YRC Worldwide Inc.
Form 10-Q
November 12, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 0-12255

YRC Worldwide Inc.
(Exact name of registrant as specified in its charter)

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

(913) 696-6100
(Registrant’s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

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

Large accelerated filer	o	Accelerated filer	ý

Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o

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

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

Class	Outstanding at November 7, 2013
Common Stock, $0.01 par value per share	10,937,029 shares

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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements
CONSOLIDATED BALANCE SHEETS
YRC Worldwide Inc. and Subsidiaries
(Amounts in millions except share and per share data)

	September 30, 2013 (Unaudited)	December 31, 2012
Assets		
Current Assets:		
Cash and cash equivalents	$170.5	$208.7
Restricted amounts held in escrow	90.1	20.0
Accounts receivable, net	519.0	460.1
Prepaid expenses and other	79.6	85.3
Total current assets	859.2	774.1
Property and Equipment:		
Cost	2,854.5	2,869.0
Less – accumulated depreciation	(1,733.6)	(1,677.6)
Net property and equipment	1,120.9	1,191.4
Intangibles, net	84.9	99.2
Restricted amounts held in escrow	12.5	102.5
Other assets	56.4	58.3
Total Assets	$2,133.9	$2,225.5
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Accounts payable	$194.3	$162.0
Wages, vacations and employees' benefits	224.1	190.9
Other current and accrued liabilities	199.7	233.2
Current maturities of long-term debt	392.7	9.1
Total current liabilities	1,010.8	595.2
Other Liabilities:		
Long-term debt, less current portion	968.3	1,366.3
Pension and postretirement	503.4	548.8
Claims and other liabilities	317.2	344.3
Commitments and contingencies		
Shareholders' Deficit:		
Preferred stock, $1 par value per share	—	—
Common stock, $0.01 par value per share	0.1	0.1
Capital surplus	1,964.0	1,926.5
Accumulated deficit	(2,154.6)	(2,070.6)
Accumulated other comprehensive loss	(382.6)	(392.4)
Treasury stock, at cost (410 shares)	(92.7)	(92.7)
Total shareholders' deficit	(665.8)	(629.1)
Total Liabilities and Shareholders' Deficit	$2,133.9	$2,225.5

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)
YRC Worldwide Inc. and Subsidiaries
For the Three and Nine Months Ended September 30
(Amounts in millions except per share data, shares in thousands)
(Unaudited)

	Three Months		Nine Months	
	2013	2012	2013	2012
Operating Revenue	$1,252.7	$1,236.8	$3,657.7	$3,681.9
Operating Expenses:				
Salaries, wages and employees' benefits	711.8	701.0	2,110.3	2,129.8
Operating expenses and supplies	284.4	275.4	838.0	854.4
Purchased transportation	139.0	126.8	379.6	372.7
Depreciation and amortization	43.3	44.6	130.4	139.4
Other operating expenses	67.1	64.0	171.3	192.0
(Gains) losses on property disposals, net	1.3	(2.3)	(1.9)	(0.5)
Total operating expenses	1,246.9	1,209.5	3,627.7	3,687.8
Operating Income (Loss)	5.8	27.3	30.0	(5.9)
Nonoperating Expenses:				
Interest expense	43.1	33.7	124.2	111.6
Other, net	(0.2)	(0.2)	(3.0)	(3.2)
Nonoperating expenses, net	42.9	33.5	121.2	108.4
Loss before income taxes	(37.1)	(6.2)	(91.2)	(114.3)
Income tax provision (benefit)	7.3	(9.2)	(7.2)	(13.1)
Net income (loss)	(44.4)	3.0	(84.0)	(101.2)
Less: net income attributable to non-controlling interest	—	—	—	3.9
Net Income (Loss) Attributable to YRC Worldwide Inc.	(44.4)	3.0	(84.0)	(105.1)
Other comprehensive income, net of tax	4.6	3.7	9.8	9.9
Comprehensive Income (Loss) Attributable to YRC Worldwide Inc. Shareholders	$(39.8)	$6.7	$(74.2)	$(95.2)
Average Common Shares Outstanding – Basic	9,977	7,512	9,053	7,149
Average Common Shares Outstanding – Diluted	9,977	14,162	9,053	7,149
Net Income (Loss) Per Share – Basic	$(4.45)	$0.40	$(9.29)	$(14.16)
Net Loss Per Share – Diluted	$(4.45)	$(4.30)	$(9.29)	$(14.16)

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS
YRC Worldwide Inc. and Subsidiaries
For the Nine Months Ended September 30
(Amounts in millions)
(Unaudited)

	2013	2012
Operating Activities:		
Net loss	$(84.0)	$(101.2)
Noncash items included in net loss:		
Depreciation and amortization	130.4	139.4
Paid-in-kind interest on Series A Notes and Series B Notes	24.6	22.1
Amortization of deferred debt costs	5.0	4.1
Equity based compensation expense	4.5	3.0
Deferred income tax benefit	(0.1)	—
Gains on property disposals, net	(1.9)	(0.5)
Other noncash items, net	5.9	(1.6)
Changes in assets and liabilities, net:		
Accounts receivable	(59.5)	(44.3)
Accounts payable	25.4	16.6
Other operating assets	0.9	(9.0)
Other operating liabilities	(54.2)	(76.6)
Net cash used in operating activities	(3.0)	(48.0)
Investing Activities:		
Acquisition of property and equipment	(56.5)	(48.1)
Proceeds from disposal of property and equipment	5.9	39.2
Restricted escrow receipts, net	19.9	23.9
Other, net	1.8	2.4
Net cash (used in) provided by investing activities	(28.9)	17.4
Financing Activities:		
Issuance of long-term debt	0.3	45.0
Repayments of long-term debt	(6.6)	(20.4)
Debt issuance costs	—	(5.1)
Net cash (used in) provided by financing activities	(6.3)	19.5
Net Decrease In Cash and Cash Equivalents	(38.2)	(11.1)
Cash and Cash Equivalents, Beginning of Period	208.7	200.5
Cash and Cash Equivalents, End of Period	$170.5	$189.4
Supplemental Cash Flow Information:		
Interest paid	$(90.4)	$(91.6)
Income tax refund, net	$10.8	$8.2

The accompanying notes are an integral part of these statements.

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STATEMENT OF CONSOLIDATED SHAREHOLDERS' DEFICIT
YRC Worldwide Inc. and Subsidiaries
For the Nine Months Ended September 30, 2013
(Amounts in millions)
(Unaudited)

Common Stock	
Beginning and ending balance	$0.1
Capital Surplus	
Beginning balance	$1,926.5
Share-based compensation	2.2
Issuance of equity upon conversion of Series B Notes	35.3
Ending balance	$1,964.0
Accumulated Deficit	
Beginning balance	$(2,070.6)
Net loss attributable to YRC Worldwide Inc.	(84.0)
Ending balance	$(2,154.6)
Accumulated Other Comprehensive Loss	
Beginning balance	$(392.4)
Reclassification of net pension actuarial losses to net loss, net of tax	11.1
Foreign currency translation adjustments	(1.3)
Ending balance	$(382.6)
Treasury Stock, At Cost	
Beginning and ending balance	$(92.7)
Total Shareholders' Deficit	$(665.8)

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YRC Worldwide Inc. and Subsidiaries
(Unaudited)

Certain of these Notes to Consolidated Financial Statements contain forward-looking statements, as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Cautionary Note Regarding Forward-Looking Statements."

1. Description of Business

YRC Worldwide Inc. (also referred to as “YRC Worldwide,” the “Company,” “we,” “us” or “our”), one of the largest transportation service providers in the world, is a holding company that, through wholly owned operating subsidiaries and its interest in a Chinese joint venture, offers its customers a wide range of transportation services. We have one of the largest, most comprehensive less-than-truckload ("LTL") networks in North America with local, regional, national and international capabilities. Through our team of experienced service professionals, we offer expertise in heavyweight shipments and flexible supply chain solutions, ensuring customers can ship industrial, commercial and retail goods with confidence. Our reporting segments include the following:

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

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

At September 30, 2013, approximately 77% of our labor force is subject to collective bargaining agreements, which predominantly expire in March 2015.

2. Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of YRC Worldwide and its wholly owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. Investments in non-majority owned affiliates, or those in which we do not have control where the entity is either not a variable interest entity or we are not the primary beneficiary, are accounted for on the equity method.

We make estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from those estimates. We have prepared the Consolidated Financial Statements, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included in these financial statements herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Assets Held for Sale

When we plan to dispose of property or equipment by sale, the asset is recorded in the financial statements at the lower of the carrying amount or estimated fair value, less cost to sell, and is reclassified to assets held for sale. Additionally, after such reclassification, there is no further depreciation taken on the asset. For an asset to be classified as held for sale, management must approve and commit to a formal plan, the sale should be anticipated during the ensuing year and the asset must be actively marketed, be available for immediate sale, and meet certain other specified criteria. We use level 3 inputs to determine the fair value of each property considered held for sale.

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At September 30, 2013 and December 31, 2012, the net book value of assets held for sale was $10.5 million and $7.3 million, respectively. This amount is included in “Property and Equipment” in the accompanying consolidated balance sheets. We recorded charges of $0.6 million and $3.3 million for the three and nine months ended September 30, 2013, respectively, and $0.6 million and $12.1 million for the three and nine months ended September 30, 2012, respectively, to reduce properties held for sale to estimated fair value, less cost to sell. These charges are included in “(Gains) losses on property disposals, net” in the accompanying statements of consolidated comprehensive loss.

Fair Value of Financial Instruments

The following table summarizes the fair value hierarchy of our financial assets and liabilities carried at fair value on a recurring basis as of September 30, 2013:

		Fair Value Measurement Hierarchy		
(in millions)	Total Carrying Value	Quoted prices in active market (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Restricted amounts held in escrow-current	$90.1	$90.1	$—	$—
Restricted amounts held in escrow-long term	$12.5	$12.5	$—	$—
Total assets at fair value	$102.6	$102.6	$—	$—

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

Reclassifications Out of Accumulated Other Comprehensive Loss

For the three and nine months ended September 30, 2013, we reclassified the amortization of our net pension loss totaling $3.7 million and $11.1 million, respectively, from accumulated other comprehensive loss to net loss. This reclassification is a component of net periodic pension cost and is discussed in the "Employee Benefits" footnote.

3. Liquidity

For a description of our outstanding debt, please refer to the "Debt and Financing" footnote to our consolidated financial statements.

Credit Facility Covenants

On November 12, 2013, YRC Worldwide entered into an amendment to its amended and restated credit agreement (the "Credit Agreement Amendment") and its ABL facility (together the "Amendments"), which, among other things, resets future covenants regarding minimum Consolidated EBITDA, maximum Total Leverage Ratio and minimum Interest Coverage Ratio (as defined in Amendments, if applicable) until December 31, 2014 and resets the minimum cash balance requirement.

The covenants as of September 30, 2013 and the amended covenants for each of the remaining test periods are as follows:

Four Consecutive Fiscal Quarters Ending	Minimum Consolidated	Maximum Total Leverage Ratio	Minimum Interest Coverage Ratio

	EBITDA		
September 30, 2013	$260,000,000	6.0 to 1.00	1.60 to 1.00
December 31, 2013	$245,000,000	5.7 to 1.00	1.50 to 1.00
March 31, 2014	$220,000,000	6.4 to 1.00	1.30 to 1.00
June 30, 2014	$225,000,000	6.5 to 1.00	1.30 to 1.00
September 30, 2014	$245,000,000	6.5 to 1.00	1.40 to 1.00
December 31, 2014	$260,000,000	6.2 to 1.00	1.40 to 1.00

The Credit Agreement Amendment resets the minimum available cash requirement by providing that the minimum cash requirement will be $100.0 million for the period from November 12, 2013 through December 31, 2013, $50.0 million for the period from January 1, 2014 through January 31, 2014 and $100.0 million for the period from February 1, 2014 thereafter at all times; provided

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that, if Pro Forma Consolidated EBITDA (described below) is greater than or equal to $375.0 million on or prior to February 1, 2014, the minimum available cash requirement will be $50.0 million at all times.

Further, the Credit Agreement Amendments, among other things, (i) includes a new definition of Pro Forma Consolidated EBITDA added for the purposes of the minimum available cash requirement as described above to be calculated by adding to Consolidated EBITDA, subject to certain limitations, the amount of cost savings, operating expense reductions, other operating improvements and initiatives and synergies associated with any restructuring transactions (and implementation thereof) (but not to exceed the actual amount deducted from revenues in determining Consolidated Net Income for any such costs and expenses), in the case of each such restructuring transaction (and implementation thereof), occurring on or after November 12, 2013, and projected by us in good faith to be reasonably anticipated to be realizable within ninety (90) days of the date thereof; (ii) increases the interest rate and commitment fee payable under our credit agreement by 50 basis points; (iii) waives the requirement to continue to cash collateralize letters of credit with existing net cash proceeds received from asset sales up to $12.5 million (including release of such cash proceeds); (iv) requires payment of an amendment fee to each consenting lender of 1.0% of their outstanding exposure; and (v) adds a new “Event of Default” that requires the 6% Convertible Senior Notes to be repaid, refinanced, replaced, restructured or extended on or prior to February 1, 2014 using either cash generated from the sale of qualified equity by the Borrower, certain qualified equity issuances by the Borrower or certain permitted indebtedness.

On November 12, 2013, YRC Receivables, LLC, a wholly-owned subsidiary of the Company, entered into an amendment to the ABL facility, which, among other things, resets the minimum Consolidated EBITDA covenant (as defined in the ABL facility) for each of the remaining test periods in a manner identical to the amendment of minimum Consolidated EBITDA in the Credit Agreement Amendment and increases the interest rate payable under the ABL Facility by 50 basis points. The Company agreed to pay all consenting lenders a fee equal to 1.0% of their outstanding loans and unused commitments.

Consolidated EBITDA, as defined in our Amendments, is a non-GAAP measure that reflects our earnings before interest, taxes, depreciation, and amortization expense, and further adjusted for letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including permitted restructuring professional fees, certain one-time cash restructuring charges occurring on or after November 12, 2013 in an aggregate amount not to exceed $40.0 million and results of permitted dispositions and discontinued operations.

Our adjusted EBITDA for the four quarters ended September 30, 2013 was $274.8 million compared to the covenant requirement of $260 million.

Our minimum cash balance as of September 30, 2013 was $181.2 million.

The credit facilities were also amended to obtain relief from any potential going concern language in our independent registered public accounting firm's audit opinion to be delivered in connection with our December 31, 2013 financial statements.

Risks and Uncertainties Regarding Future Liquidity Including Our Ability to Continue as a Going Concern

Our principal sources of liquidity are cash and cash equivalents, available borrowings under our $400 million ABL facility and any prospective net operating cash flows from operations. As of September 30, 2013, we had cash and cash equivalents and availability under the ABL facility totaling $233.7 million with a $388.7 million borrowing base under our ABL facility. For the nine months ended September 30, 2013, our cash flow from operating activities used net cash of $3.0 million.

Our principal uses of cash are to fund our operations, including making contributions to our single-employer pension plans and various multi-employer pension funds, and to meet our other cash obligations including, but not limited to, paying cash interest and principal on our funded debt, payments on our equipment leases, letter of credit fees under our credit facilities and funding capital expenditures.

We have a considerable amount of indebtedness. As of September 30, 2013, we had $1,359.1 million in aggregate par value of outstanding indebtedness, which may increase over time as a portion of our indebtedness accrues paid-in-kind interest. Of that amount, $69.4 million matures on February 15, 2014, $325.5 million matures on September 30, 2014 and $664.7 million matures on March 31, 2015. We also have considerable future funding obligations for our single-employer pension plans and various multi-employer pension funds. We expect our funding obligations for the remainder of 2013 for our single-employer pension plans and multi-employer pension funds will be $13.7 million and $22.5 million, respectively. In addition, we have, and will continue to have, substantial operating lease obligations. As of September 30, 2013, our minimum rental expense under operating leases for the remainder of the year is $13.3 million. As of September 30, 2013, our operating lease obligations through 2025 totaled $165.6 million and is expected to increase as we lease additional revenue equipment.

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Our capital expenditures for the nine months ended September 30, 2013 and 2012 were $56.5 million and $48.1 million, respectively. These amounts were principally used to fund replacement engines and trailer refurbishments for our revenue fleet and capitalized costs for our network facilities and technology infrastructure. Additionally, for the nine months ended September 30, 2013, we entered into new operating lease commitments for revenue equipment for $44.9 million, payable over the average lease term of six years. In light of our recent operating results and liquidity needs, we have deferred certain capital expenditures and expect to continue to do so for the foreseeable future, including the remainder of 2013. As a result, the average age of our fleet is increasing, which may affect our maintenance costs and operational efficiency unless we are able to obtain suitable lease financing to meet our replacement equipment needs.

In the third quarter of 2013, driven, in part, by a decline of our service levels due to driver shortages and transition issues related to the network optimization plan implemented in May 2013, our YRC Freight reporting segment experienced decreases in our financial performance compared to our management forecast. As a result, we significantly decreased our expectations regarding our future financial performance and entered into the Amendments described above.

The Amended Credit Agreement requires us to repay, refinance, replace, restructure or extend our 6% Convertible Senior Notes on or prior to February 1, 2014 using either cash generated from the sale of qualified equity by the Borrower, certain qualified equity issuances by the Borrower or certain permitted indebtedness. These actions with regard to the 6% Convertible Senior Notes are outside of our control and, as a result, we cannot provide any assurances that we will be successful in taking these actions. In the event that we are unable to take these actions we will need to refinance or restructure our debt or seek an amendment or waiver from our lenders or otherwise we will be in default under our Amended Credit Agreement, which would enable lenders thereunder to accelerate the repayment of amounts outstanding and exercise remedies with respect to collateral. In the event that our lenders under our Amended Credit Agreement demand payment, we will not have sufficient cash to repay such indebtedness. In addition, a default under our credit facilities or the lenders exercising their remedies thereunder would trigger cross-default provisions in our other indebtedness and certain other operating agreements.

We do not expect our liquidity will allow us to retire our borrowings as they mature in September of 2014 and thereafter and therefore we will be required to refinance or restructure the portions of our debt that matures in September of 2014 and March of 2015. Our recent and forecasted operating results may have an adverse effect on our ability to complete such restructuring or refinancing. The refinancing or restructuring of these debt obligations is outside of our control and there can be no assurance that such transaction will occur, or if it does occur, on what terms.

Our ability to continue as a going concern over the next twelve months is dependent on a number of factors, many of which are outside of our control. In the near term, we must repay, refinance, replace, restructure or extend our 6% Convertible Senior Notes on or prior to February 1, 2014 in order to comply with the terms of our Amended Credit Agreement and thereafter we will need to refinance or restructure our other debt obligations prior to their upcoming maturities in 2014 and 2015. Other factors include:

- achieving forecasted results in order to comply with covenants and other terms of our credit facilities so as to have access to the borrowings available to us under our credit facilities;

- securing suitable lease financing arrangements to replace revenue equipment;

- generating operating cash flows that are sufficient to meet the minimum cash balance requirement under our credit facilities, cash requirements for pension contributions to our single-employer pension plan and our multi-employer pension funds, cash interest and principal payments on our funded debt, payments on our equipment leases, letter of credit fees under our credit facilities and for capital expenditures or additional lease payments for new revenue equipment.

There can be no assurance that management will be successful or that such plans will be achieved.

These conditions raise significant uncertainty about our ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of the foregoing uncertainties.

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4. Debt and Financing

Our outstanding debt as of September 30, 2013 and December 31, 2012 consisted of the following:

As of September 30, 2013 (in millions)	Par Value	Premium/ (Discount)	Book Value	Stated Interest Rate	Effective Interest Rate
Restructured Term Loan	$298.7	$45.2	$343.9	10.0 %	— %
Term A Facility (capacity $175.0, borrowing base $168.2, availability $63.2)	105.0	(2.8)	102.2	8.5 %	15.8 %
Term B Facility (capacity $220.5, borrowing base $220.5, availability $0.0)	220.5	(5.1)	215.4	11.25 %	15.0 %
Series A Notes	173.5	(20.6)	152.9	10.0 %	18.3 %
Series B Notes	68.2	(12.1)	56.1	10.0 %	25.6 %
6% Convertible Senior Notes	69.4	(2.5)	66.9	6.0 %	15.5 %
A&R CDA	124.3	(0.2)	124.1	3.0-18.0%	7.0 %
Lease financing obligations	299.3	—	299.3	10.0-18.2%	11.9 %
Other	0.2	—	0.2		
Total debt	$1,359.1	$1.9	$1,361.0		
Current maturities of Term A Facility	(105.0)	2.8	(102.2)		
Current maturities of Term B Facility	(220.5)	$5.1	(215.4)		
Current maturities of 6% Notes	(69.4)	2.5	(66.9)		
Current maturities of lease financing obligations	(8.0)	—	(8.0)		
Current maturities of other	(0.2)	—	(0.2)		
Long-term debt	$956.0	$12.3	$968.3		

As of December 31, 2012 (in millions)	Par Value	Premium/ (Discount)	Book Value	Stated Interest Rate	Effective Interest Rate
Restructured Term Loan	$298.7	$67.6	$366.3	10.0 %	— %
Term A Facility (capacity $175.0, borrowing base $147.6, availability $42.6)	105.0	(4.8)	100.2	8.5 %	15.8 %
Term B Facility (capacity $222.2, borrowing base $222.2, availability $0.0)	222.2	(8.5)	213.7	11.25 %	15.0 %
Series A Notes	161.2	(27.8)	133.4	10.0 %	18.3 %
Series B Notes	91.5	(25.4)	66.1	10.0 %	25.6 %
6% Notes	69.4	(6.3)	63.1	6.0 %	15.5 %
A&R CDA	125.8	(0.4)	125.4	3.0-18.0%	7.1 %
Lease financing obligations	306.9	—	306.9	10.0-18.2%	11.9 %
Other	0.3	—	0.3		
Total debt	$1,381.0	$(5.6)	$1,375.4		
Current maturities of Term B Facility	(2.3)	—	(2.3)		
Current maturities of lease financing obligations	(6.5)	—	(6.5)		
Current maturities of other	(0.3)	—	(0.3)		
Long-term debt	$1,371.9	$(5.6)	$1,366.3		

The interest rates for certain borrowings have increased in accordance with our Amendments as of November 12, 2013. Refer to Note 3, Liquidity for details.

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Conversions

Our 10% Series A Convertible Senior Secured Notes due 2015 (the "Series A Notes") were convertible into our common stock beginning July 22, 2013 at the conversion price per share of $34.0059 and a conversion rate of 29.4067 common shares per $1,000 of Series A Notes. As of September 30, 2013 and November 7, 2013, there was $173.5 million and $174.8 million, respectively, in aggregate principal amount of Series A Notes outstanding that are convertible into approximately 5.6 million shares of our common stock at the maturity date. There were no Series A Note conversions from September 30, 2013 through November 7, 2013.

Our 10% Series B Convertible Senior Secured Notes due 2015 (the "Series B Notes") are convertible into our common stock, at any time at the conversion price per share of approximately $18.5334 and a conversion rate of 53.9567 common shares per $1,000 of the Series B Notes (such conversion price and conversion rate applying also to the Series B Notes make whole premium). As of September 30, 2013, the effective conversion price and conversion rate for our Series B Notes due 2015 (after taking into account the make whole premium) was $16.0056 and 62.4781 common shares per $1,000 of Series B Notes, respectively.

During the three and nine months ended September 30, 2013, $12.4 million and $29.1 million of aggregate principal amount of Series B Notes were converted into 0.8 million and 1.9 million shares of our common stock, respectively, which includes the make whole premium. Upon conversion, during the three months ended September 30, 2013, we recorded $6.2 million of additional interest expense representing the $2.7 million make whole premium and $3.5 million of accelerated amortization of the discount on converted Series B Notes. During the nine months ended September 30, 2013, we recorded $15.2 million of additional interest expense representing the $6.6 million make whole premium and $8.6 million of accelerated amortization of the discount on converted Series B Notes. As of September 30, 2013, there was $68.2 million in aggregate principal amount of Series B Notes outstanding that are convertible into approximately 4.2 million shares of our common stock (after taking into account the make whole premium). There were no Series B Note conversions from September 30, 2013 through November 7, 2013.

As of September 30, 2013 and November 7, 2013, a maximum of 17,600 shares of our common stock was available for future issuance upon conversion of the Convertible 6% Senior Notes. The limitation on the number of shares of common stock issuable upon conversion of the 6% Notes applies on a pro rata basis to the $69.4 million in aggregate principal amount of outstanding 6% Notes.

Fair Value Measurement

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

	September 30, 2013		December 31, 2012	
(in millions)	Carrying amount	Fair Value	Carrying amount	Fair Value
Restructured Term Loan	$343.9	$297.0	$366.3	$197.5
ABL Facility	317.6	329.0	313.9	325.8
Series A Notes and Series B Notes	209.0	234.1	199.5	81.5
Lease financing obligations	299.3	299.3	306.9	306.9
Other	191.2	188.9	188.8	99.5
Total debt	$1,361.0	$1,348.3	$1,375.4	$1,011.2

The fair values of the Restructured Term Loan, ABL Facility, Series A Notes, Series B Notes, 6% Notes (included in “Other” above) and A&R CDA (included in “Other” above) were estimated based on observable prices (level two inputs for fair value measurements). The carrying amount of the lease financing obligations approximates fair value (level two input for fair value measurement).

5. Employee Benefits

The following table presents the components of our company-sponsored pension costs for the three and nine months ended September 30:

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	Three Months		Nine Months	
(in millions)	2013	2012	2013	2012
Service cost	$1.1	$0.9	$3.2	$2.8
Interest cost	14.0	14.8	42.1	44.5
Expected return on plan assets	(13.9)	(14.9)	(41.7)	(38.1)
Amortization of net loss	3.7	1.0	11.1	6.8
Total periodic pension cost	$4.9	$1.8	$14.7	$16.0

We expect to contribute $62.6 million to our company-sponsored pension plans in 2013 of which we have contributed $48.9 million through September 30, 2013.

6. Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2013 was (19.7)% and 7.9%, respectively, compared to 148.4% and 11.5%, respectively, for the three and nine months ended September 30, 2012. The significant items impacting the 2013 rate include a net state tax provision, certain permanent items and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2013. We recognize valuation allowances on deferred tax assets if, based on the weight of the evidence, we determine it is more likely than not such assets will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior years' earnings history, expected future earnings, loss carry-back and carry-forward periods, reversals of existing deferred tax liabilities and tax planning strategies that potentially enhance the likelihood of the realization of a deferred tax asset. At September 30, 2013 and December 31, 2012, substantially all of our net deferred tax assets were subject to a valuation allowance.

The tax provision for the three month period ended September 30, 2013 by rule is derived by subtracting the tax benefit for the six months ended June 30, 2013 from the tax benefit for the nine months ended September 30, 2013, each of which is computed as a percentage of the year-to-date pre-tax loss, based on the projected annual effective tax rate at the time. Notwithstanding the similar expected annual net tax benefit from period to period, that projected rate decreased substantially from June 30 to September 30, due to the change in expectations of future performance discussed in Note 3, Liquidity, requiring a reversal of a previously recorded benefit.

Since our debt recapitalization in July 2011, we have experienced a significant change in ownership of our stock, as measured for federal income tax purposes. On July 25, 2013, we reached the threshold that triggered a change in ownership defined by Internal Revenue Code ("IRC") Section 382. This change will likely limit substantially the use of net operating loss carryovers ("NOLs") generated prior to July 25, 2013 to offset future taxable income. While the Section 382 change may adversely affect future cash flow, it has no impact on our current financial statements. The deferred tax asset resulting from the existing NOLs for which a Section 382 change limits financial statement recognition is already fully offset by a valuation allowance.

7. Shareholders' Deficit

The following reflects the activity in the shares of our common stock for the nine months ended September 30, 2013:

(shares in thousands)	2013
Beginning balance	7,976
Issuance of equity awards	245
Issuance of common stock upon conversion of Series B Notes	1,929
Ending balance	10,150

8. Earnings (Loss) Per Share

We calculate basic earnings (loss) per share by dividing our net earnings (loss) by our weighted-average shares outstanding at the end of the period. The calculation for diluted earnings per share adjusts the weighted average shares outstanding for our dilutive stock options and restricted stock using the treasury stock method and adjusts both net earnings and the weighted average shares outstanding for our dilutive convertible securities using the if-converted method. The if-converted method assumes that all of our

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dilutive convertible securities would have been converted at the beginning of the period. Our calculation for basic and dilutive earnings per share for the three and nine months ended September 30 is as follows:

	Three Months		Nine Months	
(dollars in millions, except per share data, shares in thousands)	2013	2012	2013	2012
Basic net income (loss) available to common shareholders	$(44.4)	$3.0	$(84.0)	$(105.1)
Effect of dilutive securities:				
6% Notes[1]	—	(11.8)	—	—
Series B Notes[1]	—	(52.0)	—	—
Dilutive net loss available to common shareholders	$(44.4)	$(60.8)	$(84.0)	$(105.1)
Basic weighted average shares outstanding	9,977	7,512	9,053	7,149
Effect of dilutive securities:				
Stock options and restricted stock	—	31	—	—
6% Notes	—	18	—	—
Series B Notes	—	6,601	—	—
Dilutive weighted average shares outstanding	9,977	14,162	9,053	7,149
Basic earnings (loss) per share	$(4.45)	$0.40	$(9.29)	$(14.16)
Diluted loss per share	$(4.45)	$(4.30)	$(9.29)	$(14.16)

[1] The 6% Notes and Series B Notes are recorded at a discount that accelerates upon conversion and contain a make-whole interest premium that would require us to pay interest as if the security was held to maturity upon conversion. These would result in incremental expense under the if-converted method.

Given our net loss position for the three and nine months ended September 30, 2013 and the nine months ended September 30, 2012, there were no dilutive securities for these periods.

Anti-dilutive options and share units were 834,400 and 766,900 at September 30, 2013 and 2012, respectively. Anti-dilutive 6% Note conversion shares, including the make whole premium, were 17,600 at September 30, 2013 and 2012. Anti-dilutive Series A Note conversion shares were 5,099,000 and 4,625,000 at September 30, 2013 and 2012, respectively. Anti-dilutive Series B Note conversion shares, including the make whole premiums, were 4,219,000 and 6,345,000 at September 30, 2013 and 2012, respectively.

9. Business Segments

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

We have the following reportable segments, which are strategic business units that offer complementary transportation services to our customers:

- YRC Freight is the reporting segment for our transportation service providers focused on business opportunities in national, regional and international services. YRC Freight provides for the movement of industrial, commercial and retail goods, primarily through centralized management and customer facing organizations. This unit includes our LTL subsidiary YRC Inc. and Reimer Express, a subsidiary located in Canada that specializes in shipments into, across and out of Canada. In addition to the United States and Canada, YRC Freight also serves parts of Mexico, Puerto Rico and Guam.
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Regional Transportation is the reporting segment for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. The Regional Transportation companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States, Canada, Mexico and Puerto Rico.

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We charge management fees and other corporate service fees to our reportable segments based on the direct benefits received or an overhead allocation basis. Corporate and other operating losses represent residual operating expenses of the holding company. Corporate identifiable assets primarily consist of cash, cash equivalents, an investment in an equity method affiliate and deferred debt issuance costs. Intersegment revenue primarily relates to transportation services between our segments.

The following table summarizes our operations by business segment:

(in millions)	YRC Freight	Regional Transportation	Corporate/ Eliminations	Consolidated
As of September 30, 2013				
Identifiable assets	$1,303.2	$812.1	$18.6	$2,133.9
As of December 31, 2012				
Identifiable assets	$1,315.4	$745.5	$164.6	$2,225.5
Three Months Ended September 30, 2013				
External revenue	$808.7	$444.0	$—	$1,252.7
Intersegment revenue	$—	$—	$—	$—
Operating income (loss)	$(9.7)	$20.0	$(4.5)	$5.8
Nine Months Ended September 30, 2013				
External revenue	$2,360.1	$1,297.6	$—	$3,657.7
Intersegment revenue	$—	$—	$—	$—
Operating income (loss)	$(15.8)	$57.2	$(11.4)	$30.0
Three Months Ended September 30, 2012				
External revenue	$819.5	$417.3	$—	$1,236.8
Intersegment revenue	$—	$—	$—	$—
Operating income (loss)	$2.8	$27.2	$(2.7)	$27.3
Nine Months Ended September 30, 2012				
External revenue	$2,429.7	$1,249.0	$3.2	$3,681.9
Intersegment revenue	$—	$0.2	$(0.2)	$—
Operating income (loss)	$(58.4)	$61.6	$(9.1)	$(5.9)

10. Network Optimization

In the second quarter of 2013, our YRC Freight reporting segment commenced its plan to optimize its freight network. This optimization reduced the number of handling and relay locations. Costs associated with this plan, which consist of employee separation costs and contract termination, asset impairments and other costs, are recorded at either their contractual amounts or their fair value. During the nine months ended September 30, 2013, we recorded $7.8 million related to these costs in the YRC Freight reporting segment. We did not record any expense related to these costs for the three months ended September 30, 2013.

Charges for the network optimization are included in "Salaries, wages and employees' benefits" as it relates to employee separation costs and "Operating expenses and supplies" as is relates to contract termination and other costs in the accompanying statements of consolidated comprehensive loss. In addition to the charges detailed below, we have recorded impairment charges on facilities that are part of the network optimization totaling $1.5 million during the nine months ended September 30, 2013. We did not record any impairment charges on facilities that are part of the network optimization for the three months ended September 30, 2013. These charges are included in "(Gains) losses on property disposals, net" in the accompanying statements of consolidated comprehensive loss. A rollforward of the accrual is as follows:

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(in millions)	Employee Separation	Contract Termination and Other Costs	Total
Balance at December 31, 2012	$—	$0.5	$0.5
Network optimization charges	1.3	5.0	6.3
Payments	(0.9)	(4.6)	(5.5)
Balance at September 30, 2013	$0.4	$0.9	$1.3

11. Commitments, Contingencies, and Uncertainties

ABF Lawsuit

On November 1, 2010, ABF Freight System, Inc. ("ABF") filed a complaint in the U.S. District Court for the Western District of Arkansas against several parties, including our subsidiaries YRC Inc., New Penn Motor Express, Inc. and USF Holland Inc. and the International Brotherhood of Teamsters and the local Teamster unions that are party to the National Master Freight Agreement ("NMFA"), alleging violation of the NMFA due to modifications to the NMFA that provided relief to our subsidiaries without providing the same relief to ABF. The complaint sought to have the modifications to the NMFA declared null and void and damages of $750.0 million from the named defendants. We believe the allegations are without merit.

On December 17, 2010, the District Court dismissed the complaint. ABF appealed the dismissal on January 18, 2011 to the U.S. Court of Appeals for the 8th Circuit. On July 6, 2011, the Court of Appeals vacated the District Court's dismissal of the litigation on jurisdictional grounds and remanded the case back to the District Court for further proceedings. ABF filed an amended complaint on October 12, 2011, containing allegations consistent with the original complaint. Our subsidiaries filed a motion to dismiss the amended complaint. On August 1, 2012, the District Court dismissed ABF's amended complaint without prejudice. ABF appealed the dismissal to the Court of Appeals, and, on August 30, 2013, the Court of Appeals affirmed the District Court's decision. It is unknown at this time if ABF will elect to seek review of the Court of Appeals' decision by the U.S. Supreme Court. If ABF were to seek such review, we believe we have meritorious defenses to this case. Therefore, we have not recorded any liability for this matter.

Bryant Holdings Securities Litigation

On February 7, 2011, a putative class action was filed by Bryant Holdings LLC ("Bryant") in the U.S. District Court for the District of Kansas on behalf of purchasers of our common stock between April 24, 2008 and November 2, 2009, inclusive (the "Class Period"), seeking damages under the federal securities laws for statements and/or omissions allegedly made by us and the individual defendants during the Class Period which plaintiffs claimed to be false and misleading.

The individual defendants are former officers of our Company. No current officers or directors were named in the lawsuit.

The parties participated in voluntary mediation between March 11, 2013 and April 15, 2013. The mediation resulted in the execution of a mutually acceptable definitive agreement by the parties, which agreement remains subject to approval by the court. Court approval cannot be assured. Substantially all of the payments contemplated by the settlement will be covered by our liability insurance. The self-insured retention on this matter has been accrued as of September 30, 2013.

Other Legal Matters

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

12. Condensed Consolidating Financial Statements

Guarantees of the 6% Convertible Senior Notes Due 2014

On February 23, 2010 and August 3, 2010, we issued $70 million in aggregate principal amount of 6% convertible senior notes due 2014 (the “6% Notes”). In connection with the 6% Notes, the following wholly owned subsidiaries of YRC Worldwide have

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issued guarantees in favor of the holders of the notes: YRC Inc., YRC Enterprise Services, Inc., Roadway LLC, Roadway Next Day Corporation, YRC Regional Transportation, Inc., USF Holland Inc., USF Reddaway Inc., USF Glen Moore Inc. and YRC Logistics Services, Inc. Each of the guarantees is full and unconditional and joint and several, subject to customary release provisions.

The condensed consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because we do not believe that such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor to obtain funds from its subsidiaries by dividend or loan. Certain prior period amounts have been reclassified to conform to current presentation.

The following represents condensed consolidating financial information as of September 30, 2013 and December 31, 2012, with respect to the financial position and for the three and nine months ended September 30, 2013 and 2012, for results of operations and the nine months ended September 30, 2013 for the Statement of cash flows of YRC Worldwide and its subsidiaries. The Parent column presents the financial information of YRC Worldwide, the primary obligor of the 6% Notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the 6% Notes. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws and YRCW Receivables LLC, the special-purpose entity that is associated with our ABL facility.

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Condensed Consolidating Balance Sheets

As of September 30, 2013 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$129.6	$13.2	$ 27.7	$—	$170.5
Intercompany advances receivable	—	(35.2)	35.2	—	—
Accounts receivable, net	3.3	(3.3)	519.0	—	519.0
Prepaid expenses and other	105.0	58.3	6.4	—	169.7
Total current assets	237.9	33.0	588.3	—	859.2
Property and equipment	0.8	2,671.5	182.2	—	2,854.5
Less – accumulated depreciation	(0.3)	(1,624.8)	(108.5)	—	(1,733.6)
Net property and equipment	0.5	1,046.7	73.7	—	1,120.9
Investment in subsidiaries	1,743.5	206.8	(0.1)	(1,950.2)	—
Receivable from affiliate	(491.1)	426.3	414.8	(350.0)	—
Intangibles and other assets	37.8	53.7	62.3	—	153.8
Total Assets	$1,528.6	$1,766.5	$ 1,139.0	$(2,300.2)	$2,133.9
Intercompany advances payable	$(11.8)	$(269.2)	$ 281.0	$—	$—
Accounts payable	42.9	137.1	14.3	—	194.3
Wages, vacations and employees' benefits	13.2	196.0	14.9	—	224.1
Other current and accrued liabilities	174.3	23.9	1.5	—	199.7
Current maturities of long-term debt	74.5	0.6	317.6	—	392.7
Total current liabilities	293.1	88.4	629.3	—	1,010.8
Payable to affiliate	—	200.0	150.0	(350.0)	—
Long-term debt, less current portion	967.5	0.8	—	—	968.3
Deferred income taxes, net	225.7	(222.1)	(3.6)	—	—
Pension and postretirement	503.5	—	(0.1)	—	503.4
Claims and other liabilities	279.9	34.1	3.2	—	317.2
Commitments and contingencies					
Shareholders' equity (deficit)	(741.1)	1,665.3	360.2	(1,950.2)	(665.8)
Total Liabilities and Shareholders' Equity (Deficit)	$1,528.6	$1,766.5	$ 1,139.0	$(2,300.2)	$2,133.9

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As of December 31, 2012 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$151.9	$13.6	$ 43.2	$—	$208.7
Intercompany advances receivable	—	(28.8)	28.8	—	—
Accounts receivable, net	3.3	(7.4)	464.2	—	460.1
Prepaid expenses and other	93.7	9.7	1.9	—	105.3
Total current assets	248.9	(12.9)	538.1	—	774.1
Property and equipment	0.7	2,681.7	186.6	—	2,869.0
Less – accumulated depreciation	(0.2)	(1,572.5)	(104.9)	—	(1,677.6)
Net property and equipment	0.5	1,109.2	81.7	—	1,191.4
Investment in subsidiaries	1,463.5	162.7	(17.6)	(1,608.6)	—
Receivable from affiliate	(392.8)	318.6	424.2	(350.0)	—
Intangibles and other assets	154.1	53.6	52.3	—	260.0
Total Assets	$1,474.2	$1,631.2	$ 1,078.7	$(1,958.6)	$2,225.5
Intercompany advances payable	$(11.8)	$(294.5)	$ 306.3	$—	$—
Accounts payable	42.1	107.6	12.3	—	162.0
Wages, vacations and employees' benefits	13.2	163.9	13.8	—	190.9
Other current and accrued liabilities	193.5	30.3	9.4	—	233.2
Current maturities of long-term debt	6.8	—	2.3	—	9.1