YRC WORLDWIDE INC
Form 10-K
March 02, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]**

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)**

Registrant s telephone number, including area code: (913) 696-6100

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $1 Par Value Per Share

(Title of class)

Securities registered pursuant to Section 12(g) of the Act:

NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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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 Act).

Yes ¨ No x

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant at June 30, 2008, was $847,734,150.

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

Class	**Outstanding at January 31, 2009**
Common Stock, $1 Par Value Per Share	59,334,300 shares

DOCUMENTS INCORPORATED BY REFERENCE

The following documents are incorporated by reference into the Form 10-K:

1) Proxy Statement related to the 2009 Annual Meeting of Stockholders - Part III

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This entire annual report, including (among other items) Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations and certain statements in the Notes to Consolidated Financial Statements contained in Item 8, Financial Statements and Supplementary Data , includes 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 including the words should, could, may, expect, believe, estimate or similar expressions. Our actual results could differ materially from those projected 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 of rail service, ability to capture cost reductions, including (without limitation) those cost reduction opportunities arising from the integration of the Company s Yellow Transportation and Roadway networks, 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, the risk factors included in Item 1A Risk Factors and the risk factors that are from time to time included in the Company s reports filed with the Securities and Exchange Commission (the SEC).

PART I

Item 1. Business

General Description of the 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 the reporting unit for our transportation service providers focused on business opportunities in regional, national and international services. Through September 30, 2008, National Transportation was comprised of the Company s two largest less-than truckload (LTL) subsidiaries, Yellow Transportation and Roadway. In October 2008, these two subsidiaries merged and changed the name of the surviving entity to YRC Inc. (YRC). This unit provides for the movement of industrial, commercial and retail goods, primarily through regionalized and centralized management and customer facing organizations. National Transportation also includes YRC Reimer (formerly Reimer Express Lines), a subsidiary located in Canada that specializes in shipments into, across and out of Canada. Approximately 38% of National Transportation shipments are completed in two days or less. In addition to the United States (U.S.) and Canada, National Transportation also serves parts of Mexico, Puerto Rico and Guam.

- YRC Regional Transportation (Regional Transportation) is the reporting unit 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 (New Penn), Holland and 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 92% of Regional Transportation 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 logistics services and technology management solutions.

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

For revenue and other information regarding these segments, see the Business Segments note to our consolidated financial statements.

Incorporated in Delaware in 1983 and headquartered in Overland Park, Kansas, we employed approximately 55,000 people as of December 31, 2008. The mailing address of our headquarters is 10990 Roe Avenue, Overland Park, Kansas 66211, and our telephone number is (913) 696-6100. Our website is www.yrcw.com. Through the SEC Filings link on our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All of these filings may be viewed or printed from our website free of charge.

Narrative Description of the Business

Operating Units

YRC National Transportation

Through September 30, 2008, National Transportation was comprised of the Company s two largest LTL subsidiaries, Yellow Transportation and Roadway. In October 2008, these two subsidiaries merged and changed the name of the surviving entity to YRC, headquartered in Overland Park, Kansas. YRC continued to operate Yellow Transportation and Roadway as two separate divisions, each with a distinct, separate transportation network of terminal and transportation routes and each continuing their respective brand names. Prior to the merger, Yellow Transportation and Roadway were in many cases operating out of different parts of the same facility. In October 2008, YRC began to integrate the Yellow Transportation and Roadway networks by installing common management at locations where the divisions shared a facility and by having only one local pickup and delivery function at certain locations. On March 1, 2009, YRC fully combined both networks into a single network with a single management structure and a single set of routes. This combination eliminated the two divisions. This network is operated under the brand YRC, although the legacy brand names, Yellow Transportation and Roadway, will continue to exist in the marketplace and be phased out over time as equipment and sales collateral bearing these brands is replaced.

National Transportation offers a full range of services for the transportation of industrial, commercial, and retail goods in regional, national and international markets, primarily through the operation of owned or leased equipment in their respective North American surface distribution networks. Transportation services are provided for various categories of goods, which may include (among others) apparel, appliances, automotive parts, chemicals, food, furniture, glass, machinery, metal, metal products, non-bulk petroleum products, rubber, textiles, wood and other manufactured products or components. National Transportation provides both LTL services, which combines shipments from multiple customers on a single trailer, and truckload services. Most deliveries are LTL shipments with truckload services offered to maximize equipment utilization and reduce empty miles (the distance empty or partially full trailers travel back to origin to balance the network). National Transportation provides higher-margin specialized services, including guaranteed expedited services, time-specific deliveries, cross-border services, coast-to-coast air delivery, global transportation, product returns, temperature-sensitive shipment protection and government material shipments.

National Transportation serves more than 560,000 manufacturing, wholesale, retail and government customers throughout North America. National Transportation s 37,000 employees are dedicated to operating its expansive network which supports over 430,000 shipments in transit at any time. National Transportation shipments have an average shipment size of 1,200 pounds and travel an average distance of roughly 1,200 miles. Approximately 38% of shipments are delivered in two days or less. Operations research and engineering teams centrally coordinate the equipment, routing, sequencing and timing necessary to transport shipments through our network. At December 31, 2008, National Transportation had 14,327 owned tractors, 2,348 leased tractors, 59,682 owned trailers and 2,802 leased trailers. The National Transportation network includes 521 strategically located facilities with 24,763 doors. National Transportation accounted for 70% of our total operating revenue in 2008, 69% of our total operating revenue in 2007 and 69% of our total operating revenue in 2006.

National Transportation provides services throughout North America, including within Puerto Rico, Guam, Alaska and Hawaii. National Transportation also has affiliates that provide services in Mexico and Canada.

National Transportation has the largest network of service centers, equipment and transportation professionals throughout North America and provides flexible and efficient supply chain solutions including:

Guaranteed Precision™ a guaranteed on-time service with constant shipment monitoring and proactive notification and more direct points than any other guaranteed standard delivery service.

Expedited Precision™ comprised of two key offerings including:

YRC Time-Critical™ Expedited, emergency and window deliveries via ground or air anywhere in North America with shipment arrival timed to the hour, day, or span of days and a 100% on-time guarantee. Guaranteed multiple-day window deliveries meet a retail industry need to reduce chargeback fees.

YRC Time-Advantange™ Cost-effective blend of ground and air transportation to provide highly reliable deliveries at any speed throughout North America, with both expedited and deferred air capabilities.

Specialized Solutions™ includes a variety of service to meet industry and customer-specific needs with offerings such as *Custom Projects, Consolidation and Distribution, Reverse Logistics, Exhibit Services* and *Shipment Protection* through *Insulated Covers* and our patented *Sealed Divider*™ and *Sealed Trailer* services that are designed for products that are difficult or expensive to package for shipping, are of high value, or need verifiable security throughout the transit.

my.yrc.com a secure e-commerce website offering online resources for supply chain visibility and shipment management in real time.

Global Services Global offerings in cooperation with YRC Logistics provide air, ocean and ground transportation and logistics services at any point in the supply chain; *Standard Forwarding, Global Logistics, Transportation Management, Flow Through and Pool Distribution* and *Dedicated Warehouse*.

YRC Reimer

Founded in 1952, YRC Reimer, a wholly owned subsidiary of YRC, offers Canadian shippers a selection of direct connections within Canada, throughout North America and around the world. YRC Reimer is also a part of National Transportation and its network and information systems are completely integrated with those of YRC enabling YRC Reimer to provide seamless cross-border services between Canada, Mexico and the U.S. and markets overseas.

YRC Regional Transportation

Regional Transportation is comprised of New Penn, Holland and Reddaway. In 2006, Regional Transportation also included USF Bestway. In February 2007, we consolidated the majority of USF Bestway s operations into Reddaway. Together, the Regional Transportation companies deliver services in the next-day, second-day and time-sensitive markets, which are among the fastest-growing transportation segments. The Regional Transportation service portfolio includes:

Regional delivery including next-day local area delivery and second-day services; consolidation/distribution services; protect-from-freezing and hazardous materials handling; and a variety of other specialized offerings.

Expedited delivery including day-definite, hour-definite and time definite capabilities.

Inter-regional delivery combining our best-in-class regional networks with reliable sleeper teams, Regional Transportation provides reliable, high-value services between our regional operations.

Cross-border delivery through strategic partnerships, the Regional Transportation companies provide full-service capabilities between the U.S. and Canada, Mexico and Puerto Rico.

USFNet.com and NewPenn.com are both leading edge e-commerce websites offering secure and customized online resources to manage transportation activity.

The Regional Transportation companies are described as follows:

New Penn Motor Express, headquartered in Lebanon, Pennsylvania, provides local next-day, day-definite, and time-definite services through a network located in the Northeastern United States; Quebec, Canada; and Puerto Rico.

Holland, headquartered in Holland, Michigan, provides local next-day, regional and expedited services through a network located in the Midwestern, Southeastern and portions of the Northeast United States. Holland also provides service to the provinces of Ontario and Quebec, Canada.

Reddaway, headquartered in Clackamas, Oregon, provides local next-day, regional and expedited services through a network located in California, the Pacific Northwest, the Rocky Mountain States and the Southwest. Additionally Reddaway provides services to Alaska and to the provinces of Alberta and British Columbia, Canada. In February 2007, we consolidated the majority of USF Bestway s operations into Reddaway.

The Regional Transportation companies serve more than 180,000 manufacturing, wholesale, retail and government customers throughout North America. At December 31, 2008, the Regional Transportation network included 161 service centers with 7,637 doors, and the fleet included 7,933 tractors and 18,177 trailers. Regional Transportation s over 13,000 employees, including 391 local, company based-sales executives, are dedicated to supporting the delivery of over 12.3 million shipments annually.

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Headquartered in Overland Park, Kansas, the Regional Transportation companies accounted for 22% of our total operating revenue in 2008, 24% of our total operating revenue in 2007 and 24% of the total operating revenue in 2006.

YRC Logistics

YRC Logistics is a global logistics services provider that 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 and domestic logistics services, with the ability to provide clients services through the design, implementation and execution of innovative logistics solutions. Our broad portfolio of services makes it possible to offer end-to-end supply chain solutions supported by the visibility of Web-native technology. YRC Logistics service portfolio includes the following services:

Distribution Services that include:

- Flow through and pool distribution
- Dedicated warehousing
- Value-added services

Global Services that include:

- International freight forwarding
- Customs brokerage
- Value-added services

Transportation Services that include:

- Truckload brokerage
- Dedicated contract carriage
- Domestic freight forwarding
- Transportation management

In August 2008, YRC Logistics acquired 65% of Shanghai Jiayu Logistics Co., Ltd., one of the largest providers of less-than-truckload ground transportation services in China, with over 40,000 customers and 1,700 employees in 180 locations. The Company also has a 50% ownership interest in JHJ International Transportation Co., Ltd., a Shanghai, China-based freight forwarder with 1,700 employees in 64 locations.

At December 31, 2008, YRC Logistics had more than 2,600 employees in North America, Asia, Latin America, and Europe (predominately in the United Kingdom). Based in Overland Park, Kansas, YRC Logistics network includes 29 service centers with 722 doors and the fleet includes 654 tractors and 1,816 trailers. YRC Logistics operates its global services from 58 locations across the U.S. YRC Logistics accounted for 7% of our total operating revenue in 2008, 6% of our total operating revenue in 2007 and 6% of our total operating revenue in 2006.

YRC Truckload

Glen Moore, headquartered in Carlisle, Pennsylvania, provides spot, dedicated and single-source customized truckload services on both a regional and national level through the use of company and team-based drivers. Glen Moore has two primary domiciles located in Carlisle, Pennsylvania, and Knoxville, Tennessee.

At December 31, 2008, Glen Moore had more than 795 employees in North America. YRC Truckload accounted for 1% of our total operating revenue in 2008, 2007 and 2006.

Shared Services

We have three wholly owned subsidiaries that provide shared support services across the YRC Worldwide enterprise. These are YRC Worldwide Technologies, YRC North American Transportation and YRC Assurance Co. Ltd. (YRC Assurance).

YRC Worldwide Technologies is headquartered in Overland Park, Kansas, and has approximately 500 employees. YRC Worldwide Technologies and YRC Logistics together provide hosting, infrastructure services and managed transportation business systems development.

YRC North American Transportation, headquartered in Overland Park, Kansas, provides a wide variety of centrally managed support services to our operating companies. These services span nearly all functions, including components of finance, operations support, sales and marketing and security. Enterprise Solutions Group, a division that provides sales and marketing services to our operating subsidiaries for an identified group of large accounts who desire to buy services from more than one of these operating subsidiaries in a coordinated manner, is a part of YRC North American Transportation. YRC North American Transportation employs approximately 1,500 people.

YRC Assurance is a captive insurance company domiciled in Bermuda and a wholly owned and consolidated subsidiary of YRC Worldwide. YRC Assurance provides insurance services to certain wholly owned subsidiaries of YRC Worldwide. In February 2009, we amended our Credit Agreement which requires the termination of YRC Assurance s insurance arrangements with our subsidiaries. We expect to terminate these arrangements and dissolve YRC Assurance in 2009.

In addition to the above, YRC Worldwide provides certain services to its subsidiaries such as legal, risk management, finance and coordination services. Each of our shared services organizations charges the operating companies for their services, either based upon usage or on an overhead allocation basis.

Competition

Customers have a wide range of choices. The companies of YRC Worldwide believe that overall brand strategy, service quality, technology, a broad service portfolio, responsiveness and flexibility are important competitive differentiators.

Few U.S.-based transportation companies offer comparable transportation and logistics capabilities. By integrating traditional ground, expedited, air, ocean and managed transportation capabilities, we provide business organizations with a single-source answer to shipping challenges globally. Our market studies show a continued preference among customers for transportation and logistics providers based on service value, which is the relationship between overall quality and price. We believe that we can compete against any transportation and logistics competitor from a value perspective.

The companies of YRC Worldwide YRC, YRC Reimer, YRC Logistics, New Penn, Holland, Reddaway and Glen Moore operate in a highly competitive environment. Their competitors include global, integrated transportation services providers; global forwarders; national transportation services providers; regional or interregional providers; and small, intraregional transportation companies. The companies of YRC Worldwide also compete against providers within several modes of transportation including: LTL, truckload, air and ocean cargo, rail, transportation consolidators and privately owned fleets.

Ground-based transportation includes private fleets and two "for-hire" provider groups. The private provider segment consists of fleets that companies who move their own goods own and operate. The two "for-hire" groups are based on typical shipment sizes that transportation service companies handle. Truckload refers to providers transporting shipments that generally fill an entire 48- or 53-foot trailer and LTL or shared load refers to providers transporting goods from multiple shippers in a single load that would not fill a full-sized trailer on their own.

Shared load or LTL transportation providers consolidate numerous orders generally ranging from 100 to 10,000 pounds from varying businesses at individual service centers in close proximity to where those shipments originated. Utilizing expansive networks of pickup and delivery operations around these local service centers, shipments are moved between origin and destination utilizing distribution centers when necessary, where consolidation and deconsolidation of loads occurs. Depending on the distance shipped, shared load providers (asset and non-asset based) are often classified into one of four sub-groups:

Regional - Average distance is typically less than 500 miles with a focus on one- and two-day delivery times. Regional transportation companies can move shipments directly to their respective destination centers, which increases service reliability and avoids costs associated with intermediate handling.

Interregional - Average distance is usually between 500 and 1,000 miles with a focus on two- and three-day delivery times. There is a competitive overlap between regional and national providers in this category as each group sees the interregional segment as a growth opportunity, and there are no providers focusing exclusively on this sector.

National - Average distance is typically in excess of 1,000 miles with focus on two- to five-day delivery times. National providers rely on interim shipment handling through a network of terminals, which require numerous satellite service centers, multiple distribution centers, and a relay network. To gain service and cost advantages, they often ship directly between service centers, minimizing intermediate handling.

Global providing freight forwarding and final-mile delivery services to companies shipping to and from multiple regions around the world. This service can be offered through a combination of owned assets or through a purchased transportation or third-party logistics model.

Competitive cost of entry into the asset-based LTL sector on a small scale, within a limited service area, is relatively small (although more than in other sectors of the transportation industry). The larger the service area, the greater the barriers to entry, due primarily to the need for additional equipment and facilities associated with broader geographic service coverage. Broader market coverage in the competitive transportation landscape also requires increased technology investment and the ability to capture cost efficiencies from shipment density (scale), making entry on a national basis more difficult.

YRC and YRC Logistics (through transportation management services) provide service in all four sub-groups. New Penn, Holland, Reddaway and Glen Moore compete in the regional, interregional and national transportation marketplace. Each brand competes against a number of providers in these markets from small firms with one or two vehicles, to global competitors with thousands of physical assets.

The competition specifically for YRC Logistics includes all of the same types of providers mentioned previously in addition to transportation management systems providers, domestic and international freight forwarders, freight brokers, warehouse management providers, and third-party logistics companies.

Regulation

National Transportation, Regional Transportation, Truckload and other interstate carriers were substantially deregulated following the enactment of the Motor Carrier Act of 1980, the Trucking Industry Regulatory Reform Act of 1994, the Federal Aviation Administration Authorization of 1994 and the ICC Termination Act of 1995. Prices and services are now largely free of regulatory controls, although the states retained the right to require compliance with safety and insurance requirements, and interstate motor carriers remain subject to regulatory controls that agencies within the U.S. Department of Transportation impose.

Our operating companies are subject to regulatory and legislative changes, which can affect our economics and those of our competitors. Various federal and state agencies regulate us, and our operations are also subject to various federal, foreign, state, provincial and local environmental laws and regulations dealing with transportation, storage, presence, use, disposal and handling of hazardous materials, discharge of storm-water and underground fuel storage tanks. We are also subject to regulations to combat terrorism that the U.S. Department of Homeland Security and other agencies impose. See risk factors related to our compliance with laws and regulations in Item 1A of this report.

Environmental Matters

Our operations are subject to U.S. federal, foreign, state, provincial and local regulations with regard to air and water quality and other environmental matters. We believe that we are in substantial compliance with these regulations. Regulation in this area continues to evolve and changes in standards of enforcement of existing regulations, as well as the enactment and enforcement of new legislation may require us and our customers to modify, supplement or replace equipment or facilities or to change or discontinue present methods of operation.

Our operating companies store fuel for use in our revenue equipment in approximately 300 underground storage tanks (UST) located throughout the U.S. Maintenance of such USTs is regulated at the federal and, in some cases, state level. The USTs are required to have leak detection systems and are required to be extracted upon our exiting the property. Traditionally upon sale of properties containing USTs, the UST is considered an asset in the transaction and as such, we contractually transfer this removal obligation to the buyer.

During 2008, we spent approximately $8.2 million to comply with U.S. federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, Environmental Regulations). In 2009, we expect to spend approximately $8.0 million to comply with the Environmental Regulations. Based upon current information, we believe that our compliance with Environmental Regulations will not have a material adverse effect upon our capital expenditures, results of operation and competitive position because we have either made adequate reserves for such compliance expenditures or the cost for such compliance is expected to be small in comparison with our overall net worth.

We estimate that we will incur approximately $0.5 million in capital expenditures for environmental control equipment during 2009. We believe that capital expenditures for environmental control equipment for 2009 will not have a material adverse effect upon our financial condition because the aggregate amount of these expenditures is expected to be immaterial.

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The Comprehensive Environmental Response, Compensation and Liability Act (known as the Superfund Act) imposes liability for the release of a hazardous substance into the environment. Superfund liability is imposed without regard to fault and even if the waste disposal was in compliance with the then current laws and regulations. With the joint and several liabilities imposed under the Superfund Act, a potentially responsible party (PRP) may be required to pay more than its proportional share of such environmental remediation. Several of our subsidiaries have been identified as PRPs at various sites discussed below. The U.S. Environmental Protection Agency (the EPA) and appropriate state agencies are supervising investigative and cleanup activities at these sites. The EPA has identified the former Yellow Transportation (now a part of YRC) as a PRP for four locations: Angeles Chemical Co., Santa Fe Springs, CA; Alburn Incinerator, Inc., Chicago, IL; Mercury Refinery, Albany, NY and IWI, Inc., Summit, IL. We estimate that the combined potential costs at these sites will not exceed $0.2 million. With respect to these sites, it appears that YRC Inc. delivered minimal amounts of waste to these sites, which is *de minimis* in relation to other respondents. The EPA has identified the former Roadway Express (now a part of YRC) as a PRP for eight locations: Operating Industries Site, Monterey Park, CA; BEMS Landfill, Mt. Holly, NJ; Double Eagle Site, Oklahoma City, OK; Jones Industrial, South Brunswick, NJ; Voda Petroleum, Clarsville City, TX; Malone Service Co., Texas City, TX; Ward Transformer, Ralieigh, NC and Berry s Creek, Carlstadt, NJ. We estimate that combined potential costs at the first seven sites will not exceed $0.7 million. The EPA has notified YRC and 140 other potential parties of their potential responsibility status at the Berry s Creek site where YRC owns and operates a service center in the watershed area that discharges into Berry s Creek. We estimate the Berry s Creek potential cost to be $0.6 million. The EPA has identified USF Red Star, a non-operating subsidiary, as a PRP at six locations: Champion Chemical, Marlboro, NJ; Booth Oil, N. Tonawanda, NJ; Quanta Resources, Syracuse, NY and three separate landfills in Byron, NJ, Moira, NY and Palmer, MA. We believe the potential combined costs at these sites to be $0.4 million. The EPA has identified New Penn as a PRP for one location, Pennsauken Landfill, Pennsauken, NJ. We believe the potential cost at this site to be immaterial. The EPA has identified Holland as a PRP for one location, Horton Sales Piedmont Site, Greenville County, SC. We believe the potential cost at this site to be immaterial.

While PRPs in Superfund actions have joint and several liabilities for all costs of remediation, it is not possible at this time to quantify our ultimate exposure because the projects are either in the investigative or early remediation stage. Based upon current information, we do not believe that probable or reasonably possible expenditures in connection with the sites described above are likely to have a material adverse effect on our financial condition or results of operations because:

- To the extent necessary, we have established adequate reserves to cover the estimate we presently believe will be our liability with respect to the matter;
- We and our subsidiaries have only limited or *de minimis* involvement in the sites based upon a volumetric calculation;
- Other PRPs involved in the sites have substantial assets and may reasonably be expected to pay their share of the cost of remediation;
- We have adequate resources to cover the ultimate liability; and
- We believe that our ultimate liability is relatively small compared with our overall net worth.

We are subject to various other governmental proceedings and regulations, including foreign regulations, relating to environmental matters, but we do not believe that any of these matters are likely to have a material adverse effect on our financial condition or results of operation.

This section, Environmental Matters, contains 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. The words believe , expect , will , estimate , may and similar expressions are intended to identify forward-looking statements. Our expectations regarding our compliance with Environmental Regulations and our expenditures to comply with Environmental Regulations, including (without limitation) our capital expenditures on environmental control equipment, and the effect that liability from Environmental Regulation or Superfund sites may have on our financial condition or results of operations, are only our forecasts regarding these matters. These forecasts may be substantially different from actual results, which may be affected by the following factors: changes in Environmental Regulations; unexpected, adverse outcomes with respect to sites where we have been named as a PRP, including (without limitation) the sites described above; the discovery of new sites of which we are not aware and where additional expenditures may be required to comply with Environmental Regulations; an unexpected discharge of hazardous materials in the course of our business or operations; an acquisition of one or more new businesses; a catastrophic event causing discharges into the environment of hydrocarbons; the inability of other PRPs to pay their share of liability for a Superfund site; and a material change in the allocation to us of the volume of discharge and a resulting change in our liability as a PRP with respect to a site.

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Economic Factors and Seasonality

Our business is subject to a number of general economic factors that may have a materially adverse effect on the results of our operations, many of which are largely out of our control. These include recessionary economic cycles and downturns in customers business cycles, particularly in market segments and industries, such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions may adversely affect our customers business levels, the amount of transportation services they need and their ability to pay for our services. We operate in a highly price-sensitive and competitive industry, making pricing, customer service, effective asset utilization and cost control major competitive factors. All of our revenues are subject to seasonal variations. Customers tend to reduce shipments after the winter holiday season, and operating expenses as a percent of revenue tend to be higher in the winter months primarily due to colder weather. Generally, the first quarter is the weakest while the third quarter is the strongest. The availability and cost of labor can significantly impact our cost structure and earnings.

Financial Information About Geographic Areas

Our revenue from foreign sources is largely derived from Canada, the United Kingdom, Asia, Latin America and Mexico. We have certain long-lived assets located in these areas as well. We discuss this information in the Business Segments note to our consolidated financial statements.

Item 1A. Risk Factors

In addition to the risks and uncertainties contained elsewhere in this report or in our other SEC filings, the following risk factors should be considered carefully in evaluating us. These risks could have a material adverse effect on our business, financial condition and results of operations.

We are subject to general economic factors that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to a number of general economic factors that may adversely affect our business, financial condition and results of operations, many of which are largely out of our control. These factors include recessionary economic cycles and downturns in customers business cycles and changes in their business practices, particularly in market segments and industries, such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions may adversely affect our customers business levels, the amount of transportation services they need and their ability to pay for our services. Due to our high fixed-cost structure, in the short-term it is difficult for us to adjust expenses proportionally with fluctuations in volume levels. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could adversely affect our business, financial condition and results of operations. The factors contributing to these risks and costs include weather, excess capacity in the transportation industry, interest rates, fuel prices and taxes, fuel surcharge collection, terrorist attacks, license and registration fees, insurance premiums and self-insurance levels, difficulty in recruiting and retaining qualified drivers, the risk of outbreak of epidemical illnesses, the risk of widespread disruption of our technology systems, and increasing equipment and operational costs. Our results of operations may also be affected by seasonal factors.

We operate in a highly competitive industry, and our business will suffer if we are unable to adequately address potential downward pricing pressures and other factors that could have a material adverse effect on our business, financial condition and results of operations.

Numerous competitive factors could adversely affect our business, financial condition and results of operations. These factors include the following:

We compete with many other transportation service providers of varying sizes, some of which have a lower cost structure, more equipment and greater capital resources than we do or have other competitive advantages.

Some of our competitors periodically reduce their prices to gain business, especially during times of reduced growth rates in the economy, which limits our ability to maintain or increase prices or maintain or grow our business.

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- Our customers may negotiate rates or contracts that minimize or eliminate our ability to offset fuel price increases through a fuel surcharge on our customers.

- Many customers reduce the number of carriers they use by selecting so-called core carriers as approved transportation service providers, and in some instances, we may not be selected.

- Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress prices or result in the loss of some business to competitors.

- The trend towards consolidation in the ground transportation industry may create other large carriers with greater financial resources and other competitive advantages relating to their size.

- Advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments.

- Competition from non-asset-based logistics and freight brokerage companies may adversely affect our customer relationships and prices.

If our relationship with our employees were to deteriorate, we may be faced with labor disruptions or stoppages, which could have a material adverse effect on our business, financial condition and results of operations and place us at a disadvantage relative to non-union competitors.

Virtually all of our operating subsidiaries have employees who are represented by the International Brotherhood of Teamsters (the IBT). These employees represent approximately 70% of our workforce.

Each of our YRC, New Penn and Holland business units employ most of their unionized employees under the terms of a common national master freight agreement with the IBT, as supplemented by additional regional supplements and local agreements. The IBT members ratified a five-year agreement that took effect on April 1, 2008, and will expire on March 31, 2013, as modified by the Memorandum of Understanding on the Wage Reduction Job Security Plan, effective January 9, 2009. The IBT also represents a number of employees at Reddaway, Glen Moore and YRC Logistics under more localized agreements, which have wages, benefit contributions and other terms and conditions that better fit the cost structure and operating models of these business units.

Certain of our subsidiaries are regularly subject to grievances, arbitration proceedings and other claims concerning alleged past and current non-compliance with applicable labor law and collective bargaining agreements.

Neither we nor any of our subsidiaries can predict the outcome of any of the matters discussed above. These matters, if resolved in a manner unfavorable to us, could have a material adverse effect on our business, financial condition and results of operations.

Ongoing self-insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.

Our future insurance and claims expenses might exceed historical levels. We currently self-insure for a majority of our claims exposure resulting from cargo loss, personal injury, property damage and workers compensation. If the number or severity of claims for which we are self-insured increases, our business, financial condition and results of operations could be adversely affected and we may have to post additional letters of credit to support our insurance policies. If we lose our ability to self insure, our insurance costs could materially increase and we may find it difficult to obtain adequate levels of insurance coverage.

We have significant ongoing capital requirements that could reduce our income if we are unable to generate sufficient cash from operations.

Our business is capital intensive. If we are unable to generate sufficient cash from operations to fund our capital requirements, we may have to limit our growth, utilize our existing, or enter into additional, financing arrangements, including leasing arrangements, or operate our revenue equipment (including tractors and trailers) for longer periods resulting in increased maintenance costs, any of which could reduce our income. Although we expect reduced capital expenditures due to the integration of Yellow Transportation and Roadway, if our cash from operations and existing financing arrangements are not sufficient to fund our capital requirements, we may not be able to obtain additional financing at all or on terms acceptable to us.

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We operate in an industry subject to extensive government regulations, and costs of compliance with, or liability for violation of, existing or future regulations could significantly increase our costs of doing business.

The U.S. Departments of Transportation and Homeland Security and various federal, state, local and foreign agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and permits to conduct transportation business. We may also become subject to new or more restrictive regulations that the Departments of Transportation and Homeland Security, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities impose, including regulations relating to engine exhaust emissions, the hours of service that our drivers may provide in any one time period, security and other matters. Compliance with these regulations could substantially impair equipment productivity and increase our costs.

We are subject to various environmental laws and regulations, and costs of compliance with, or liabilities for violations of, existing or future laws and regulations could significantly increase our costs of doing business.

Our operations are subject to environmental laws and regulations dealing with, among other things, the handling of hazardous materials, underground fuel storage tanks and discharge and retention of stormwater. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination may have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable environmental laws or regulations, it could significantly increase our cost of doing business. Under specific environmental laws and regulations, we could be held responsible for all of the costs relating to any contamination at our past or present terminals and at third-party waste disposal sites. If we fail to comply with applicable environmental laws and regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

In addition, as global warming issues become more prevalent, federal and local governments and our customers are beginning to respond to these issues. This increased focus on sustainability may result in new regulations and customer requirements that could negatively affect us. This could cause us to incur additional direct costs or to make changes to our operations in order to comply with any new regulations and customer requirements, as well as increased indirect costs or loss of revenue resulting from, among other things, our customers incurring additional compliance costs that affect our costs and revenues. We could also lose revenue if our customers divert business from us because we haven t complied with their sustainability requirements. These costs, changes and loss of revenue could have a material adverse affect on our business, financial condition and results of operations.

We may be obligated to make additional contributions to multi-employer pension plans.

If a surcharge is assessed on any of the multi-employer pension plans to which our operating subsidiaries contribute and the funds available under our collective bargaining agreements are insufficient, we may have to contribute more to the plans than our contracted amounts. See the Employee Benefits note to our consolidated financial statements.

Our management team is an important part of our business and loss of key personnel could impair our success.

We benefit from the leadership and experience of our senior management team and depend on their continued services to successfully implement our business strategy. Other than William D. Zollars, our President and Chief Executive Officer, we have not entered into employment agreements for a fixed period with members of our current management. The loss of key personnel could have a material adverse effect on our business, financial condition and results of operations.

Our business may be harmed by anti-terrorism measures.

In the aftermath of the terrorist attacks on the United States, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks. Although many companies will be adversely affected by any slowdown in the availability of freight transportation, the negative impact could affect our business disproportionately. For example, we offer specialized services that guarantee on-time delivery. If the security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so. We cannot assure you that these measures will not significantly increase our costs and reduce our operating margins and income.

The outcome of legal proceedings and IRS audits to which the Company and its subsidiaries are a party could have a material adverse effect on our businesses, financial condition and results of operations.

The Company and its subsidiaries are a party to various legal proceedings, including claims related to personal injury, property damage, cargo loss, workers compensation, employment discrimination, breach of contract, multi-employer pension plan withdrawal liability and antitrust violations. See the Commitments, Contingencies and Uncertainties note to our consolidated financial

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statements. The IRS may issue adverse tax determinations in connection with its audit of our prior year tax returns or the returns of a consolidated group that we acquired in 2005. See the Income Taxes note to our consolidated financial statements. We may incur significant expenses defending these legal proceedings and IRS audits. In addition, we may be required to pay significant awards, settlements or taxes in connection with these proceedings and audits, which could have a material adverse effect on our businesses, financial condition and results of operations.

We may not obtain the projected benefits and cost savings from operational changes and performance improvement initiatives.

In response to our business environment, we initiated operational changes and process improvements to reduce costs and improve financial performance. The changes and initiatives included integrating our Yellow Transportation and Roadway transportation networks, reorganizing our management, reducing corporate overhead, closing redundant offices and eliminating unnecessary activities. There is no assurance that these changes and improvements will be successful or that we will not have to initiate additional changes and improvements in order to achieve the projected benefits and cost savings.

Our credit agreement and other financing arrangements subject us to various covenants and restrictions that could limit our operating flexibility.

Our credit agreement and other financing arrangements contain covenants and other restrictions that, among other things, require us to satisfy certain financial ratios and restrict our ability to take certain actions, including incur additional indebtedness. The covenants and restrictions in our financing arrangements may limit our ability to respond to market conditions or take advantage of business opportunities by limiting, among other things, the amount of additional borrowings we may incur. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition Liquidity for additional information regarding our liquidity.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2008, we operated a total of 711 transportation service centers located in 50 states, Puerto Rico, Canada and Mexico. Of this total, 429 were owned and 282 were leased, generally with renewal terms of three years or less. The number of vehicle back-in doors totaled 33,122, of which 26,848 were at owned facilities and 6,274 were at leased facilities. The transportation service centers vary in size ranging from one to three doors at small local facilities, to over 426 doors at the largest consolidation and distribution facility. We own substantially all of the larger facilities, which contain the greatest number of doors, but intend to pursue sale and leaseback type transactions that could result in lease relationships versus an ownership position for certain of these locations. In addition, we and our subsidiaries own and occupy general office buildings in Overland Park, Kansas; Akron, Ohio; Lebanon, Pennsylvania; Carlisle, Pennsylvania; and Holland, Michigan. We also lease and occupy general office buildings in Clackamas, Oregon and Winnipeg, Manitoba. Our owned transportation service centers and office buildings serve as collateral under our Credit Agreement.

Our facilities and equipment are adequate to meet current business requirements in 2009. Refer to Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations , for a more detailed discussion of expectations regarding capital spending in 2009.

Item 3. Legal Proceedings

We discuss legal proceedings in the Commitments, Contingencies, and Uncertainties note to our consolidated financial statements.

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

Not applicable.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.
Common Stock

As of January 31, 2009, approximately 16,100 shareholders of record held YRC Worldwide common stock. Our only class of stock outstanding is common stock, traded through the NASDAQ Stock Market. Trading activity averaged 2,410,000 shares per day during 2008, up from 1,490,000 per day in 2007. The NASDAQ Stock Market quotes prices for our common stock under the symbol YRCW. The high and low prices at which YRC Worldwide common stock traded for each calendar quarter in 2008 and 2007 are shown below.

Quarterly Financial Information (unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2008 [(a)]				
Operating revenue	$ 2,232,592	$ 2,398,728	$ 2,380,258	$ 1,928,823
Losses (gains) on property disposals, net	3,486	3,053	(15,466)	(10,156)
Operating income (loss)	(53,443)	71,254	(756,621)	(335,316)
Net income (loss)	(45,875)	36,274	(720,382)	(244,409)
Diluted earnings (loss) per share	(0.81)	0.62	(12.57)	(4.14)
Common stock:				
High	19.80	20.95	22.52	11.87
Low	10.99	11.90	11.52	1.20
2007 [(b)]				
Operating revenue	$ 2,328,342	$ 2,486,505	$ 2,457,731	$ 2,348,738
Losses (gains) on property disposals, net	2,949	(2,788)	1,400	(7,381)
Operating income (loss)	20,400	108,422	87,651	(781,599)
Net income (loss)	1,279	55,367	40,744	(735,771)
Diluted earnings (loss) per share	0.02	0.95	0.70	(12.99)
Common stock:				
High	47.09	45.99	38.51	28.83
Low	37.95	36.59	26.43	15.87

(a) The second and third quarters of 2008 include curtailment gains of $34.1 million and $63.3 million, respectively, related to the curtailment of postretirement healthcare and pension benefits. The third and fourth quarters of 2008 include impairment charges of $823.1 million and $200.3 million, respectively.

(b) The 2007 fourth quarter amounts include an impairment charge of $781.9 million, additional depreciation expense of $9.3 million related to the abandonment of certain in-process technology projects and reorganization charges, primarily severance, of $9 million.

Purchases of Equity Securities by the Issuer

In April 2006, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to $100 million of its common stock. During 2007, the Company purchased 1.1 million shares under this program at a weighted-average cost of $31.13 per share for a total cost of $35.0 million. In 2006, the Company purchased 521,100 shares under this program at a weighted-average cost of $38.34 per share for a total cost of $20.0 million. At December 31, 2008, $45 million remains available under the authorized program. Our current Credit Agreement restricts our ability to purchase additional shares under this program.

Dividends

We did not declare any cash dividends on our common stock in 2008, 2007 or 2006.

Equity Compensation Plans

The information required by this item with respect to information regarding our equity compensation plans is included under the caption Equity Compensation Plan Information in our Proxy Statement related to the 2009 Annual Meeting of Stockholders and is incorporated herein by reference.

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Common Stock Performance

Set forth below is a line graph comparing the quarterly percentage change in the cumulative total stockholder return of the Company s common stock against the cumulative total return of the S&P Composite-500 Stock Index and the Dow Jones Transportation Average Stock Index for the period of five years commencing December 31, 2003 and ending December 31, 2008.

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Item 6. Selected Financial Data

(in thousands except per share data)	2008	2007	2006	2005[a]	2004
For the Year					
Operating revenue	$ 8,940,401	$ 9,621,316	$ 9,918,690	$ 8,741,557	$ 6,767,485
Operating income (loss)	(1,074,126)	(565,126)	545,434	536,310	361,601
Gains on property disposals, net	(19,083)	(5,820)	(8,360)	(5,388)	(4,547)
Reorganization and settlements	25,210	22,385	26,302	13,029	
Impairment charges	1,023,376	781,875			
Interest expense	77,907	88,760	87,760	63,371	43,954
Net income (loss)	(974,392)	(638,381)	276,632	288,130	184,327
Depreciation and amortization expense [b]	264,291	255,603	274,184	250,562	171,468
Net capital expenditures	34,686	338,424	303,057	256,435	164,289
Net cash from operating activities	219,820	392,598	532,304	497,677	435,718
At Year-End					
Net property and equipment	2,200,977	2,380,473	2,269,846	2,205,792	1,422,718
Total assets	3,966,113	5,062,623	5,851,759	5,734,189	3,627,169
Long-term debt, less current portion	787,415	822,048	1,058,496	1,113,085	403,535
ABS facility	147,000	180,000	225,000	374,970	
Total debt	1,360,752	1,234,003	1,283,496	1,488,055	657,935
Total shareholders equity[c]	474,394	1,612,304	2,192,549	1,936,488	1,214,191
Measurements					
Basic per share data:					
Net income (loss)	(16.92)	(11.17)	4.82	5.30	3.83
Average common shares outstanding basic	57,583	57,154	57,361	54,358	48,149
Diluted per share data:					
Net income (loss)	(16.92)	(11.17)	4.74	5.07	3.75
Average common shares outstanding diluted	57,583	57,154	58,339	56,905	49,174
Debt to capitalization	74.1%	43.4%	36.9%	43.5%	35.1%
Shareholders equity per share	8.00	28.43	38.33	33.80	24.66
Common stock price range:					
High	22.52	47.09	51.54	63.40	56.49
Low	1.20	15.87	35.27	39.25	29.77
Other Data					
Average number of employees	55,000	63,000	66,000	68,000	50,000
Operating ratio:					
National Transportation	111.9%	97.6%	93.8%	93.1%	94.4%
Regional Transportation [d]	107.5%	n/m[e]	94.3%	94.5%	87.0%
YRC Logistics	124.1%	99.2%	97.8%	96.6%	98.2%
Truckload	109.7%	105.2%	93.6%	94.8%	

(a) Includes the results of all YRC Worldwide entities including USF entities from the date of acquisition, May 24, 2005.

(b) Depreciation lives and salvage values were revised effective July 1, 2006. See Principles of Consolidation and Summary of Accounting Policies - Property and Equipment note to our consolidated financial statements.

(c) SFAS No. 158 was adopted effective December 31, 2006. See Employee Benefits Pension and Other Postretirement Benefit Plans note to our consolidated financial statements.

(d) Includes the results of New Penn only in 2004.

(e) Not meaningful.

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Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations contains 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. See the introductory section immediately prior to Part I and risk factors in Part I of this report regarding these statements.

Overview

YRC Worldwide Inc., 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 operating subsidiaries are primarily represented by National Transportation, a reporting unit that reflects the merger of Yellow Transportation and Roadway, now collectively YRC, a leading transportation service provider offering a full range of regional, national and international services; Regional Transportation, a reporting unit for our transportation service providers focused on business opportunities in the regional and next-day delivery markets; YRC Logistics, a global logistics management company that plans and coordinates the movement of goods worldwide to provide customers a single source for logistics management solutions; and Truckload, which reflects the results of Glen Moore, a provider of truckload services throughout the U.S. These companies represent our reporting segments and are more fully described in Item 1 Business .

Prior to the second quarter of 2008, our Truckload results, consisting of Glen Moore, were included in the Regional Transportation segment as a significant portion of Glen Moore s revenue was related to moving shipments between Regional Transportation 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.

The following management s discussion and analysis explains the main factors impacting our results of operations, liquidity and capital expenditures and the critical accounting policies of YRC Worldwide. This information should be read in conjunction with the accompanying financial statements and notes thereto, as well as our detailed discussion of risk factors included in Item 1A.

Our Operating Environment

We operate in a highly competitive environment, yet one where we believe the right value proposition for our customers permits us to recover our cost of capital over the business cycle. The economic recession in the U.S. as well as global financial concerns has impacted the competitiveness of our industry and created unique challenges for both our company and our customers. Over the last several years, significant changes have occurred in our operating environment, including: consolidation and liquidation of LTL carriers; the increased presence of large global, service providers; and increasing needs and demands of our customers. We continue to proactively address these changes through our strategy of being a global transportation services provider. Since 2004, our focus has been twofold capitalizing on the synergies presented from several acquisitions, both asset and non-asset based, and two, expanding globally to firmly position ourselves as a true end-to-end service provider. The synergy efforts addressed following the Roadway and USF acquisitions were initially internally focused and included combining routine, non-customer facing processes. In 2008, we initiated the integration of the Yellow Transportation and Roadway networks. This integration, completed on March 1, 2009, is expected to result in a larger overall network yet eliminate several redundancies in the former two processes. Our leadership team is now aligned with this new network, branded YRC.

From a global perspective we have continued to expand our logistics virtual footprint, primarily in Asia and Latin America. In August 2008, we completed the acquisition of a 65% interest in a Shanghai based LTL and truckload ground transportation provider. We believe this, coupled with our 50% equity interest in a freight forwarding joint venture with a Chinese corporation, provides significant opportunity to meet customers global transportation and logistics needs.

We will continue to face challenges in the environment which we operate, primarily due to the changing competitive landscape, meeting our stakeholders demands and the current recession. Specific economic areas that impact our ability to generate profits and cash flows include the levels of consumer spending, manufacturing and overall economic activity. We monitor these areas primarily through several common economic indices, including the gross domestic product (GDP) and the industrial production index (IPI). Real GDP measures the value of goods and services produced in the U.S., excluding inflation, and the IPI measures the physical units and inputs into the U.S. production process. Over time the IPI has been a relatively good indicator for general levels of freight volume available in our markets. We manage the impact of our customers spending, manufacturing and economic activity through, among others, pricing discipline, cost management programs, liquidity management, investment in technology and continuous improvement programs. In 2008 and 2007, market conditions were especially weak and contributed to resulting impairment charges of the value

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of goodwill and certain tradenames totaling $1,023.4 million and $781.9 million, respectively. In response to the deep and prolonged U.S. recession, we have implemented a union and non-union 10% wage reduction effective January 1, 2009. A significant majority of our union employees ratified this reduction in January 2009 which includes the 10% wage reduction through the remaining term of the contract, March of 2013. The non-union reduction is scheduled to change to a 5% reduction July 1, 2009, with base salaries fully recovering January 1, 2010. The non-union employees also were affected by the suspension of the employer match provision in our defined contribution plans, the termination of our postretirement healthcare plan and the freezing of benefit accruals under our defined benefit pension plans.

Acquisitions and Investments

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 $47.7 million including transaction costs. The purchase agreement provides for an adjustment to the purchase price based upon the final working capital of Jiayu as reflected in its opening balance sheet. This process is virtually complete and will result in additional purchase price of approximately $5.8 million; however, the amount will be paid via a dividend from Jiayu to the seller. We will not be required to make an additional cash payment as a result of this process. We account for our ownership in Jiayu using the equity method of accounting and record our portion of the financial results of Jiayu one month in arrears. This investment is a part of our YRC Logistics segment and is included in Other assets in the accompanying consolidated balance sheets.

If Jiayu meets certain financial performance targets during 2008 and 2009, we could be obligated to purchase the remaining 35% interest in 2010 for an amount not to exceed CNY 248.0 million (approximately $36 million), as determined by the level of Jiayu s financial performance. If Jiayu does not meet these financial targets, we have an option to purchase the remaining 35% of the shares of Jiayu in 2010 for the greater of CNY 77.5 million (approximately $11 million) and 35% of the appraised value of the net assets of Jiayu at that time. All additional payments will be made in Chinese Yuan, and their estimated U.S. dollar equivalents are provided above.

Results of Operations

This section focuses on the highlights and significant items that impacted our operating results over the last three years. We will discuss the areas that caused material fluctuations and required specific evaluation by management.

Consolidated Results

Our consolidated results include the results of each of the operating segments discussed below and corporate charges for the periods presented. A more detailed discussion of the operating results of our segments is presented below.

The following table summarizes the statements of consolidated operations for the three years ended December 31:

				Percent Change	
(in millions)	**2008**	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
Operating revenue	$ 8,940.4	$ 9,621.3	$ 9,918.7	(7.1%)	(3.0%)
Impairment charges	1,023.4	781.9		n/m(a)	n/m
Operating income (loss)	(1,074.1)	(565.1)	545.4	n/m	n/m
Nonoperating expenses, net	69.3	86.6	89.5	(20.0%)	(3.2%)
Net income (loss)	$ (974.4)	$ (638.4)	$ 276.6	n/m	n/m

(a) Not meaningful.

2008 compared to 2007

Consolidated operating revenue decreased by $680.9 million during the year ended December 31, 2008, as compared to the same period in 2007, which is reflective of decreased revenue at all of our operating companies with the exception of our Truckload segment whose revenue was slightly greater than the same period in 2007. Overall, volumes and to a lesser extent yield are lower in 2008 versus 2007 offset by increased fuel surcharge revenue. The U.S. economic recession and its impact on the tangible goods and other sectors, directly impacts our ability to grow and maintain operating revenue. The recession limits our ability somewhat to correctly discern the exact reason for revenue declines; however, we believe certain customers have diverted volumes from our network in response to concerns regarding our financial stability. Also contributing to the revenue decline was the closure of 27 service centers in the Regional Transportation network in February 2008.

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Consolidated operating revenue includes fuel surcharge revenue. Fuel surcharges are common throughout our industry and represent an amount that we charge to customers that adjusts with changing fuel prices. We base our fuel surcharges on a published national index and adjust them weekly. Rapid material changes in the index or our cost of fuel can positively or negatively impact our revenue and operating income versus prior periods as there is a lag in the Company s adjustment of base rates in response to changes in fuel surcharge. Fuel surcharge is an accepted and important component of the overall pricing of our services to our customers. Without an industry accepted fuel surcharge program, our base pricing for our transportation services would require changes. We believe the distinction between base rates and fuel surcharge has been blurring over time, and it is impractical to clearly separate all the different factors that influence the price that our customers are willing to pay. In general, under our present fuel surcharge program, we believe rising fuel costs are beneficial to us, and falling fuel costs are detrimental to us, in the short term. However, as fuel prices reached record highs during the first half of 2008, we experienced a higher percentage of customers whose increased fuel surcharge revenue did not cover our increased fuel costs. As fuel prices began to retreat in the second half of 2008, a more typical relation returned between fuel cost and fuel surcharge revenue.

Consolidated operating results for the year ended December 31, 2008, include non-cash impairment charges of $1,023.4 million representing write offs of goodwill associated with our National Transportation and YRC Logistics segments, a write off of our Roadway tradename due to the introduction of YRC as our new brand, a write off of the USF brand (a part of the Regional Transportation segment) as we will no longer support this brand, and a reduction in the tradename value attributed to YRC Reimer (a part of the National Transportation segment). In the year ended December 31, 2007, we recorded impairment charges of $781.9 million which represented a write off of goodwill associated with our Regional Transportation segment as well as reductions in the tradename values attributed to USF (a part of the Regional Transportation segment) and Roadway (a part of the National Transportation segment.) Absent these impairment charges, consolidated operating income decreased by $267.5 million during the year ended December 31, 2008, as compared to the same period in 2007. The decline in consolidated operating income in 2008 is attributable to erosion in volume and base pricing and higher contractual labor rates in our National Transportation and our Regional Transportation segments as well as a challenging economy and tough competitive environment. Regional Transportation has been challenged by the difficult economic conditions, especially in the industrial sector in the Upper Midwest, which has significantly impacted volumes, and operational difficulties associated with the combination of Reddaway and USF Bestway in 2007. Our asset based companies experienced significantly higher fuel costs in 2008 as compared to 2007 as reflected in the increase in Operating expenses and supplies in the accompanying statements of consolidated operations. Fuel costs also drove higher purchased transportation costs in 2008 versus 2007. These increases were partially offset by $88.7 million net curtailment and settlement gains included in Salaries, wages and employees benefits in the accompanying consolidated statement of operations, primarily related to the elimination of postretirement healthcare benefits via a plan amendment for certain current and retired Roadway employees and the freezing of future benefit accruals under our non-union defined benefit plans effective July 1, 2008. During the year ended December 31, 2008, we continued to target cost control initiatives at all of our operating companies which is necessary given the volatility in the domestic markets and the overall tepid consumer spending patterns.

Our consolidated operating income during the year ended December 31, 2008, was also unfavorably impacted by $25.2 million of reorganization charges. During the first quarter of 2008, we closed 27 service centers in the Regional Transportation networks. These closures contributed to approximately $12.4 million of the reorganization charges. The majority of these closures were in the former USF Bestway footprint and represented locations that we inserted in the Reddaway network in 2007. This combination led to challenging operational difficulties and resulted in the 2008 closure of the former USF Bestway locations. A smaller portion of the closures were in the Holland network and represented locations in the former USF Dugan network. In addition, we incurred severance and reorganization charges during 2008 of approximately $11.1 million resulting from continued realignment of our operations, and we closed a YRC Logistics facility in the United Kingdom and terminated a YRC Logistics service offering which resulted in closure charges, primarily lease cancellation charges, of approximately $1.2 million and $0.5 million, respectively. In 2007 we recorded $27.3 million of reorganization charges, primarily severance and acceleration of stock compensation charges related to terminated executives. During the year ended December 31, 2008, we recognized gains on the sale of property and equipment of $19.1 million compared to gains of $5.8 million on the sale of property and equipment during the year ended December 31, 2007.

Nonoperating expenses for the year ended December 31, 2008, decreased $17.3 million from the year ended December 31, 2007. Lower overall borrowings throughout 2008 contributed to decreased interest expense of $11.5 million versus 2007. The 2008 period also reflects decreased interest related to withdrawal liabilities to USF Red Star multi-employer pension plans of $1.5 million offset by an increase in amortization of deferred debt costs of $1.1 million and a decrease in amortization of debt premiums of $1.0 million. Nonoperating expenses also included the impacts of foreign currency which increased favorably $5.7 million in 2008 versus 2007. Interest income, net financing transaction costs and earnings of joint ventures are also included in nonoperating expenses.

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Our effective tax rate for the year ended December 31, 2008, was 14.8% compared to 2.0% for the year ended December 31, 2007. Significant items impacting the 2008 rate include goodwill impairment charges and certain nondeductible expenses partially offset by benefits associated with various state jurisdictions and an alternative fuel tax credit. The effective tax rate for 2007 was more proportionately impacted by the goodwill impairment charges.

2007 compared to 2006

Our consolidated revenue declined 3% in 2007 versus 2006 as reflected in each of our asset-based operating segments. This decrease was primarily a function of decreased shipments resulting from the slowing economy, weak consumer spending trends and the resulting intense competitive pricing environment. While we have experienced lower volumes throughout our entire network, the industrial Midwest has been especially challenging largely due to its dependence on the automotive and related industries. In general, pricing or yield, including fuel surcharge revenue, increased modestly for our National Transportation segment yet was relatively flat for our Regional Transportation segment, which suffered more dramatic competitive pricing pressure.

Consolidated operating income decreased significantly from 2006 resulting in an operating loss of $565.1 million in 2007. Included in this operating loss are impairment charges of $781.9 million as discussed above. Absent this charge, consolidated operating income was $216.8 million for 2007 versus $545.4 million for 2006. This significant downturn in earnings was experienced by all of our operating companies; however, our Regional Transportation segment experienced the greatest percentage decline on a year-over-year basis. Given its regional concentration, the weak economy in the Upper Midwest impacted this segment more severely. Additionally, we were less effective in reducing our variable costs in the regional market in response to the decline in revenue than in our national market. This is partly attributable to continued challenges associated with the Reddaway and USF Bestway consolidation in February 2007. In response to these and other challenges, in February 2008 Reddaway closed 21 service centers primarily representing the former USF Bestway footprint. Holland closed 6 service centers at this same time.

Our 2007 consolidated operating results were negatively impacted by $27.3 million of reorganization charges, primarily severance and acceleration of stock compensation charges related to terminated executives, of which $9.5 million was included in the Corporate results. Our 2006 consolidated operating results included $10.2 million of similar charges as well as $13.3 million related to a USF Red Star multi-employer pension plan matter. In 2007, we successfully settled certain of these USF Red Star multi-employer pension plan obligations resulting in a gain of $6.4 million. Consolidated operating income also included gains on the sale of property and equipment of $5.8 million and $8.4 million for the years ended December 31, 2007 and 2006, respectively.

Our 2007 nonoperating expenses of $86.6 million included $88.8 million of interest expense as compared to $87.8 million in 2006. Included in the 2007 interest amount is $5.6 million attributed to income tax items. In conjunction with our adoption of FIN No. 48, Accounting for Uncertainty in Income Taxes effective January 1, 2007, we now classify interest related to income tax items in interest expense as opposed to the 2006 classification in income tax provision (benefit). Interest expense attributed to financing arrangements is down slightly from 2006 due to decreased borrowings. Other nonoperating charges in 2007 included foreign currency losses of $5.4 million offset by interest income of $4.4 million and other gains of $3.2 million while 2006 included $4.6 million of charges related to the write down of certain nonoperating assets offset by interest income of $3.1 million.

Our effective tax rate for 2007 was 2.0% compared to 39.3% for 2006. The 2007 rate reflects a $638.6 million goodwill impairment charge that is non deductible for tax purposes. The 2007 rate was favorably impacted by a $1.8 million alternative fuel tax credit related to 2006 and reflects a benefit of $7.1 million for the same type of credit in 2007.

National Transportation Results

National Transportation represented approximately 70%, 69% and 69% of our consolidated revenue in 2008, 2007 and 2006, respectively. The table below provides summary information for National Transportation for the three years ended December 31:

				Percent Change	
(in millions)	**2008**	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
Operating revenue	$ 6,304.9	$ 6,657.8	$ 6,878.6	(5.3%)	(3.2%)
Impairment charges	776.7	76.6		n/m(a)	n/m
Operating income (loss)	(749.4)	159.3	423.3	n/m	(62.4%)
Operating ratio	111.9%	97.6%	93.8%	14.3pp(b)	3.8pp

(a) Not meaningful.

(b) Percentage points.

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2008 compared to 2007

National Transportation reported operating revenue of $6,304.9 million in 2008, a decline of $352.9 million or 5.3% compared to the prior year. The two primary components of operating revenue are volume, comprised of the number of shipments and weight per shipment, and price or yield, usually evaluated on a per hundred weight basis. The decline in operating revenue was largely driven by a 9.9% decline in total picked up tonnage per day. The decline in total picked up tonnage per day was made up of an 11.2% decline in total shipments per day and a 1.5% increase in total weight per shipment.

The tonnage decline is primarily the result of a weak economy. As the economy has weakened, capacity has become more readily available and competition for available loads has intensified. Additionally, we believe certain customers diverted some freight to our competitors in early 2008 while we were finalizing our union labor contract and again in late 2008 due to uncertainty around a proposed amendment to our union labor agreement, which was subsequently ratified by the union, as well as perceived uncertainty around the financial stability of our Company.

The decline in total tonnage per day was partially offset by a 4.1% increase in total revenue per hundred weight. The increase in total revenue per hundred weight was the result of higher fuel surcharge revenue associated with substantially higher diesel fuel prices in 2008 compared to the prior year. Fuel prices were higher overall in 2008 compared to 2007 despite a significant and rapid decline in fuel prices in the fourth quarter of 2008.

The operating loss for National Transportation in 2008 included a non-cash charge of $776.7 million primarily relating to the impairment of goodwill and tradenames of Roadway and YRC Reimer, both a part of National Transportation. The prior year also contained an impairment charge in the amount of $76.6 million. Absent these charges, operating income for National Transportation was $27.3 million in 2008, a decline of $208.6 million or 88.4% compared to 2007. This decrease was primarily the result of lower revenue of $352.9 million, higher operating expenses and supplies of $134.0 million and higher purchased transportation of $39.1 million, partially offset by lower salaries, wages and benefits of $313.0 million (which includes pension and postretirement medical curtailment gains) and by lower other operating expenses of $9.2 million.

An impairment charge was taken against goodwill and tradenames for Roadway and YRC Reimer in the third quarter of 2008 in the amount of $635.9 million. Deteriorating economic conditions in 2008 were a primary factor in calculating the fair value of goodwill and tradenames and the resulting write-down. Additionally, management elected to discontinue the use of the Roadway name in marketing efforts which resulted in a fourth quarter charge to the Roadway tradename of $140.8 million. In 2007, an impairment charge was taken against tradenames for Roadway and Reimer.

Operating expenses and supplies were higher due mostly to an increase in fuel costs. Fuel and oil costs were 25.3% higher in 2008 compared to 2007 despite fewer shipments and despite a substantial decline in fuel prices during the fourth quarter of 2008. Additionally, bad debt expense in 2008 was $6.3 million or 29.3% higher than the prior year reflective of increased bankruptcies in our customer base.

Purchased transportation was higher due mostly to increased motor carrier costs combined with a change in administering certain intercompany transactions. Effective July 2007, we began recording both revenue and intercompany expense, primarily purchased transportation, for transactions serviced by our sister company, YRC Logistics, that we otherwise could not service within our network. We also pay a transaction fee to YRC Logistics that is included in purchased transportation. Previously, YRC Logistics recorded the revenue and purchased transportation. This change does not affect the consolidated financial statements of YRC Worldwide.

The decline in salaries, wages and benefits during 2008 was due mostly to lower hourly wages and benefits of $174.0 million and lower salaries and benefits of $136.0 million. Hourly wages and benefits declined as a result of lower volume but were partially offset by contractual wage and benefit increases effective April 1, 2008, and August 1, 2008, respectively. Salaries and benefits include curtailment gains of $95.1 million in the second and third quarters of 2008 as well as the impact of substantial headcount reductions during the year and were partially offset by pension settlement costs of $6.9 million related to the lump sum provision of the Roadway pension plan. The curtailment gains relate to the freezing of future benefit accruals under pension plans covering Yellow Transportation and Roadway non-union employees as well as termination of the Roadway postretirement medical plan.

Other operating expenses decreased mostly due to lower operating taxes and licenses of $7.9 million primarily due to lower fuel taxes reflective of lower miles or volume. General liability claims expense increased $16.1 million in 2008 compared to 2007 due to unfavorable experience related to road accidents. Cargo claims expense in 2008 was $18.4 million lower than 2007 due to lower shipments and better claims experience.

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Net gains were recorded on the disposal of property of $11.5 million in 2008 compared to a net gain of $8.3 million in 2007. The 2008 gain is reflective of our initiative to combine duplicate locations within the YRC network and monetize these real estate holdings.

During 2008, reorganization and settlement costs, primarily severance costs associated with headcount reductions including certain management changes, were $8.8 million. In 2007, severance costs were $6.7 million due primarily to the combination of management structures of Yellow and Roadway to form National Transportation in the first quarter of 2007.

In October 2008, Yellow and Roadway legally merged and changed the legal name of the surviving entity to YRC Inc. The intention of management was to integrate the operations, technology and processes of both companies into one company. Though we can provide no assurance of success, the network integration was expected to have a significant favorable impact on our costs and service levels due to a substantial improvement in freight density. The integration process was completed on March 1, 2009.

Our expectations regarding the impact of the integration of Yellow Transportation and Roadway and the timing of achieving that improvement could differ materially from those projected in such forward-looking statements based on a number of factors, including (among others) the risk factors identified in Part I and the introductory section immediately prior to Part I of this report, the ability to identify and implement cost reductions in the time frame needed to achieve these expectations, the success of our operating plans, the need to spend additional capital to implement cost reduction opportunities, including (without limitation) to terminate, amend or renegotiate prior contractual commitments, the accuracy of our estimates of our spending requirements, changes in our strategic direction, the need to replace any unanticipated losses in capital assets, approval of the affected unionized employees of changes needed to complete the integration under our union agreements, the readiness of employees to utilize new combined processes, the effectiveness of deploying existing technology necessary to facilitate the combination of processes, our ability to receive expected price for our services from the combined network and customer acceptance of those services.

2007 compared to 2006

National Transportation revenue decreased $220.8 million or 3.2% in 2007 compared to 2006. The decline in operating revenue was largely driven by a 6.1% decline in total picked up tonnage per day. The tonnage decline was primarily the result of a slowing economy, and we believe that the freight transportation sector also experienced softening business levels in 2007 based on reports of tonnage declines. Partially offsetting the reduction in volume was a 2.4% increase in revenue per hundred weight which includes higher fuel surcharge revenue.

Operating income for National Transportation decreased $264.0 million or 62.4% in 2007 compared to the previous year. The decrease was primarily a result of lower revenue, a tradename impairment charge of $76.6 million and higher purchased transportation of $34.6 million, partially offset by lower salaries, wages and benefits of $45.7 million, lower depreciation and amortization expense of $17.2 million and lower other operating expenses of $6.8 million. Additionally, the prior year results included a $4.0 million recovery of business interruption insurance related to hurricane Katrina and $3.5 million of costs associated with hosting an industry conference. No such conference was held in 2007, resulting in lower costs compared to the prior year period.

The impairment charge resulted from a reduction in the calculated fair value of the Roadway tradename. The fair value decline in our tradename was largely the result of a change in the assumptions (primarily discount rate and long-term revenue growth) used in the valuation model versus those used at the original acquisition date in 2003. Assumptions are reflective of current economic conditions, including the slow recovery in sectors impacting transportation.

Purchased transportation costs were higher primarily due to a change in administering certain intercompany transactions with YRC Logistics as previously discussed, certain new business initiatives with one of our largest customers and a contractual increase with our primary rail provider, partially offset by lower rail usage due largely to lower volumes.

Salaries, wages and benefits were lower due to lower workers compensation costs of $24.9 million and lower hourly wages and benefits of $17.7 million. Hourly wages and benefits declined due to lower volumes and were partially offset by the annual contractual wage and benefit increase combined with having fewer new hire employees on the lower end of the union wage progression scale and having fewer casual (i.e., part-time, supplemental) employees. As volumes decline, it is more challenging to utilize casual employees who are used to supplement our regular workforce and have a lower overall cost as employees with greater seniority at higher wage rates must be utilized first under our labor agreement. Additionally, there have been fewer newly hired employees who have a lower initial cost than regular employees due to the wage progression. The prior year results included a reduction to expense of $11.8 million due to a change in our vacation practices. The reduced workers compensation cost is attributed to the absence of material unfavorable changes in the development of prior year claims that we experienced in 2006.

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Depreciation expense was lower primarily because of a change in depreciable lives and salvage values of revenue equipment effective July 1, 2006, reducing 2007 depreciation expense. This reduction was offset by $9.3 million of technology amortization expense related to certain abandoned internal technology projects previously considered in process. As National Transportation moves to a common technology platform, these projects were identified as non-strategic and not a part of the future direction of the reporting unit.

Other operating expenses decreased mostly due to lower operating taxes and licenses of $4.3 million. Cargo claims expense in 2007 was flat when compared to 2006. Additional resources were allocated for improving cargo claim frequency and resulted in lower year over year claims expense primarily during the second half of 2007.

During the year ended December 31, 2007, National Transportation reported net gains of property disposals of $8.3 million versus $6.4 million in 2006. The primary contributor to the 2007 amount was a gain of $5.7 million on the sale of a property in California.

Reorganization charges in 2007, primarily severance costs, of $6.7 million were largely the result of combining management structures of Yellow Transportation and Roadway to form National Transportation. During the year ended 2006, we incurred $4.3 million of severance costs associated with a significant realignment in operations and a related reduction in workforce.

Regional Transportation Results

Regional Transportation represented approximately 22%, 24% and 24% of our consolidated revenue in 2008, 2007 and 2006, respectively.

The table below provides summary financial information for Regional Transportation for the three years ended December 31:

				Percent Change	
(in millions)	**2008**	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
Operating revenue	$ 1,974.1	$ 2,280.4	$ 2,333.6	(13.4%)	(2.3%)
Impairment charges	89.7	705.3		n/m(a)	n/m
Operating income (loss)	(147.8)	(700.8)	133.6	n/m	n/m
Operating ratio	107.5%	n/m	94.3%	n/m	n/m

(a) Not meaningful.

2008 compared to 2007

Regional Transportation reported operating revenue of $1,974.1 million for 2008, representing a decrease of $306.3 million, or 13.4% from 2007. The decreased operating revenue was driven by lower business volumes, partially offset by improved pricing including improved fuel surcharge revenue. Total weight per day was down 16.4%, representing a 16.5% decline in total shipments per day and a flat total weight per shipment compared to last year. Shipment volumes were negatively impacted by a continued weak economy and the closure of 6 service centers at Holland and 21 service centers at Reddaway in mid-February 2008.

Total revenue per hundred weight increased 2.9% in 2008 as compared to 2007, primarily due to higher fuel surcharge revenue associated with higher diesel fuel prices, partly offset by pricing pressure impacts on our base rates. A meaningful portion of our regional footprint is concentrated in the Upper Midwest where business levels and pricing negotiations have been especially difficult due to the economic challenges in this geographic area.

Operating loss for Regional Transportation in 2008 includes an impairment charge of $89.7 million related to the reduction in fair value of the USF tradename. We continue to incorporate all business units in our master branding strategy and have elected to discontinue the use of the USF name in marketing efforts. The 2007 results include a $705.3 million non-cash impairment charge relating to goodwill and intangible assets. Absent these charges, the operating loss was $58.1 million for 2008, a decrease of $62.6 million from 2007, consisting of a $306.3 million decline in revenue and a $243.7 million decrease in operating expenses. Regional Transportation has reduced most operating expenses in proportion to lower business volumes. Expense decreases in 2008 were in salaries, wages and benefits of $189.0 million, operating expenses and supplies of $17.8 million, purchased transportation of $24.4 million, depreciation and amortization of $1.1 million and other operating expenses of $17.4 million. Expense increases in 2008 were in gains/losses on property disposals of $0.6 million and reorganizations and settlements of $5.4 million.

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Salaries, wages and benefits expense decreased 13.0% reflecting lower employee levels and improved productivity, partly offset by annual/contractual salary, wage and benefit increases, and higher workers compensation costs as a result of favorable adjustments in 2007. Operating expenses and supplies decreased 3.5% compared to 2007 reflecting a 14.3% reduction in costs other than fuel and a 7.9% increase in fuel costs (primarily due to higher fuel prices). Costs were lower in the areas of equipment maintenance, facilities, travel, driver hotels/meals and uncollectible revenue as a result of lower business volumes, effective cost management and terminal closures in 2008. Purchased transportation was 21.2% lower due to lower business volumes and the in-sourcing of certain linehaul transportation from third-party providers. Depreciation was 1.6% lower due to a smaller equipment fleet, mostly offset by the impact of newer equipment. Other operating expenses were 14.4% lower mainly in the areas of operating taxes, licenses and insurance primarily due to lower business volumes.

Property disposals resulted in a gain of $3.4 million in 2008 compared to a gain of $4.0 million in 2007, primarily due to the sale of terminal facilities in each year. Reorganization costs were higher in 2008 due to the overall size and amount of impacted facilities and employees for the relative reorganizations in each year.

2007 compared to 2006

Regional Transportation reported operating revenue of $2,280.4 million for 2007, representing a decrease of $53.2 million or 2.3% from 2006. With the same number of workdays in both years, the decline in operating revenue was largely driven by a 3.8% decline in total tonnage picked up. Regional Transportation volume decline is consistent with that experienced by National Transportation and also heavily concentrated in the industrial Midwest. As the economy slowed, capacity became more readily available, and competition for available loads increased. The decline in total tonnage was made up of a 1.0% decrease in shipments per day and a 2.9% decline in weight per shipment. Partially offsetting the reduction in volume was a 1.7% increase in total revenue per hundred weight, which includes increased fuel surcharge revenue.

Operating loss for Regional Transportation in 2007 includes an impairment charge of $705.3 million relating to goodwill and intangible assets. There was no comparable charge in 2006. Absent this charge, operating income was $4.5 million for 2007, a decrease of $129.1 million from 2006, consisting of a $53.2 million decline in revenue and a $75.9 million increase in operating expenses. Expense increases in 2007 were in salaries, wages and benefits of $44.1 million, operating expenses and supplies of $37.5 million, other operating expenses of $2.0 million and reorganizations and settlements of $7.9 million. Expense decreases in 2007 were in purchased transportation of $8.7 million, depreciation and amortization of $6.8 million and gains/losses on property disposals of $0.1 million.

Salaries, wages and benefits expense increased 3% despite lower tonnage and reductions in non-union incentive accruals and salaried headcount. The primary reasons for the increase were higher contractual wage expenses and associated benefits. Inefficiencies in the networks of Holland and Reddaway drove higher wages because of their negative impact on productivity.

Operating expenses and supplies were 8% higher due to several unfavorable factors including higher fuel costs, vehicle maintenance costs and corporate overhead, partly offset by reductions in uncollectible revenue. Other operating expenses were 2% higher due to higher fuel taxes driven by correspondingly higher fuel costs, and a higher provision for bodily injury and property damage claims.

Purchased transportation was 7% lower due mainly to the in-sourcing of linehaul carriage from third-party providers. Depreciation was 9% lower due to a change in depreciable life policy beginning in July 2006, reduction in assets due to terminal consolidation at Reddaway and lower equipment counts.

Property disposals resulted in a gain of $4.0 million in 2007 compared to a gain of $3.9 million in 2006. Reorganization costs in 2007 related to the closure of USF Bestway and the consolidation of terminals into Reddaway s California network. There were no reorganization costs in 2006.

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YRC Logistics Results

YRC Logistics represented approximately 7%, 6% and 6% of our consolidated revenue in 2008, 2007 and 2006, respectively. The table below provides summary financial information for YRC Logistics for the three years ended December 31:

				Percent Change	
(in millions)	2008	2007	2006	2008 vs. 2007	2007 vs. 2006
Operating revenue	$ 621.7	$ 623.2	$ 609.7	(0.2)%	2.2%
Impairment charges	157.0			n/m(a)	n/m
Operating income	(149.9)	5.2	13.7	n/m	(62.4%)
Operating ratio	124.1%	99.2%	97.8%	24.9pp(b)	1.4pp

(a) Not meaningful.

(b) Percentage points.

2008 compared to 2007

For the year ended December 31, 2008, YRC Logistics revenue decreased by $1.5 million or 0.2%. Revenue and expense associated with the fulfillment of certain of National Transportation s domestic forwarding business line were recorded within the National Transportation segment effective July 2007. Previously such revenue and related expense were recorded in the YRC Logistics segment. The transfer of this revenue resulted in a decrease of revenue of $23.6 million for 2008 compared to 2007 with minimal impact on operating income as the corresponding purchased transportation was also transferred. Excluding this revenue, YRC Logistics revenue increased by $22.1 million or 3.5% driven by customer growth and increased volumes in both global services of $23.2 million and dedicated fleet of $12.2 million. Increases in these services were partially offset by shrinking volumes in distribution services caused by weakening economic conditions in the retail sector and YRC Logistics decision to exit its domestic ocean service offering.

Operating loss for the year ended December 31, 2008, includes an impairment charge related to the reduction in fair value of the YRC Logistics reporting unit resulting in a write off of goodwill of $157.0 million. There was no comparable charge in 2007. Absent this charge, operating income increased by $1.9 million from $5.2 million in 2007 to $7.1 million in 2008. During 2008, YRC Logistics exited a warehousing contract in the United Kingdom and its domestic ocean service offering along with other restructuring and severance charges resulting in $1.7 million of expense. Similar restructuring items in 2007 resulted in a $3.3 million restructuring and severance charge and $0.7 million of losses from property disposals. Restructuring charges in 2008 were offset by a $6.0 million gain from the sale of real estate. In 2008, YRC Logistics experienced increased provisions for uncollectible accounts of $2.5 million compared to 2007 primarily due to economic conditions our customers are facing and stale accounts.

2007 compared to 2006

For the year 2007, YRC Logistics revenue increased by $13.5 million or 2.2%. The transfer of domestic forwarding revenue to National Transportation as discussed above resulted in a decrease of revenue of $27.2 million for 2007 compared to the same period in 2006 with minimal impact on operating income as the corresponding purchased transportation was also transferred. Excluding this revenue, YRC Logistics revenue increased by $40.7 million or 6.7% driven by increases in transportation services and distribution services.

Operating income decreased $8.5 million in 2007 including $3.3 million in reorganization charges in 2007. Despite the 6.7% growth discussed above, in the current year YRC Logistics was challenged with pressure from an economic slowdown which hampered revenue growth as it relates to our expectations. Operating expenses were not reduced as quickly in response to sluggish revenue growth rates. Distribution services however performed better than our other offerings with stronger revenue gains. As a result, operating expenses for this business line increased $5.4 million or 9.7% in 2007 as compared to 2006. Claims and insurance expenses increased approximately $3.6 million in 2007 compared to 2006, primarily attributable to a favorable adjustment in 2006 relating to prior year claims development.

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Truckload Results

Truckload represented approximately 1% of our consolidated revenue in 2008, 2007 and 2006, respectively. The table below provides summary financial information for Truckload for the three years ended December 31:

				Percent Change	
(in millions)	**2008**	**2007**	**2006**	**2008 vs. 2007**	**2007 vs. 2006**
Operating revenue	$ 120.5	$ 112.9	$ 133.3	6.7%	(15.3%)
Operating income	(11.6)	(5.9)	8.6	n/m(a)	n/m
Operating ratio	109.7%	105.2%	93.6%	4.5pp(b)	11.6pp

(a) Not meaningful.

(b) Percentage points.

2008 compared to 2007

Truckload reported 2008 operating revenue of $120.5 million, representing an increase of $7.6 million or 6.7% from 2007. The two primary components of truckload operating revenue are volume, comprised of the miles driven, and price, usually evaluated on a revenue per mile basis. Total miles driven per day were up 1.9% in 2008 as compared to 2007 due primarily to higher use by YRC Worldwide operating companies as they convert rail miles to road service partially offset by the soft economy. Revenue per mile was up 4.2%, due to increased fuel surcharge revenue associated with higher diesel fuel prices.

The operating loss for 2008 was $11.6 million, as compared to an operating loss of $5.9 million for 2007, consisting of a $7.6 million increase in revenue and a $13.3 million increase in operating expenses. Increased operating expenses were primarily in the areas of fuel costs (higher diesel prices and higher miles driven), salaries and wages (higher miles driven and annual compensation rate increases), driver recruiting costs and tolls. Decreased operating expenses were primarily due to lower purchased transportation costs of $1.2 million and lower losses on equipment disposals of $1.5 million.

2007 compared to 2006

Truckload reported 2007 operating revenue of $112.9 million, representing a decrease of $20.4 million or 15.3% from 2006. Total miles driven per day were down 13.7% in 2007 as compared to 2006 due primarily to the loss of the company s largest customer during the year. Revenue per mile was down 1.8%, due to an aggressive rate environment evidenced by a very active bid season early in 2007.

The operating loss for 2007 was $5.9 million, as compared to an operating profit of $8.6 million for 2006, consisting of a $20.4 million decrease in revenue and a $5.9 million decrease in operating expenses. Salaries, wages and benefits expense was $4.8 million lower than 2006, primarily due to lower miles driven, partly offset by higher compensation rates. The net of all other operating expenses decreased $1.1 million in 2007 compared to 2006. Decreases in fuel costs, equipment maintenance and purchased transportation were primarily the result of lower business volumes and were mostly offset by increases in equipment depreciation, bodily injury and property damage costs and losses on equipment disposals.

Financial Condition

Liquidity

During the year ended December 31, 2008, the global credit market crisis and economic recession had a dramatic effect on our industry. As a result, we experienced declining revenue (a function of both declining volume and yield) and declining operating income and in turn, violated certain covenants in our Credit Agreement, dated as of August 17, 2007, (the Credit Agreement) and asset-backed securitization facility (ABS Facility). Each of these facilities were amended in February 2009 as discussed below. Overall U.S. economic trends are declining as seen in most indices including those applicable to the retail sector, manufacturing, construction and housing. Declining economic activity, as evidenced by these trends, negatively impacts our customers needs to ship and, therefore, negatively impacts the volume of freight we service and the price we receive for our services.

The deterioration in our operating results coupled with the economic recession has reduced our overall liquidity, including having reduced cash available under our revolving credit and ABS facilities. During the fourth quarter of 2008, we took several actions to manage near-term maturities and reduce overall indebtedness. Specifically, in October 2008, we exchanged 1.7 million shares of common stock previously held in treasury for $13.2 million principal amount of our outstanding 5% net share settled contingent convertible senior notes due 2023. Based on the closing price of our common stock on the exchange dates, we recognized a pre-tax

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gain of approximately $5.3 million related to the exchanges. Further, in November 2008, we redeemed the $225 million principal amount 8.25% Roadway senior notes due December 1, 2008, and the $100 million principal amount 6.5% USF senior notes due May 1, 2009. This resulted in a pre-tax loss on redemption of $2.9 million. We utilized available funding under our Credit Agreement to redeem these notes. We considered repurchasing other of our outstanding bonds, many of which are trading considerably below par value, through a tender offer but ultimately we did not consummate this transaction.

Our primary liquidity vehicles, the Credit Agreement and our ABS Facility are collectively referred to herein as the Credit Facilities . As of December 31, 2008, these facilities shared common covenant requirements including performance covenants, specifically a maximum permitted leverage ratio and a minimum required interest coverage ratio. We were not in compliance with the maximum permitted leverage ratio at December 31, 2008. On January 15, 2009, we and our bank group entered in to Waiver No. 1 to the Credit Agreement (Credit Agreement Waiver) and a Limited Waiver and Second Amendment to the Third Amended and Restated Receivables Purchase Agreement (ABS Waiver). These waivers primarily served to bridge the timing between the covenant violations as of December 31, 2008, and the amended Credit Facilities described below.

In connection with the Credit Agreement Waiver, the Company paid a waiver fee to the consenting lenders equal to $4.7 million. In connection with the ABS Waiver, Yellow Roadway Receivables Funding Corporation, a special purpose entity and wholly owned subsidiary of the Company, paid a waiver fee to the co-agents equal to $2.5 million.

Amendment to Credit Facilities

On April 18, 2008, we entered into Amendment No. 1 to the Credit Agreement and on February 12, 2009, we entered into Amendment No. 2 to the Credit Agreement (collectively, the Credit Agreement Amendments). The Credit Agreement, as amended, continues to provide the Company with a $950 million senior revolving credit facility, including sublimits available for borrowings under certain foreign currencies, and a $111.5 million senior term loan (reduced from $150 million). The Credit Agreement, expiring August 17, 2012 (or such earlier date if certain 2010 maturities related to the 8.5% USF Senior Notes and 5% Contingent Convertible Senior Notes are not paid by March 1, 2010 and June 25, 2010, respectively), also provides for letters of credit to be issued that would, in turn, reduce the borrowing capacity under the revolving credit facility. As of December 31, 2008, $515.0 million was drawn under the revolving credit facility, the term loan of $150 million was outstanding and $368.3 million letters of credit were issued.

The Credit Agreement Amendments:

require the Company to maintain quarterly minimum EBITDA (as defined in the Credit Agreement) as shown below:

Period	Minimum Consolidated EBITDA
For the fiscal quarter ending on June 30, 2009	$ 45,000,000
For the two consecutive fiscal quarters ending on September 30, 2009	$ 130,000,000
For the three consecutive fiscal quarters ending December 31, 2009	$ 180,000,000
For the four consecutive fiscal quarters ending March 31, 2010	$ 205,000,000
For the four consecutive fiscal quarters ending June 30, 2010	$ 205,000,000
For the four consecutive fiscal quarters ending September 30, 2010	$ 215,000,000
For the four consecutive fiscal quarters ending December 31, 2010	$ 240,000,000

require the Company to have a maximum Total Leverage Ratio (as defined in the Credit Agreement) of 3.5x for each fiscal quarter beginning with the fiscal quarter ending March 31, 2011;

require the Company to have a minimum Interest Coverage Ratio (as defined in the Credit Agreement) of 2.5x for each fiscal quarter beginning with the fiscal quarter ending March 31, 2011;

require certain terms regarding the Company s asset sales and direct the net proceeds from certain asset sales to be applied as follows:

for any real estate asset sale (other than the first $150 million in net cash proceeds received under certain transactions with NATMI Truck Terminals, LLC (NATMI) described below) the net cash proceeds of which, together with the aggregate amount of net cash proceeds from all such real estate asset sales occurring on or after January 1, 2009,

is less than or equal to $300 million and occurs on or prior to July 15, 2009, 50 percent of such proceeds shall be used to prepay outstanding revolving loans under the Credit Agreement (without a corresponding permanent reduction of the revolving commitments) (Revolver Reserve Amount) and the remaining 50 percent shall be deposited into an escrow account (Escrow Account);

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is less than or equal to $300 million and occurs after July 15, 2009, 50 percent of such proceeds shall be used to prepay amounts outstanding under the Credit Agreement and the remaining 50 percent shall be retained by the Company;

is greater than $300 million and less than or equal to $500 million, 75 percent of such proceeds shall be used to prepay amounts outstanding under the Credit Agreement and the remaining 25 percent shall be retained by the Company; and

is greater than $500 million, all of such proceeds shall be used to prepay amounts outstanding under the Credit Agreement.

limit our maximum capital expenditures to $150 million for the year ended December 31, 2009, and to $235 million for the year ended December 31, 2010;

direct the net proceeds from any additional indebtedness or from the issuance of common stock or other equity interests (other than if used to redeem the outstanding 8.5% USF Senior Notes or 5% Contingent Convertible Notes) to be used to prepay amounts under the Credit Agreement;

beginning in 2010, require the Company to prepay amounts under the Credit Agreements representing 50% of any annual excess cash flows (as defined in the Credit Agreement);

require the Company to maintain daily liquidity (as defined in the Credit Agreement) equal to or greater than $100 million;

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 Agreement; the interest rate on amounts outstanding under the revolving credit facility and term loan is LIBOR (with a floor of 350 basis points) plus 650 basis points (10.0% and 5.2% at December 31, 2008 and 2007, respectively), and the commitment fee for the revolving credit facility is 100 basis points;

required the Company and its domestic subsidiaries to pledge the following collateral (i) receivables not secured by the ABS Facility, (ii) intercompany notes not secured by the ABS Facility, (iii) fee-owned real estate parcels, (iv) all rolling stock, (v) 100% of the stock of all domestic subsidiaries of the Company and (vi) 65% of the stock of first-tier foreign subsidiaries of the Company other than the Company s captive insurance companies; and

required each domestic subsidiary of the Company except for Yellow Roadway Receivables Funding Corporation to guarantee the Credit Agreement.

In connection with Amendment No. 2 to the Credit Agreement, we paid fees to the consenting lenders of approximately $8.0 million.

On February 12, 2009, we renewed and amended our ABS Facility. The renewed facility will expire on February 11, 2010. The renewed facility (i) reduced the financing limit available under the ABS Facility to $500 million ($700 million at December 31, 2007), (ii) reduced the letters of credit sublimit to $105 million ($325 million at December 31, 2007) and added a letter of credit fee of 350 basis points, (iii) conformed the financial ratios to be consistent with the Credit Agreement Amendments described above, (iv) increased the loss and discount reserve ratio requirements, (v) increased the administrative fee (calculated based on financing limit) and program fee (calculated based on utilization) to 275 basis points, respectively and (vi) terminated YRC Assurance as a purchaser under the ABS Facility. 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 2.25% and 5.30% at December 31, 2008 and 2007, respectively, plus the program fee. The interest rate for Wachovia Bank, National Association is one-month LIBOR (with a floor of 350 basis points), plus 650 basis points (10.0% at December 31, 2008), as Wachovia no longer uses a conduit to purchase receivables under the ABS facility.

In connection with the ABS Facility renewal, the Company paid fees to the consenting bank parties equal to approximately $3.8 million. An additional fee equal to approximately $10.0 million will become due September 30, 2009, if the ABS Facility has not been terminated by such date and the Company does not have a corporate credit rating of B/B2 or better from Standard & Poor s (S&P) and Moody s Investors Service, Inc. (Moody s), respectively, by such date. The Company s corporate credit ratings from S&P and Moody s are currently CCC/Caa3, respectively.

On February 27, 2009, we amended the ABS Facility to modify certain maximum permitted ratios through September 30, 2009, related to the quality of the underlying accounts receivable supporting the facility.

Capital Transactions Subsequent to December 31, 2008

On January 30, 2009, we received $102.2 million ($101.1 million net of transaction costs) from the proceeds of a sale leaseback type transaction with NATMI. The underlying transaction included providing title of certain real estate assets to NATMI in exchange for proceeds of $102.2 million; however, the transaction did not meet the accounting definition of a sale leaseback and as such, the assets remain on our balance sheet and long-term debt is reflected on our balance sheet in the amount of the proceeds. We are required to make annual lease payments, which are recorded as principal and interest payments, of approximately $14.4 million under this arrangement. The proceeds received from this transaction are available to us for general working capital purposes.

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On February 13, 2009, we received $9.0 million from the proceeds of an additional closing for additional properties of the sale leaseback transaction with NATMI. The terms of this transaction mirror the January 30, 2009, transaction. We are required to make annual lease payments, which are recorded as principal and interest payments of approximately $1.3 million related to these properties. The proceeds received from this transaction are available to us for general working capital purposes.

On February 13, 2009, we entered into agreements to sell certain real estate assets for approximately $122 million under sale and leaseback type transactions with Estes Express Lines, subject to the satisfaction of normal and customary due diligence. We expect to close on these agreements at various points through June 2009. If all of these transactions close, annual lease payments, which are recorded as principal and interest payments will approximate $11 million.

Risks and Uncertainties

We believe that our forecasted operating performance and planned capital structure actions are sufficient to allow us to remain in compliance with our covenants in our amended Credit Agreement and renewed ABS Facility through 2009. Further, we believe these actions provide sufficient liquidity to meet our working capital needs. However, our belief in remaining in compliance and regarding liquidity sufficiency is a forward-looking statement within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21 of the Securities Exchange Act of 1934, as amended. As discussed above, each of the amended Credit Agreement and the ABS Facility contains a minimum EBITDA requirement through December 31, 2010 and maximum leverage and minimum interest coverage ratio thereafter. Our forecasts that reflect our ability to meet these requirements include significant judgment and significant market risk that may or may not be realized. Items that contribute to these judgments and risks, many of which are beyond our control, include the actual duration of the U.S. recession and our related assumptions around economic outlook, the effectiveness of our planned integration of our National Transportation networks and our customers acceptance of this change, our ability to further reduce costs and our need for additional liquidity including liquidity from cash flows from operating activities and other liquidity enhancing initiatives (such as sale and leaseback type transactions) that may not materialize. Our forecasts are also dependent on the factors listed in the introduction to Part I and the risk factors listed in Part I of this report.

We anticipate that our existing capital resources, including availability under our Credit Facilities and cash flows from operations, will be adequate to satisfy our liquidity requirements through calendar year 2009. As discussed above, the amended Credit Agreement contains restrictions on the use of proceeds from all types of asset sales excluding up to $150 million related to the NATMI transactions discussed above. If available liquidity is not sufficient to meet our operating and debt service obligations as they come due, management s plans include pursuing alternative financing arrangements, additional sale leaseback type transactions, extending the temporary non-union wage and benefit reductions, accelerating restructuring activities or reducing expenditures as necessary to meet our cash requirements throughout 2009. However, there is no assurance that, if required, we will be able to raise additional capital, complete asset sale transactions or reduce discretionary spending to provide the required liquidity.

Indebtedness

The following table provides details of the outstanding components and unused capacity under the February 2009 amended revolving credit facility and ABS Facility as if they were applicable at December 31:

(in millions)	**2008**	**2007**
Capacity:		
Revolving loan	$ 950.0	$ 950.0
ABS facility	500.0	700.0
Total capacity	1,450.0	1,650.0
Amounts outstanding:		
Revolving loan	(515.0)	(5.1)
Letters of credit	(460.5)	(473.2)
ABS facility	(147.0)	(180.0)
ABS usage for captive insurance company (see below)	(221.0)	(201.4)
Total outstanding	(1,343.5)	(859.7)

Unused capacity	$ 106.5	$ 790.3

As shown above, the amended ABS facility permits borrowings of up to $500 million based on qualifying accounts receivable of the Company. However, at December 31, 2008, our underlying accounts receivable supported total capacity under the ABS facility of $435.4 million. Considering this limitation, outstanding borrowings of $147.0 million, captive capacity utilization of $221.0 million, and outstanding letters of credit of $92.2 million, we were overdrawn on the ABS Facility at December 31, 2008, by $24.8 million. This is permitted under the ABS Facility provided that we cure the position on the following business day. We remitted the necessary funds January 2, 2009, to remain in compliance with our ABS Facility.

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YRC Assurance Co. Ltd. (YRC Assurance) is the Company s captive insurance company domiciled in Bermuda and a wholly owned and consolidated subsidiary of YRC Worldwide. YRC Assurance insured certain of our subsidiaries for certain of their respective self-insured obligations for workers compensation liabilities. Certain qualifying investments were made by YRC Assurance as required by Bermuda regulations. These investments included purchasing a position in the underlying receivables in our ABS Facility. As a result, as shown in the table above, our capacity under the ABS Facility was reduced by YRC Assurance s investment in receivables of $221.0 million and $201.4 million at December 31, 2008 and 2007, respectively. Our amended Credit Agreement requires us to cease the participation of YRC Assurance in the ABS Facility. We have complied with this requirement. We are also in the process of dissolving YRC Assurance. As a result of these transactions, the operating companies who received insurance from YRC Assurance will be self-insured for their workers compensation liabilities.

Contingent Convertible Notes

The balance sheet classification of our contingent convertible notes between short-term and long-term is dependent upon certain conversion triggers, as defined in the applicable indenture. The contingent convertible notes include a provision whereby the note holder can require immediate conversion of the notes if, among other reasons, the credit rating on the contingent convertible notes assigned by Moody s is lower than B2 or if the credit rating assigned by S&P is lower than B. At December 31, 2008, the credit rating was CC as assigned by S&P, meeting the conversion trigger, and accordingly, the contingent convertible notes have been classified as a short-term liability in the accompanying 2008 consolidated balance sheet. Based upon this particular conversion right and based upon an assumed market price of our stock of $3 per share, which approximates the current market price, our aggregate obligation for full satisfaction of the $386.8 million par value of contingent convertible notes would require cash payments of $27.9 million.

At December 31, 2007, no conversion triggers had been met. Accordingly, based on the effective maturity date, this obligation has been classified as a long-term liability in the accompanying 2007 consolidated balance sheet. The future balance sheet classification of these liabilities will be monitored at each reporting date, and will be determined based on an analysis of the various conversion rights described above and contained in the applicable indenture.

Credit Rating

As of the date of this filing, the credit rating and outlook assigned to us by the three major rating agencies were as follows:

	Corporate/Issuer Rating	Outlook
Fitch	CC	Not applicable
Moody s	Caa3	Negative
S&P	CCC	Positive

A credit rating reflects an assessment by the rating agency of the credit risk associated with a corporate entity or particular securities issued by that entity. Credit ratings are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by the assigning rating agency. Each rating agency may have different criteria for evaluating risk, and therefore, ratings should be evaluated independently. Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets. The agencies have indicated that our lower ratings are primarily a reflection of the rating agencies concerns regarding ongoing weakness in the U.S. economy pressuring our financial performance, specifically cash flow and profitability.

Cash Flow Measurements

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

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The following table illustrates our calculation for determining free cash flow for the years ended December 31:

(in millions)	**2008**	**2007**	**2006**
Net cash from operating activities	$ 219.8	$ 392.6	$ 532.3
Net property and equipment additions	(34.7)	(338.4)	(303.1)
Acquisition of companies			(25.6)
Investment in affiliate	(46.1)	(1.6)	
Proceeds from stock options	0.1	6.5	5.7
Free cash flow	$ 139.1	$ 59.1	$ 209.3

Operating cash flows decreased $172.8 million during the year ended December 31, 2008, versus the same period in 2007. Cash from operations was impacted by the reduction of general business volumes in 2008 with lower revenue and exponentially larger reduction in operating income. Lower business volumes contributed to a reduction in accounts receivable from 2007 to 2008 of $236.9 million. Pension transactions in 2008 included contributions of $4.0 million versus contributions of $134.3 million in 2007.

Net cash provided by operating activities decreased from 2006 to 2007 and was reflective of our decreased operating results. During 2007 we made pension contributions of $134.3 million and accrued pension expense of $48.7 million versus $72.1 million of pension contributions and accrued pension expense of $61.5 million in 2006. Additionally, we settled certain obligations with multi-employer pension plans and remitted payments of $45.5 million related to this withdrawal liability in 2007 compared to $16.2 million of payments remitted and accrued expense of $13.3 million in 2006. Our accounts receivable declined from 2006 to 2007 due to a combination of lower business volumes and increased efforts at improving our cash collections. Further, in 2007 we received net tax refunds of $48.1 million, included in Prepaid expenses and other in the accompanying balance sheets, versus net tax payments in 2006 of $109.5 million.

In 2008, net property and equipment additions decreased by $303.7 million compared to 2007. Gross property and equipment additions for 2008 were $162.3 million versus $393.8 million for 2007 with the decrease primarily due to a strategic decision to reduce overall capital expenditures due in part to the National Transportation integration. Revenue equipment purchases of $85.5 million were down in 2008 from 2007 due to our financing alternative of leasing $87.1 million of revenue equipment. Proceeds on land sales in 2008 were $110.8 million versus $47.7 million in 2007 as we sold excess properties resulting from our network integration efforts. See a more detailed discussion of 2008 and 2007 activity below in Capital Expenditures .

In 2007, net property and equipment additions increased by $35.3 million compared to 2006. Gross property and equipment additions for 2007 were $393.8 million versus $377.7 million for 2006 with the increase primarily due to technology investments and terminal and facility construction. Revenue equipment purchases of $268.9 million were consistent with 2006 which was in line with our fleet replacement patterns.

Other than the property and equipment activity discussed above, investing activities in 2008 also includes $46.1 million used to purchase a 65% equity interest in Shanghai Jiayu Logistics Co., Ltd. while 2007 includes transaction costs associated with the acquisition of Jiayu and other immaterial investments. The amounts reported in 2006 include payments of $21.9 million to the seller of GPS Asia and $2.5 million to GPS Logistics (EU) Limited, both under contractual earn-out obligations.

Net cash provided by financing activities for 2008 was $134.2 million versus cash used in financing activities of $69.7 million for 2007. The 2008 activity is a result of $145.6 million increase of debt, offset by $11.4 million of debt issuance costs related to the modification and expansion of our Credit Agreement and $3.8 million of make whole premium payments in relation to the redemption of the USF and Roadway notes. The 2007 activity is a result of $35.0 million of common stock repurchases, $39.9 million of net debt reduction and $1.3 million of debt issuance costs offset by stock option proceeds of $6.5 million. The 2006 activity is the result of $20.0 million of common stock repurchases and $195.0 million of debt pay down offset by stock option proceeds of $5.7 million.

Capital Expenditures

Our capital expenditures focus primarily on the replacement of revenue equipment, land and structures, investments in information technology and acquisitions. As reflected on our consolidated balance sheets, our business is capital intensive with significant investments in service center facilities and a fleet of tractors and trailers. We determine the amount and timing of capital expenditures based on numerous factors, including anticipated growth, economic conditions, new or expanded services, regulatory actions and availability of financing.

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The table below summarizes our actual net capital expenditures by type and investments for the years ended December 31:

(in millions)	2008	2007	2006
Revenue equipment	$ 68.5	$ 261.4	$ 268.2
Land, structures and technology	(33.8)	77.0	34.9
Total net capital expenditures	34.7	338.4	303.1
Acquisition of companies and affiliates	46.1&nb		