YRC Worldwide Inc.
Form 10-Q
May 03, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

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)

None

(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 Section 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x
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 April 30, 2012
Common Stock, $0.01 par value per share	7,671,224 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)

	March 31, 2012 (Unaudited)	December 31, 2011
Assets		
Current Assets:		
Cash and cash equivalents	$ 226,334	$ 200,521
Restricted amounts held in escrow	47,502	59,680
Accounts receivable, net	489,393	476,793
Prepaid expenses and other	119,595	100,965
Total current assets	882,824	837,959
Property and Equipment:		
Cost	2,904,541	3,074,858
Less accumulated depreciation	(1,615,614)	(1,738,304)
Net property and equipment	1,288,927	1,336,554
Intangibles, net	113,147	117,492
Restricted amounts held in escrow	98,337	96,251
Other assets	98,235	97,584
Total assets	$ 2,481,470	$ 2,485,840
Liabilities and Shareholders Deficit		
Current Liabilities:		
Accounts payable	$ 169,097	$ 151,922
Wages, vacations and employees benefits	214,768	210,409
Other current and accrued liabilities	296,056	303,946
Current maturities of long-term debt	9,970	9,459
Total current liabilities	689,891	675,736
Other Liabilities:		
Long-term debt, less current portion	1,385,901	1,345,201
Deferred income taxes, net	31,770	31,687
Pension and postretirement	436,766	440,265
Claims and other liabilities	368,958	351,563
Shareholders Deficit:		
Preferred stock, $1 par value per share		
Common stock, $0.01 par value per share	69	68
Capital surplus	1,904,961	1,902,957

Accumulated deficit	(2,015,684)	(1,930,202)
Accumulated other comprehensive loss	(228,425)	(234,100)
Treasury stock, at cost (410 shares)	(92,737)	(92,737)
Total YRC Worldwide Inc. shareholders deficit	(431,816)	(354,014)
Non-controlling interest		(4,598)
Total shareholders deficit	(431,816)	(358,612)
Total liabilities and shareholders deficit	$ 2,481,470	$ 2,485,840

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED COMPREHENSIVE LOSS

YRC Worldwide Inc. and Subsidiaries

For the Three Months Ended March 31

(Amounts in thousands except per share data)

(Unaudited)

	2012	2011
Operating Revenue	$ 1,194,255	$ 1,122,886
Operating Expenses:		
Salaries, wages and employees benefits	703,826	680,818
Equity based compensation (benefit) expense	1,053	(1,053)
Operating expenses and supplies	293,235	277,183
Purchased transportation	119,635	119,662
Depreciation and amortization	49,028	49,810
Other operating expenses	67,917	67,900
(Gains) losses on property disposals, net	8,361	(3,046)
Total operating expenses	1,243,055	1,191,274
Operating Loss	(48,800)	(68,388)
Nonoperating Expenses:		
Interest expense	36,405	38,803
Other, net	(455)	43
Nonoperating expenses, net	35,950	38,846
Loss Before Income Taxes	(84,750)	(107,234)
Income tax benefit	(3,161)	(4,551)
Net Loss	(81,589)	(102,683)
Less: Net Income (Loss) Attributable to Non-Controlling Interest	3,893	(489)
Net Loss Attributable to YRC Worldwide Inc.	(85,482)	(102,194)
Other comprehensive income, net of tax	5,675	3,639
Comprehensive loss attributable to YRC Worldwide Inc. Shareholders	$ (79,807)	$ (98,555)
Average Common Shares Outstanding Basic	6,893	159
Average Common Shares Outstanding Diluted	6,893	159
Basic and Diluted Loss Per Share		
Net Loss Per Share Basic	$ (12.40)	$ (643.56)
Net Loss Per Share Diluted	$ (12.40)	$ (643.56)

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 Three Months Ended March 31

(Amounts in thousands)

(Unaudited)

	2012	2011
Operating Activities:		
Net loss	$ (81,589)	$ (102,683)
Noncash items included in net loss:		
Depreciation and amortization	49,028	49,810
Paid-in-kind interest on Series A Notes and Series B Notes	6,262	
Amortization of deferred debt costs	1,057	9,481
Equity based compensation (benefit) expense	1,053	(1,053)
Deferred income tax benefit		(329)
(Gains) losses on property disposals, net	8,361	(3,046)
Other noncash items	(2,017)	1,799
Changes in assets and liabilities, net:		
Accounts receivable	(16,379)	(55,415)
Accounts payable	22,207	18,988
Other operating assets	(19,234)	(21,936)
Other operating liabilities	14,158	58,130
Net cash used in operating activities	(17,093)	(46,254)
Investing Activities:		
Acquisition of property and equipment	(15,115)	(10,062)
Proceeds from disposal of property and equipment	9,981	11,577
Receipts from restricted escrow, net	10,092	
Other, net		(161)
Net cash provided by investing activities	4,958	1,354
Financing Activities:		
Asset backed securitization borrowings, net		24,449
Issuance of long-term debt	45,000	52,775
Repayment of long-term debt	(5,951)	(15,130)
Debt issuance costs	(1,101)	(3,526)
Net cash provided by financing activities	37,948	58,568
Net Increase In Cash and Cash Equivalents	25,813	13,668
Cash and Cash Equivalents, Beginning of Period	200,521	143,017
Cash and Cash Equivalents, End of Period	$ 226,334	$ 156,685
Supplemental Cash Flow Information:		
Interest paid	$ (31,530)	$ (10,514)

Income tax refund, net	7,821	10,573
Lease financing transactions		8,985
Debt redeemed for equity consideration	1,124	

The accompanying notes are an integral part of these statements.

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STATEMENT OF CONSOLIDATED SHAREHOLDERS DEFICIT

YRC Worldwide Inc. and Subsidiaries

For the Three Months Ended March 31, 2012

(Amounts in thousands)

(Unaudited)

Common Stock	
Beginning balance	$ 68
Issuance of equity upon conversion of Series B Notes	1
Ending balance	$ 69
Capital Surplus	
Beginning balance	$ 1,902,957
Share-based compensation	865
Issuance of equity upon conversion of Series B Notes	1,139
Ending balance	$ 1,904,961
Accumulated Deficit	
Beginning balance	$ (1,930,202)
Net loss attributable to YRC Worldwide Inc.	(85,482)
Ending balance	$ (2,015,684)
Accumulated Other Comprehensive Loss	
Beginning balance	$ (234,100)
Pension, net of tax:	
Reclassification of net actuarial gains to net loss	2,918
Foreign currency translation adjustments	2,757
Ending balance	$ (228,425)
Treasury Stock, At Cost	
Beginning and ending balance	$ 92,737
Noncontrolling Interest	
Beginning balance	$ (4,598)
Net income attributable to the noncontrolling interest	3,893
Foreign currency translation adjustments	(43)
Divestiture of subsidiary	748
Ending Balance	$
Total Shareholders Deficit	$ (431,816)

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 , us or our), one of the largest transportation service providers i world, is a holding company that through wholly owned operating subsidiaries and its interests in certain joint ventures offers its customers a wide range of transportation services. YRC Worldwide has one of the largest, most comprehensive less-than-truckload (LTL) networks in North America with local, regional, national and international capabilities. Through its team of experienced service professionals, YRC Worldwide offers industry-leading expertise in heavyweight shipments and flexible supply chain solutions, ensuring customers can ship industrial, commercial and retail goods with confidence. Our operating segments include the following:

YRC Freight is the reporting segment for our transportation service providers focused on business opportunities in national, regional and international services. YRC Freight provides for the movement of industrial, commercial and retail goods, primarily through centralized management and customer facing organizations. This unit includes our LTL subsidiary YRC Inc. (YRC Freight) and Reimer Express (YRC Reimer), a subsidiary located in Canada that specializes in shipments into, across and out of Canada. In addition to the United States (U.S.) and Canada, YRC Freight also serves parts of Mexico, Puerto Rico and Guam.

Regional Transportation is the reporting segment for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of USF Holland Inc. (Holland), New Penn Motor Express (New Penn) and USF Reddaway Inc. (Reddaway). These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States; Canada; Mexico and Puerto Rico.

At March 31, 2012, approximately 80% of our labor force is subject to collective bargaining agreements, which predominantly expire in March 2015.

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 or those in which we do not have control 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 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, 2011.

The board of directors approved a reverse stock split effective December 1, 2011 at a ratio of 1:300. The reverse stock split was effective on NASDAQ on December 2, 2011. All share numbers and per share amounts in the Consolidated Financial Statements and Notes to the Consolidated Financial Statements have been retroactively adjusted to give effect to the reverse stock split.

Assets Held for Sale

When we plan to dispose of property or equipment 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. We use level 2 and level 3 inputs to determine the fair value of each property that is considered as held for sale.

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At March 31, 2012 and December 31, 2011, the net book value of assets held for sale was approximately $30.5 million and $39.1 million, respectively. This amount is included in Property and Equipment in the accompanying consolidated balance sheets. We recorded charges of $10.5 million and $1.9 million for the three months ended March 31, 2012 and 2011, 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. Of the $10.5 million of charges recorded in the first quarter of 2012, $4.5 million relates to certain held for sale surplus properties that we placed into a real estate auction.

Property and Equipment

During the fourth quarter of 2011 we changed our accounting for tires in our YRC Freight segment. Prior to the change, the cost of original and replacement tires mounted on new and existing equipment was capitalized as a revenue equipment asset and amortized to operating expense based on estimated mileage-based usage. Under the new policy, the cost of replacement tires are expensed at the time those tires are placed into service, as is the case with other repairs and maintenance costs. The cost of tires on newly acquired revenue equipment is capitalized and depreciated over the estimated useful life of the related equipment. We believe that this new policy is preferable under the circumstances because it provides a more precise and less subjective method for recognizing expense related to tires that is consistent with industry practice.

Under ASC Topic 250, Accounting Changes and Error Corrections, we are required to report a change in accounting policy by retrospectively applying the new policy to all prior periods presented, unless it is impractical to determine the prior-period effect. Accordingly, we have adjusted our previously reported financial information for all periods presented. The effect of this accounting policy change increased net loss by $0.4 million for the three months ended March 31, 2011. The accounting policy change also affected our consolidated balance sheets in the periods presented by increasing amounts previously reported for revenue equipment and increasing the amount of accumulated deficit.

Fair Value of Financial Instruments

The following table summarizes the fair value hierarchy of the Company s financial assets and liabilities carried at fair value on a recurring basis as of March 31, 2012:

		Fair Value Measurements at March 31, 2012		
	Total Carrying Value at March 31, 2012	**Quoted prices in active market (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Restricted amounts held in escrow-current	$ 47.5	$ 47.5	$	$
Restricted amounts held in escrow-long term	98.3	98.3		
Total assets at fair value	$ 145.8	$ 145.8	$	$

Restricted amounts held in escrow are invested in money market accounts and are recorded at fair value on quoted market prices. The carrying value of cash and cash equivalents, accounts receivable and accounts payable approximates their fair value due to the short-term nature of these instruments.

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3. Investment

Shanghai Jiayu Logistics Co., Ltd.

On August 19, 2008, we completed the purchase of a 65% equity interest in Shanghai Jiayu Logistics Co., Ltd. (Jiayu), a Shanghai, China ground transportation company with a purchase price of $59.4 million. Through March 31, 2010, we accounted for our 65% ownership interest in Jiayu as an equity method investment as the rights of the minority shareholder were considered extensive and allowed for his ability to veto many business decisions. These rights were primarily provided as a part of the General Manager role held by the minority shareholder. Effective April, 1, 2010, the minority shareholder no longer had a role in the management operations of the business which changed the conclusions from an accounting perspective regarding the relationship of this joint venture and required that we consolidate Jiayu in our financial statements effective April 1, 2010. The results of operations for Jiayu were included in our Corporate and other segment from April 1, 2010 to February 29, 2012. In an effort to focus on our core operations, we entered into an agreement in March 2012 to sell our 65% equity interest in Jiayu to the minority shareholder. The completion of the transaction is subject to Chinese regulatory approval and expected to close in the second quarter of 2012. At the time the agreement was entered into, management control was passed to the minority shareholder and, as a result, we deconsolidated our interest in Jiayu during March of 2012 and returned to accounting for our ownership interest as an equity method investment. Based on the March 2012 agreement, we recorded our equity method investment at its estimated fair value of $0. The agreement also provided for the write down of a $12 million note receivable from Jiayu; after consideration of the non-controlling interest and other factors we recognized a loss of $4.2 million upon the deconsolidation of our investment. Additionally, the noncontrolling interest was allocated a $4.2 million gain on this transaction.

4. Liquidity

Credit Facility Amendments

On April 27, 2012, YRC Worldwide entered into an amendment to its amended and restated credit agreement, which reset the covenants regarding minimum Consolidated EBITDA, maximum Total Leverage Ratio and minimum Interest Coverage Ratio (as such terms are defined in the amended and restated credit agreement) for each of the remaining test periods as follows:

Four Consecutive Fiscal Quarters Ending	Minimum Consolidated EBITDA	Maximum Total Leverage Ratio	Minimum Interest Coverage Ratio
March 31, 2012	$160,000,000	9.0 to 1.00	1.00 to 1.00
June 30, 2012	$145,000,000	10.0 to 1.00	1.00 to 1.00
September 30, 2012	$155,000,000	9.6 to 1.00	0.95 to 1.00
December 31, 2012	$170,000,000	8.6 to 1.00	1.05 to 1.00
March 31, 2013	$200,000,000	7.4 to 1.00	1.20 to 1.00
June 30, 2013	$235,000,000	6.5 to 1.00	1.45 to 1.00
September 30, 2013	$260,000,000	6.0 to 1.00	1.60 to 1.00
December 31, 2013	$275,000,000	5.7 to 1.00	1.65 to 1.00
March 31, 2014	$300,000,000	5.1 to 1.00	1.80 to 1.00
June 30, 2014	$325,000,000	4.8 to 1.00	1.90 to 1.00
September 30, 2014	$355,000,000	4.6 to 1.00	2.10 to 1.00
December 31, 2014	$365,000,000	4.4 to 1.00	2.15 to 1.00

The amendment also, among other things, (i) permits the sale of certain specified parcels of real estate without counting such asset sales against the annual $25.0 million limit on asset sales and permits the Company to retain the net cash proceeds from such asset sales for the payment or settlement of workers compensation and bodily injury and property damage claims and (ii) allows the Company to addback to Consolidated EBITDA for purposes of the applicable financial covenants the fees, costs and expenses incurred in connection with the amendment, the ABL facility amendment (as described below) and the Company s contribution deferral agreement.

On April 27, 2012, YRCW Receivables LLC, a wholly-owned subsidiary of the Company, entered into an amendment to the ABL facility, which reset the Company s minimum Consolidated EBITDA (as such term is defined in the ABL facility) for each of the remaining test periods in a manner identical to the proposed amendment of minimum Consolidated EBITDA in the amended and restated credit agreement (including the addback for the fees, costs and expenses described above).

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Risk and Uncertainties regarding Future Liquidity

Our principal sources of liquidity are cash and cash equivalents and available borrowings under our $400 million ABL facility and any prospective net operating cash flows resulting from improvements in operations. In addition, we have generated liquidity through the sale and leaseback of assets and the disposal of property, assets and lines of business. As previously discussed, we can retain 100% of the proceeds from the sale of certain real estate for the payment or settlement of workers compensation and bodily injury and property damage claims. As of March 31, 2012, we had cash and cash equivalents and availability under the ABL facility of approximately $240.7 million and the borrowing base under our ABL facility was approximately $343.3 million.

Our principal uses of cash are to fund our operations, including making contributions to our single employer pension plans and the multiemployer pension funds and to meet our other cash obligations, including paying cash interest and principal for our funded debt, letter of credit fees under our credit facilities and funding capital expenditures. For the three months ended March 31, 2012, our cash flow from operating activities used net cash of $17.1 million, and we reported net losses of $85.5 million. In the first quarter of 2012, our operating revenues increased by $71.4 million as compared to the same period in 2011 and our operating loss decreased to $48.8 million in the first quarter of 2012 from $68.4 million in the same period in 2011.

Following completion of the July 2011 restructuring, we continue to have a considerable amount of indebtedness, a substantial portion of which will mature in late 2014 or early 2015, and considerable future funding obligations for our single employer pension plans and the multiemployer pension funds. As of March 31, 2012, we had approximately $1.4 billion in aggregate principal amount of outstanding indebtedness, which amount will increase over time as we continue to accrue paid-in-kind interest on a portion of such indebtedness. Our level of indebtedness increases the risk that we may be unable to generate cash sufficient to service such indebtedness or pay principal when due in respect of such indebtedness. We expect our funding obligations for the period April 2012 to December 2012 for our single employer pension plans and multi-employer pension funds will be approximately $56 million and $57 million, respectively. In addition, we also have, and will continue to have, substantial operating lease obligations. As of March 31, 2012, our minimum rental expense under operating leases for the remainder of 2012 was $40.8 million. As of March 31, 2012, our operating lease obligations through 2025 totaled $172.4 million.

Our capital expenditures for the three months ended March 31, 2012 and 2011 were $15.1 million and $10.1 million, respectively. These amounts were principally used to fund replacement engines and trailer refurbishments for our revenue fleet, capitalized maintenance costs for our network facilities and technology infrastructure. Additionally, during the three months ended March 31, 2012, we entered into new operating lease commitments for revenue equipment of approximately $49.1 million, with such payment to be made over the average lease term of 3 years. In light of our recent operating results and liquidity needs, we have deferred the majority of capital expenditures and expect to continue to do so for the foreseeable future, including the remainder of 2012. As a result, the average age of our fleet has increased and we will need to update our fleet periodically.

The credit facilities require us to comply with certain financial covenants, including maintenance of a maximum total leverage ratio, minimum interest coverage ratio, minimum adjusted EBITDA and maximum capital expenditures. Adjusted EBITDA, as defined in our credit facilities, is a measure that reflects the Company s earnings before interest, taxes, depreciation, and amortization expense, and further adjusted for letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including restructuring professional fees and results of permitted dispositions and discontinued operations. We were in compliance with each of these covenants as of and for the four quarters ended March 31, 2012. As previously discussed, the financial covenants under the credit facilities were amended in April 2012 to modify these financial covenants for the remaining term of the credit facilities.

We expect that our cash and cash equivalents, improvements in operating results, retention of cash proceeds from asset sales and availability under our credit facilities will be sufficient to allow us to comply with the amended financial covenants in our credit facilities, fund our operations, increase working capital as necessary to support our planned revenue growth and fund planned capital expenditures for the foreseeable future, including the next twelve months. Our ability to satisfy our liquidity needs over the next twelve months is dependent on a number of factors, many of which are outside of our control. These factors include:

- our operating results, pricing and shipping volumes must continue to improve at a rate significantly better than what we have achieved in our recent financial results;

- we must continue to comply with covenants and other terms of our credit facilities so as to have access to the borrowings available to us under such credit facilities;

our anticipated cost savings under our labor agreements, including wage reductions and savings due to work rule changes, must continue;

we must complete real estate sale transactions as anticipated;

- we must continue to defer purchases of replacement revenue equipment or secure suitable operating leases for such replacement revenue equipment;

- we must continue to implement and realize substantial cost savings measures to match our costs with business levels and to continue to become more efficient;

- we must continue to carefully manage receipts and disbursements, including amounts and timing, focusing on reducing days sales outstanding for trade receivables and managing days outstanding for trade payables; and

- we must be able to generate operating cash flows that are sufficient to provide for additional cash requirements for pension contributions to single-employer pension plans and multiemployer pension funds, cash interest on debt and for capital expenditures or additional lease payments for new revenue equipment.

There can be no assurance that management will be successful or that such plans will be achieved. We expect to continue to monitor our liquidity, work to alleviate these uncertainties and address our cash needs through a combination of one or more of the following actions:

- we will continue to aggressively seek additional and return business from customers;

- we will continue to attempt to reduce our escrow deposits and letter of credit collateral requirements related to our self-insurance programs;

- if appropriate, we may sell additional equity or pursue other capital market transactions; and

- we may consider selling additional assets or business lines, which would require lenders consent in most cases.

The Company has experienced recurring net losses from continuing operations and operating cash flow deficits. Our ability to continue as a going concern is dependent on many factors, including among others, improvements in our operating results necessary to comply with the modified covenants. These conditions raise significant uncertainty about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the foregoing uncertainties.

5. Debt and Financing

Total debt consisted of the following:

As of March 31, 2012

(in millions)	Par Value	Premium/ (Discount)	Book Value	Stated Interest Rate	Effective Interest Rate
Restructured term loan	$ 301.6	$ 90.9	$ 392.5	10.0%	0.0%
ABL facility Term A (capacity $175, borrowing base $119.4, availability $14.4)	105.0	(6.9)	98.1	8.5%	51.5%
ABL facility Term B	223.9	(11.5)	212.4	11.25%	14.7%
Series A Notes	149.8	(33.4)	116.4	10.0%	18.3%
Series B Notes	99.6	(35.4)	64.2	10.0%	25.6%
6% convertible senior notes	69.4	(9.4)	60.0	6.0%	15.5%
Pension contribution deferral obligations	136.1	(0.5)	135.6	3.0-18.0%	7.1%
Lease financing obligations	314.8		314.8	10.0-18.2%	11.9%

5.0% and 3.375% contingent convertible senior notes	1.9		1.9	5.0% and 3.375%	5.0% and 3.375%
Total debt	$ 1,402.1	$ (6.2)	$ 1,395.9		
Current maturities of ABL facility Term B	(2.3)		(2.3)		
Current maturities of 5.0% and 3.375% contingent convertible senior notes and other	(1.9)		(1.9)		
Current maturities of lease financing obligations	(5.8)		(5.8)		
Long-term debt	$ 1,392.1	$	$ 1,385.9		

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As of December 31, 2011

(in millions)	Par Value	Premium/ (Discount)	Book Value	Stated Interest Rate	Effective Interest Rate
Restructured term loan	$ 303.1	$ 98.9	$ 402.0	10.0%	0.0%
ABL facility Term A (capacity $175, borrowing base $136.1, availability $76.1)	60.0	(7.6)	52.4	8.5%	51.5%
ABL facility Term B	224.4	(12.4)	212.0	11.25%	14.7%
Series A Notes	146.3	(35.0)	111.3	10.0%	18.3%
Series B Notes	98.0	(37.1)	60.9	10.0%	25.6%
6% convertible senior notes	69.4	(10.3)	59.1	6.0%	15.5%
Pension contribution deferral obligations	140.2	(0.6)	139.6	3.0-18.0%	5.2%
Lease financing obligations	315.2		315.2	10.0-18.2%	11.9%
5.0% and 3.375% contingent convertible senior notes	1.9		1.9	5.0% and 3.375%	5.0% and 3.375%
Other	0.3		0.3		
Total debt	$ 1,358.8	$ (4.1)	$ 1,354.7		
Current maturities of ABL facility Term B	(2.3)		(2.3)		
Current maturities of 5.0% and 3.375% contingent convertible senior notes and other	(2.2)		(2.2)		
Current maturities of lease financing obligations	(5.0)		(5.0)		
Long-term debt	$ 1,349.3	$ (4.1)	$ 1,345.2		

Fair Value Measurement

The carrying amounts and estimated fair values of our long-term debt, including current maturities and other financial instruments, are summarized as follows:

	March 31, 2012		December 31, 2011	
(in millions)	Carrying amount	Fair Value	Carrying amount	Fair Value
Restructured term loan	$ 392.5	$ 213.2	$ 402.0	$ 216.5
ABL facility	310.5	325.8	264.4	268.8
Series A Notes and Series B Notes	180.6	154.6	172.2	168.7
Lease financing obligations	314.8	314.8	315.2	315.2
Other	197.5	132.0	200.9	139.9
Total debt	$ 1,395.9	$ 1,140.4	$ 1,354.7	$ 1,109.1

The fair values of the restructured term loan, ABL facility, Series A and Series B Notes, the 6% convertible senior notes (included in Other above) and pension contribution deferral obligations (included in Other above) were estimated based on observable prices (level two inputs for fair value measurements). The carrying amount of the lease financing obligations approximates fair value.

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6. Employee Benefits

Components of Net Periodic Pension Costs

The following table sets forth the components of our company-sponsored pension costs for the three months ended March 31:

	Pension Costs	
(in millions)	2012	2011
Service cost	$ 1.0	$ 0.9
Interest cost	14.8	15.2
Expected return on plan assets	(11.6)	(10.7)
Amortization of net loss	2.9	2.4
Total periodic pension cost	$ 7.1	$ 7.8

We expect to contribute $76.6 million to our company-sponsored pension plans in 2012 of which we have contributed $20.8 million through April 30, 2012.

7. Income Taxes

Effective Tax Rate

Our effective tax rate for the three months ended March 31, 2012 and 2011 was 3.7% and 4.2%, respectively. Significant items impacting the 2012 rate include a net state tax provision, certain permanent items and an increase in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2012. We recognize valuation allowances on deferred tax assets if, based on the weight of the evidence, we determine it is more likely than not that such assets will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior years earnings history, expected future earnings, loss carry-back and carry-forward periods, reversals of existing deferred tax liabilities and tax planning strategies that potentially enhance the likelihood of the realization of a deferred tax asset. At March 31, 2012 and December 31, 2011, substantially all of our net deferred tax assets are subject to a valuation allowance.

Uncertain Tax Positions

During the three months ended March 31, 2012, in anticipation of the pending disposition of our interest in Shanghai Jiayu Logistics Co., Ltd, we added approximately $2 million to our reserve for uncertain tax positions relative to potential foreign taxes resulting from particular intercompany transactions among multiple foreign subsidiaries.

8. Shareholders Deficit

The following reflects the activity in the shares of our common stock for the three months ended March 31:

(in thousands)	2012
Beginning balance	6,847
Issuance of equity awards, net	1
Issuance of equity upon conversion of Series B Notes	61
Ending balance	6,909

9. Loss Per Share

Given our net loss position for the three months ended March 31, 2012 and 2011, there are no dilutive securities for these periods.

Antidilutive options and share units were 781,149 and 37,309 for the three months ended March 31, 2012 and 2011, respectively. Antidilutive 6% convertible senior note conversion shares, including the make whole premium, were convertible into 17,616 common shares at March 31, 2012 and 2011. Antidilutive Series A convertible note conversion shares were 5,904,000 as of March 31, 2012 with no corresponding amount at March 31, 2011. Antidilutive Series B convertible note conversion shares, including the make whole premiums, were 7,199,000 as of March 31, 2012 with no corresponding amount at March 31, 2011.

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10. Business Segments

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

We have the following reportable segments, which are strategic business units that offer complementary transportation services to their customers. YRC Freight includes carriers that provide comprehensive national, regional and international services. Regional Transportation is comprised of carriers that focus primarily on business opportunities in the next-day and regional delivery markets. Additionally, during 2011 we reported Truckload as a separate segment, which consisted entirely of Glen Moore, a former domestic truckload carrier. On December 15, 2011, we sold a majority of the assets of Glen Moore to a third party for $18.5 million and ceased the operations.

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, 2011. 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, investments in equity method affiliates and deferred debt issuance costs. Intersegment revenue primarily relates to transportation services between our segments.

The following table summarizes our operations by business segment:

(in millions)	YRC Freight	Regional Transportation	Truckload	Corporate/ Eliminations	Consolidated
As of March 31, 2012					
Identifiable assets	$ 1,458.2	$ 850.7	n/a	$ 172.6	$ 2,481.5
As of December 31, 2011					
Identifiable assets	1,410.0	843.6	2.7	229.5	2,485.8
Three months ended March 31, 2012					
External revenue	789.1	402.0	n/a	3.2	1,194.3
Intersegment revenue		0.1	n/a	(0.1)	
Operating income (loss)	(56.1)	11.4	n/a	(4.1)	(48.8)
Three months ended March 31, 2011					
External revenue	730.0	365.7	21.8	5.4	1,122.9
Intersegment revenue		0.4	3.4	(3.8)	
Operating income(loss)	(51.7)	(1.2)	(3.9)	(11.6)	(68.4)

11. Commitments, Contingencies, and Uncertainties

401(k) Class Action Suit

Four class action complaints were filed in the U.S. District Court for the District of Kansas against the Company and certain of its current and former officers and former directors, alleging violations of the Employee Retirement Income Security Act of 1974, as amended (ERISA), based on similar allegations and causes of action. On November 17, 2009, Eva L. Hanna and Shelley F. Whitson, former participants in the Yellow Roadway Corporation Retirement Savings Plan, filed a class action complaint on behalf of certain persons participating in the plan (or plans that merged with the plan) from April 6, 2009 to the present; on December 7, 2009, Daniel J. Cambra, a participant in the Yellow Roadway Corporation Retirement Savings Plan, filed a class action complaint on behalf of certain persons participating in the plan (or plans that merged with the plan) from October 25, 2007 to the present; on January 15, 2010, Patrick M. Couch, a participant in one of the merged 401(k) plans, filed a class action complaint on behalf of certain persons participating in the plan (or plans that merged with the plan) from March 23, 2006 to the present; and on April 21, 2010, Tawana Franklin, a participant in the YRC Worldwide 401(k) Plan, filed a class action complaint on behalf of certain persons participating in the plan (or plans that merged with the plan) from October 25, 2007 to the present.

In general, the complaints alleged that the defendants breached their fiduciary duties under ERISA by providing participants Company common stock as part of their matching contributions and by not removing the stock fund as an investment option in the plans in light of the Company s financial condition. Although some Company matching contributions were made in Company common stock, participants were not permitted to invest their own contributions in the Company stock fund. The complaints alleged that the defendants failed to prudently and loyally manage the

plans and assets of the plans; imprudently invested in

Company common stock; failed to monitor fiduciaries and provide them with accurate information; breached the duty to properly appoint, monitor, and inform the Benefits Administrative Committee; misrepresented and failed to disclose adverse financial information; breached the duty to avoid conflict of interest; and are subject to co-fiduciary liability. Each of the complaints sought, among other things, an order compelling defendants to make good to the plan all losses resulting from the alleged breaches of fiduciary duty, attorneys fees, and other injunctive and equitable relief.

On March 3, 2010, the Court entered an order consolidating three of the four cases and, on April 1, 2010, the plaintiffs filed a consolidated complaint. The consolidated complaint asserted the same claims as the previously-filed complaints but named as defendants certain former officers of the Company in addition to those current and former officers and former directors that had already been named. The fourth case (Franklin) was consolidated with the first three cases on May 12, 2010. On April 6, 2011, the court certified a class consisting of all 401(k) Plan participants or beneficiaries who held YRCW stock in their accounts between October 25, 2007 and the present.

On October 31, 2011, the parties entered into a settlement agreement with respect to 401(k) Plan participants and beneficiaries who held YRCW stock in their accounts between October 25, 2007 and June 8, 2011. On March 6, 2012, the Court approved the settlement, which is binding on all class members and provides a complete release of claims as to all of the named defendants. The named defendants and their immediate family members are excluded from the class and will not share in the settlement. The agreed to settlement amount of $6.5 million was paid entirely by our insurer.

ABF Lawsuit

On November 1, 2010, ABF Freight System, Inc. (ABF) filed a complaint in the U.S. District Court for the Western District of Arkansas against several parties, including YRC Inc., New Penn Motor Express, Inc. and USF Holland Inc. (each a subsidiary of the Company) and the International Brotherhood of Teamsters and the local Teamster unions party to the National Master Freight Agreement (NMFA) alleging violation of the NMFA due to modifications to the NMFA that have provided relief to the Company s subsidiaries that are party to the NMFA without providing the same relief to ABF. The complaint seeks to have the modifications to the NMFA declared null and void and seeks damages of $750 million from the named defendants. The Company believes the allegations are without merit and intends to vigorously defend the claims.

On December 17, 2010, the U.S. District Court for the Western District of Arkansas dismissed the complaint. ABF appealed the dismissal on January 18, 2011 to the U.S. Court of Appeals for the 8th Circuit. On July 6, 2011, the Court of Appeals vacated the U.S. District Court s dismissal of the litigation on jurisdictional grounds and remanded the case back to the U.S. District Court for further proceedings. ABF filed an amended complaint on October 12, 2011, which contains allegations consistent with the original complaint. The Company s subsidiaries have filed a motion to dismiss the amended complaint, which is pending before the Court. The ultimate outcome of this case is not determinable. Therefore, we have not recorded any liability for this matter.

Securities Class Action Suit

On February 7, 2011, a putative class action was filed by Bryant Holdings LLC in the United States District Court for the District of Kansas on behalf of purchasers of the Company s securities between April 24, 2008 and November 2, 2009, inclusive (the Class Period), seeking to pursue remedies under the Securities Exchange Act of 1934, as amended. The complaint alleges that, throughout the Class Period, the Company and certain of its current and former officers failed to disclose material adverse facts about the Company s true financial condition, business and prospects. Specifically, the complaint alleges that defendants statements were materially false and misleading because they misrepresented and overstated the financial condition of the Company and caused shares of the Company s common stock to trade at artificially inflated levels throughout the Class Period. Bryant Holdings LLC seeks to recover damages on behalf of all purchasers of the Company s securities during the Class Period. The Company believes the allegations are without merit and intends to vigorously defend the claims.

On April 8, 2011, an individual (Stan Better) and a group of investors (including Bryant Holdings LLC) filed competing motions seeking to be named the lead plaintiff in the lawsuit. The Court appointed them as co-lead plaintiffs in the lawsuit on August 22, 2011. Plaintiffs filed their amended complaint on October 21, 2011, which contains allegations consistent with the original complaint. The Company has filed a motion to dismiss the amended complaint, which is pending before the Court. The ultimate outcome of this case is not determinable. Therefore, we have not recorded any liability for this matter.

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Other Legal Matters

We are involved in other litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and amount of such insurance will be sufficient to fully indemnify us against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain self-insured retentions in amounts we deem prudent. Based on our current assessment of information available as of the date of these financial statements, we believe that our financial statements include adequate provisions for estimated costs and losses that may be incurred with regard to the litigation and proceedings to which we are a party.

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12. Condensed Consolidating Financial Statements

Guarantees of the 6% Convertible Senior Notes Due 2014

On February 23, 2010, and August 3, 2010, we issued $70 million in aggregate principal amount of our 6% convertible senior notes due 2014 (the 6% Notes). In connection with the 6% Notes, the following 100% owned subsidiaries of YRC Worldwide have issued guarantees in favor of the holders of the notes: YRC Inc., YRC Enterprise Services, Inc., Roadway LLC, Roadway Next Day Corporation, YRC Regional Transportation, Inc., USF Holland Inc., USF Reddaway Inc., USF Glen Moore Inc. and YRC Logistics Services, Inc. Each of the guarantees is full and unconditional and joint and several, subject to customary release provisions. Effective December 31, 2011, USF Sales Corporation and IMUA Handling Corporation were released as guarantors in connection with their merger with and into YRC Regional Transportation, Inc.

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 to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information as of March 31, 2012 and 2011, with respect to the financial position and for the three months ended March 31, 2012 and 2011, for results of operations and cash flows of YRC Worldwide and its subsidiaries. The Parent column presents the financial information of YRC Worldwide, the primary obligor of the convertible senior notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the 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 YRCW Receivables LLC, the special-purpose entity that is associated with our ABL facility.

Condensed Consolidating Balance Sheets

March 31, 2012

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 170	$ 15	$ 41	$	$ 226
Intercompany advances receivable		(46)	46		
Accounts receivable, net	3	(7)	493		489
Prepaid expenses and other	71	104	(7)		168
Total current assets	244	66	573		883
Property and equipment	1	2,719	185		2,905
Less accumulated depreciation		(1,518)	(98)		(1,616)
Net property and equipment	1	1,201	87		1,289
Investment in subsidiaries	2,369	170	(31)	(2,508)	
Receivable from affiliate	(1,229)	712	517		
Intangibles and other assets	389	214	57	(350)	310
Total assets	$ 1,774	$ 2,363	$ 1,203	$ (2,858)	$ 2,482
Intercompany advances payable	$ (2)	$ (222)	$ 424	$ (200)	$
Accounts payable	49	106	14		169
Wages, vacations and employees benefits	13	189	13		215
Other current and accrued liabilities	99	173	24		296
Current maturities of long-term debt	8		2		10
Total current liabilities	167	246	477	(200)	690
Payable to affiliate			150	(150)	
Long-term debt, less current portion	1,078		308		1,386

Deferred income taxes, net	171	(144)	5		32
Pension and postretirement	437				437
Claims and other liabilities	364	5			369
Commitments and contingencies					
Shareholders equity (deficit)	(443)	2,256	263	(2,508)	(432)
Total liabilities and shareholders equity (deficit)	$ 1,774	$ 2,363	$ 1,203	$ (2,858)	$ 2,482

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December 31, 2011

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 142	$ 20	$ 39	$	$ 201
Intercompany advances receivable		(46)	46		
Accounts receivable, net	5	9	463		477
Prepaid expenses and other	92	78	(10)		160
Total current assets	239	61	538		838
Property and equipment		2,887	188		3,075
Less accumulated depreciation		(1,639)	(99)		(1,738)
Net property and equipment		1,248	89		1,337
Investment in subsidiaries	2,228	127	(13)	(2,342)	
Receivable from affiliate	(1,123)	645	478		
Intangibles and other assets	387	216	58	(350)	311
Total assets	$ 1,731	$ 2,297	$ 1,150	$ (2,692)	$ 2,486
Intercompany advances payable	$ (1)	$ (218)	$ 419	$ (200)	$
Accounts payable	31	103	17	1	152
Wages, vacations and employees benefits	24	173	13		210
Claims and insurance accruals	158	15	5		178
Other current and accrued liabilities	(38)	144	20		126
Current maturities of long-term debt	7		3		10
Total current liabilities	181	217	477	(199)	676
Payable to affiliate			150	(150)	
Long-term debt, less current portion	1,083		262		1,345
Deferred income taxes, net	176	(149)	5		32
Pension and postretirement	440				440
Claims and other liabilities	347	5			352
Commitments and contingencies					
YRC Worldwide Inc. Shareholders equity (deficit)	(496)	2,224	260	(2,343)	(355)
Non-controlling interest			(4)		(4)
Total Shareholders equity (deficit)	(496)	2,224	256	(2,343)	(359)
Total liabilities and shareholders equity (deficit)	$ 1,731	$ 2,297	$ 1,150	$ (2,692)	$ 2,486

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

For the three months ended March 31, 2012 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 1,089	$ 105	$	$ 1,194
Operating expenses:					
Salaries, wages and employees benefits	10	647	48		705
Operating expenses and supplies	(10)	280	23		293
Purchased transportation		99	21		120
Depreciation and amortization		45	4		49
Other operating expenses	1	62	5		68
Gains on property disposals, net		8			8
Total operating expenses	1	1,141	101		1,243
Operating income (loss)	(1)	(52)	4		(49)
Nonoperating (income) expenses:					
Interest expense	25		11		36
Other, net	74	(46)	(28)		
Nonoperating (income) expenses, net	99	(46)	(17)		36
Income (loss) before income taxes	(100)	(6)	21		(85)
Income tax benefit	(2)		(1)		(3)
Net income (loss)	(98)	(6)	22		(82)
Less: Net income attributable to non-controlling interest			4		4
Net income (loss) attributable to YRC Worldwide Inc.	(98)	(6)	18		(86)
Other comprehensive income, net of tax	1	3	2		6
Comprehensive income (loss) attributable to YRC Worldwide Inc. Shareholders	$ (97)	$ (3)	$ 20	$	$ (80)

For the three months ended March 31, 2011 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$	$ 1,022	$ 101	$	$ 1,123
Operating expenses:					
Salaries, wages and employees benefits		627	53		680
Operating expenses and supplies	6	248	23		277
Purchased transportation		101	19		