. Dean     | 48,866,564 | 718,311         |
| John F. Fiedler    | 49,239,889 | 344,986         |
| Dennis E. Foster   | 49,234,049 | 350,826         |
| John C. McKelvey   | 48,862,407 | 722,468         |
| Phillip J. Meek    | 49,227,808 | 357,067         |
| William L. Trubeck | 48,917,162 | 667,713         |
| Carl W. Vogt       | 48,277,592 | 1,307,283       |
| William D. Zollars | 46,176,725 | 3,408,150       |

Approval of the Annual Incentive Bonus Program for senior executive officers.

| <b>For</b> | <b>Against</b> | <b>Abstain</b> | <b>Broker Non-Votes</b> |
|------------|----------------|----------------|-------------------------|
| 39,536,481 | 1,966,366      | 228,081        | 7 853,947               |

Ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm for 2007.

| <b>For</b> | <b>Against</b> | <b>Abstain</b> |
|------------|----------------|----------------|
| 49,309,050 | 209,738        | 66,087         |

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**Item 6.**      **Exhibits**

- 10.1 Omnibus Amendment No. 2 [Amendment No. 2 to Amended and Restated Receivables Sale Agreement and Amendment No. 2 to Second Amended and Restated Receivables Purchase Agreement], as of May 18, 2007, among Yellow Transportation, Inc., Roadway Express, Inc., USF Reddaway Inc. and USF Holland Inc., as Originators; Yellow Roadway Receivables Funding Corporation, as Seller; JPMorgan Chase Bank, N.A., SunTrust Bank, Wachovia Bank, National Association and ABN AMRO Bank, N.V., as Committed Purchasers; Falcon Asset Securitization Company LLC (f/k/a Falcon Asset Securitization Corporation), Three Pillars Funding LLC, and Variable Funding Capital Company LLC (as assignee of Blue Ridge Asset Funding Corporation) and Amsterdam Funding Corporation, as Conduits; YRC Assurance Co. Ltd., as Co-Agent; Wachovia Bank, National Association, as LC Issuer; Sun Trust Capital Markets, Inc., Wachovia Bank, National Association, ABN AMRO Bank, N.A., and JPMorgan Chase Bank, N.A., as Co-Agents; and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed May 23, 2007).
- 10.2 Annual Incentive Compensation Program (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K filed May 23, 2007)
- 31.1 Certification of William D. Zollars pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Donald G. Barger, Jr. pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of William D. Zollars pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Donald G. Barger, Jr. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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**SIGNATURES**

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

YRC Worldwide Inc.

Registrant

Date: August 7, 2007

/s/ William D. Zollars

William D. Zollars

Chairman of the Board of Directors, President & Chief Executive Officer

Date: August 7, 2007

/s/ Donald G. Barger, Jr.

Donald G. Barger, Jr.

Executive Vice President & Chief Financial Officer