YRC WORLDWIDE INC
Form 10-Q
August 06, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2008

OR

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

Commission file number 0-12255

YRC Worldwide Inc.

(Exact name of registrant as specified in its charter)

Delaware	**48-0948788**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
10990 Roe Avenue, Overland Park, Kansas	**66211**
(Address of principal executive offices)	**(Zip Code)**

(913) 696-6100

(Registrant s telephone number, including area code)

No Changes

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

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

Class	**Outstanding at July 31, 2008**
Common Stock, $1 Par Value Per Share	57,283,782 shares

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS

YRC Worldwide Inc. and Subsidiaries

(Amounts in thousands except per share data)

	June 30, 2008 (Unaudited)	December 31, 2007
Assets		
Current Assets:		
Cash and cash equivalents	$ 61,324	$ 58,233
Accounts receivable, net	1,116,081	1,073,915
Prepaid expenses and other	229,352	245,386
Total current assets	1,406,757	1,377,534
Property and Equipment:		
Cost	4,085,288	4,083,791
Less accumulated depreciation	(1,770,389)	(1,703,318)
Net property and equipment	2,314,899	2,380,473
Goodwill	700,546	700,659
Intangibles, net	524,435	533,327
Other assets	72,843	70,630
Total assets	$ 5,019,480	$ 5,062,623
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 368,654	$ 387,740
Wages, vacations and employees benefits	430,066	426,119
Other current and accrued liabilities	379,584	369,725
Asset backed securitization borrowings	140,000	180,000
Current maturities of long-term debt	331,295	231,955
Total current liabilities	1,649,599	1,595,539
Other Liabilities:		
Long-term debt, less current portion	723,790	822,048
Deferred income taxes, net	536,913	521,615
Pension and postretirement	162,906	180,166
Claims and other liabilities	339,202	330,951
Commitments and contingencies		
Shareholders Equity:		
Common stock, $1 par value per share	62,022	61,514
Preferred stock, $1 par value per share		

Capital surplus	1,218,533	1,211,956
Retained earnings	461,518	471,119
Accumulated other comprehensive income	9,611	12,329
Treasury stock, at cost (4,802 shares)	(144,614)	(144,614)
Total shareholders equity	1,607,070	1,612,304
Total liabilities and shareholders equity	$ 5,019,480	$ 5,062,623

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	
	2008	**2007**	**2008**	**2007**
Operating Revenue	$ 2,398,728	$ 2,486,505	$ 4,631,320	$ 4,814,847
Operating Expenses:				
Salaries, wages and employees benefits	1,332,137	1,464,840	2,685,283	2,886,365
Operating expenses and supplies	538,664	469,644	1,024,893	911,572
Purchased transportation	281,938	273,184	536,250	524,952
Depreciation and amortization	63,435	60,345	126,748	119,336
Other operating expenses	105,803	113,464	218,568	229,788
(Gains) losses on property disposals, net	3,053	(2,788)	6,539	161
Reorganization and settlements	2,444	(606)	15,228	13,851
Total operating expenses	2,327,474	2,378,083	4,613,509	4,686,025
Operating Income	71,254	108,422	17,811	128,822
Nonoperating (Income) Expenses:				
Interest expense	18,104	21,766	36,670	41,804
Other	(1,863)	2,012	(3,834)	278
Nonoperating expenses, net	16,241	23,778	32,836	42,082
Income (Loss) Before Income Taxes	55,013	84,644	(15,025)	86,740
Income tax provision (benefit)	18,739	29,277	(5,424)	30,094
Net Income (Loss)	$ 36,274	$ 55,367	$ (9,601)	$ 56,646
Average Common Shares Outstanding Basic	57,122	57,514	57,000	57,426
Average Common Shares Outstanding Diluted	58,193	58,511	57,000	58,546
Basic Earnings (Loss) Per Share	$ 0.64	$ 0.96	$ (0.17)	$ 0.99
Diluted Earnings (Loss) Per Share	$ 0.62	$ 0.95	$ (0.17)	$ 0.97

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the Six Months Ended June 30

(Amounts in thousands)

(Unaudited)

	2008	2007
Operating Activities:		
Net income (loss)	$ (9,601)	$ 56,646
Noncash items included in net income (loss):		
Depreciation and amortization	126,748	119,336
Losses on property disposals, net	6,508	161
Deferred income tax provision (benefit), net	11,844	(842)
Curtailment gain	(34,460)	
Other noncash items, net	966	4,725
Changes in assets and liabilities, net:		
Accounts receivable	(42,165)	(32,794)
Accounts payable	(13,573)	8,418
Other operating assets	23,429	19,774
Other operating liabilities	40,891	(12,521)
Net cash provided by operating activities	110,587	162,903
Investing Activities:		
Acquisition of property and equipment	(77,018)	(241,860)
Proceeds from disposal of property and equipment	11,079	27,939
Other	(4,201)	(103)
Net cash used in investing activities	(70,140)	(214,024)
Financing Activities:		
Asset backed securitization borrowings (payments), net	(40,000)	25,000
Borrowing of long-term debt, net	5,876	
Debt issuance costs	(3,282)	
Proceeds from exercise of stock options	50	6,405
Net cash (used in) provided by financing activities	(37,356)	31,405
Net Increase (Decrease) In Cash and Cash Equivalents	3,091	(19,716)
Cash and Cash Equivalents, Beginning of Period	58,233	76,391
Cash and Cash Equivalents, End of Period	$ 61,324	$ 56,675

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)

	2008
Common Stock	
Beginning balance	$ 61,514
Exercise of stock options	3
Employer contribution to 401(k) plan	310
Issuance of equity awards	195
Ending balance	$ 62,022
Capital Surplus	
Beginning balance	$ 1,211,956
Exercise of stock options, including tax benefits	47
Employer contribution to 401(k) plan	4,504
Share-based compensation	1,567
Other, net	459
Ending balance	$ 1,218,533
Retained Earnings	
Beginning balance	$ 471,119
Net loss	(9,601)
Ending balance	$ 461,518
Accumulated Other Comprehensive Income	
Beginning balance	$ 12,329
Pension, net of tax:	
Reclassification of net losses to net income	849
Curtailment adjustment	(3,234)
Foreign currency translation adjustments	(333)
Ending balance	$ 9,611
Treasury Stock, At Cost	
Beginning and ending balance	$ (144,614)
Total Shareholders Equity	$ 1,607,070

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. Our 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, a Roadway subsidiary located in Canada that specializes in shipments into, across and out of Canada. Approximately 36% of National Transportation shipments are completed in two days or less. In addition to the United States (U.S.) and Canada, National Transportation also serves parts of Mexico, Puerto Rico and Guam.

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 U.S., Canada, Mexico and Puerto Rico. Approximately 90% of Regional Transportation less-than-truckload (LTL) shipments are completed in two days or less.

YRC Logistics plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions. YRC 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.

YRC Truckload (Truckload) reflects the results of USF Glen Moore, a provider of truckload services throughout the U.S.

At June 30, 2008, approximately 72% of our labor force is subject to various collective bargaining agreements, which predominantly expire in 2013.

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, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In management s opinion, all normal recurring adjustments except as otherwise noted, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included in these financial statements herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007.

Assets Held for Sale

When we plan to dispose of property by sale, the asset is carried in the financial statements at the lower of the carrying amount or estimated fair value, less cost to sell, and is reclassified to assets held for sale. Additionally, after such reclassification, there is no further depreciation taken on the asset. For an asset to be classified as held for sale, management must approve and commit to a formal plan, the sale should be anticipated during the ensuing year and the asset must be actively marketed, be available for immediate sale, and meet certain other specified criteria. At June 30, 2008 and December 31, 2007, the net book value of assets held for sale was approximately $82.6 million and $26.1 million, respectively. This amount is included in Property and Equipment in the accompanying consolidated balance sheets. We recorded charges of $3.7 million and $6.4 million for the three and six months ended June 30, 2008, respectively, to reduce properties held for sale to estimated fair value, less cost to sell. These charges are included in (Gains) Losses on Property Disposals, Net in the accompanying statements of consolidated operations. There were no such amounts recorded during the six months ended June 30, 2007.

3. **Restructuring and Reorganization**

In February 2008, we closed 27 service centers that were previously a part of Regional Transportation s networks. As a part of this action, we incurred certain restructuring charges of approximately $1.3 million and $12.4 million consisting of employee severance, lease cancellations and other incremental costs during the three and six months ended June 30, 2008, respectively.

During 2008, we made payments under previous restructuring programs, primarily those charges incurred as a result of the USF Reddaway and USF Bestway combination.

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

(in millions)	Employee Separation	Contract Termination	Other	Total
Balance at December 31, 2007	$ 3.6	$ 2.4	$	$ 6.0
Restructuring charges	3.7	6.9	1.8	12.4
Payments	(4.5)	(3.0)	(1.8)	(9.3)
Balance at June 30, 2008	$ 2.8	$ 6.3	$	$ 9.1

In addition to the above restructuring charges of $12.4 million, we incurred reorganization charges of $1.1 million and $2.8 million during the three and six months ended June 30, 2008, respectively. These charges are included in the Reorganization and settlements caption in the consolidated statement of operations and consist primarily of employee separation charges at National Transportation due to certain leadership changes as well as reductions in the general employee population.

4. **Debt and Financing**

Total debt consisted of the following:

(in millions)	June 30, 2008	December 31, 2007
Asset backed securitization borrowings, secured by accounts receivable	$ 140.0	$ 180.0
USF senior notes	257.6	259.9
Roadway senior notes	227.0	229.5
Contingent convertible senior notes	400.0	400.0
Term loan	150.0	150.0
Revolving credit facility	11.0	5.1
Industrial development bonds	9.5	9.5
Total debt	$ 1,195.1	$ 1,234.0

Current maturities of long-term debt	(331.3)	(232.0)
ABS borrowings	(140.0)	(180.0)
Long-term debt	$ 723.8	$ 822.0

Senior Credit Facility

On April 18, 2008, we entered into Amendment No. 1 (the Credit Agreement Amendment) to the Credit Agreement, dated as of August 17, 2007 (the Credit Agreement). The Credit Agreement, as amended (the Credit Facility), continues to provide the Company with a $950 million senior revolving credit facility, including sublimits available for borrowings under certain foreign currencies, and a $150 million senior term loan.

The Credit Agreement Amendment:

- increased, until such time as the Company receives a rating of BBB- or better from Standard & Poor s and Ba1 or better from Moody s, in each case with a stable outlook (the Fall Away Event), the Company s Total Leverage Ratio (as defined in the Credit Facility) from 3.0x to (i) 3.75x for each of the fiscal quarters ended March 31, June 30 and September 30, 2008 and (ii) 3.5x for each fiscal quarter thereafter;

- increased the interest rates and fees applicable to the revolving credit facility and term loan as set forth in the definition of Applicable Rate in Section 1.01 of the Credit Facility; effective with this amendment, the interest rates under the Credit Facility are correlated to our Credit Ratings; the interest rate on amounts outstanding under the revolving credit facility and term loan is LIBOR plus 120 basis points (3.66% at June 30, 2008) and LIBOR plus 150 basis points (3.96% at June 30, 2008), respectively, and the facility fee for the revolving credit facility is 30 basis points;

- required the Company and its domestic subsidiaries to pledge the following collateral (i) receivables not secured by the ABS facility (as defined below) or the Company s captive insurance companies, (ii) intercompany notes not secured by the ABS facility, (iii) fee-owned real estate parcels that have an estimated internal market value of $2.5 million or greater, (iv) 100% of the stock of all domestic subsidiaries of the Company and (v) 65% of the stock of first-tier foreign subsidiaries of the Company other than the Company s captive insurance companies;

- requires the Company and its subsidiaries to pledge additional assets, including rolling stock and the remaining real estate if the Total Leverage Ratio exceeds 3.5x at the end of any Test Period (as defined in the Credit Facility) or if the Company receives a rating of BB- or worse from Standard & Poor s and Ba3 or worse from Moody s prior to the Fall Away Event as defined in the Credit Agreement Amendment;

- required each domestic subsidiary of the Company except for Yellow Roadway Receivables Funding Corporation to guarantee the credit facility; and

- modified certain negative covenants (and in certain instances introduces new negative covenants) related to permitted liens, permitted acquisitions, permitted asset sales (and certain related mandatory prepayments from the proceeds thereof) and restricted payments.

Upon the occurrence of the Fall Away Event, (i) security interests in pledged collateral will be released, (ii) all negative covenant provisions (including the Company s Total Leverage Ratio) and the mandatory prepayment provision will revert to pre-Credit Agreement Amendment levels and concepts and (iii) only material domestic subsidiaries and subsidiaries of the Company that guarantee certain other indebtedness of the Company or its subsidiaries will remain as guarantors.

Asset-Backed Securitization Facility

On April 18, 2008, we renewed our asset-backed securitization (ABS) facility. The renewed facility will expire on April 16, 2009. The renewed facility (i) reduced the financing limit available under the ABS facility from $700 million to $600 million, (ii) reduced the letters of credit sublimit from $325 million to $125 million, (iii) modified the Total Leverage Ratio consistent with the Credit Agreement Amendment described above, (iv) increased the loss and discount reserve requirements and (v) increased the administrative fee (calculated based on financing limit) and program fee (calculated based on utilization) to 50 basis points and 75 basis points, respectively. The interest rate under the ABS facility for conduits continues to be a variable rate based on A1/P1 rated commercial paper with an approximate interest rate of 2.5% at June 30, 2008, plus the program fee. The interest rate for Wachovia Bank, National Association is one-month LIBOR, plus 100 basis points, as Wachovia will no longer use a conduit to purchase receivables under the ABS facility.

The ABS facility utilizes the accounts receivable of the following subsidiaries of the Company: Yellow Transportation, Inc.; Roadway Express, Inc.; USF Holland Inc.; and USF Reddaway Inc. (the Originators). Yellow Roadway Receivables Funding Corporation (YRRFC), a special purpose entity and wholly owned subsidiary of the Company, operates the ABS facility. Under the terms of the renewed ABS facility, the Originators may transfer trade receivables to YRRFC, which is designed to isolate the receivables for bankruptcy purposes. A third-party conduit or committed purchaser must purchase from YRRFC an undivided ownership interest in those receivables. The percentage ownership interest in receivables that the conduits or committed purchasers purchase may increase or decrease over time, depending on the characteristics of the receivables, including delinquency rates and debtor concentrations.

In connection with the renewal of the ABS facility, the Company unconditionally guaranteed to YRRFC the full and punctual payment and performance of each of the Originators obligations under the ABS facility. YRRFC has pledged its right, title and interest in the guarantee to the Administrative Agent, for the benefit of the purchasers, under the Third Amended and Restated Receivables Purchase Agreement.

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5. **Employee Benefits**
Curtailment

During the second quarter of 2008, we amended the postretirement healthcare benefit plan that covers certain current and former Roadway employees. This amendment eliminated cost sharing benefits for active employees that retire on or after June 1, 2008, provided for the current cost sharing provisions to retirees to terminate December 31, 2008 and allows retirees to participate in our healthcare programs on a full-cost basis effective January 1, 2009. The curtailment of this plan resulted in a gain of $34.5 million during the three months ended June 30, 2008 and is included in Salaries, wages and employees benefits in the accompanying consolidated statement of operations.

Effective July 1, 2008, we curtailed our defined benefit plans that cover approximately 8,000 employees not covered by collective bargaining agreements. As a result of this action, future benefit accruals have been frozen effective July 1, 2008. However, employees may achieve early retirement eligibility based on age and continued service. During the third quarter 2008, we have subsequently recognized curtailment gains of approximately $63 million related to the changes to these plans.

Components of Net Periodic Pension and Other Postretirement Cost

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

	Three Months		**Six Months**	
(in millions)	**2008**	**2007**	**2008**	**2007**
Service cost	$ 8.9	$ 9.8	$ 17.8	$ 19.6
Interest cost	17.1	16.3	34.2	32.7
Expected return on plan assets	(18.4)	(17.3)	(36.8)	(34.9)
Amortization of prior service cost	0.3	0.3	0.6	0.6
Amortization of net loss	0.5	2.0	1.0	4.0
Net periodic pension cost	$ 8.4	$ 11.1	$ 16.8	$ 22.0
Settlement cost				1.4
Special termination benefit cost				1.5
Total periodic pension cost	$ 8.4	$ 11.1	$ 16.8	$ 24.9

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

	Three Months		**Six Months**	
(in millions)	**2008**	**2007**	**2008**	**2007**
Service cost	$ 0.1	$ 0.1	$ 0.2	$ 0.2
Interest cost	0.4	0.5	0.8	1.0
Amortization of prior service cost		0.1	0.1	0.2
Amortization of net (gain)	(0.3)	(0.1)	(0.6)	(0.2)
Other postretirement cost	$ 0.2	$ 0.6	$ 0.5	$ 1.2
Curtailment gain	(34.5)		(34.5)	
Total other postretirement cost	$ (34.3)	$ 0.6	$ (34.0)	$ 1.2

6. **Stock-Based Compensation**
We maintain a long-term incentive and equity award plan implemented in 2004 that provides for the issuance of stock-based compensation to key management personnel. In May 2008, our stockholders approved an amendment to this plan to increase the number of shares of Company

common stock available for awards under the plan by 3 million shares (from 3.43 million to 6.43 million) and to eliminate the requirement that shares available for grant under the plan be reduced by two shares for each share to be issued pursuant to full value awards , which are restricted stock, share units, performance awards and other stock-based awards. As of June 30, 2008, 2.6 million shares remain available for issuance. The plan permits the issuance of restricted stock and share units, as well as options, SARs, and performance stock and performance stock unit awards. Awards under the plan can be made in cash and share units at the discretion of the Board of Directors. According to the plan provisions, the share units provide the holders the right to receive one share of our common stock upon vesting of one share unit. The plan requires the exercise price of any option equal to the closing market price of our common stock on the date of grant.

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In May 2008, we granted option awards to purchase approximately 1.0 million shares of our common stock to approximately 2,200 employees. This one-time grant was made in lieu of a portion of the employees bonus opportunity for 2008. The options vest in one-third increments on January 1, 2009, 2010 and 2011, and expire ten years from the date of the grant. The fair value of each option was estimated on the date of grant using the Black-Scholes-Merton pricing model. Expected volatilities are estimated using historical volatility of our common stock. We use historical data to estimate option exercise and employee termination within the valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from the output of the valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

We valued the options granted in 2008 using the above described model with the following weighted average assumptions:

	2008
Dividend yield	%
Expected volatility	48.1%
Risk-free interest rate	2.7%
Expected option life (years)	3.0
Fair value per option	$ 6.59

A summary of option activity under the plan as of June 30, 2008, and changes during the six months then ended, is presented in the following table:

	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2007	216	$ 26.29		
Granted	1,041	18.82		
Exercised	(3)	14.57		
Forfeited / expired	(19)	24.94		
Outstanding at June 30, 2008	1,235	20.05	8.89	$ 8,962
Exercisable at June 30, 2008	194	25.84	3.90	$ 8,962

The total intrinsic value of options exercised during the six months ended June 30, 2008 was not material.

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 894,000 for the three months ended June 30, 2008, and 700,000 and 650,000 for the three and six months ended June 30, 2007, respectively. In addition, dilutive securities related to our net share settle contingent convertible notes were 177,000 for the three months ended June 30, 2008, and 297,000 and 470,000 for the three and six months ended June 30, 2007, respectively. Given our net loss for the six months ended June 30, 2008, there are no dilutive securities for that period.

The impact of certain options and share units were excluded from the calculation of diluted earnings per share because the effects are antidilutive. 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 then the stated conversion price, the computed shares would be antidilutive under the treasury stock method.

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Antidilutive options and share units were 1,293,000 and 2,418,000 for the three and six months ended June 30, 2008, respectively, and 23,000 for the three and six months ended June 30, 2007.

Antidilutive convertible senior note conversion shares were 14,970,000 and 15,626,000 for the three and six months ended June 30, 2008, and 472,000 and 371,000 for the three and six months ended June 30, 2007, respectively.

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.

During the second quarter 2008, we modified our internal reporting process and in turn, reassessed our segment reporting. As a result of this process we now report four operating segments as compared to three segments before the change. The revised segment reporting is reflected throughout this report for all periods presented. Historical amounts are presented in a manner that is consistent with the revised segment reporting.

We have four 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. YRC Logistics provides domestic and international freight forwarding, warehousing, cross-dock services, multi-modal brokerage services and transportation management services. Truckload, our new segment previously included in the Regional Transportation segment, consists of USF Glen Moore, a domestic truckload carrier.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note to our financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate and other operating losses represent residual operating expenses of the holding company, including compensation and benefits and professional services for all periods presented. Corporate identifiable assets primarily refer to cash, cash equivalents and deferred debt issuance costs. Intersegment revenue relates to transportation services between our segments.

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The following table summarizes our operations by business segment:

(in millions)	National Transportation	Regional Transportation	YRC Logistics	Truckload	Corporate/ Eliminations	Consolidated
As of June 30, 2008						
Identifiable assets	$ 3,262.5	$ 1,394.0	$ 428.1	$ 77.9	$ (143.0)	$ 5,019.5
As of December 31, 2007						
Identifiable assets	3,139.1	1,424.0	426.4	80.9	(7.8)	5,062.6
Three months ended June 30, 2008						
External revenue	1,692.2	533.4	150.4	22.7		2,398.7
Intersegment revenue	0.6	0.2	9.4	8.8	(19.0)	
Operating income	74.6	2.1	1.9	(3.9)	(3.4)	71.3
Three months ended June 30, 2007						
External revenue	1,702.5	604.2	155.5	24.3		2,486.5
Intersegment revenue	1.0		2.7	6.4	(10.1)	
Operating income	92.8	15.6	1.5	(0.8)	(0.7)	108.4
Six months ended June 30, 2008						
External revenue	3,251.4	1,045.8	291.0	43.1		4,631.3
Intersegment revenue	1.3	0.2	18.6	14.0	(34.1)	
Operating income	67.3	(35.5)	0.8	(9.0)	(5.8)	17.8
Six months ended June 30, 2007						
External revenue	3,309.9	1,155.7	300.5	48.7		4,814.8
Intersegment revenue	2.0		7.4	12.6	(22.0)	
Operating income	125.9	10.2	0.4	(0.5)	(7.3)	128.8

9. **Comprehensive Income**

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

(in millions)	Three Months 2008	Three Months 2007	Six Months 2008	Six Months 2007
Net income (loss)	$ 36.3	$ 55.4	$ (9.6)	$ 56.6
Other comprehensive income, net of tax:				
Pension:				
Net prior service cost	0.2	0.2	0.4	0.4
Net actuarial gains	0.2	1.2	0.4	2.4
Curtailment adjustment	(3.2)		(3.2)	
Changes in foreign currency translation adjustments	0.9	8.5	(0.3)	9.1
Other comprehensive income (loss)	(1.9)	9.9	(2.7)	11.9
Comprehensive income (loss)	$ 34.4	$ 65.3	$ (12.3)	$ 68.5

10. **Recent Accounting Pronouncements**

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations,* which revises SFAS No. 141, *Business Combinations*, originally issued in June 2001. SFAS No. 141R will apply to business combinations for which the acquisition date is on or after January 1, 2009, and could have a material impact on us with respect to business combinations completed on or after the effective date. The significant revisions include, but are not limited to the acquirer recording 100% of all assets and liabilities, including goodwill, of the acquired business, generally at their fair values, and acquisition-related transaction and restructuring costs will be expensed rather than treated as part of the cost of the acquisition and included in the amount recorded for assets acquired. In addition, as of the effective date, reversals of valuation allowances related to acquired deferred tax assets and changes to acquired income tax uncertainties related to any business combinations, even those completed prior to the effective date, will be recognized in earnings, except for qualified measurement period adjustments.

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In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, which amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 will be effective for our quarterly reporting period ending March 31, 2009 and could have a material impact on us to the extent we enter into an arrangement after the effective date of the standard where we are required to consolidate a noncontrolling interest. If such an event occurs, we will report the non-controlling interest s equity as a component of our equity in our consolidated balance sheet, we will report the component of net income or loss and comprehensive income or loss attributable to the non-controlling interest separately and changes in ownership interests will be treated as equity transactions. Upon a loss of control, any gain or loss on the interest sold will be recognized in earnings.

Effective January 1, 2008, the Company adopted the provisions of SFAS No. 157, Fair Value Measurements, for financial assets and financial liabilities. In accordance with Financial Accounting Standards Board Staff Position No. 157-2, Effective Date of FASB Statement No. 157, the Company will delay application of SFAS No. 157 for non-financial assets and non-financial liabilities, until January 1, 2009. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Adoption of SFAS No. 157 did not have a material impact on our consolidated financial position, results of operations, or cash flows.

Certain non-financial assets and non-financial liabilities measured at fair value on a recurring basis include reporting units measured at fair value in the first step of a goodwill impairment test. Certain non-financial assets measured at fair value on a non-recurring basis include non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, as well as intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment. As stated above, SFAS No. 157 will be applicable to these fair value measurements beginning January 1, 2009.

In May 2008, the FASB issued FASB Staff Position (FSP) No. APB 14-1, Accounting for Convertible Debt Instruments that may be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP clarifies that issuers of convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The FSP is effective for our financial statements beginning January 1, 2009, and early adoption is not permitted. This FSP is required to be applied retrospectively to all periods presented. We are still evaluating the impact of this FSP and currently believe that the adoption of this standard will result in higher interest expense and lower earnings per share beginning in 2009.

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles . This standard reorganizes the GAAP hierarchy in order to improve financial reporting by providing a consistent framework for determining what accounting principles should be used when preparing U.S. GAAP financial statements. SFAS 162 shall be effective 60 days after the SEC s approval of the Public Company Accounting Oversight Board s amendments to Interim Auditing Standard, AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles . Management is currently evaluating the impact, if any, this new standard may have on our consolidated financial position, results of operations, or cash flows.

11. **Commitments and Contingencies**

Shanghai Jiayu Logistics Co., Ltd.

In December 2007, we entered into a definitive agreement to acquire majority ownership of Shanghai Jiayu Logistics Co., Ltd., a Shanghai, China ground transportation company. Pursuant to the definitive agreement, YRC Logistics will acquire 65% of the stock of Jiayu for Chinese Yuan (CNY) 237.4 million plus an additional payment of CNY 79.2 million (approximately $45 million) based upon Jiayu s 2007 financial performance. If Jiayu meets certain financial performance targets during 2008 and 2009, YRC Logistics will purchase the remaining 35% interest in 2010 for an amount not to exceed CNY 248.0 million (approximately $32 million), as determined by the level of the financial performance. If Jiayu does not meet these financial targets, YRC Logistics has a call option to purchase the remaining 35% of the shares of Jiayu in 2010 for the greater of CNY 77.5 million (approximately $10 million) and 35% of the appraised value of the net assets of Jiayu at that time. All payments will be made in Chinese Yuan, and their estimated U.S. dollar equivalents are provided herein. The acquisition is subject to Chinese regulatory approvals, restructuring of certain of Jiayu s operations and other ordinary conditions to closing. We are capitalizing transaction costs incurred related to this acquisition, the balance of which is not significant at June 30, 2008.

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Class Action Lawsuit

On July 30, 2007, Farm Water Technological Services, Inc. d/b/a Water Tech, and C.B.J.T. d/b/a Agricultural Supply, on behalf of themselves and other plaintiffs, filed a putative class action lawsuit against the Company and 10 other companies engaged in the LTL trucking business in the United States District Court for the Southern District of California. Since that time, other plaintiffs have filed similar cases in various courts across the nation. In December 2007, the courts consolidated these cases in the United States District Court for the Northern District of Georgia. The plaintiffs allege that the defendants, including the Company, conspired to fix fuel surcharges in violation of federal antitrust law and seek unspecified treble damages, injunctive relief, attorneys fees and costs of litigation. The Company believes that its fuel surcharge practices are lawful and these suits are without factual basis or legal merit. An appropriate defense has begun, and the Company intends to defend these allegations vigorously. The plaintiffs filed a consolidated amended complaint in May 2008. The defendants, including the Company, have filed in July 2008, a motion to dismiss the complaint. Given that the actions are at a very preliminary stage, the Company is not able to determine that any potential liability that might result is probable or estimable and, therefore, the Company has not recorded a liability related to the actions. If an adverse outcome were to occur, it could have a material adverse effect on the Company s consolidated financial condition, cash flows and results of operations.

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12. **Guarantees of the Contingent Convertible Senior 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 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 connection with the net share settled contingent convertible senior 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: Yellow Transportation, Inc., YRC Worldwide Technologies, Inc., YRC Logistics, Inc., YRC Logistics Global, LLC, Globe.com Lines, Inc., Roadway LLC, Roadway Next Day Corporation, and Roadway Express, 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 to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information as of June 30, 2008 and December 31, 2007 with respect to the financial position and for the three and six months ended June 30, 2008 and 2007 for results of operations and for the six months ended June 30, 2008 and 2007 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. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the net share settled contingent convertible senior notes. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

June 30, 2008

(in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ 25	$ 15	$ 21	$	$ 61
Intercompany advances receivable		(101)	101		
Accounts receivable, net	3	(6)	1,126	(7)	1,116
Prepaid expenses and other	60	136	34		230
Total current assets	88	44	1,282	(7)	1,407
Property and equipment	1	2,973	1,111		4,085
Less accumulated depreciation		(1,505)	(265)		(1,770)
Net property and equipment	1	1,468	846		2,315
Investment in subsidiaries	3,282	93	203	(3,578)	
Receivable from affiliate	(907)	495	412		
Goodwill and other assets	259	982	406	(350)	1,297
Total assets	$ 2,723	$ 3,082	$ 3,149	$ (3,935)	$ 5,019
Intercompany advances payable	$ 341	$ (323)	$ 186	$ (204)	$
Accounts payable	17	243	111	(2)	369
Wages, vacations and employees benefits	25	300	105		430
Other current and accrued liabilities	54	156	171	(1)	380
Asset backed securitization borrowings			140		140
Current maturities of long-term debt		230	101		331
Total current liabilities	437	606	814	(207)	1,650
Payable to affiliate	(120)	47	223	(150)	
Long-term debt, less current portion	558	6	160		724

Deferred income taxes, net	23	318	196		537
Pension and postretirement	163				163
Claims and other liabilities	95	2	242		339
Commitments and contingencies					
Shareholders equity	1,567	2,103	1,514	(3,578)	1,606
Total liabilities and shareholders equity	$ 2,723	$ 3,082	$ 3,149	$ (3,935)	$ 5,019

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December 31, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 26	$ 15	$ 17	$	$ 58
Intercompany advances receivable		(65)	65		
Accounts receivable, net	3	(25)	1,101	(5)	1,074
Prepaid expenses and other	76	99	71		246
Total current assets	105	24	1,254	(5)	1,378
Property and equipment	1	2,967	1,116		4,084
Less accumulated depreciation	(1)	(1,468)	(235)		(1,704)
Net property and equipment		1,499	881		2,380
Investment in subsidiaries	3,280	93	203	(3,576)	
Receivable from affiliate	(898)	488	410		
Goodwill and other assets	258	985	412	(350)	1,305
Total assets	$ 2,745	$ 3,089	$ 3,160	$ (3,931)	$ 5,063
Intercompany advances payable	$ 342	$ (294)	$ 157	$ (205)	$
Accounts payable	12	264	112		388
Wages, vacations and employees benefits	29	285	112		426
Other current and accrued liabilities	52	149	169		370
Asset backed securitization borrowings			180		180
Current maturities of long-term debt		232			232
Total current liabilities	435	636	730	(205)	1,596
Payable to affiliate	(117)	44	223	(150)	
Long-term debt, less current portion	554	7	261		822
Deferred income taxes, net	19	307	196		522
Pension and postretirement	180				180
Claims and other liabilities	84	3	244		331
Commitments and contingencies					
Shareholders equity	1,590	2,092	1,506	(3,576)	1,612
Total liabilities and shareholders equity	$ 2,745	$ 3,089	$ 3,160	$ (3,931)	$ 5,063

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2008

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 1,670	$ 739	$ (10)	$ 2,399
Operating expenses:					
Salaries, wages and employees benefits	8	880	444		1,332
Operating expenses and supplies	(5)	367	177		539
Purchased transportation		204	88	(10)	282
Depreciation and amortization		40	24		64
Other operating expenses		77	29		106
Losses on property disposals, net		3			3
Reorganization and settlements			2		2
Total operating expenses	3	1,571	764	(10)	2,328

Operating income (loss)	(3)	99	(25)		71
Nonoperating (income) expenses:					
Interest expense	8	4	6		18
Other, net	3	80	(85)		(2)
Nonoperating (income) expenses, net	11	84	(79)		16
Income (loss) before income taxes	(14)	15	54		55
Income tax provision (benefit)	19	(1)	1		19
Net income (loss)	$ (33)	$ 16	$ 53	$	$ 36

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For the three months ended June 30, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor 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
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

For the six months ended June 30, 2008

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 3,210	$ 1,442	$ (20)	$ 4,632
Operating expenses:					
Salaries, wages and employees benefits	17	1,775	893		2,685
Operating expenses and supplies	(10)	695	340		1,025
Purchased transportation		385	171	(20)	536
Depreciation and amortization		78	49		127
Other operating expenses		150	69		219
Losses on property disposals, net		4	3		7
Reorganization and settlements		2	13		15
Total operating expenses	7	3,089	1,538	(20)	4,614
Operating income (loss)	(7)	121	(96)		18
Nonoperating (income) expenses:					
Interest expense	15	9	13		37
Other, net	10	104	(118)		(4)
Nonoperating (income) expenses, net	25	113	(105)		33

Income (loss) before income taxes	(32)	8	9		(15)
Income tax provision (benefit)	(5)	(1)	1		(5)
Net income (loss)	$ (27)	$ 9	$ 8	$	$ (10)

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For the six months ended June 30, 2007

(in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor 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
Income tax provision (benefit)	(13)	28	18	(3)	30
Net income (loss)	$ (32)	$ 57	$ 34	$ (2)	$ 57

Condensed Consolidating Statements of Cash Flows

For the six months ended June 30, 2008

(in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Operating activities:					
Net cash provided by operating activities	$ 27	$ 52	$ 31	$	$ 110
Investing activities:					
Acquisition of property and equipment		(47)	(30)		(77)
Proceeds from disposal of property and equipment			11		11
Other			(4)		(4)
Net cash used in investing activities		(47)	(23)		(70)
Financing activities:					
Asset backed securitization borrowings, net			(40)		(40)
Borrowing of long-term debt, net	4		2		6
Debt issuance costs	(3)				(3)
Intercompany advances / repayments	(29)	(5)	34		
Net cash used in financing activities	(28)	(5)	(4)		(37)
Net increase (decrease) in cash and cash equivalents	(1)		4		3

Cash and cash equivalents, beginning of period	26	15	17		58
Cash and cash equivalents, end of period	$ 25	$ 15	$ 21	$	$ 61

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For the six months ended June 30, 2007

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor 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)
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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13. **Guarantees of the Senior Notes Due 2008**

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

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

The following represents condensed consolidating financial information of YRC Worldwide and its subsidiaries as of June 30, 2008 and December 31, 2007 with respect to the financial position, and for the three and six months ended June 30, 2008 and 2007 for results of operations and for the six months ended June 30, 2008 and 2007 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, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 43	$ 18	$	$ 61
Intercompany advances receivable		(17)	17		
Accounts receivable, net		(48)	1,176	(12)	1,116
Prepaid expenses and other	(12)	134	108		230
Total current assets	(12)	112	1,319	(12)	1,407
Property and equipment		1,109	2,976		4,085
Less accumulated depreciation		(292)	(1,478)		(1,770)
Net property and equipment		817	1,498		2,315
Investment in subsidiaries	101	3,303	217	(3,621)	
Receivable from affiliate	203	(706)	503		
Goodwill and other assets	651	1,113	383	(850)	1,297
Total assets	$ 943	$ 4,639	$ 3,920	$ (4,483)	$ 5,019
Intercompany advances payable	$	$ 62	$ 142	$ (204)	$
Accounts payable		113	263	(7)	369
Wages, vacations and employees benefits		183	247		430
Other current and accrued liabilities	1	103	276		380
Asset backed securitization borrowings			140		140
Current maturities of long-term debt	227		104		331
Total current liabilities	228	461	1,172	(211)	1,650
Payable to affiliate		530	121	(651)	
Long-term debt, less current portion		559	165		724
Deferred income taxes, net	(3)	255	285		537
Pension and postretirement		163			163
Claims and other liabilities		95	244		339
Commitments and contingencies					

Shareholders equity	718	2,576	1,933	(3,621)	1,606
Total liabilities and shareholders equity	$ 943	$ 4,639	$ 3,920	$ (4,483)	$ 5,019

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December 31, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$	$ 45	$ 13	$	$ 58
Intercompany advances receivable		(17)	17		
Accounts receivable, net		(38)	1,120	(8)	1,074
Prepaid expenses and other	(12)	102	156		246
Total current assets	(12)	92	1,306	(8)	1,378
Property and equipment		1,103	2,981		4,084
Less accumulated depreciation		(261)	(1,443)		(1,704)
Net property and equipment		842	1,538		2,380
Investment in subsidiaries	101	3,264	254	(3,619)	
Receivable from affiliate	186	(722)	536		
Goodwill and other assets	651	1,117	387	(850)	1,305
Total assets	$ 926	$ 4,593	$ 4,021	$ (4,477)	$ 5,063
Intercompany advances payable	$	$ 78	$ 127	$ (205)	$
Accounts payable		98	293	(3)	388
Wages, vacations and employees benefits		181	245		426
Other current and accrued liabilities	1	98	271		370
Asset backed securitization borrowings			180		180
Current maturities of long-term debt	229		3		232
Total current liabilities	230	455	1,119	(208)	1,596
Payable to affiliate		533	117	(650)	
Long-term debt, less current portion		555	267		822
Deferred income taxes, net	(3)	241	284		522
Pension and postretirement		180			180
Claims and other liabilities		86	245		331
Commitments and contingencies					
Shareholders equity	699	2,543	1,989	(3,619)	1,612
Total liabilities and shareholders equity	$ 926	$ 4,593	$ 4,021	$ (4,477)	$ 5,063

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 864	$ 1,552	$ (17)	$ 2,399
Operating expenses:					
Salaries, wages and employees benefits		450	882		1,332
Operating expenses and supplies		192	347		539
Purchased transportation		92	207	(17)	282
Depreciation and amortization		20	44		64
Other operating expenses		44	62		106
(Gains) losses on property disposals, net		3			3
Reorganization and settlements			2		2
Total operating expenses		801	1,544	(17)	2,328

Operating income		63	8		71
Nonoperating (income) expenses:					
Interest expense	4	8	6		18
Other, net	(13)	53	(42)		(2)
Nonoperating (income) expenses, net	(9)	61	(36)		16
Income before income taxes	9	2	44		55
Income tax provision		19			19
Net income (loss)	$ 9	$ (17)	$ 44	$	$ 36

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For the three months ended June 30, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor 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
Operating income		61	47		108
Nonoperating (income) expenses:					
Interest expense	3	8	11		22
Other, net	(13)	42	(27)		2
Nonoperating (income) expenses, net	(10)	50	(16)		24
Income before income taxes	10	11	63		84
Income tax provision	4	5	22	(2)	29
Net income	$ 6	$ 6	$ 41	$ 2	$ 55

For the six months ended June 30, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 1,659	$ 3,004	$ (31)	$ 4,632
Operating expenses:					
Salaries, wages and employees benefits		922	1,763		2,685
Operating expenses and supplies		361	665	(1)	1,025
Purchased transportation		173	394	(31)	536
Depreciation and amortization		39	88		127
Other operating expenses		83	136		219
(Gains) losses on property disposals, net		4	3		7
Reorganization and settlements			15		15
Total operating expenses		1,582	3,064	(32)	4,614
Operating income		77	(60)	1	18
Nonoperating (income) expenses:					
Interest expense	7	15	15		37
Other, net	(26)	80	(59)	1	(4)
Nonoperating (income) expenses, net	(19)	95	(44)	1	33

Income (loss) before income taxes	19	(18)	(16)		(15)
Income tax benefit		(5)			(5)
Net income (loss)	$ 19	$ (13)	$ (16)	$	$ (10)

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For the six months ended June 30, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor 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
Income (loss) before income taxes	19	(9)	77		87
Income tax provision	7		26	(3)	30
Net income (loss)	$ 12	$ (9)	$ 51	$ 3	$ 57

Condensed Consolidating Statements of Cash Flows

For the six months ended June 30, 2008

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ 17	$ 45	$ 49	$ (1)	$ 110
Investing activities:					
Acquisition of property and equipment		(14)	(63)		(77)
Proceeds from disposal of property and equipment		1	10		11
Other			(4)		(4)
Net cash used in investing activities		(13)	(57)		(70)
Financing activities:					
Asset backed securitization borrowings, net			(40)		(40)
Borrowing of long-term debt, net		4	2		6
Debt issuance costs		(3)			(3)
Intercompany advances / repayments	(17)	(35)	51	1	
Net cash provided by (used in) financing activities	(17)	(34)	13	1	(37)

Net increase (decrease) in cash and cash equivalents		(2)	5		3
Cash and cash equivalents, beginning of Period		45	13		58
Cash and cash equivalents, end of period	$	$ 43	$ 18	$	$ 61

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For the six months ended June 30, 2007

(in millions)	Primary Obligor	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
Cash and cash equivalents, end of period	$	$ 32	$ 25	$	$ 57

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14. **Guarantees of the Senior Notes Due 2009 and 2010**

In connection with the senior notes due 2009 and 2010 that the Company assumed by virtue of its merger with USF, and in addition to the primary obligor, Regional Transportation (formerly USF Corporation), 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 Reddaway Inc., USF Glen Moore Inc., YRC Logistics Services (formerly Meridian IQ 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 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, 2008 and December 31, 2007 with respect to the financial position and for the three and six months ended June 30, 2008 and 2007 for results of operations and for the six months ended June 30, 2008 and 2007 for the statement of cash flows. The primary obligor column presents the financial information of Regional Transportation. 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

June 30, 2008

(in millions)	**Primary Obligor**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$	$ 29	$ 32	$	$ 61
Intercompany advances receivable, net		(9)	9		
Accounts receivable, net	(15)	5	1,153	(27)	1,116
Prepaid expenses and other	(5)	154	81		230
Total current assets	(20)	179	1,275	(27)	1,407
Property and equipment		910	3,175		4,085
Less accumulated depreciation		(191)	(1,579)		(1,770)
Net property and equipment		719	1,596		2,315
Investment in subsidiaries	218	3,280	9	(3,507)	
Receivable from affiliate	507	(1,247)	740		
Goodwill and other assets	157	373	1,118	(351)	1,297
Total assets	$ 862	$ 3,304	$ 4,738	$ (3,885)	$ 5,019
Intercompany advances payable	$ 65	$ 135	$	$ (200)	$
Accounts payable	2	82	297	(12)	369
Wages, vacations and employees benefits	1	106	323		430
Other current and accrued liabilities	23	83	289	(15)	380
Asset backed securitization borrowings			140		140
Current maturities of long-term debt	100		231		331
Total current liabilities	191	406	1,280	(227)	1,650
Payable to affiliate		(47)	198	(151)	
Long-term debt, less current portion	157	558	9		724
Deferred income taxes, net	52	131	354		537
Pension and postretirement		163			163
Claims and other liabilities	1	94	244		339

Commitments and contingencies					
Shareholders equity	461	1,999	2,653	(3,507)	1,606
Total liabilities and shareholders equity	$ 862	$ 3,304	$ 4,738	$ (3,885)	$ 5,019

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December 31, 2007

(in millions)	Primary Obligor	Guarantors	Non-Guarantors	Eliminations	Consolidated
Cash and cash equivalents	$	$ 29	$ 29	$	$ 58
Intercompany advances receivable		(11)	11		
Accounts receivable, net		7	1,084	(17)	1,074
Prepaid expenses and other	(5)	153	98		246
Total current assets	(5)	178	1,222	(17)	1,378
Property and equipment	2	914	3,168		4,084
Less accumulated depreciation	(2)	(165)	(1,537)		(1,704)
Net property and equipment		749	1,631		2,380
Investment in subsidiaries	218	3,279	9	(3,506)	
Receivable from affiliate	490	(1,183)	693		
Goodwill and other assets	160	373	1,122	(350)	1,305
Total assets	$ 863	$ 3,396	$ 4,677	$ (3,873)	$ 5,063
Intercompany advances payable	$ 65	$ 119	$ 16	$ (200)	$
Accounts payable	9	82	306	(9)	388
Wages, vacations and employees benefits	3	114	309		426
Other current and accrued liabilities	23	78	277	(8)	370
Asset backed securitization borrowings			180		180
Current maturities of long-term debt			232		232
Total current liabilities	100	393	1,320	(217)	1,596
Payable to affiliate		(45)	195	(150)	
Long-term debt, less current portion	260	555	7		822
Deferred income taxes, net	52	127	343		522
Pension and postretirement		180			180
Claims and other liabilities		85	246		331
Commitments and contingencies					
Shareholders equity	451	2,101	2,566	(3,506)	1,612
Total liabilities and shareholders equity	$ 863	$ 3,396	$ 4,677	$ (3,873)	$ 5,063

Condensed Consolidating Statements of Operations

For the three months ended June 30, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 547	$ 1,862	$ (10)	$ 2,399
Operating expenses:					
Salaries, wages and employees benefits	2	314	1,016		1,332
Operating expenses and supplies	(3)	168	375	(1)	539
Purchased transportation		23	269	(10)	282
Depreciation and amortization	2	17	45		64
Other operating expenses		25	81		106
Losses on property disposals, net	1		2		3
Reorganization and settlements	(1)	2	1		2
Total operating expenses	1	549	1,789	(11)	2,328

Operating income (loss)	(1)	(2)	73	1	71
Nonoperating (income) expenses:					
Interest expense	3	8	7		18
Other, net	(7)	30	(26)	1	(2)
Nonoperating (income) expenses, net	(4)	38	(19)	1	16
Income (loss) before income taxes	3	(40)	92		55
Income tax provision		19			19
Net income (loss)	$ 3	$ (59)	$ 92	$	$ 36

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For the three months ended June 30, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
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
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

For the six months ended June 30, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 1,077	$ 3,575	$ (20)	$ 4,632
Operating expenses:					
Salaries, wages and employees benefits	3	639	2,043		2,685
Operating expenses and supplies	(6)	324	708	(1)	1,025
Purchased transportation		50	506	(20)	536
Depreciation and amortization	4	35	88		127
Other operating expenses		60	159		219
Losses on property disposals, net	1	2	4		7
Reorganization and settlements		12	3		15
Total operating expenses	2	1,122	3,511	(21)	4,614
Operating income (loss)	(2)	(45)	64	1	18
Nonoperating (income) expenses:					
Interest expense	7	15	15		37
Other, net	(17)	51	(39)	1	(4)
Nonoperating (income) expenses, net	(10)	66	(24)	1	33

Income (loss) before income taxes	8	(111)	88		(15)
Income tax provision (benefit)		(5)			(5)
Net income (loss)	$ 8	$ (106)	$ 88	$	$ (10)

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For the six months ended June 30, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-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
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

Condensed Consolidating Statement of Cash Flows

For the six months ended June 30, 2008

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash provided by (used in) operating activities	$ 7	$ (24)	$ 127	$	$ 110
Investing activities:					
Acquisition of property and equipment		(24)	(53)		(77)
Proceeds from disposal of property and equipment		11			11
Other			(4)		(4)
Net cash used in investing activities		(13)	(57)		(70)
Financing activities:					
Asset backed securitization borrowings, net			(40)		(40)
Borrowing of long-term debt		4	2		6
Debt issuance costs		(3)			(3)
Intercompany advances / repayments	(7)	36	(29)		
Net cash provided by (used in) financing activities	(7)	37	(67)		(37)
Net increase in cash and cash equivalents			3		3

Cash and cash equivalents, beginning of Period		29	29		58
Cash and cash equivalents, end of period	$	$ 29	$ 32	$	$ 61

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For the six months ended June 30, 2007

(in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor 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)
Cash and cash equivalents, beginning of period		23	53		76
Cash and cash equivalents, end of period	$	$ 18	$ 39	$	$ 57

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 , the Company , 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 21E 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 tho by these 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 and the risk factors that are from time to time included in our reports filed with the Securities and Exchange Commission (the SEC), including our Annual Report on Form 10-K for the year ended December 31, 2007.

Results of Operations

This 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 four operating segments: National Transportation, Regional Transportation, YRC Logistics and Truckload.

Prior to the second quarter of 2008, our Truckload results, consisting of USF Glen Moore, were included in the Regional Transportation segment as a significant portion of USF Glen Moore s revenue was related to moving shipments between Regional Transportation less-than-truckload (LTL) sister companies. Beginning in the second quarter 2008, our focus has shifted to providing more comprehensive truckload capabilities directly to shippers as well as providing those services to all YRC Worldwide companies. As a result, we have presented Truckload as a separate segment. Historical amounts are presented in a manner that is consistent with the revised segment reporting.

Overview

During the fourth quarter of 2007, we performed our annual impairment review relative to goodwill and indefinite lived intangible assets (principally trade names) and concluded that impairment charges were required. Our process of determining fair values included considering inputs such as actual operating performance, current market conditions and our market capitalization and, making assumptions regarding future performance and market conditions among others. During the first half of 2008, our operating performance has continued to decline as compared to prior year and our share price and market capitalization remains depressed as compared to book value. However, we believe that these economic conditions are not materially different then those assumed as a part of our 2007 impairment analysis. Additionally, despite reporting a loss for the first three months of 2008 our operating income is positive for the six month period and we are experiencing favorable sequential improvements within 2008.

Currently, we believe that no new indicators of possible impairment of goodwill and indefinite lived intangible assets exist that would require us to initiate an impairment review. However, we continuously monitor the various business, legal and economic indicators of possible impairment, which requires a significant amount of judgment. These indicators may include, continued significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated competition or change in market share; the testing for recoverability of a significant asset group within a reporting unit; and slower growth rates, among others. Any significant adverse changes to these indicators could have a significant impact on the recoverability of goodwill and indefinite lived intangible assets and could have a material impact on our consolidated financial statements. Absent any indicators at interim dates, our annual impairment test is conducted as of October 1.

Consolidated Results

Our consolidated results for the three and six months ended June 30, 2008 include the results of each of the operating segments discussed below and corporate expenses. A more detailed discussion of the operating results of our segments is presented below.

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

	Three months			Six months		
(in millions)	**2008**	**2007**	**Percent Change**	**2008**	**2007**	**Percent Change**
Operating revenue	$ 2,398.7	$ 2,486.5	(3.5)%	$ 4,631.3	$ 4,814.8	(3.8)%
Operating income	71.3	108.4	(34.2)%	17.8	128.8	(86.2)%
Nonoperating expenses, net	16.2	23.8	(31.9)%	32.8	42.1	(22.1)%
Net income (loss)	$ 36.3	$ 55.4	(34.5)%	$ (9.6)	$ 56.6	n/m