

YRC Worldwide Inc.  
Form 10-Q  
July 31, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 0-12255

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

|                                                                   |                                         |
|-------------------------------------------------------------------|-----------------------------------------|
| Delaware                                                          | 48-0948788                              |
| (State or other jurisdiction of<br>incorporation or organization) | (I.R.S. Employer<br>Identification No.) |

|                                          |            |
|------------------------------------------|------------|
| 10990 Roe Avenue, Overland Park, Kansas  | 66211      |
| (Address of principal executive offices) | (Zip Code) |

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

None  
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

|                         |                          |                   |                                     |
|-------------------------|--------------------------|-------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
|-------------------------|--------------------------|-------------------|-------------------------------------|

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

| Class                                    | Outstanding at July 25, 2014 |
|------------------------------------------|------------------------------|
| Common Stock, \$0.01 par value per share | 31,242,037 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)

|                                             | June 30,<br>2014<br>(Unaudited) | December 31,<br>2013 |   |
|---------------------------------------------|---------------------------------|----------------------|---|
| Assets                                      |                                 |                      |   |
| Current Assets:                             |                                 |                      |   |
| Cash and cash equivalents                   | \$173.9                         | \$176.3              |   |
| Restricted amounts held in escrow           | 128.3                           | 90.1                 |   |
| Accounts receivable, net                    | 556.6                           | 460.9                |   |
| Prepaid expenses and other                  | 100.7                           | 70.6                 |   |
| Total current assets                        | 959.5                           | 797.9                |   |
| Property and Equipment:                     |                                 |                      |   |
| Cost                                        | 2,831.3                         | 2,844.2              |   |
| Less – accumulated depreciation             | (1,800.2                        | ) (1,754.4           | ) |
| Net property and equipment                  | 1,031.1                         | 1,089.8              |   |
| Intangibles, net                            | 70.5                            | 79.8                 |   |
| Restricted amounts held in escrow           | —                               | 0.6                  |   |
| Deferred income taxes, net                  | 18.4                            | 18.3                 |   |
| Other assets                                | 100.0                           | 78.5                 |   |
| Total Assets                                | \$2,179.5                       | \$2,064.9            |   |
| Liabilities and Shareholders' Deficit       |                                 |                      |   |
| Current Liabilities:                        |                                 |                      |   |
| Accounts payable                            | \$206.2                         | \$176.7              |   |
| Wages, vacations and employees' benefits    | 224.0                           | 191.2                |   |
| Deferred income taxes, net                  | 18.6                            | 18.6                 |   |
| Other current and accrued liabilities       | 197.7                           | 189.5                |   |
| Current maturities of long-term debt        | 111.8                           | 8.6                  |   |
| Total current liabilities                   | 758.3                           | 584.6                |   |
| Other Liabilities:                          |                                 |                      |   |
| Long-term debt, less current portion        | 1,083.4                         | 1,354.8              |   |
| Deferred income taxes, net                  | 1.8                             | 1.8                  |   |
| Pension and postretirement                  | 359.9                           | 384.8                |   |
| Claims and other liabilities                | 338.5                           | 336.3                |   |
| Commitments and contingencies               |                                 |                      |   |
| Shareholders' Deficit:                      |                                 |                      |   |
| Preferred stock, \$1 par value per share    | —                               | —                    |   |
| Common stock, \$0.01 par value per share    | 0.3                             | 0.1                  |   |
| Capital surplus                             | 2,287.9                         | 1,964.4              |   |
| Accumulated deficit                         | (2,247.4                        | ) (2,154.2           | ) |
| Accumulated other comprehensive loss        | (310.5                          | ) (315.0             | ) |
| Treasury stock, at cost (410 shares)        | (92.7                           | ) (92.7              | ) |
| Total shareholders' deficit                 | (362.4                          | ) (597.4             | ) |
| Total Liabilities and Shareholders' Deficit | \$2,179.5                       | \$2,064.9            |   |

The accompanying notes are an integral part of these statements.



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## STATEMENTS OF CONSOLIDATED COMPREHENSIVE LOSS

YRC Worldwide Inc. and Subsidiaries

For the Three and Six Months Ended June 30

(Amounts in millions except per share data, shares in thousands)

(Unaudited)

|                                                                  | Three Months |            | Six Months |            |
|------------------------------------------------------------------|--------------|------------|------------|------------|
|                                                                  | 2014         | 2013       | 2014       | 2013       |
| Operating Revenue                                                | \$1,317.6    | \$1,242.5  | \$2,528.5  | \$2,405.0  |
| Operating Expenses:                                              |              |            |            |            |
| Salaries, wages and employees' benefits                          | 740.7        | 717.5      | 1,466.4    | 1,398.5    |
| Operating expenses and supplies                                  | 292.0        | 285.8      | 575.7      | 553.6      |
| Purchased transportation                                         | 159.8        | 125.7      | 291.7      | 240.6      |
| Depreciation and amortization                                    | 41.0         | 43.5       | 82.0       | 87.1       |
| Other operating expenses                                         | 70.6         | 54.4       | 131.4      | 104.2      |
| (Gains) losses on property disposals, net                        | (6.5)        | ) 1.3      | (6.3)      | ) (3.2)    |
| Total operating expenses                                         | 1,297.6      | 1,228.2    | 2,540.9    | 2,380.8    |
| Operating Income (Loss)                                          | 20.0         | 14.3       | (12.4)     | ) 24.2     |
| Nonoperating Expenses:                                           |              |            |            |            |
| Interest expense                                                 | 31.7         | 41.9       | 89.9       | 81.1       |
| Gain on extinguishment of debt                                   | —            | —          | (11.2)     | ) —        |
| Other, net                                                       | 1.1          | (2.5)      | ) (4.0)    | ) (2.8)    |
| Nonoperating expenses, net                                       | 32.8         | 39.4       | 74.7       | 78.3       |
| Loss before income taxes                                         | (12.8)       | ) (25.1)   | ) (87.1)   | ) (54.1)   |
| Income tax benefit                                               | (7.9)        | ) (10.0)   | ) (12.0)   | ) (14.5)   |
| Net loss                                                         | (4.9)        | ) (15.1)   | ) (75.1)   | ) (39.6)   |
| Amortization of beneficial conversion feature on preferred stock | —            | —          | (18.1)     | ) —        |
| Net Loss Attributable to Common Shareholders                     | (4.9)        | ) (15.1)   | ) (93.2)   | ) (39.6)   |
| Net loss                                                         | (4.9)        | ) (15.1)   | ) (75.1)   | ) (39.6)   |
| Other comprehensive income, net of tax                           | 3.6          | 2.1        | 4.5        | 5.2        |
| Comprehensive Loss Attributable to YRC Worldwide Inc.            | \$(1.3)      | ) \$(13.0) | ) \$(70.6) | ) \$(34.4) |
| Average Common Shares Outstanding – Basic                        | 30,612       | 8,784      | 26,501     | 8,583      |
| Average Common Shares Outstanding – Diluted                      | 30,612       | 8,784      | 26,501     | 8,583      |
| Net Loss Per Share – Basic                                       | \$(0.16)     | ) \$(1.72) | ) \$(3.52) | ) \$(4.62) |
| Net Loss Per Share – Diluted                                     | \$(0.16)     | ) \$(1.72) | ) \$(3.52) | ) \$(4.62) |

The accompanying notes are an integral part of these statements.

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## STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the Six Months Ended June 30

(Amounts in millions)

(Unaudited)

|                                                            | 2014    | 2013      |   |
|------------------------------------------------------------|---------|-----------|---|
| Operating Activities:                                      |         |           |   |
| Net loss                                                   | \$(75.1 | ) \$(39.6 | ) |
| Noncash items included in net loss:                        |         |           |   |
| Depreciation and amortization                              | 82.0    | 87.1      |   |
| Paid-in-kind interest on Series A Notes and Series B Notes | 12.7    | 16.1      |   |
| Amortization of deferred debt costs                        | 4.9     | 3.3       |   |
| Amortization of premiums and discounts on debt             | 20.1    | 4.2       |   |
| Equity based compensation expense                          | 9.1     | 4.0       |   |
| Deferred income tax benefit                                | (1.1    | ) (0.8    | ) |
| Gains on property disposals, net                           | (6.3    | ) (3.2    | ) |
| Gain on extinguishment of debt                             | (11.2   | ) —       | ) |
| Other noncash items, net                                   | (3.7    | ) (1.1    | ) |
| Changes in assets and liabilities, net:                    |         |           |   |
| Accounts receivable                                        | (95.5   | ) (65.5   | ) |
| Accounts payable                                           | 22.3    | 5.5       |   |
| Other operating assets                                     | (15.8   | ) 0.4     |   |
| Other operating liabilities                                | 2.0     | (28.6     | ) |
| Net cash used in operating activities                      | (55.6   | ) (18.2   | ) |
| Investing Activities:                                      |         |           |   |
| Acquisition of property and equipment                      | (24.7   | ) (39.1   | ) |
| Proceeds from disposal of property and equipment           | 7.3     | 4.2       |   |
| Restricted escrow (deposits) receipts, net                 | (37.5   | ) 12.8    |   |
| Other, net                                                 | 5.3     | 1.8       |   |
| Net cash used in investing activities                      | (49.6   | ) (20.3   | ) |
| Financing Activities:                                      |         |           |   |
| Issuance of long-term debt                                 | 693.0   | 0.3       |   |
| Repayments of long-term debt                               | (795.7  | ) (4.6    | ) |
| Debt issuance costs                                        | (27.4   | ) —       |   |
| Equity issuance costs                                      | (17.1   | ) —       |   |
| Equity issuance proceeds                                   | 250.0   | —         |   |
| Net cash (used in) provided by financing activities        | 102.8   | (4.3      | ) |
| Net Decrease In Cash and Cash Equivalents                  | (2.4    | ) (42.8   | ) |
| Cash and Cash Equivalents, Beginning of Period             | 176.3   | 208.7     |   |
| Cash and Cash Equivalents, End of Period                   | \$173.9 | \$165.9   |   |
| Supplemental Cash Flow Information:                        |         |           |   |
| Interest paid                                              | \$(67.7 | ) \$(57.2 | ) |
| Income tax refund, net                                     | \$9.9   | \$11.8    |   |

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 Six Months Ended June 30, 2014

(Amounts in millions)

(Unaudited)

|                                                                          |            |   |
|--------------------------------------------------------------------------|------------|---|
| Preferred Stock:                                                         |            |   |
| Beginning balance                                                        | \$—        |   |
| Issuance of preferred stock                                              | 0.6        |   |
| Conversion of preferred shares to common shares                          | (0.6       | ) |
| Ending balance                                                           | \$—        |   |
| Common Stock:                                                            |            |   |
| Beginning balance                                                        | \$0.1      |   |
| Issuance of common stock                                                 | 0.1        |   |
| Issuance of common stock upon conversion of Series B Notes               | 0.1        |   |
| Ending balance                                                           | \$0.3      |   |
| Capital Surplus:                                                         |            |   |
| Beginning balance                                                        | \$1,964.4  |   |
| Issuance of equity, net                                                  | 249.3      |   |
| Conversion of preferred shares to common shares                          | 0.6        |   |
| Beneficial conversion feature on preferred stock                         | 18.1       |   |
| Share-based compensation                                                 | 7.9        |   |
| Issuance of equity upon conversion and exchange of Series B Notes        | 64.7       |   |
| Equity issuance costs                                                    | (17.1      | ) |
| Ending balance                                                           | \$2,287.9  |   |
| Accumulated Deficit:                                                     |            |   |
| Beginning balance                                                        | \$(2,154.2 | ) |
| Amortization of beneficial conversion feature on preferred stock         | (18.1      | ) |
| Net loss                                                                 | (75.1      | ) |
| Ending balance                                                           | \$(2,247.4 | ) |
| Accumulated Other Comprehensive Loss:                                    |            |   |
| Beginning balance                                                        | \$(315.0   | ) |
| Reclassification of net pension actuarial losses to net loss, net of tax | 3.9        |   |
| Foreign currency translation adjustments                                 | 0.6        |   |
| Ending balance                                                           | \$(310.5   | ) |
| Treasury Stock, At Cost:                                                 |            |   |
| Beginning and ending balance                                             | \$(92.7    | ) |
| Total Shareholders' Deficit                                              | \$(362.4   | ) |
| 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, 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 LTL 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 reporting segment includes our LTL subsidiary YRC Inc. (our YRC Freight operations in the United States) 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 June 30, 2014, approximately 78% of our labor force is subject to collective bargaining agreements, which predominantly expire in March 2019.

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. We report on a calendar year basis. The quarters of the Regional Transportation companies (with the exception of New Penn) consist of thirteen weeks that end on a Saturday either before or after the end of March, June and September, whereas all other operating segment quarters end on the natural calendar quarter end. Our investment in our non-majority owned affiliate is 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, 2013.

#### 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,

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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.

At June 30, 2014 and December 31, 2013, the net book value of assets held for sale was \$16.7 million and \$17.2 million, respectively. This amount is included in “Property and Equipment” in the accompanying consolidated balance sheets. We recorded charges of \$1.0 million and \$1.6 million for the three and six months ended June 30, 2014, respectively, and \$2.0 million and \$2.6 million for the three and six months ended June 30, 2013, 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 June 30, 2014:

| (in millions)                             | Total Carrying Value | Fair Value Measurement Hierarchy         |                                               |                                           |
|-------------------------------------------|----------------------|------------------------------------------|-----------------------------------------------|-------------------------------------------|
|                                           |                      | Quoted prices in active market (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Restricted amounts held in escrow-current | \$128.3              | \$128.3                                  | \$—                                           | \$—                                       |

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 six months ended June 30, 2014, we reclassified the amortization of our net pension loss totaling \$1.9 million and \$3.9 million, respectively, net of tax, from accumulated other comprehensive loss to net loss. For the three and six months ended June 30, 2013, we reclassified the amortization of our net pension loss totaling \$3.7 million and \$7.4 million, respectively, net of tax, from accumulated other comprehensive loss to net loss. This reclassification is a component of net periodic pension cost and is discussed in the “Employees’ Benefits” footnote.

## Impact of Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board (FASB) issued new authoritative literature, Revenue from Contracts with Customers. The issuance is part of a joint effort by the FASB and the International Accounting Standards Board (IASB) to enhance financial reporting by creating common revenue recognition guidance for U.S. GAAP and, thereby, improving the consistency of requirements, comparability of practices and usefulness of disclosures. The new standard will supersede much of the existing authoritative literature for revenue recognition. The standard and related amendments will be effective for the Company for its annual reporting period ending December 31, 2017, including interim periods within that reporting period. Early application is not permitted. Entities are allowed to transition to the new standard by either recasting prior periods or recognizing the cumulative effect. While we do not believe the newly issued guidance will have a significant impact on our Consolidated Financial Statements, the Company is currently evaluating the newly issued guidance, including which transition approach will be applied.

## 3. 2014 Financing Transactions

On January 31, 2014, we issued 14,333,334 shares of our Common Stock and 583,334 shares of our Convertible Preferred Stock pursuant to certain stock purchase agreements, dated as of December 22, 2013 (the “Stock Purchase Agreements”), for an aggregate \$250.0 million in cash. We used the proceeds from these transactions to, among other things, (i) repay our 6% Convertible Senior Notes (“6% Notes”) at their maturity on February 15, 2014 and (ii) repurchase \$90.9 million of our Series A Convertible Senior Secured Notes (“Series A Notes”). The Company will redeem the remaining Series A Notes on August 5, 2014. In February 2014, the Company deposited \$89.6 million with the trustee in order to fund the redemption (including accrued interest), and thereby discharged the indenture governing the Series A Notes.

Also on January 31, 2014, certain holders of our 10% Series B Convertible Senior Secured Notes (“Series B Notes”) exchanged their outstanding balances at a conversion price of \$15.00 per share, while another holder converted its Series B Notes in accordance

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with their terms. We also amended the indenture governing our Series B Notes to eliminate substantially all of the restrictive covenants, certain events of default and other related provisions contained in the indenture and to release and discharge the liens on the collateral securing the Series B Notes.

Effective January 31, 2014, certain of our subsidiaries, various pension funds party thereto, and Wilmington Trust Company, as agent for such pension funds, entered into the Second Amended and Restated Contribution Deferral Agreement (“Second A&R CDA”), which, among other things (i) amended and restated the Amended and Restated Contribution Deferral Agreement (“A&R CDA”), (ii) released the agent’s security interest in third priority collateral on the Collateral Release Date, (iii) limited the value of obligations secured by the collateral to the Secured Obligations and (iv) extended the maturity of deferred pension payments and deferred interest from March 31, 2015 to December 31, 2019.

On February 13, 2014, we replaced our existing credit facilities with a new \$450 million asset-based loan (the “New ABL Facility”) and a new \$700 million term loan facility (“New Term Loan”). The New ABL Facility supports our outstanding letters of credit commitments.

We refer to transactions described above collectively as the “2014 Financing Transactions.” The table below summarizes the cash flow activity for the 2014 Financing Transactions:

| Cash Sources (in millions)                                                   |            | Cash Uses (in millions)                                                 |            |
|------------------------------------------------------------------------------|------------|-------------------------------------------------------------------------|------------|
| New Term Loan                                                                | \$ 700.0   | Extinguish Prior ABL Facility (includes accrued interest)               | \$ 326.0   |
| Proceeds from sale of common stock                                           | 215.0      | Extinguish Prior Term Loan (includes accrued interest)                  | 299.7      |
| Proceeds from sale of convertible preferred stock                            | 35.0       | Retire 6% Notes                                                         | 71.5       |
| Cash proceeds from restricted amounts held in escrow - existing ABL facility | 90.0       | Repurchase Series A Notes (includes accrued interest)                   | 93.9       |
| New ABL Facility                                                             | —          | Redeem Series A Notes (on August 5, 2014 and includes accrued interest) | 89.6       |
|                                                                              |            | Fees, Expenses and Original Issuance Discount                           | 50.8       |
|                                                                              |            | Restricted Cash to Balance Sheet <sup>(a)</sup>                         | 92.0       |
|                                                                              |            | Cash to Balance Sheet                                                   | 16.5       |
| Total sources                                                                | \$ 1,040.0 | Total uses                                                              | \$ 1,040.0 |

(a) Under the terms of the New ABL facility, this amount was classified as “restricted cash” in the consolidated balance sheet at the closing date of the New ABL Facility.

The table below summarizes the non-cash activity for the 2014 Financing Transactions:

| Non-Cash Sources (in millions)                        |          | Non-Cash Uses (in millions)                           |          |
|-------------------------------------------------------|----------|-------------------------------------------------------|----------|
| Secured Second A&R CDA                                | \$ 51.0  | A&R CDA                                               | \$ 124.2 |
| Unsecured Second A&R CDA                              | 73.2     | Exchange/conversion of Series B Notes to common stock | 50.6     |
| Exchange/conversion of Series B Notes to common stock | 50.6     |                                                       |          |
| Total sources                                         | \$ 174.8 | Total uses                                            | \$ 174.8 |



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We accounted for the A&R CDA maturity extension as a debt modification and the remaining transactions as extinguishment of debt and issuance of new debt. We recorded a gain on extinguishment of debt of \$11.2 million associated with this transaction during the six months ended June 30, 2014, \$16.3 million of which related to the acceleration of net premiums on our old debt, partially offset by \$5.1 million of additional expense related to the fair value of the incremental shares provided to those Series B Note holders who exchanged their outstanding balances at a conversion price of \$15.00 per share. We recorded, in “interest expense” on the statements of consolidated comprehensive loss, \$8.0 million of make-whole interest related to the Series B Notes exchanged during the six months ended June 30, 2014. We paid \$43.8 million of fees associated with these transactions of which \$26.7 million was recorded as unamortized deferred debt costs in “other assets” in the consolidated balance sheet and will be recognized as interest expense over the term of the New Term Loan and New ABL Facility and \$17.1 million offset the equity proceeds of our stock purchase agreements.

On March 14, 2014, the Company held a special meeting of stockholders at which our stockholders approved amending our Certificate of Incorporation to increase the number of authorized shares of Common Stock and to allow an individual investor to own more than 19.99% of outstanding Common Stock. Upon approval of these amendments, each outstanding share of Convertible Preferred Stock automatically converted into four shares of Common Stock and the Company recorded \$18.1 million related to the amortization of the beneficial conversion feature on preferred stock on the statements of consolidated comprehensive loss.

### **\$700 Million First Lien Term Loan**

On February 13, 2014, we borrowed in full \$700 million, less a 1% discount, from a syndicate of banks and other financial institutions arranged by Credit Suisse Securities (USA) and RBS Citizens, N.A. No amounts under this New Term Loan, once repaid, may be reborrowed. Certain material provisions of the New Term Loan are summarized below:

- **Maturity and Amortization:** The New Term Loan matures on February 13, 2019. The New Term Loan will amortize in equal quarterly installments in an aggregate annual amount equal to 1% of the original principal amount of the New Term Loan.
- **Incremental:** Subject to finding current or new lenders willing to provide such commitments, the Company has the right to incur one or more increases to the New Term Loan and/or one or more new tranches of term loans (which may be unsecured or secured on a junior basis) to be made available under the New Term Loan credit agreement which shall not exceed (i) \$250 million so long as the senior secured leverage ratio on a pro forma basis (defined as consolidated total debt that is secured by a lien as of such date over Consolidated EBITDA as of the twelve months ended the most recent fiscal quarter end for which financial statements are available) does not exceed 3.25 to 1.0, plus (ii) all voluntary prepayments of the New Term Loan.
- **Interest and Fees:** The New Term Loan bears interest, at the election of the borrower, at either the applicable London interbank offer rate (“LIBOR”) (subject to a floor of 1.00%) plus a margin of 7.00% per annum, or a rate determined by reference to the alternate base rate (the greater of the prime rate established by the administrative agent, the federal fund rate plus 0.50% and one month, LIBOR plus 1.00%) plus a margin of 6.00%.
- **Guarantors:** The obligations of the borrower under the New Term Loan are unconditionally guaranteed by certain wholly owned domestic restricted subsidiaries of the Company (the “Term Guarantors”).
- **Collateral:** The New Term Loan is secured by a perfected first priority security interest in (subject to permitted liens) substantially all assets of the Company and the guarantors under the New Term Loan (the “Term Guarantors”), except that accounts receivable, cash, deposit accounts and other assets related to accounts receivable are subject to a second priority interest (subject to permitted liens) and certain owned real property securing the obligations under the Second A&R CDA filed January 31, 2014, do not secure the obligations under the New Term Loan credit agreement (the



“CDA Collateral”).

- Mandatory Prepayments: The New Term Loan includes the following mandatory prepayments:

50% of excess cash flow (paid if permitted under the New ABL Facility), subject to step downs to (x) 25% if the total leverage ratio is less than or equal to 3.50 to 1.00 but greater than 3.00 to 1.00 and (y) 0% if the total leverage ratio is less than or equal to 3.00 to 1.00;

- 100% of the net cash proceeds of all asset sales or similar dispositions outside of the ordinary course of business and casualty events (subject to materiality thresholds and customary reinvestment rights);
- 100% of cash proceeds from debt issuances that are not permitted by the New Term Loan documentation.

- Events of Default: The New Term Loan documentation contains certain customary events of default, including but not limited to the failure to make payments due under the New Term Loan, breach of and failure to cure the breach of certain covenants, the entry of a final unpaid judgment against any of the Term Guarantors in excess of \$30 million, the commencement of certain

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insolvency proceedings, liquidations or dissolutions, a cross-default to certain other indebtedness with an outstanding aggregate principal balance of at least \$30 million (other than the New ABL Facility), and cross-acceleration to the New ABL Facility.

- Covenants: The New Term Loan contains certain customary affirmative and negative covenants, including, among others, covenants restricting the incurrences of debt, liens, the making of investments and repurchases, transactions with affiliates, fundamental changes and asset sales, and prepayments of junior debt. In addition, refer to the “Liquidity” footnote for financial covenants for each of the remaining test periods.

**\$450 Million ABL Facility**

On February 13, 2014, we entered into the New ABL Facility which is an asset-based \$450 million loan facility from a syndicate of banks arranged by RBS Citizens, N.A., Merrill Lynch, Pierce, Fenner & Smith and CIT Finance LLC. The New ABL Facility terminates on February 13, 2019. The Company, YRC Inc., USF Reddaway Inc., USF Holland Inc. and New Penn Motor Express, Inc. are borrowers under the New ABL Facility, and certain of the Company’s domestic subsidiaries are guarantors thereunder. Certain material provisions of the New ABL Facility are summarized below and are qualified in their entirety by reference to the definitive documentation:

- Availability: The aggregate amount available under the New ABL Facility cannot be more than (a) the collateral line cap minus (b) the facility exposure. The facility exposure refers to the aggregate amount of loans and letter of credit outstanding (with an exclusion for certain fees and other amounts owing for letters of credit). The collateral line cap refers to a limit equal to the greater of (a) the commitments by lenders under the facility and (b) the borrowing base.

The borrowing base equals the sum of (a) 85% of the sum of (i) Eligible Accounts (as defined in the New ABL Facility) minus without duplication (ii) the Dilution Reserve (as defined in the New ABL Facility relating to reserves for eligible accounts experiencing bad debt write-downs, discounts, allowances and similar dilutive items), plus (b) 100% of Eligible Borrowing Base Cash (as defined in the New ABL Facility and described further below), minus (c) the Deferred Revenue Reserve (as defined in the New ABL Facility which constitutes 85% of the “deferred revenue liability” as reflected on the balance sheet of the Company and its restricted subsidiaries as of the last day of the most recently completed fiscal month), minus (d) the Availability Reserve (as defined in the New ABL Facility) imposed by the agent in its permitted discretion (made in good-faith and using reasonable business judgment) to reduce the amount of the borrowing base in light of pre-determined criteria set forth in the New ABL Facility.

- Eligible Borrowing Base Cash: The eligible borrowing base cash is cash that is deposited from time to time into a segregated restricted account maintained at the agent over which the agent has dominion. Such cash can only be withdrawn by us from the account if (i) no event of default exists or would arise as a result of the borrowing base cash release and (ii) availability as of the proposed date of such borrowing base cash release is not less than 15% of the collateral line cap. Eligible borrowing base cash is included in ‘Restricted amounts held in escrow’ in the accompanying consolidated balance sheet.

- Interest: Revolving loans made under the New ABL Facility bear interest, at the Company’s election, of either the applicable LIBOR rate plus 2.5% or the base rate (the greater of the prime rate established by the agent, the federal funds effective rate plus 0.50% and one month LIBOR plus 1.00%). Thereafter, the interest rates will be subject to the following price grid based on the average quarterly excess availability under the revolver:

| Level | Average Quarterly<br>Excess Capacity | Base Rate<br>Plus | LIBOR<br>Plus |
|-------|--------------------------------------|-------------------|---------------|
| I     | > \$140,000,000                      | 1.00%             | 2.00%         |
| II    | > \$70,000,000<br>< \$140,000,000    | 1.25%             | 2.25%         |
| III   | < \$70,000,000                       | 1.50%             | 2.50%         |

The rates set forth above are subject to a 0.25% reduction during any fiscal quarter for which the Company has a total leverage ratio of less than 2.50 to 1.00. We have not drawn on the facility at any time during the three and six months ended June 30, 2014.

- Letter of Credit Fees: The New ABL Facility has certain specific fees relating to letters of credit which include: (i) fees payable quarterly in arrears equal to the applicable margin in effect for LIBOR loans (which is listed in the

“Interest” description immediately above) multiplied by the average daily stated amount of letters of credit (2.5% for the quarter ended June 30,2014); (ii) fronting fees for letters of credit payable quarterly in arrears equal to 0.125% of the stated amount of the letters of credit; and (iii) fees to issuing banks to compensate for customary charges related to the issuance and administration of letters of credit.

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- Other Fees: Other fees in respect of the New ABL Facility include: (i) an unused line fee payable quarterly in arrears calculated by multiplying the amount by which the commitments exceed the loans and letters of credit for any calendar quarter by the unused line fee percentage (such unused line fee percentage initially to 0.25% per annum through March 31, 2014, and thereafter 0.375% per annum if the average revolver usage is less than 50% or 0.25% per annum if the average revolver usage is greater than 50%); and (ii) such fees as set forth in the fee letter arrangement dated as of February 13, 2014 by and between the agent and the Company.
- Collateral: The obligations under the New ABL Facility are secured by a perfected first priority security interest in (subject to permitted liens) all accounts receivable, cash, deposit accounts and other assets related to accounts receivable of the Company and the other loan parties and an additional second priority security interest in (subject to permitted liens) substantially all remaining assets of the borrowers and the guarantors other than CDA Collateral.
- Incremental: The New ABL Facility provides for a \$100 million uncommitted accordion to increase the revolving commitment in the future to support borrowing base growth.
- Events of Default: The New ABL Facility contains certain customary events of default, including but not limited to the failure to make payments due under the New ABL Facility, breach of and failure to cure the breach of certain covenants, the entry of a final unpaid judgment against any of the New ABL Facility loan parties in excess of \$30 million, the commencement of any insolvency proceeding, liquidation or dissolution, and a cross-default to certain other indebtedness with an outstanding aggregate principal balance of at least \$30 million (including the New Term Loan).
- Covenants: The New ABL Facility contains certain customary affirmative and negative covenants (including certain customary provisions regarding borrowing base reporting, and including, among others, covenants restricting the incurrences of debt, liens, the making of investments and repurchases, transactions with affiliates, fundamental changes and asset sales, and prepayments of junior debt). Certain of the covenants relating to investments, restricted payments and capital expenditures are relaxed upon meeting specified payment conditions or debt repayment conditions, as applicable. Payment conditions include (i) the absence of an event of default arising from such transaction, (ii) liquidity of at least \$100 million or availability of at least \$67.5 million and (iii) the Consolidated Fixed Charge Coverage Ratio (as defined below) for the most recent term period on a pro forma basis is equal to or greater than 1.10 to 1.00. Debt repayment conditions include (i) the absence of an event of default from repaying such debt and (ii) availability on the date of repayment is not less than \$67.5 million. During any period commencing when the New ABL Facility borrowers fail to maintain availability in an amount at least equal to 10% of the collateral line cap and until the borrowers have maintained availability of at least 10% of the collateral line cap for 30 consecutive calendar days, the New ABL Facility loan parties are required to maintain a Consolidated Fixed Charge Coverage Ratio (as defined below) of at least 1.10 to 1.00. The “Consolidated Fixed Charge Coverage Ratio” is defined as (a) (i) Consolidated EBITDA (as defined in the New ABL Facility) calculated on a pro forma basis for such period, minus (ii) Capital Expenditures (as defined in the New ABL Facility) made during such period, minus (iii) the aggregate amount of net cash taxes paid in cash during such period, minus (iv) the amount, if any, by which the cash pension contribution for such period exceeds the pension expense for such period, and plus (v) the amount, if any, by which the pension expense for such period exceeds the cash pension contribution for such period, divided by (b) the Consolidated Fixed Charges (as defined in the New ABL Facility) for such period. In addition, refer to the “Liquidity” footnote for covenants for each of the remaining test periods.

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## 4. Debt and Financing

Our outstanding debt as of June 30, 2014 and December 31, 2013 consisted of the following:

| As of June 30, 2014 (in millions)                 | Par Value | Discount | Book Value  | Stated Interest Rate | Effective Interest Rate |
|---------------------------------------------------|-----------|----------|-------------|----------------------|-------------------------|
| New Term Loan                                     | \$696.5   | \$(6.5)  | ) \$690.0   | 8.0                  | % 8.2 %                 |
| New ABL Facility <sup>(a)</sup>                   | —         | —        | —           | NA                   | NA                      |
| Series A Notes                                    | 88.8      | (5.4)    | ) 83.4      | 10.0                 | % 18.3 %                |
| Series B Notes                                    | 16.9      | (1.8)    | ) 15.1      | 10.0                 | % 25.6 %                |
| Secured Second A&R CDA                            | 47.8      | —        | 47.8        | 3.3-18.3%            | 7.3 %                   |
| Unsecured Second A&R CDA                          | 73.2      | —        | 73.2        | 3.3-18.3%            | 7.3 %                   |
| Lease financing obligations                       | 285.5     | —        | 285.5       | 10.0-18.2%           | 11.9 %                  |
| Other                                             | 0.2       | —        | 0.2         |                      |                         |
| Total debt                                        | \$1,208.9 | \$(13.7) | ) \$1,195.2 |                      |                         |
| Current maturities of New Term Loan               | (7.0)     | ) —      | (7.0)       | )                    |                         |
| Current maturities of Series A Notes              | (88.8)    | ) 5.4    | (83.4)      | )                    |                         |
| Current maturities of Series B Notes              | (16.9)    | ) 1.8    | (15.1)      | )                    |                         |
| Current maturities of lease financing obligations | (6.1)     | ) —      | (6.1)       | )                    |                         |
| Current maturities of other                       | (0.2)     | ) —      | (0.2)       | )                    |                         |
| Long-term debt                                    | \$1,089.9 | \$(6.5)  | ) \$1,083.4 |                      |                         |

As of June 30, 2014, the borrowing base and availability on our New ABL Facility were \$446.8 million and \$79.3 million, respectively. The availability is calculated in accordance with the terms of the New ABL Facility and is derived by reducing the borrowing base by our \$367.5 million of outstanding letters of credit as of June 30, 2014. <sup>(a)</sup> The amount which is actually able to be drawn is limited by certain financial covenants in the New ABL Facility to \$35.5 million. In comparison, the borrowing base, availability and amount able to be drawn as of March 31, 2014 were \$450.0 million, \$82.5 million and \$42.7 million, respectively.

| As of December 31, 2013 (in millions)                                           | Par Value | Premium/ (Discount) | Book Value | Stated Interest Rate | Effective Interest Rate |
|---------------------------------------------------------------------------------|-----------|---------------------|------------|----------------------|-------------------------|
| Restructured Term Loan                                                          | \$298.1   | \$37.7              | \$335.8    | 10.0                 | % — %                   |
| Term A Facility (capacity \$175.0, borrowing base \$156.5, availability \$51.5) | 105.0     | (2.1)               | ) 102.9    | 8.5                  | % 15.8 %                |
| Term B Facility (capacity \$219.9, borrowing base \$219.9, availability \$0.0)  | 219.9     | (3.9)               | ) 216.0    | 11.25                | % 15.0 %                |
| Series A Notes                                                                  | 177.8     | (17.8)              | ) 160.0    | 10.0                 | % 18.3 %                |
| Series B Notes                                                                  | 69.2      | (10.5)              | ) 58.7     | 10.0                 | % 25.6 %                |
| 6% Notes                                                                        | 69.4      | (1.1)               | ) 68.3     | 6.0                  | % 15.5 %                |
| A&R CDA                                                                         | 124.2     | (0.2)               | ) 124.0    | 3.25-18.3%           | 7.3 %                   |
| Lease financing obligations                                                     | 297.5     | —                   | 297.5      | 10.0-18.2%           | 11.9 %                  |
| Other                                                                           | 0.2       | —                   | 0.2        |                      |                         |
| Total debt                                                                      | \$1,361.3 | \$2.1               | \$1,363.4  |                      |                         |
| Current maturities of lease financing obligations                               | (8.4)     | ) —                 | (8.4)      | )                    |                         |
| Current maturities of other                                                     | (0.2)     | ) —                 | (0.2)      | )                    |                         |
| Long-term debt                                                                  | \$1,352.7 | \$2.1               | \$1,354.8  |                      |                         |

## Conversions

Our 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 discussed in the “2014 Financing Transactions” footnote, in February 2014, the Company deposited \$89.6 million with the trustee in order to fund the redemption of our outstanding Series A Notes on August 5, 2014.

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Our 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 June 30, 2014, the effective conversion price and conversion rate for our Series B Notes (after taking into account the make whole premium) was \$16.8103 and 59.4873 common shares per \$1,000 of Series B Notes, respectively.

As of June 30, 2014, there was \$16.9 million in aggregate principal amount of Series B Notes outstanding that are convertible into approximately 981,000 shares of our common stock (after taking into account the make whole premium). As discussed in the “2014 Financing Transactions” footnote, on January 31, 2014, certain holders of our Series B Notes exchanged their outstanding notes as part of an exchange agreement. Outside of these exchange agreements, during the six months ended June 30, 2014 and 2013, \$1.2 million and \$16.7 million of aggregate principal amount of Series B Notes were converted into 75,900 and 1.1 million shares of our common stock, which includes the make whole premium. Upon conversion, during the six months ended June 30, 2014, we recorded \$0.4 million of additional interest expense representing the \$0.2 million make whole premium and \$0.2 million of accelerated amortization of the discount on converted Series B Notes. There were no conversions during the three months ended June 30, 2014. During the three months ended June 30, 2013, we recorded \$5.6 million of additional interest expense representing the \$2.3 million make whole premium and \$3.3 million of accelerated amortization of the discount on converted Series B Notes. During the six months ended June 30, 2013, we recorded \$9.0 million of additional interest expense representing the \$3.9 million make whole premium and \$5.1 million of accelerated amortization of the discount on converted Series B Notes. There were no Series B Note conversions from June 30, 2014 through July 25, 2014.

## 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:

| (in millions)                     | June 30, 2014   |            | December 31, 2013 |            |
|-----------------------------------|-----------------|------------|-------------------|------------|
|                                   | Carrying amount | Fair Value | Carrying amount   | Fair Value |
| New Term Loan                     | \$690.0         | \$708.4    | \$—               | \$—        |
| Restructured Term Loan            | —               | —          | 335.8             | 289.2      |
| ABL Facility                      | —               | —          | 318.9             | 326.1      |
| Series A Notes and Series B Notes | 98.5            | 105.7      | 218.7             | 225.8      |
| Lease financing obligations       | 285.5           | 287.8      | 297.5             | 297.5      |
| Other                             | 121.2           | 123.3      | 192.5             | 179.8      |
| Total debt                        | \$1,195.2       | \$1,225.2  | \$1,363.4         | \$1,318.4  |

The fair values of the New Term Loan, New ABL Facility, Restructured Term Loan, ABL Facility, Series A Notes, Series B Notes, 6% Notes (included in “Other” above) Secured and Unsecured A&R CDA (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 fair value of the lease financing obligations is estimated using a publicly traded secured loan with similar characteristics (level three input for fair value measurement).

## 5. Liquidity

For a description of our outstanding debt as of June 30, 2014, please refer to the “Debt and Financing” footnote in our Consolidated Financial Statements.





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## Credit Facility Covenants

On February 13, 2014, we completed our 2014 Financing Transactions and refinanced the debt associated with our prior credit facilities. We entered into a New Term Loan credit agreement with new financial covenants that, among other things, restricts certain capital expenditures and requires us to maintain a maximum total leverage ratio (defined as Consolidated Total Debt divided by Consolidated Adjusted EBITDA as defined below) for future test periods as follows:

| Four Consecutive Fiscal Quarters<br>Ending | Maximum Total<br>Leverage Ratio | Four Consecutive Fiscal Quarters<br>Ending | Maximum Total<br>Leverage Ratio |
|--------------------------------------------|---------------------------------|--------------------------------------------|---------------------------------|
| June 30, 2014                              | 6.00 to 1.00                    | June 30, 2016                              | 3.50 to 1.00                    |
| September 30, 2014                         | 5.00 to 1.00                    | September 30, 2016                         | 3.50 to 1.00                    |
| December 31, 2014                          | 4.50 to 1.00                    | December 31, 2016                          | 3.25 to 1.00                    |
| March 31, 2015                             | 4.00 to 1.00                    | March 31, 2017                             | 3.25 to 1.00                    |
| June 30, 2015                              | 3.75 to 1.00                    | June 30, 2017                              | 3.25 to 1.00                    |
| September 30, 2015                         | 3.75 to 1.00                    | September 30, 2017                         | 3.25 to 1.00                    |
| December 31, 2015                          | 3.75 to 1.00                    | December 31, 2017 and thereafter           | 3.00 to 1.00                    |
| March 31, 2016                             | 3.50 to 1.00                    |                                            |                                 |

Consolidated Adjusted EBITDA, as defined in our New Term Loan credit agreement, is a measure that reflects our earnings before interest, taxes, depreciation, and amortization expense, and is further adjusted for, among other things, letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including restructuring professional fees, expenses associated with certain lump sum payments to our IBT employees and the results of permitted dispositions and discontinued operations. Consolidated Total Debt, as defined in our New Term Loan credit agreement, is the aggregate principal amount of indebtedness outstanding excluding our fully discharged Series A Notes. Our total leverage ratio for the four consecutive fiscal quarters ending June 30, 2014 was 5.42 to 1.00.

In order for us to maintain compliance with the maximum total leverage ratio over the term of the agreement, we must achieve operating results which reflect continuing improvements over our second quarter 2014 results. While we presently expect that our results of operations will be sufficient to allow us to comply with the covenants in our new credit agreement, fund our operations, increase working capital as necessary to support our planned revenue growth and fund capital expenditures for the next twelve months, our financial forecasts indicate our total leverage ratio will be closest to the maximum total leverage ratio in the third and fourth quarters of 2014. A significant departure from our financial forecasts would have an adverse impact on our ability to comply with our maximum total leverage ratio covenant.

Our ability to satisfy our liquidity needs and meet future stepped-up covenants is primarily dependent on improvement in YRC Freight's profitability. These profitability improvements primarily include continued successful implementation and realization of productivity and efficiency initiatives including those identified in the modified labor agreement and pricing improvements. Some of these improvements are outside of our control.

In the event our operating results indicate we may not meet our maximum total leverage ratio, we will take action to improve our maximum total leverage ratio which could include, among other actions, paying down our outstanding indebtedness with either cash on hand or from cash proceeds from equity issuances. Our ability to obtain proceeds from the issuance of equity is largely outside of our control and there can be no assurance that we will be able to issue additional equity at terms that are agreeable to us or that we would have sufficient cash on hand to meet the maximum total leverage ratio.

In the event that we fail to comply with any New Term Loan covenant or any New ABL Facility covenant, we would be considered in default, which would enable applicable lenders to accelerate the repayment of amounts outstanding, require the cash collateralization of letters of credit (in the case of the New ABL Facility) and exercise remedies with respect to collateral and we would need to seek an amendment or waiver from the applicable lender groups. In the event that our lenders under our New Term Loan or New ABL Facility demand payment or cash collateralization (in the case of the New ABL Facility), we will not have sufficient cash to repay such indebtedness. In addition, a default under our New Term Loan or New ABL Facility or the applicable lenders exercising their remedies thereunder would trigger cross-default provisions in our other indebtedness and certain other operating agreements. Our ability to amend our New Term Loan or our New ABL Facility or otherwise obtain waivers from the applicable lenders depends on matters that are outside of our control and there can be no assurance that we will be successful in that regard.

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### Risks and Uncertainties Regarding Future Liquidity

Our principal sources of liquidity are cash and cash equivalents, available borrowings under our New ABL facility and any prospective net operating cash flows from operations. As of June 30, 2014, we had cash and cash equivalents and availability under our New ABL facility totaling \$253.2 million, and cash and cash equivalents and amounts able to be drawn totaling \$209.4 million. The amount which is actually able to be drawn is limited by certain financial covenants in the New ABL facility. For comparison, as of March 31, 2014, we had cash and cash equivalents and availability of \$223.0 million, and cash and cash equivalents and amounts able to be drawn totaling \$183.2 million. For the six months ended June 30, 2014, we used net cash of \$55.6 million for our operating activities.

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.

On February 13, 2014, we also entered into the New ABL Facility credit agreement which, among other things, restricts certain capital expenditures and requires that the Company, in effect, maintain availability of at least 10% of the lesser of the aggregate amount of commitments from all lenders or the borrowing base.

We have a considerable amount of indebtedness. As of June 30, 2014, we had \$1,208.9 million in aggregate par value of outstanding indebtedness, the majority of which matures in 2019. 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 2014 for our single-employer pension plans and multi-employer pension funds will be \$49.4 million and \$46.1 million, respectively. In addition, we have, and will continue to have, substantial operating lease obligations. As of June 30, 2014, our minimum rental expense under operating leases for the remainder of the year is \$28.8 million. As of June 30, 2014, our operating lease obligations through 2025 totaled \$154.8 million and is expected to increase as we lease additional revenue equipment.

Our capital expenditures for the six months ended June 30, 2014 and 2013 were \$24.7 million and \$39.1 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 six months ended June 30, 2014, we entered into new operating leases for revenue equipment for \$7.0 million, payable over the average lease term of three years. In light of our operating results and liquidity needs, we have deferred certain capital expenditures and expect to continue to do so for the remainder of 2014. 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.

### 6. Employees' Benefits

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

| (in millions)                  | Three Months |        | Six Months |        |
|--------------------------------|--------------|--------|------------|--------|
|                                | 2014         | 2013   | 2014       | 2013   |
| Service cost                   | \$1.1        | \$1.0  | \$2.1      | \$2.1  |
| Interest cost                  | 15.2         | 14.1   | 30.4       | 28.1   |
| Expected return on plan assets | (13.4)       | (13.9) | (26.8)     | (27.8) |
| Amortization of net loss       | 3.2          | 3.7    | 6.4        | 7.4    |
| Total periodic pension cost    | \$6.1        | \$4.9  | \$12.1     | \$9.8  |

We expect to contribute \$79.9 million to our company-sponsored pension plans in 2014 of which we have contributed \$30.5 million through June 30, 2014.

#### 7. Income Taxes

Our effective tax rate for the three and six months ended June 30, 2014 was 61.7% and 13.8%, compared to 39.8% and 26.8%, for the three and six months ended June 30, 2013. The significant items impacting the 2014 rate include a net state and foreign tax provision, certain permanent items, an intraperiod tax allocation required by ASC 740, "Income Taxes", and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2014. We recognize valuation

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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 June 30, 2014 and December 31, 2013, substantially all of our net deferred tax assets were subject to a valuation allowance.

Concurrent with the financing transactions of January 31, 2014 described in the "2014 Financing Transactions" footnote, the Company experienced a change of ownership as described in Section 382 of the Internal Revenue Code. The impact of the 2014 ownership change on the Company's ability to utilize its Net Operating Loss carryforwards and other tax attributes is not expected to be material, as the carryforwards to which this ownership change would apply already have been significantly limited by previous ownership changes occurring in 2011 and 2013.

#### 8. Shareholders' Deficit

The following reflects the activity in the shares of our common stock for the six months ended June 30, 2014:

| (shares in thousands)                                                  | 2014   |
|------------------------------------------------------------------------|--------|
| Beginning balance                                                      | 10,173 |
| Conversion of preferred stock to common stock                          | 2,333  |
| Issuance of common stock                                               | 14,333 |
| Issuance of equity awards                                              | 312    |
| Issuance of common stock upon conversion or exchange of Series B Notes | 3,470  |
| Ending balance                                                         | 30,621 |

#### 9. Loss Per Share

Given our net loss position for the three and six months ended June 30, 2014 and June 30, 2013, there were no dilutive securities included in average common shares used in our calculation of diluted net loss per share.

Anti-dilutive options and share units were 671,500 and 835,900 at June 30, 2014 and 2013, respectively. Anti-dilutive Series A Note conversion shares were 2,612,000 and 4,979,000 at June 30, 2014 and 2013, respectively. Anti-dilutive Series B Note conversion shares, including the make whole premiums, were 981,500 and 5,037,000 at June 30, 2014 and 2013, respectively.

#### 10. 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 external revenue and operating income (loss).

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. (our YRC Freight operations in the United States) 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. 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.

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.

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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<br>Transportation | Corporate/<br>Eliminations | Consolidated |
|----------------------------------|-------------|----------------------------|----------------------------|--------------|
| As of June 30, 2014              |             |                            |                            |              |
| Identifiable assets              | \$1,545.5   | \$743.1                    | \$(109.1)                  | ) \$2,179.5  |
| As of December 31, 2013          |             |                            |                            |              |
| Identifiable assets              | \$1,513.4   | \$698.4                    | \$(146.9)                  | ) \$2,064.9  |
| Three Months Ended June 30, 2014 |             |                            |                            |              |
| External revenue                 | \$842.1     | \$475.5                    | \$—                        | \$1,317.6    |
| Operating income (loss)          | \$(0.3)     | ) \$23.2                   | \$(2.9)                    | ) \$20.0     |
| Six Months Ended June 30, 2014   |             |                            |                            |              |
| External revenue                 | \$1,598.9   | \$929.6                    | \$—                        | \$2,528.5    |
| Operating income (loss)          | \$(32.8)    | ) \$31.1                   | \$(10.7)                   | ) \$(12.4)   |
| Three Months Ended June 30, 2013 |             |                            |                            |              |
| External revenue                 | \$797.6     | \$444.9                    | \$—                        | \$1,242.5    |
| Operating income (loss)          | \$(8.5)     | ) \$25.2                   | \$(2.4)                    | ) \$14.3     |
| Six Months Ended June 30, 2013   |             |                            |                            |              |
| External revenue                 | \$1,551.4   | \$853.6                    | \$—                        | \$2,405.0    |
| Operating income (loss)          | \$(6.1)     | ) \$37.2                   | \$(6.9)                    | ) \$24.2     |

## 11. Commitments, Contingencies and Uncertainties

### Bryant Holdings Securities Litigation

On February 7, 2011, a putative class action was filed by Bryant Holdings LLC 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 settlement 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 June 30, 2014.

On August 19, 2013, the Court entered an Order denying plaintiffs’ Motion for Preliminary Approval of the Settlement. Plaintiffs filed an Amended Motion for Preliminary Approval and, on November 18, 2013, the Court denied that Motion. Each denial was based primarily on deficiencies that the Court perceived in the plan that plaintiffs proposed for allocation of the settlement proceeds among class members. Plaintiffs have revised the plan of allocation and, on February 18, 2014, filed a Second Amended Motion for Preliminary Approval.

### Other Legal Matters

We are involved in other litigation or proceedings that arise in ordinary business activities. When possible, 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.



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### Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

#### Cautionary Note Regarding Forward-Looking Statements

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included elsewhere in this report. MD&A and certain Notes to the Consolidated Financial Statements include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (“Exchange Act”). Forward-looking statements include those preceded by, followed by or characterized by words such as “will,” “expect,” “intend,” “anticipate,” “believe,” “project,” “forecast,” “plan,” “designed,” “estimate,” “enable” and similar expressions. Forward-looking statements are inherently uncertain and are subject to significant business, economic, competitive, regulatory and other risks, uncertainties and contingencies, known and unknown, many of which are beyond our control. Readers are cautioned not to place undue reliance on any forward-looking statements. Our future financial condition and results could differ materially from those predicted in such forward-looking statements because of a number of factors, including (without limitation):

- our ability to generate sufficient liquidity to satisfy our cash needs and future cash commitments, including (without limitation) our obligations related to our indebtedness and lease and pension funding requirements, and our ability to achieve increased cash flows through improvement in operations;
- the pace of recovery in the overall economy, including (without limitation) customer demand in the retail and manufacturing sectors;
- the success of our management team in implementing its strategic plan and operational and productivity improvements, including (without limitation) our continued ability to meet high on-time and quality delivery performance standards and our ability to increase volume and yield, and the impact of those improvements on our future liquidity and profitability;
- our ability to comply with scheduled increases in financial performance-related debt covenants;
- our ability to finance the maintenance, acquisition and replacement of revenue equipment and other necessary capital expenditures;
- our dependence on our information technology systems in our network operations and the production of accurate information, and the risk of system failure, inadequacy or security breach;
- changes in equity and debt markets;
- inclement weather;
- price of fuel;
- sudden changes in the cost of fuel or the index upon which we base our fuel surcharge and the effectiveness of our fuel surcharge program in protecting us against fuel price volatility;
- competition and competitive pressure on pricing;
- expense volatility, including (without limitation) volatility due to changes in purchased transportation service or pricing for purchased transportation;
- our ability to comply and the cost of compliance with federal, state, local and foreign laws and regulations, including (without limitation) laws and regulations for the protection of employee safety and health (including new hours-of-service regulations) and the environment;
- terrorist attack;
- labor relations, including (without limitation) our ability to attract and retain qualified drivers, the continued support of our union employees for our strategic plan, the impact of work rules, work stoppages, strikes or other disruptions, our obligations to multi-employer health, welfare and pension plans, wage requirements and employee satisfaction;
- the impact of claims and litigation to which we are or may become exposed; and
- other risks and contingencies, including (without limitation) the risk factors that are included in our reports filed with the SEC, including those described under “Risk Factors” in our annual report on Form 10-K and quarterly reports on Form 10-Q, including this quarterly report.



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### Overview

MD&A includes the following sections:

**Our Business** — a brief description of our business and a discussion of how we assess our operating results.

**Consolidated Results of Operations** — an analysis of our consolidated results of operations for the three and six months ended June 30, 2014 and 2013.

**Reporting Segment Results of Operations** — an analysis of our results of operations for the three and six months ended June 30, 2014 and 2013 for our YRC Freight and Regional Transportation reporting segments.

**Certain Non-GAAP Financial Measures** — an analysis of selected non-GAAP financial measures for the three and six months ended June 30, 2014 and 2013.

**Financial Condition/Liquidity and Capital Resources** — a discussion of our major sources and uses of cash and an analysis of our cash flows and aggregate contractual obligations and commercial commitments.

The “second quarter” and “first half” of the years discussed below refer to the three and six months ended June 30, respectively.

#### **Our Business**

We are a holding company that, through wholly owned operating subsidiaries and our interest in a Chinese joint venture, offers our 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 industry-leading expertise in LTL shipments and flexible supply chain solutions, ensuring customers can ship industrial, commercial and retail goods with confidence. We measure the performance of our business on both a consolidated basis and a reporting segment basis. We use several performance metrics, but rely primarily upon (without limitation) operating revenue, operating income (loss), and operating ratio. We also use certain non-GAAP financial measures as secondary measures to assess our operating performance.

**Operating Revenue:** Our operating revenue has two primary components: volume (commonly evaluated using number of shipments and weight per shipment) and yield or price (commonly evaluated on a dollar per hundred weight basis and a dollar per shipment basis). Yield includes fuel surcharge revenue, which is common in the trucking industry and represents an amount charged 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 our adjustment of base rates in response to changes in fuel surcharge. We believe that 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 numerous changes. We believe the distinction between base rates and fuel surcharge has blurred 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.

**Operating Income (Loss):** Operating income (loss) is our operating revenue less operating expenses. Our consolidated operating income (loss) includes certain corporate charges that are not allocated to our YRC Freight and Regional Transportation reporting segments.

**Operating Ratio:** Operating ratio is a common operating performance metric used in the trucking industry. It is calculated as (i) 100 percent (ii) minus the result of dividing operating income by operating revenue or (iii) plus the result of dividing operating loss by operating revenue, and expressed as a percentage.

**Non-GAAP Financial Measures:** We use certain non-GAAP financial measures to assess our performance. These include (without limitation) adjusted EBITDA and adjusted free cash flow (deficit):

Adjusted EBITDA: 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 restructuring professional fees, expenses associated with certain lump sum payments to our IBT employees and the results of permitted dispositions and

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discontinued operations as defined in our credit facilities. Adjusted EBITDA is used for internal management purposes as a financial measure that reflects our core operating performance and to measure compliance with financial covenants in our credit facilities.

Adjusted Free Cash Flow (Deficit): a non-GAAP measure that reflects our net cash provided by (used in) operating activities minus gross capital expenditures and excludes restructuring professional fees included in operating cash flow.

Our non-GAAP financial measures have the following limitations:

Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to fund restructuring professional fees, letter of credit fees, service interest, principal payments on our outstanding debt or lump sum payments to our IBT employees required under the modified labor agreement;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and adjusted EBITDA does not reflect any cash requirements for such replacements; Equity-based compensation is an element of our long-term incentive compensation package, although adjusted EBITDA excludes employee equity-based compensation expense when presenting our ongoing operating performance for a particular period;

Adjusted free cash flow (deficit) excludes the cash usage by our restructuring professional fees, debt issuance costs, equity issuance costs and principal payments on our outstanding debt and the resulting reduction in our liquidity position from those cash outflows; and

Other companies in our industry may calculate adjusted EBITDA and adjusted free cash flow (deficit) differently than we do, potentially limiting their usefulness as comparative measures.

Because of these limitations, our non-GAAP measures should not be considered a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and use our non-GAAP measures as secondary measures.

## Consolidated Results of Operations

Our consolidated results include the consolidated results of our YRC Freight and Regional Transportation reporting segments as well as any unallocated corporate charges. A more detailed discussion of the operating results of our segments is presented in the “Reporting Segment Results of Operations” section below.

The table below provides summary consolidated financial information for the second quarter and first half of 2014 and 2013:

| (in millions)              | Second Quarter |           |                | First Half |           |                |  |
|----------------------------|----------------|-----------|----------------|------------|-----------|----------------|--|
|                            | 2014           | 2013      | Percent Change | 2014       | 2013      | Percent Change |  |
| Operating revenue          | \$1,317.6      | \$1,242.5 | 6.0 %          | \$2,528.5  | \$2,405.0 | 5.1 %          |  |
| Operating income (loss)    | \$20.0         | \$14.3    | 39.9 %         | \$(12.4)   | \$24.2    | NM*            |  |
| Nonoperating expenses, net | \$32.8         | \$39.4    | (16.8)%        | \$74.7     | \$78.3    | (4.6)%         |  |
| Net loss                   | \$(4.9)        | \$(15.1)  | 67.5 %         | \$(75.1)   | \$(39.6)  | (89.6)%        |  |

\*Not meaningful

## Second Quarter of 2014 Compared to the Second Quarter of 2013

Our consolidated operating revenue increased 6.0% during the second quarter of 2014 compared to the same period in 2013. The increase in revenue is primarily attributable to higher total shipments over the comparable prior year period due to the improvement of the overall economic environment as well as increased shipper confidence due to the finalization of our 2014 Financing Transactions and modified labor agreement.

Operating expenses for the second quarter of 2014 increased \$69.4 million, or 5.7% compared to the same period in 2013. The increase in operating expenses was driven by increased costs associated with higher total shipments and improving our service. These resulted in a \$34.1 million, or 27.1%, increase in purchased transportation and a \$23.2 million, or 3.2%, increase in salaries, wages and employees' benefits. We also experienced a \$16.2 million, or 29.8%, increase in other operating expenses.

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The \$34.1 million increase in purchased transportation was primarily driven by increased total shipments and the use of additional high cost purchased rail and local cartage transportation to balance our networks. We also experienced an increase in purchased road miles as we began to utilize our new over-the-road purchased transportation option as permitted in our modified labor agreement that went into effect in February 2014. Finally, we had higher vehicle rent expense as our percentage of leased units has increased since last year due to our current strategy of using operating leases to acquire new revenue equipment.

The \$23.2 million increase in salaries, wages and employees' benefits in the second quarter of 2014 was primarily the result of a \$21.2 million increase in wages and benefits in the second quarter of 2014 compared to the second quarter of 2013. This increase was largely driven by higher total shipments and lower productivity levels.

The \$16.2 million increase in other operating expenses was primarily driven by an \$11.2 million increase in our bodily injury and property damage claims expense. The increase was driven by more outstanding claims and unfavorable development of prior year claims compared to favorable development recognized in the second quarter of 2013. The increase was also driven by a \$4.3 million increase in cargo claims expense, which was primarily driven by an increase in the frequency and severity of our claims.

Nonoperating expenses decreased \$6.6 million in the second quarter of 2014 compared to the second quarter of 2013. The decrease in nonoperating expenses was largely driven by the decrease in interest expense as a result of the first quarter 2014 Financing Transactions which reduced our outstanding debt and lowered the weighted average interest rate on our debt.

Our effective tax rate for the second quarter of 2014 and 2013 was 61.7% and 39.8%, respectively. Significant items impacting the second quarter of 2014 rate include a net state and foreign tax provision, certain permanent items, an intraperiod tax allocation required by ASC 740, "Income Taxes", and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2014. We recognize valuation allowances on deferred tax assets if, based on the weight of the evidence, we determine it is more likely than not that such assets will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior years' earnings history, expected future earnings, loss carry-back and carry-forward periods, reversals of existing deferred tax liabilities and tax planning strategies that potentially enhance the likelihood of the realization of a deferred tax asset. At June 30, 2014 and December 31, 2013, substantially all of our net deferred tax assets are subject to a valuation allowance.

### First Half of 2014 Compared to the First Half of 2013

Our consolidated operating revenue increased 5.1% during the first half of 2014 compared to the same period in 2013. The increase in revenue is primarily attributable to higher total shipments over the comparable prior year.

Operating expenses for the first half of 2014 increased \$160.1 million, or 6.7% compared to the same period in 2013, primarily related to a \$67.9 million, or 4.9%, increase in salaries, wages and employees' benefits, a \$51.1 million, or 21.2%, increase in purchased transportation, a \$27.2 million, or 26.1%, increase in other operating expenses and a \$22.1 million, or 4.0%, increase in operating expenses and supplies.

The \$67.9 million increase in salaries, wages and employees' benefits was primarily due to a \$57.2 million increase in wages and benefits in the first half of 2014 compared to the first half of 2013. This increase was largely driven by higher total shipments and by the negative impact the severe winter weather had on the productivity of our workforce which, among other things, increased our overtime and linehaul delay pay in the first quarter of 2014.

The \$51.1 million increase in purchased transportation was primarily driven by increased total shipments and the use of additional high cost purchased rail and local cartage transportation to balance our networks and in response to the service disruptions related to the severe winter weather experienced during the first quarter. We also experienced an increase in purchased road miles in part due to the changes in our purchased transportation options as permitted in our

modified labor agreement that went into effect in February 2014. Finally, we had higher vehicle rental expense as our percentage of leased units has increased since last year due to our current strategy of using operating leases to acquire new revenue equipment.

The \$27.2 million increase in other operating expenses was primarily driven by a \$19.2 million increase in our bodily injury and property damage claims expense, which was driven by an increase in the number of outstanding claims and unfavorable development of prior year claims. The increase was also driven by a \$7.4 million increase in cargo claims expense, which was primarily driven by an increase in the frequency and severity of our claims.

The \$22.1 million increase in operating expenses and supplies was primarily driven by higher fuel expense of \$11.8 million and an increase in vehicle maintenance of \$9.6 million. The increase in fuel expense is primarily a result of increased use due to higher total shipments. The increase in vehicle maintenance is primarily driven by higher costs needed to support our aging fleet and an increase in miles driven.



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Nonoperating expenses decreased \$3.6 million in the first half of 2014 compared to the first half of 2013. The decrease was primarily driven by the \$11.2 million gain we recorded on our extinguishment of debt in the first quarter of 2014, \$16.3 million of which related to the acceleration of net premiums on our old debt, partially offset by \$5.1 million of additional expense related to the fair value of the incremental shares provided to those Series B Note holders who exchanged their outstanding balances at a conversion price of \$15.00 per share. This decrease was partially offset by an \$8.8 million increase in interest expense which was driven by the acceleration of the amortization of the deferred debt costs on our Prior Term Loan and Prior ABL Facility when they were extinguished in the first quarter of 2014, which was partially offset by the decrease in interest expense as a result of the first quarter 2014 Financing Transactions which reduced our outstanding debt and lowered the weighted average interest rate on our debt.

Our effective tax rate for the first half of 2014 and 2013 was 13.8% and 26.8%, respectively. Significant items impacting the first half of 2014 rate include a net state and foreign tax provision, certain permanent items, an intraperiod tax allocation required by ASC 740, "Income Taxes", and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2014. We recognize valuation allowances on deferred tax assets if, based on the weight of the evidence, we determine it is more likely than not that such assets will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior years' earnings history, expected future earnings, loss carry-back and carry-forward periods, reversals of existing deferred tax liabilities and tax planning strategies that potentially enhance the likelihood of the realization of a deferred tax asset. At June 30, 2014 and December 31, 2013, substantially all of our net deferred tax assets are subject to a valuation allowance.

## Reporting Segment Results of Operations

We evaluate our operating performance using our YRC Freight and Regional Transportation reporting segments:

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.

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.

## YRC Freight Results

YRC Freight represented 64% of our consolidated operating revenue for both the second quarter of 2014 and the second quarter of 2013. YRC Freight represented 63% of consolidated operating revenue for the first half of 2014 compared to 65% for the first half of 2013. The table below provides summary financial information for YRC Freight for the second quarter and first half of 2014 and 2013:

| (in millions)     | Second Quarter |          |                | First Half |           |                |
|-------------------|----------------|----------|----------------|------------|-----------|----------------|
|                   | 2014           | 2013     | Percent Change | 2014       | 2013      | Percent Change |
| Operating revenue | \$842.1        | \$797.6  | 5.6%           | \$1,598.9  | \$1,551.4 | 3.1 %          |
| Operating loss    | \$(0.3 )       | \$(8.5 ) | 96.5%          | \$(32.8 )  | \$(6.1 )  | (437.7 )%      |

|                                |       |   |       |   |     |    |       |   |       |   |       |    |
|--------------------------------|-------|---|-------|---|-----|----|-------|---|-------|---|-------|----|
| Operating ratio <sup>(a)</sup> | 100.0 | % | 101.1 | % | 1.1 | pp | 102.1 | % | 100.4 | % | (1.7) | )  |
|                                |       |   |       |   |     |    |       |   |       |   |       | pp |

(a)pp represents the change in percentage points

#### Second Quarter of 2014 Compared to the Second Quarter of 2013

YRC Freight reported operating revenue of \$842.1 million in the second quarter of 2014, an increase of \$44.5 million, or 5.6% compared to the same period in 2013. The table below summarizes the key revenue metrics for the YRC Freight reporting segment for the second quarter of 2014 compared to the second quarter of 2013:

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|                                                      | Second Quarter |          | Percent<br>Change <sup>(b)</sup> |   |
|------------------------------------------------------|----------------|----------|----------------------------------|---|
|                                                      | 2014           | 2013     |                                  |   |
| Workdays                                             | 63.5           | 64.0     |                                  |   |
| Total picked up revenue (in millions) <sup>(a)</sup> | \$ 839.2       | \$ 797.5 | 5.2                              | % |
| Total tonnage (in thousands)                         | 1,796          | 1,710    | 5.1                              | % |
| Total tonnage per day (in thousands)                 | 28.29          | 26.71    | 5.9                              | % |
| Total shipments (in thousands)                       | 3,070          | 2,952    | 4.0                              | % |
| Total shipments per day (in thousands)               | 48.35          | 46.12    | 4.8                              | % |
| Total picked up revenue per hundred weight           | \$ 23.36       | \$ 23.32 | 0.2                              | % |
| Total picked up revenue per shipment                 | \$ 273         | \$ 270   | 1.2                              | % |
| Total weight per shipment (in pounds)                | 1,170          | 1,159    | 1.0                              | % |

| (in millions)                                                                  | Second Quarter |          |
|--------------------------------------------------------------------------------|----------------|----------|
|                                                                                | 2014           | 2013     |
| <sup>(a)</sup> Reconciliation of operating revenue to total picked up revenue: |                |          |
| Operating revenue                                                              | \$ 842.1       | \$ 797.6 |
| Change in revenue deferral and other                                           | (2.9           | ) (0.1   |
| Total picked up revenue                                                        | \$ 839.2       | \$ 797.5 |

(a) Does not equal financial statement revenue due to revenue recognition adjustments between accounting periods.

(b) Percent change based on unrounded figures and not rounded figures presented.

The increases in the volume metrics above were primarily attributable to higher total shipments over the comparable prior year period due to the improvement of the overall economic environment as well as increased shipper confidence due to the finalization of our 2014 Financing Transactions and modified labor agreement.

Operating loss for YRC Freight was \$0.3 million in the second quarter of 2014 compared to \$8.5 million in the same period in 2013. Operating revenue in the second quarter of 2014 was higher by \$44.5 million while total costs increased by \$36.3 million, or 4.5%. The cost increases consisted primarily of a \$24.2 million, or 23.0%, increase in purchased transportation, a \$13.0 million, or 2.9%, increase in salaries, wages and employees' benefits and a \$10.5 million, or 31.6%, increase in other operating expenses.

The \$24.2 million increase in purchased transportation was primarily driven by less than optimal use of purchased transportation in response to increased total shipments. We also experienced an increase in purchased road miles as we began to utilize our new over-the-road purchased transportation option as permitted in our modified labor agreement that went into effect in February 2014. Finally, we had higher vehicle rent expense as our percentage of leased units has increased since last year due to our current strategy of using operating leases to acquire new revenue equipment.

The \$13.0 million increase in salaries, wages and employees' benefits in the second quarter of 2014 was primarily the result of a \$12.7 million increase in wages and benefits. This increase was largely driven by higher total shipments and lower productivity levels.

The \$10.5 million increase in other operating expenses in the second quarter of 2014 was primarily driven by a \$7.5 million increase in our bodily injury and property damage expense due to more claims outstanding compared as well as unfavorable development of prior year claims. Additionally, the \$10.5 million increase in other operating expense was driven by a \$2.9 million increase in cargo claims expense due to an increase in the frequency and severity of our claims.

First Half of 2014 Compared to the First Half of 2013

YRC Freight reported operating revenue of \$1,598.9 million in the first half of 2014, an increase of \$47.5 million, or 3.1%, compared to the same period in 2013. The table below summarizes the key revenue metrics for the YRC Freight reporting segment for the first half of 2014 compared to the first half of 2013:

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|                                                      | First Half |            |                               |    |
|------------------------------------------------------|------------|------------|-------------------------------|----|
|                                                      | 2014       | 2013       | Percent Change <sup>(b)</sup> |    |
| Workdays                                             | 126.5      | 126.5      |                               |    |
| Total picked up revenue (in millions) <sup>(a)</sup> | \$ 1,595.2 | \$ 1,554.4 | 2.6                           | %  |
| Total tonnage (in thousands)                         | 3,443      | 3,315      | 3.8                           | %  |
| Total tonnage per day (in thousands)                 | 27.21      | 26.21      | 3.8                           | %  |
| Total shipments (in thousands)                       | 5,842      | 5,716      | 2.2                           | %  |
| Total shipments per day (in thousands)               | 46.18      | 45.18      | 2.2                           | %  |
| Total picked up revenue per hundred weight           | \$ 23.17   | \$ 23.44   | (1.2)                         | )% |
| Total picked up revenue per shipment                 | \$ 273     | \$ 272     | 0.4                           | %  |
| Total weight per shipment (in pounds)                | 1,179      | 1,160      | 1.6                           | %  |

|                                                                                | First Half |            |
|--------------------------------------------------------------------------------|------------|------------|
| (in millions)                                                                  | 2014       | 2013       |
| <sup>(a)</sup> Reconciliation of operating revenue to total picked up revenue: |            |            |
| Operating revenue                                                              | \$ 1,598.9 | \$ 1,551.4 |
| Change in revenue deferral and other                                           | (3.7       | ) 3.0      |
| Total picked up revenue                                                        | \$ 1,595.2 | \$ 1,554.4 |

(a) Does not equal financial statement revenue due to revenue recognition adjustments between accounting periods.

(b) Percent change based on unrounded figures and not the rounded figures presented.

The increases in the volume metrics above were primarily driven by higher total shipments over the comparable prior year period due to the improvement of the overall economic environment as well as increased shipper confidence due to the finalization of our 2014 Financing Transactions and modified labor agreement.

Operating loss for YRC Freight was \$32.8 million in the first half of 2014 compared to \$6.1 million in the same period in 2013. Operating revenue in the first half of 2014 was higher by \$47.5 million while total costs increased by \$74.2 million, or 4.8%. The cost increases consisted primarily of a \$35.2 million, or 17.4%, increase in purchased transportation, a \$28.0 million, or 3.2%, increase in salaries, wages and employees' benefits and a \$17.5 million, or 28.6%, increase in other operating expenses.

The \$35.2 million increase in purchased transportation was primarily driven by less than optimal use of purchased transportation in response to increased total shipments and in response to the service disruptions related to the severe winter weather experienced during the first quarter. We also experienced an increase in purchased road miles as we began to utilize our new over-the-road purchased transportation option as permitted in our modified labor agreement that went into effect in February 2014. Finally, we had higher vehicle rent expense as our percentage of leased units has increased since last year due to our current strategy of using operating leases to acquire new revenue equipment. The \$28.0 million increase in salaries, wages and employees' benefits in the first half of 2014 was primarily the result of a \$24.5 million increase in wages and benefits. This increase was largely driven by higher total shipments and the negative impact the severe winter weather had on the productivity of our workforce which, among other things, increased our overtime and linehaul delay pay in the first quarter of 2014. The increase in salaries, wages and employees' benefits was also driven by a \$4.5 million increase in workers' compensation expense, which was driven, in large part, by an increase in outstanding claims.

The \$17.5 million increase in other operating expenses in the first half of 2014 was primarily driven by a \$13.8 million increase in our bodily injury and property damage expense due to more outstanding claims as well as unfavorable development of prior year claims. Additionally, the \$17.5 million increase in other operating expense was

driven by a \$4.7 million increase in cargo claims expense due to an increase in the frequency and severity of our claims.

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## Regional Transportation Results

Regional Transportation represented 36% of consolidated revenue in both the second quarter of 2014 and the second quarter of 2013. Regional Transportation represented 37% of consolidated revenue in the first half of 2014 compared to 35% in the first half of 2013. The table below provides summary financial information for Regional Transportation for the second quarter and the first half of 2014 and 2013:

|                                | Second Quarter |         |                | First Half |         |                |
|--------------------------------|----------------|---------|----------------|------------|---------|----------------|
| (in millions)                  | 2014           | 2013    | Percent Change | 2014       | 2013    | Percent Change |
| Operating revenue              | \$475.5        | \$444.9 | 6.9%           | \$929.6    | \$853.6 | 8.9%           |
| Operating income               | \$23.2         | \$25.2  | (7.9)%         | \$31.1     | \$37.2  | (16.4)%        |
| Operating ratio <sup>(a)</sup> | 95.1           | % 94.3  | % (0.8         | ) 96.7     | % 95.6  | % (1.1         |
|                                |                |         | pp             |            |         | pp             |

(a)pp represents the change in percentage points

## Second Quarter of 2014 Compared to the Second Quarter of 2013

Regional Transportation reported operating revenue of \$475.5 million for the second quarter of 2014, an increase of \$30.6 million, or 6.9%, from the second quarter of 2013. The table below summarizes the key revenue metrics for the Regional Transportation reporting segment for the second quarter of 2014 compared to the second quarter of 2013:

|                                                      | Second Quarter |         | Percent Change <sup>(b)</sup> |   |
|------------------------------------------------------|----------------|---------|-------------------------------|---|
|                                                      | 2014           | 2013    |                               |   |
| Workdays                                             | 62.5           | 64.0    |                               |   |
| Total picked up revenue (in millions) <sup>(a)</sup> | \$475.6        | \$445.1 | 6.9                           | % |
| Total tonnage (in thousands)                         | 2,054          | 1,970   | 4.2                           | % |
| Total tonnage per day (in thousands)                 | 32.86          | 30.79   | 6.7                           | % |
| Total shipments (in thousands)                       | 2,807          | 2,710   | 3.6                           | % |
| Total shipments per day (in thousands)               | 44.91          | 42.35   | 6.0                           | % |
| Total picked up revenue per hundred weight           | \$11.58        | \$11.30 | 2.5                           | % |
| Total picked up revenue per shipment                 | \$169          | \$164   | 3.2                           | % |
| Total weight per shipment (in pounds)                | 1,463          | 1,454   | 0.6                           | % |

| (in millions)                                                                  | Second Quarter |         |
|--------------------------------------------------------------------------------|----------------|---------|
|                                                                                | 2014           | 2013    |
| <sup>(a)</sup> Reconciliation of operating revenue to total picked up revenue: |                |         |
| Operating revenue                                                              | \$475.5        | \$444.9 |
| Change in revenue deferral and other                                           | 0.1            | 0.2     |
| Total picked up revenue                                                        | \$475.6        | \$445.1 |

(a) Does not equal financial statement revenue due to revenue recognition adjustments between accounting periods.

(b) Percent change based on unrounded figures and not rounded figures presented.

The increases in the volume metrics above were primarily attributable to higher total shipments over the comparable prior year period due to the improvement of the overall economic environment as well as increased shipper confidence due to the finalization of our 2014 Financing Transactions and modified labor agreement. These were partially offset

by 1.5 fewer workdays in the second quarter of 2014 compared to the second quarter of 2013.

Operating income for Regional Transportation was \$23.2 million for the second quarter of 2014, a decrease of \$2.0 million from the same period in 2013, consisting of the \$30.6 million increase in revenue offset by a \$32.6 million, or 7.7%, increase in total costs. The increase in total costs was primarily driven by a \$10.6 million, or 4.2%, increase in salaries, wages and employees'



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benefits, a \$9.8 million, or 48.4%, increase in purchased transportation, a \$6.4 million, or 5.9%, increase in operating expenses and supplies and a \$4.9 million, or 23.4%, increase in other operating expenses.

- The \$10.6 million increase in salaries, wages and employees' benefits in the second quarter of 2014 was primarily the result of a \$8.5 million increase in wages and benefits in the second quarter of 2014 compared to the second quarter of 2013. This increase was largely driven by higher total shipments.

The \$9.8 million increase in purchased transportation was primarily driven by an increase in purchased local cartage and short-term revenue equipment rentals to handle the increased total shipments. We also had higher vehicle rent expense as our percentage of leased units has increased since last year due to our strategy of using operating leases to acquire new revenue equipment.

The \$6.4 million increase in operating expenses and supplies in the second quarter of 2014 was primarily driven by a \$3.5 million increase in fuel expense primarily the result of increased use due to higher total shipments and a \$1.8 million increase in vehicle maintenance primarily due to an increase in miles driven and higher costs used to support our aging fleet.

The \$4.9 million increase in other operating expenses in the second quarter of 2014 was primarily driven by a \$3.0 million increase in our bodily injury and property damage expense due to more outstanding claims as well as unfavorable development of prior year claims, and a \$1.4 million increase in cargo claims, which was primarily driven by an increase in total shipments.

## First Half of 2014 Compared to the First Half of 2013

Regional Transportation reported operating revenue of \$929.6 million for the first half of 2014, an increase of \$76.0 million, or 8.9%, from the first half of 2013. The table below summarizes the key revenue metrics for the Regional Transportation reporting segment for the first half of 2014 compared to the first half of 2013:

|                                                      | First Half |         | Percent Change <sup>(b)</sup> |   |
|------------------------------------------------------|------------|---------|-------------------------------|---|
|                                                      | 2014       | 2013    |                               |   |
| Workdays                                             | 129.5      | 126.5   |                               |   |
| Total picked up revenue (in millions) <sup>(a)</sup> | \$930.0    | \$854.1 | 8.9                           | % |
| Total tonnage (in thousands)                         | 4,069      | 3,802   | 7.0                           | % |
| Total tonnage per day (in thousands)                 | 31.42      | 30.05   | 4.5                           | % |
| Total shipments (in thousands)                       | 5,512      | 5,190   | 6.2                           | % |
| Total shipments per day (in thousands)               | 42.57      | 41.03   | 3.7                           | % |
| Total picked up revenue per hundred weight           | \$11.43    | \$11.23 | 1.7                           | % |
| Total picked up revenue per shipment                 | \$169      | \$165   | 2.5                           | % |
| Total weight per shipment (in pounds)                | 1,476      | 1,465   | 0.8                           | % |

| (in millions)                                                                  | First Quarter |         |
|--------------------------------------------------------------------------------|---------------|---------|
|                                                                                | 2014          | 2013    |
| <sup>(a)</sup> Reconciliation of operating revenue to total picked up revenue: |               |         |
| Operating revenue                                                              | \$929.6       | \$853.6 |
| Change in revenue deferral and other                                           | 0.4           | 0.5     |
| Total picked up revenue                                                        | \$930.0       | \$854.1 |

(a) Does not equal financial statement revenue due to revenue recognition adjustments between accounting periods.

(b) Percent change is based on unrounded figures and not the rounded figures presented.

The increases in the volume metrics above were primarily attributable to higher total shipments over the comparable prior year period due to the improvement of the overall economic environment as well as increased shipper confidence due to the finalization of our 2014 Financing Transactions and modified labor agreement and the additional 3.0 workdays in the first half of 2014 compared to the first half of 2013.

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Operating income for Regional Transportation was \$31.1 million for the first half of 2014, a decrease of \$6.1 million from the same period in 2013, consisting of the \$76.0 million increase in revenue offset by a \$82.1 million, or 10.0% increase in total costs. The increase in total costs was primarily driven by a \$36.4 million, or 7.4%, increase in salaries, wages and employees' benefits, a \$17.2 million, or 8.0%, increase in operating expenses and supplies, a \$15.9 million, or 41.3%, increase in purchased transportation and a \$10.5 million, or 25.7%, increase in other operating expenses.

- The \$36.4 million increase in salaries, wages and employees' benefits in the first half of 2014 was primarily the result of a \$33.0 million increase in wages and benefits in the first half of 2014 compared to the first half of 2013. This increase was largely driven by higher total shipments and by the negative impact the severe winter weather had on the productivity of our workforce in the first quarter which, among other things, increased our overtime and linehaul delay pay.

The \$17.2 million increase in operating expenses and supplies in the first half of 2014 was primarily driven by a \$9.8 million increase in fuel expense primarily the result of increased use due to higher total shipments and a \$3.0 million increase in vehicle maintenance primarily due to an increase in miles driven and higher costs to support our aging fleet.

The \$15.9 million increase in purchased transportation was primarily driven by an increase in purchased local cartage and short-term revenue equipment rentals to handle the increased total shipments. We also had higher vehicle rent expense as our percentage of leased units has increased since last year due to our strategy of using operating leases to acquire new revenue equipment.

The \$10.5 million increase in other operating expenses in the first half of 2014 was primarily driven by a \$6.4 million increase in our bodily injury and property damage expense due to more outstanding claims as well as unfavorable development of prior year claims and a \$2.7 million increase in cargo claims, which was primarily driven by an increase in total shipments.

## Certain Non-GAAP Financial Measures

As discussed in the "Our Business" section, we use certain non-GAAP financial measures to assess performance. These measures should be considered in addition to the results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, our GAAP financial measures.

## Consolidated Adjusted EBITDA

The reconciliation of operating income (loss) to adjusted EBITDA (as defined in our New Term Loan credit agreement) for the second quarter and first half of 2014 and 2013, and the trailing twelve months ended June 30, 2014, is as follows:

|                                                               | Second Quarter |        | First Half |        | Four<br>Consecutive<br>Quarters<br>Ending<br>June 30, 2014 |
|---------------------------------------------------------------|----------------|--------|------------|--------|------------------------------------------------------------|
| (in millions)                                                 | 2014           | 2013   | 2014       | 2013   |                                                            |
| Reconciliation of operating income (loss) to adjusted EBITDA: |                |        |            |        |                                                            |
| Operating income (loss)                                       | \$20.0         | \$14.3 | \$(12.4 )  | \$24.2 | \$(8.2 )                                                   |
| Depreciation and amortization                                 | 41.0           | 43.5   | 82.0       | 87.1   | 167.2                                                      |
| (Gains) losses on property disposals, net                     | (6.5 )         | 1.3    | (6.3 )     | (3.2 ) | (5.3 )                                                     |
| Letter of credit expense                                      | 2.1            | 8.9    | 7.3        | 17.8   | 23.4                                                       |
| Restructuring professional fees                               | —              | 1.5    | 1.1        | 2.8    | 10.3                                                       |

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|                                        |        |        |        |         |         |
|----------------------------------------|--------|--------|--------|---------|---------|
| Permitted dispositions and other       | —      | (0.2   | ) 0.1  | (0.1    | ) 1.8   |
| Equity based compensation expense      | 2.5    | 3.0    | 9.1    | 4.0     | 10.9    |
| Amortization of ratification bonus     | 5.2    | —      | 5.2    | —       | 5.2     |
| Other nonoperating, net <sup>(a)</sup> | (1.3   | ) 1.8  | (0.3   | ) 1.7   | 1.2     |
| Adjusted EBITDA                        | \$63.0 | \$74.1 | \$85.8 | \$134.3 | \$206.5 |

<sup>(a)</sup> Other nonoperating, net excludes the impact of earnings (loss) of our equity method investment as well as all non-cash foreign currency gains or losses.

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## Consolidated Adjusted Free Cash Flow (Deficit)

The reconciliation of adjusted EBITDA (as defined in our New Term Loan credit agreement) to adjusted free cash flow (deficit) for the second quarter and first half of 2014 and 2013 including the reconciliation to adjusted free cash flow (deficit) is as follows:

| (in millions)                                                           | Second Quarter |          | First Half |          |
|-------------------------------------------------------------------------|----------------|----------|------------|----------|
|                                                                         | 2014           | 2013     | 2014       | 2013     |
| Adjusted EBITDA                                                         | \$63.0         | \$74.1   | \$85.8     | \$134.3  |
| Total restructuring professional fees                                   | —              | (1.5)    | (1.1)      | (2.8)    |
| Cash paid for interest                                                  | (28.3)         | (28.7)   | (67.7)     | (57.2)   |
| Cash paid for letter of credit fees                                     | (0.1)          | (9.0)    | (4.1)      | (15.0)   |
| Working Capital cash flows excluding income tax, net                    | (30.3)         | (36.4)   | (78.4)     | (89.3)   |
| Net cash provided by (used in) operating activities before income taxes | 4.3            | (1.5)    | (65.5)     | (30.0)   |
| Cash (paid) received for income taxes, net                              | (3.7)          | (2.8)    | 9.9        | 11.8     |
| Net cash provided by (used in) operating activities                     | 0.6            | (4.3)    | (55.6)     | (18.2)   |
| Acquisition of property and equipment                                   | (13.0)         | (21.9)   | (24.7)     | (39.1)   |
| Total restructuring professional fees                                   | —              | 1.5      | 1.1        | 2.8      |
| Adjusted Free Cash Flow (Deficit)                                       | \$(12.4)       | \$(24.7) | \$(79.2)   | \$(54.5) |

## Segment Adjusted EBITDA

The following represents adjusted EBITDA (as defined in our New Term Loan credit agreement) by segment for the second quarter and first half of 2014 and 2013:

| (in millions)               | Second Quarter |        | First Half |         |
|-----------------------------|----------------|--------|------------|---------|
|                             | 2014           | 2013   | 2014       | 2013    |
| Adjusted EBITDA by segment: |                |        |            |         |
| YRC Freight                 | \$21.5         | \$30.0 | \$17.8     | \$63.6  |
| Regional Transportation     | 42.1           | 42.5   | 68.0       | 71.5    |
| Corporate and other         | (0.6)          | 1.6    | —          | (0.8)   |
| Adjusted EBITDA             | \$63.0         | \$74.1 | \$85.8     | \$134.3 |

The reconciliation of operating income (loss), by segment, to adjusted EBITDA (as defined in our New Term Loan credit agreement) for the second quarter and first half of 2014 and 2013 is as follows:

| YRC Freight segment (in millions)                    | Second Quarter |         | First Half |         |
|------------------------------------------------------|----------------|---------|------------|---------|
|                                                      | 2014           | 2013    | 2014       | 2013    |
| Reconciliation of operating loss to adjusted EBITDA: |                |         |            |         |
| Operating loss                                       | \$(0.3)        | \$(8.5) | \$(32.8)   | \$(6.1) |
| Depreciation and amortization                        | 24.9           | 27.9    | 49.6       | 55.9    |
| (Gains) losses on property disposals, net            | (6.7)          | 1.0     | (6.9)      | (3.5)   |
| Letter of credit expense                             | 1.4            | 7.2     | 5.0        | 14.6    |
| Amortization of ratification bonus                   | 3.3            | —       | 3.3        | —       |
| Other nonoperating expenses, net <sup>(a)</sup>      | (1.1)          | 2.4     | (0.4)      | 2.7     |
| Adjusted EBITDA                                      | \$21.5         | \$30.0  | \$17.8     | \$63.6  |

<sup>(a)</sup> Other nonoperating, net excludes the impact of non-cash foreign currency gains or losses.



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|                                                        | Second Quarter |          | First Half |          |
|--------------------------------------------------------|----------------|----------|------------|----------|
|                                                        | 2014           | 2013     | 2014       | 2013     |
| Regional Transportation segment (in millions)          |                |          |            |          |
| Reconciliation of operating income to adjusted EBITDA: |                |          |            |          |
| Operating income                                       | \$23.2         | \$25.2   | \$31.1     | \$37.2   |
| Depreciation and amortization                          | 16.2           | 15.6     | 32.6       | 31.1     |
| Losses on property disposals, net                      | 0.2            | 0.1      | 0.6        | 0.1      |
| Letter of credit expense                               | 0.6            | 1.6      | 1.8        | 3.0      |
| Amortization of ratification bonus                     | 1.9            | —        | 1.9        | —        |
| Other nonoperating expenses, net                       | —              | —        | —          | 0.1      |
| Adjusted EBITDA                                        | \$42.1         | \$42.5   | \$68.0     | \$71.5   |
|                                                        |                |          |            |          |
|                                                        | Second Quarter |          | First Half |          |
|                                                        | 2014           | 2013     | 2014       | 2013     |
| Corporate and other segment (in millions)              |                |          |            |          |
| Reconciliation of operating loss to adjusted EBITDA:   |                |          |            |          |
| Operating loss                                         | \$(2.9 )       | \$(2.4 ) | \$(10.7 )  | \$(6.9 ) |
| Depreciation and amortization                          | (0.1 )         | —        | (0.2 )     | 0.1      |
| Losses on property disposals, net                      | —              | 0.2      | —          | 0.2      |
| Letter of credit expense                               | 0.1            | 0.1      | 0.5        | 0.2      |
| Restructuring professional fees                        | —              | 1.5      | 1.1        | 2.8      |
| Permitted dispositions and other                       | —              | (0.2 )   | 0.1        | (0.1 )   |
| Equity based compensation expense                      | 2.5            | 3.0      | 9.1        | 4.0      |
| Other nonoperating income, net <sup>(a)</sup>          | (0.2 )         | (0.6 )   | 0.1        | (1.1 )   |
| Adjusted EBITDA                                        | \$(0.6 )       | \$1.6    | \$—        | \$(0.8 ) |

<sup>(a)</sup> Other nonoperating, net excludes the impact of earnings (loss) of our equity method investment as well as non-cash foreign currency gains or losses.

## Financial Condition/Liquidity and Capital Resources

Our principal sources of liquidity are cash and cash equivalents, available borrowings under our New ABL facility and any prospective net operating cash flows from our operations. As of June 30, 2014, we had cash and cash equivalents and availability under the New ABL facility totaling \$253.2 million, and cash and cash equivalents and amounts able to be drawn totaling \$209.4 million. The amount which is actually able to be drawn is limited by certain financial covenants in the New ABL facility. For comparison, as of March 31, 2014, we had cash and cash equivalents and availability of \$223.0 million, and cash and cash equivalents and amounts able to be drawn totaling \$183.2 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 paying cash interest and principal on our funded debt, letter of credit fees under our credit facilities and funding capital expenditures. For the six months ended June 30, 2014, we used net cash of \$55.6 million for our operating activities.

On February 13, 2014, we also entered into the New ABL Facility credit agreement which, among other things, restricts certain capital expenditures and requires that the Company, in effect, maintain availability of at least 10% of the lesser of the aggregate amount of commitments from all lenders or the borrowing base.

We have a considerable amount of indebtedness. As of June 30, 2014, we had \$1,208.9 million in aggregate par value of outstanding indebtedness, the majority of which matures in 2019. 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 2014 for our single-employer pension plans and multi-employer pension funds will be

\$49.4 million and \$46.1 million, respectively. In addition, we have, and will continue to have, substantial operating lease obligations. As of June 30, 2014, our minimum rental expense under operating leases for the remainder of the year is \$28.8 million. As of June 30, 2014, our operating lease obligations through 2025 totaled \$154.8 million and is expected to increase as we lease additional revenue equipment. As of June 30, 2014, our Standard & Poor's Corporate Family Rating was "CCC+" and Moody's Investor Service Corporate Family Rating was "B3".



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Our capital expenditures for the first half of 2014 and 2013 were \$24.7 million and \$39.1 million, respectively. These amounts were principally used to fund replacement engines and trailer refurbishments for our revenue fleet, capitalized costs for our network facilities and technology infrastructure. Additionally, for the first half of 2014, we entered into new operating leases for revenue equipment for \$7.0 million, payable over the average lease term of three years. In light of our operating results and liquidity needs, we have deferred certain capital expenditures and expect to continue to do so for the remainder of 2014. 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.

## Credit Facility Covenants

On February 13, 2014, we completed our 2014 Financing Transactions and refinanced the debt associated with our prior credit facilities. We entered into a New Term Loan credit agreement with new financial covenants that, among other things, restricts certain capital expenditures and requires us to maintain a maximum total leverage ratio (defined as Consolidated Total Debt divided by Consolidated Adjusted EBITDA as defined below) for future test periods as follows:

| Four Consecutive Fiscal Quarters<br>Ending | Maximum Total<br>Leverage Ratio | Four Consecutive Fiscal Quarters<br>Ending | Maximum Total<br>Leverage Ratio |
|--------------------------------------------|---------------------------------|--------------------------------------------|---------------------------------|
| June 30, 2014                              | 6.00 to 1.00                    | June 30, 2016                              | 3.50 to 1.00                    |
| September 30, 2014                         | 5.00 to 1.00                    | September 30, 2016                         | 3.50 to 1.00                    |
| December 31, 2014                          | 4.50 to 1.00                    | December 31, 2016                          | 3.25 to 1.00                    |
| March 31, 2015                             | 4.00 to 1.00                    | March 31, 2017                             | 3.25 to 1.00                    |
| June 30, 2015                              | 3.75 to 1.00                    | June 30, 2017                              | 3.25 to 1.00                    |
| September 30, 2015                         | 3.75 to 1.00                    | September 30, 2017                         | 3.25 to 1.00                    |
| December 31, 2015                          | 3.75 to 1.00                    | December 31, 2017 and thereafter           | 3.00 to 1.00                    |
| March 31, 2016                             | 3.50 to 1.00                    |                                            |                                 |

Consolidated Adjusted EBITDA, as defined in our New Term Loan credit agreement, is a measure that reflects our earnings before interest, taxes, depreciation, and amortization expense, and is further adjusted for, among other things, letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including restructuring professional fees, expenses associated with certain lump sum payments to our IBT employees and the results of permitted dispositions and discontinued operations. Consolidated Total Debt, as defined in our New Term Loan credit agreement, is the aggregate principal amount of indebtedness outstanding excluding our fully discharged Series A Notes. Our total leverage ratio for the four consecutive fiscal quarters ending June 30, 2014 was 5.42 to 1.00.

In order for us to maintain compliance with the maximum total leverage ratio over the term of the agreement, we must achieve operating results which reflect continuing improvements over our second quarter 2014 results. While we presently expect that our results of operations will be sufficient to allow us to comply with the covenants in our new credit agreement, fund our operations, increase working capital as necessary to support our planned revenue growth and fund capital expenditures for the next twelve months, our financial forecasts indicate our total leverage ratio will be closest to the maximum total leverage ratio in the third and fourth quarters of 2014. A significant departure from our financial forecasts would have an adverse impact on our ability to comply with our maximum total leverage ratio covenant.

Our ability to satisfy our liquidity needs and meet future stepped-up covenants is primarily dependent on improvement in YRC Freight's profitability. These profitability improvements primarily include continued successful

implementation and realization of productivity and efficiency initiatives including those identified in the modified labor agreement and pricing improvements. Some of these improvements are outside of our control.

In the event our operating results indicate we may not meet our maximum total leverage ratio, we will take action to improve our maximum total leverage ratio which could include, among other actions, paying down our outstanding indebtedness with either cash on hand or from cash proceeds from equity issuances. Our ability to obtain proceeds from the issuance of equity is largely outside of our control and there can be no assurance that we will be able to issue additional equity at terms that are agreeable to us or that we would have sufficient cash on hand to meet the maximum total leverage ratio.

In the event that we fail to comply with any New Term Loan covenant or any New ABL Facility covenant, we would be considered in default, which would enable applicable lenders to accelerate the repayment of amounts outstanding, require the cash

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collateralization of letters of credit (in the case of the New ABL Facility) and exercise remedies with respect to collateral and we would need to seek an amendment or waiver from the applicable lender groups. In the event that our lenders under our New Term Loan or New ABL Facility demand payment or cash collateralization (in the case of the New ABL Facility), we will not have sufficient cash to repay such indebtedness. In addition, a default under our New Term Loan or New ABL Facility or the applicable lenders exercising their remedies thereunder would trigger cross-default provisions in our other indebtedness and certain other operating agreements. Our ability to amend our New Term Loan or our New ABL Facility or otherwise obtain waivers from the applicable lenders depends on matters that are outside of our control and there can be no assurance that we will be successful in that regard.

## Cash Flows

### Operating Cash Flow

Net cash used in operating activities was \$55.6 million in the first half of 2014 compared to \$18.2 million in the first half of 2013. This increase in cash utilization is primarily attributable to a \$35.5 million year-over-year increase in net losses driven by an increase in operating expenses.

### Investing Cash Flow

Investing cash flows decreased by \$29.3 million during the first half of 2014 compared to the same period in 2013, largely driven by a net \$37.5 million in restricted escrow deposits made in 2014, compared to \$12.8 million in proceeds in 2013. The 2014 restricted escrow deposits consist mostly of \$38.6 million for the New ABL Facility and \$89.6 million for the Series A Notes defeasance, offset by the receipt of \$90.0 million for the Prior ABL Facility. This was partially offset by a \$14.4 million decrease in the acquisition of property and equipment as we plan to use operating leases to procure our revenue equipment in the foreseeable future.

### Financing Cash Flow

Net cash provided by financing activities for the first half of 2014 was \$102.8 million compared to net cash used in financing activities of \$4.3 million in the first half of 2013. The cash provided during the first half of 2014 was driven by the issuance of \$693.0 million in long-term debt for the New Term Loan and \$250.0 million equity issuance proceeds. These were offset by \$795.7 million of repayments on our long-term debt. The repayments primarily consisted of \$298.1 million for the Prior Term Loan, \$324.9 million for the Prior ABL Facility, \$93.9 million repurchase of Series A Notes and \$69.4 million for the 6% Notes. We also had \$27.4 million in debt issuance costs and \$17.1 million in equity issuance costs related to our new debt and equity. During the first half of 2013, the use of cash was driven by \$4.6 million of repayments on other long-term debt.

### Contractual Obligations and Other Commercial Commitments

The following sections provide aggregated information regarding our contractual cash obligations and other commercial commitments as of June 30, 2014.

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## Contractual Cash Obligations

The following table reflects our cash outflows that we are contractually obligated to make as of June 30, 2014:

| (in millions)                                                           | Payments Due by Period |           |           |               | Total     |     |
|-------------------------------------------------------------------------|------------------------|-----------|-----------|---------------|-----------|-----|
|                                                                         | Less than 1 year       | 1-3 years | 3-5 years | After 5 years |           |     |
| Balance sheet obligations: <sup>(a)</sup>                               |                        |           |           |               |           |     |
| ABL borrowings, including interest and unused line fees                 | \$0.3                  | \$0.6     | \$0.6     | \$—           | \$1.5     |     |
| Long-term debt, including interest                                      | 167.4                  | 125.3     | 888.5     | —             | 1,181.2   |     |
| Lease financing obligations                                             | 40.3                   | 80.5      | 73.4      | 35.4          | 229.6     | (b) |
| Multi-employer pension deferral obligations, including interest         | 8.8                    | 17.7      | 139.6     | —             | 166.1     |     |
| Workers' compensation, property damage and liability claims obligations | 92.5                   | 112.6     | 54.4      | 102.5         | 362.0     | (c) |
| Off balance sheet obligations:                                          |                        |           |           |               |           |     |
| Operating leases                                                        | 57.6                   | 54.3      | 27.6      | 15.3          | 154.8     |     |
| Letter of credit fees                                                   | 8.8                    | 17.7      | 14.4      | —             | 40.9      |     |
| Capital expenditures                                                    | 5.4                    | —         | —         | —             | 5.4       |     |
| Total contractual obligations                                           | \$381.1                | \$408.7   | \$1,198.5 | \$153.2       | \$2,141.5 |     |

(a) Total liabilities for unrecognized tax benefits as of June 30, 2014 were \$25.8 million and are classified on our consolidated balance sheet within "Claims and Other Liabilities" and are excluded from the table above.

The \$229.6 million of lease financing obligation payments represent interest payments of \$171.2 million and (b) principal payments of \$58.4 million. The remaining principle obligation is offset by the estimated book value of leased property at the expiration date of each lease agreement.

The workers' compensation, property damage and liability claims obligations represent our undiscounted estimate (c) of future payments for these obligations, not all of which are contractually required.

During the six months ended June 30, 2014, we entered into new operating leases for revenue equipment of \$7.0 million.

## Other Commercial Commitments

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

| (in millions)                   | Amount of Commitment Expiration Per Period |           |           |               | Total   |
|---------------------------------|--------------------------------------------|-----------|-----------|---------------|---------|
|                                 | Less than 1 year                           | 1-3 years | 3-5 years | After 5 years |         |
| Unused line of credit           |                                            |           |           |               |         |
| New ABL Facility <sup>(a)</sup> | \$—                                        | \$—       | \$79.3    | (b) \$—       | \$79.3  |
| Letters of credit               | —                                          | —         | 367.4     | —             | 367.4   |
| Surety bonds                    | 119.5                                      | 4.0       |           |               | 123.5   |
| Total commercial commitments    | \$119.5                                    | \$4.0     | \$446.7   | \$—           | \$570.2 |

(a) At June 30, 2014 we held \$38.6 million in restricted escrow, which represents cash collateral on our New ABL Facility.

- (b) The unused line of credit that may actually be drawn is limited by certain financial covenants in the New ABL facility. As of June 30, 2014, the amount that actually may be drawn on the New ABL Facility is \$35.5 million.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are primarily exposed to the market risk associated with unfavorable movements in interest rates, foreign currencies, and fuel price volatility. The risk inherent in our market risk sensitive instruments and positions is the potential loss or increased expense arising from adverse changes in those factors. There have been no material changes to our market risk policies or our market risk sensitive instruments and positions as described in our annual report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

As required by the Exchange Act, we maintain disclosure controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Our management, with the participation of our principal executive and financial officers, has evaluated our disclosure controls and procedures as of June 30, 2014 and have concluded that our disclosure controls and procedures were effective as of June 30, 2014.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II—OTHER INFORMATION**

**Item 1. Legal Proceedings**

We discuss legal proceedings in the “Commitments, Contingencies and Uncertainties” note to our Consolidated Financial Statements included with this quarterly report on Form 10-Q.

**Item 1A. Risk Factors**

Other than the risk factor detailed below, there were no material changes during the quarter to the risk factors disclosed in Part I, Item 1A - “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013.

Difficulties attracting and retaining qualified drivers could result in increases in driver compensation and purchased transportation costs and could adversely affect our profitability and our ability to maintain or grow our fleet. Like many in the trucking industry, we are experiencing difficulty in attracting and retaining sufficient numbers of qualified drivers. Due in part to the time commitment, the physical strains of the work and the current industry conditions, including the higher cost of fuel, insurance and tractors, the available pool of employee drivers and independent contractors has been declining. Regulatory requirements, including the Compliance, Safety, Accountability program of the Federal Motor Carrier Safety Administration, have also reduced the number of eligible employee drivers and independent contractors and may continue to do so in the future. Because of the shortage of qualified drivers and intense competition for drivers from other trucking companies, we expect to continue to face difficulty increasing our number of drivers. Driver shortages may result in less than optimal use of purchased transportation, which may result in higher costs to the Company. The compensation we offer our drivers is subject to market conditions, and we may find it necessary to continue to increase driver compensation in future periods. In addition, we and our industry suffer from a high driver turnover rate. Driver turnover requires us to continually recruit a substantial number of drivers in order to operate existing revenue equipment. If we are unable to continue to attract and retain drivers, we could be required to adjust our compensation packages, increase our use of purchased transportation, let tractors sit idle, or operate with fewer tractors and face difficulty meeting customer demands, any of which would adversely affect our growth and profitability.

**Item 5. Other Information**

On July 11, 2014, the Company filed a Current Report on Form 8-K (the “Davidson Form 8-K”) to announce that the Board approved the appointment by the International Brotherhood of Teamsters of William R. Davidson as a director of the Company effective July 8, 2014. This Item 5 amends and supplements the Davidson Form 8-K to reflect that effective as of July 29, 2014, the Board appointed Mr. Davidson as a member of its Governance Committee and Compensation Committee. All other contents of the Item 5.02 disclosure in the Davidson Form 8-K are incorporated herein by reference.

**Item 6. Exhibits**

- |       |                                                                                                                                                                 |
|-------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 31.1* | Certification of James L. Welch filed pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2* | Certification of Jamie G. Pierson filed pursuant to Exchange Act Rules 13a-14 and 15d-14, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1* | Certification of James L. Welch furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.             |
| 32.2* | Certification of Jamie G. Pierson furnished pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.           |

101.INS\*\* XBRL Instance Document  
101.SCH\*\* XBRL Taxonomy Extension Schema  
101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase  
101.DEF\*\* XBRL Taxonomy Extension Definition Linkbase  
101.LAB\*\* XBRL Taxonomy Extension Label Linkbase  
101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase

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\*Indicates documents filed herewith



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XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration  
\*\* statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, is deemed not filed for  
purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these  
sections.

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SIGNATURES

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

YRC WORLDWIDE INC.

Date: July 31, 2014

/s/ James L. Welch  
James L. Welch  
Chief Executive Officer

Date: July 31, 2014

/s/ Jamie G. Pierson  
Jamie G. Pierson  
Executive Vice President and  
Chief Financial Officer