

YRC Worldwide Inc.  
Form 10-Q  
October 29, 2015  
Table of Contents

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 September 30, 2015

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  
(State or other jurisdiction of  
incorporation or organization)

48-0948788  
(I.R.S. Employer  
Identification No.)

10990 Roe Avenue, Overland Park, Kansas  
(Address of principal executive offices)

66211  
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  Accelerated filer

Edgar Filing: YRC Worldwide Inc. - Form 10-Q

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 October 23, 2015
Common Stock, \$0.01 par value per share	32,615,981 shares

---

Table of Contents

INDEX

Item	Page
	<u>PART I – FINANCIAL INFORMATION</u>
1	<u>Financial Statements</u> 3
	<u>Consolidated Balance Sheets - September 30, 2015 and December 31, 2014</u> 3
	<u>Statements of Consolidated Comprehensive Income (Loss) - Three and Nine Months Ended September 30, 2015 and 2014</u> 4
	<u>Statements of Consolidated Cash Flows - Nine Months Ended September 30, 2015 and 2014</u> 5
	<u>Statement of Consolidated Shareholders' Deficit - Nine Months Ended September 30, 2015</u> 6
	<u>Notes to Consolidated Financial Statements</u> 7
2	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 15
3	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 29
4	<u>Controls and Procedures</u> 29
	<u>PART II – OTHER INFORMATION</u>
1	<u>Legal Proceedings</u> 30
1A	<u>Risk Factors</u> 30
6	<u>Exhibits</u> 30
	<u>Signatures</u> 31

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## CONSOLIDATED BALANCE SHEETS

## YRC Worldwide Inc. and Subsidiaries

(Amounts in millions except share and per share data)

	September 30, 2015 (Unaudited)	December 31, 2014
Assets		
Current Assets:		
Cash and cash equivalents	\$210.7	\$171.1
Restricted amounts held in escrow	25.7	28.9
Accounts receivable, net	497.8	470.5
Prepaid expenses and other	77.2	81.2
Total current assets	811.4	751.7
Property and Equipment:		
Cost	2,837.4	2,819.6
Less – accumulated depreciation	(1,898.5	) (1,825.4
Net property and equipment	938.9	994.2
Intangibles, net	45.1	60.3
Restricted amounts held in escrow	46.5	60.2
Deferred income taxes, net	21.2	21.4
Other assets	101.7	97.2
Total Assets	\$1,964.8	\$1,985.0
Liabilities and Shareholders' Deficit		
Current Liabilities:		
Accounts payable	\$185.6	\$172.2
Wages, vacations and employee benefits	204.2	176.6
Deferred income taxes, net	21.2	21.4
Other current and accrued liabilities	187.6	202.2
Current maturities of long-term debt	15.5	31.1
Total current liabilities	614.1	603.5
Other Liabilities:		
Long-term debt, less current portion	1,065.3	1,078.8
Deferred income taxes, net	3.2	1.5
Pension and postretirement	413.1	460.3
Claims and other liabilities	296.4	315.2
Commitments and contingencies		
Shareholders' Deficit:		
Preferred stock, \$1 par value per share	—	—
Common stock, \$0.01 par value per share	0.3	0.3
Capital surplus	2,310.8	2,290.9
Accumulated deficit	(2,215.8	) (2,240.0
Accumulated other comprehensive loss	(429.9	) (432.8
Treasury stock, at cost (410 shares)	(92.7	) (92.7
Total shareholders' deficit	(427.3	) (474.3
Total Liabilities and Shareholders' Deficit	\$1,964.8	\$1,985.0

The accompanying notes are an integral part of these statements.



Table of Contents

## STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME (LOSS)

YRC Worldwide Inc. and Subsidiaries

For the Three and Nine Months Ended September 30

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

(Unaudited)

	Three Months		Nine Months	
	2015	2014	2015	2014
Operating Revenue	\$1,244.9	\$1,322.6	\$3,689.7	\$3,851.1
Operating Expenses:				
Salaries, wages and employee benefits	725.8	745.9	2,148.6	2,212.3
Operating expenses and supplies	217.1	285.0	678.1	860.7
Purchased transportation	149.6	157.4	431.0	449.1
Depreciation and amortization	40.7	40.9	123.6	122.9
Other operating expenses	63.1	66.5	198.6	197.9
(Gains) losses on property disposals, net	0.9	0.2	1.5	(6.1)
Total operating expenses	1,197.2	1,295.9	3,581.4	3,836.8
Operating Income	47.7	26.7	108.3	14.3
Nonoperating Expenses:				
Interest expense	25.7	32.6	81.2	122.5
(Gain) loss on extinguishment of debt	—	—	0.6	(11.2)
Other, net	(4.5)	(2.7)	(8.1)	(6.7)
Nonoperating expenses, net	21.2	29.9	73.7	104.6
Income (loss) before income taxes	26.5	(3.2)	34.6	(90.3)
Income tax (benefit) expense	6.7	(4.4)	10.4	(16.4)
Net income (loss)	19.8	1.2	24.2	(73.9)
Amortization of beneficial conversion feature on preferred stock	—	—	—	(18.1)
Net Income (Loss) Attributable to Common Shareholders	19.8	1.2	24.2	(92.0)
Net income (loss)	19.8	1.2	24.2	(73.9)
Other comprehensive income (loss), net of tax	(1.9)	(0.6)	2.9	3.9
Comprehensive Income (Loss) Attributable to YRC Worldwide Inc.	\$17.9	\$0.6	\$27.1	\$(70.0)
Average Common Shares Outstanding – Basic	32,065	30,639	31,602	27,896
Average Common Shares Outstanding – Diluted	32,621	31,903	32,569	27,896
Earnings (loss) Per Share – Basic	\$0.62	\$0.04	\$0.76	\$(3.30)
Earnings (loss) Per Share – Diluted	\$0.61	\$(0.03)	\$0.74	\$(3.30)

The accompanying notes are an integral part of these statements.

Table of Contents

## STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30

(Amounts in millions)

(Unaudited)

	2015	2014	
Operating Activities:			
Net income (loss)	\$24.2	\$(73.9	)
Noncash items included in net income (loss):			
Depreciation and amortization	123.6	122.9	
Paid-in-kind interest on Series A Notes and Series B Notes	0.4	13.9	
Amortization of deferred debt costs	4.8	6.9	
Amortization of premiums and discounts on debt	1.7	26.5	
Noncash equity based compensation and employee benefits expense	18.5	20.6	
Deferred income tax benefit	—	(3.0	)
(Gains) losses on property disposals, net	1.5	(6.1	)
(Gain) loss on extinguishment of debt	0.6	(11.2	)
Other noncash items, net	(6.8	) (4.7	)
Changes in assets and liabilities, net:			
Accounts receivable	(29.4	) (91.5	)
Accounts payable	10.0	18.4	
Other operating assets	(7.3	) 0.3	
Other operating liabilities	(50.3	) (45.4	)
Net cash provided by (used in) operating activities	91.5	(26.3	)
Investing Activities:			
Acquisition of property and equipment	(71.8	) (47.6	)
Proceeds from disposal of property and equipment	15.7	8.5	
Restricted escrow receipts	41.9	90.7	
Restricted escrow deposits	(25.0	) (33.6	)
Other, net	0.4	5.2	
Net cash provided by (used in) investing activities	(38.8	) 23.2	
Financing Activities:			
Issuance of long-term debt	—	693.0	
Repayments of long-term debt	(13.1	) (888.7	)
Debt issuance costs	—	(29.0	)
Equity issuance costs	—	(17.1	)
Equity issuance proceeds	—	250.0	
Net cash provided by (used in) financing activities	(13.1	) 8.2	
Net Increase In Cash and Cash Equivalents	39.6	5.1	
Cash and Cash Equivalents, Beginning of Period	171.1	176.3	
Cash and Cash Equivalents, End of Period	\$210.7	\$181.4	

## Supplemental Cash Flow Information:

Interest paid	\$(79.3	) \$(103.3	)
Income tax refund (payment), net	\$(1.6	) \$19.3	

The accompanying notes are an integral part of these statements.





Table of Contents

## STATEMENT OF CONSOLIDATED SHAREHOLDERS' DEFICIT

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30, 2015

(Amounts in millions)

(Unaudited)

Preferred Stock:		
Beginning and ending balance	\$—	
Common Stock:		
Beginning and ending balance	\$0.3	
Capital Surplus:		
Beginning balance	\$2,290.9	
Share-based compensation	1.4	
Issuance of equity upon conversion and exchange of Series B Notes	18.5	
Ending balance	\$2,310.8	
Accumulated Deficit:		
Beginning balance	\$(2,240.0)	)
Net income	24.2	
Ending balance	\$(2,215.8)	)
Accumulated Other Comprehensive Loss:		
Beginning balance	\$(432.8)	)
Reclassification of net pension actuarial losses to net income, net of tax	12.0	
Foreign currency translation adjustments	(9.1)	)
Ending balance	\$(429.9)	)
Treasury Stock, At Cost:		
Beginning and ending balance	\$(92.7)	)
Total Shareholders' Deficit	\$(427.3)	)
The accompanying notes are an integral part of these statements.		

Table of Contents

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”) 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 with national, regional and international services. YRC Freight provides for the movement of industrial, commercial and retail goods, primarily through centralized management. This reporting segment includes our LTL subsidiary YRC Inc. (“YRC Freight”) and Reimer Express (“YRC Reimer”), a subsidiary located in Canada that specializes in shipments into, across and out of Canada. In addition to the United States and Canada, YRC Freight also serves parts of Mexico, Puerto Rico and Guam.

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

At September 30, 2015, 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 Chinese joint venture, a 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, we have made 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. 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, 2014.

7

---

Table of Contents

## Fair Value of Financial Instruments

The following table summarizes the fair value hierarchy of our financial assets and liabilities carried at fair value on a recurring basis as of September 30, 2015:

(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	\$25.7	\$25.7	\$—	\$—
Restricted amounts held in escrow-long term	46.5	46.5	—	—
Total assets at fair value	\$72.2	\$72.2	\$—	\$—

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 approximate their fair value due to the short-term nature of these instruments.

## Equity Method Investment

On October 23, 2015, the Company entered into an equity interest sale and purchase agreement to sell its fifty percent interest in its Chinese joint venture, JHJ International Transportation Co., Ltd. (“JHJ”), for a purchase price of \$16.3 million, which we expect upon sale, will result in an inconsequential gain in the accompanying statement of consolidated comprehensive income (loss). The investment is recorded in other assets in the accompanying consolidated balance sheet.

## Reclassifications Out of Accumulated Other Comprehensive Loss

For three and nine months ended September 30, 2015, we reclassified the amortization of our net pension loss totaling \$4.0 million and \$12.0 million, respectively, net of tax, from accumulated other comprehensive loss to net income. For three and nine months ended September 30, 2014, we reclassified the amortization of our net pension loss totaling \$1.9 million and \$5.8 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 “Employee Benefits” footnote.

## Impact of Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued new authoritative literature, Interest - Imputation of Interest, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the accounting treatment for debt discounts. The recognition and measurement guidance of debt issuance costs are not affected by this update. The guidance, which requires retrospective application, is effective for the Company beginning January 1, 2016, but early adoption is allowed. The Company plans to adopt this guidance for the first quarter of 2016. As of September 30, 2015 and December 31, 2014, the Company had \$21.7 million and \$26.5 million, respectively, of debt issuance costs related to its Term Loan, Second A&R CDA and ABL Facility (each as defined in the Debt and Financing footnote). In accordance with the guidance, the Company would reclassify these costs from other assets to long-term debt in the consolidated balance sheets.

In May 2015, the FASB issued new authoritative literature, Revenue from Contracts with Customers, Deferral of the Effective Date, which defers the effective date of the new revenue standard by one year. The new standard is effective for the Company beginning January 1, 2018. Early adoption is permitted for annual periods beginning January 1,

2017. While we do not believe the guidance will have a significant impact on the Company's consolidated financial statements, we are currently evaluating the guidance, including which transition approach will be applied.

Table of Contents

## 3. Debt and Financing

Our outstanding debt as of September 30, 2015 and December 31, 2014 consisted of the following:

As of September 30, 2015 (in millions)	Par Value	Discount	Book Value	Stated Interest Rate	Average Effective Interest Rate
Term Loan	\$687.8	\$(4.7)	\$683.1	8.3	% 8.5
ABL Facility <sup>(a)</sup>	—	—	—	N/A	N/A
Secured Second A&R CDA	44.7	—	44.7	3.3-18.3%	7.3
Unsecured Second A&R CDA	73.2	—	73.2	3.3-18.3%	7.3
Lease financing obligations	279.8	—	279.8	10.0-18.2%	12.0
Total debt	\$1,085.5	\$(4.7)	\$1,080.8		
Current maturities of Term Loan	(7.0)	) —	(7.0)	)	
Current maturities of lease financing obligations	(8.5)	) —	(8.5)	)	
Long-term debt	\$1,070.0	\$(4.7)	\$1,065.3		

<sup>(a)</sup> There were no amounts drawn on the ABL Facility at any time during the nine months ended September 30, 2015.

As of December 31, 2014 (in millions)	Par Value	Discount	Book Value	Stated Interest Rate	Average Effective Interest Rate
Term Loan	\$693.0	\$(5.7)	\$687.3	8.3	% 8.5
ABL Facility <sup>(a)</sup>	—	—	—	N/A	N/A
Series B Notes	17.7	(0.6)	17.1	10.0	% 25.6
Secured Second A&R CDA	47.0	—	47.0	3.3-18.3%	7.3
Unsecured Second A&R CDA	73.2	—	73.2	3.3-18.3%	7.3
Lease financing obligations	285.1	—	285.1	10.0-18.2%	12.0
Other	0.2	—	0.2		
Total debt	\$1,116.2	\$(6.3)	\$1,109.9		
Current maturities of Term Loan	(7.0)	) —	(7.0)	)	
Current maturities of Series B Notes	(17.7)	) 0.6	(17.1)	)	
Current maturities of lease financing obligations	(6.8)	) —	(6.8)	)	
Current maturities of other	(0.2)	) —	(0.2)	)	
Long-term debt	\$1,084.5	\$(5.7)	\$1,078.8		

<sup>(a)</sup> There were no amounts drawn on the ABL Facility at any time during the twelve months ended December 31, 2014.

## ABL Facility Availability

As of September 30, 2015, we had cash and cash equivalents of \$210.7 million and the borrowing base and maximum availability on our asset based loan facility (the “ABL Facility”) were \$445.1 million and \$78.6 million, respectively. The maximum availability is calculated in accordance with the terms of the ABL Facility and is derived by reducing the borrowing base by our \$366.5 million of outstanding letters of credit as of September 30, 2015. While our ABL Agreement permits us to access maximum availability outside of certain financial covenant restrictions (which restrictions did not limit our availability as of September 30, 2015), the maximum amount we expect to access on our ABL Facility at any time is maximum availability less the lower of 10% of the borrowing base (\$44.5 million at September 30, 2015) or 10% of the collateral line cap (\$45.0 million at September 30, 2015). Thus, of the \$78.6 million in maximum availability, we expected to access no more than \$34.1 million as of September 30, 2015 (“Managed Accessibility”). As a result, we had cash and cash equivalents and Managed Accessibility of \$244.8 million

as of September 30, 2015.

9

---

Table of Contents

As of December 31, 2014, we had cash and cash equivalents of \$171.1 million and the borrowing base and maximum availability on our ABL Facility were \$445.5 million and \$71.2 million, respectively. The maximum availability is calculated in accordance with the terms of the ABL Facility and is derived by reducing the borrowing base by our \$374.3 million of outstanding letters of credit. As of December 31, 2014, amounts able to be drawn on our ABL Facility (which were limited by certain financial covenant restrictions) were \$27.1 million, for a total of cash and cash equivalents and amounts able to be drawn on our ABL Facility of \$198.2 million.

## Credit Facility Covenants

The credit agreement (the “Term Loan Agreement”) governing our term loan facility (the “Term Loan”) has certain financial covenants, as amended in September 2014, 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).

Our total maximum leverage ratio covenants are as follows:

Four Consecutive Fiscal Quarters Ending	Maximum Total Leverage Ratio	Four Consecutive Fiscal Quarters Ending	Maximum Total Leverage Ratio
September 30, 2015	4.50 to 1.00	December 31, 2016	3.50 to 1.00
December 31, 2015	4.25 to 1.00	March 31, 2017	3.25 to 1.00
March 31, 2016	4.00 to 1.00	June 30, 2017	3.25 to 1.00
June 30, 2016	3.75 to 1.00	September 30, 2017	3.25 to 1.00
September 30, 2016	3.75 to 1.00	December 31, 2017 and thereafter	3.00 to 1.00

Consolidated Adjusted EBITDA, defined in our Term Loan Agreement as “Consolidated EBITDA,” 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, restructuring professional fees, nonrecurring consulting fees, expenses associated with certain lump sum payments to our International Brotherhood of Teamsters (“IBT”) employees and the results of permitted dispositions and discontinued operations. Consolidated Total Debt, as defined in our Term Loan Agreement, is the aggregate principal amount of indebtedness outstanding. Our total leverage ratio for the four consecutive fiscal quarters ending September 30, 2015 was 3.15 to 1.00. Additionally, our ABL Facility credit agreement, among other things, restricts certain capital expenditures.

We believe that our results of operations will be sufficient to allow us to comply with the covenants in the Term Loan Agreement, fund our operations, increase working capital as necessary to support our planned revenue growth and fund capital expenditures for at least the next twelve months. In order for us to maintain compliance with the maximum total leverage ratio over the tenor of the Term Loan and satisfy our liquidity needs, we must achieve positive operating results which reflect continuing improvement over our recent results. Improvements to our profitability may include ongoing successful implementation and realization of pricing, productivity and efficiency initiatives, as well as increased volume, some of which are outside of our control.

## Series B Exchange

Our 10% Series B Convertible Senior Secured Notes (the “Series B Notes”), which matured on March 31, 2015, were convertible into our Common Stock, 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).



On March 25, 2015, we entered into an exchange agreement with certain holders of our Series B Notes to exchange their outstanding principal and accrued interest balances totaling \$17.9 million at conversion price of \$18.00 per share for an aggregate 994,689 shares of Common Stock. During the nine months ended September 30, 2015, we recorded \$0.6 million of additional expense related to the fair value of the incremental shares provided to those holders who exchanged their outstanding balances. At maturity on March 31, 2015, we repaid the holders of the remaining outstanding Series B Notes approximately \$0.3 million of cash.

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 nine months ended September 30, 2014, \$1.2 million of aggregate principal amount of Series B Notes were converted into 75,900 shares of our Common Stock, which includes the make whole premium. Upon conversion, during the nine months ended September 30, 2014, we recorded \$0.4 million of additional interest expense

Table of Contents

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 September 30, 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)	September 30, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Term Loan	\$683.1	\$673.2	\$687.3	\$685.4
Series B Notes	—	—	17.1	17.7
Lease financing obligations	279.8	284.7	285.1	282.2
Other	117.9	115.4	120.4	119.1
Total debt	\$1,080.8	\$1,073.3	\$1,109.9	\$1,104.4

The fair values of the Term Loan, Series B Notes and the Secured and Unsecured Second Amended and Restated Contribution Deferral Agreement (the “Second 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).

## Leases

As of September 30, 2015, our minimum rental expense under operating leases for the remainder of the year was \$17.7 million. As of September 30, 2015, our operating lease payment obligations through 2025 totaled \$232.1 million and is expected to increase as we lease additional revenue equipment.

Our capital expenditures for the nine months ended September 30, 2015 and 2014 were \$71.8 million and \$47.6 million, respectively. These amounts were principally used to fund the purchase of used tractors and trailers, to refurbish engines for our revenue fleet, and capitalized costs for technology infrastructure. Additionally, for the nine months ended September 30, 2015, we entered into new operating leases for revenue equipment totaling \$102.0 million in future lease payments, payable over an average lease term of five years.

## 4. Employee Benefits

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

(in millions)	Three Months		Nine Months	
	2015	2014	2015	2014
Service cost	\$1.2	\$1.1	\$3.6	\$3.2
Interest cost	14.3	15.2	42.9	45.6
Expected return on plan assets	(15.0)	(13.4)	(45.0)	(40.2)
Amortization of net pension loss	4.0	3.2	12.0	9.6
Total periodic pension cost	\$4.5	\$6.1	\$13.5	\$18.2

We expect to contribute \$60.0 million to our company-sponsored pension plans in 2015 of which we have contributed \$48.9 million through September 30, 2015.

5. Income Taxes

Our effective tax rate for the three and nine months ended September 30, 2015 was 25.3% and 30.1%, compared to 137.5% and 18.2% for the three and nine months ended September 30, 2014. The significant items impacting the 2015 rate include a net state and foreign tax provision, certain permanent items, and a change in the valuation allowance established for the net deferred tax

11

---

Table of Contents

asset balance projected for December 31, 2015. The significant items impacting the 2014 rate include the settlement of several audits with the Internal Revenue Service, 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 such assets will not be realized. Changes in valuation allowances are included in our tax provision in the period of change. In determining whether a valuation allowance is warranted, we evaluate factors such as prior years' earnings history, expected future earnings, loss carry-back and carry-forward periods, reversals of existing deferred tax liabilities and tax planning strategies that potentially enhance the likelihood of the realization of a deferred tax asset. At September 30, 2015 and December 31, 2014, substantially all of our net deferred tax assets were subject to a valuation allowance.

Concurrent with the financing transactions of January 31, 2014, 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 material as most of the carryforwards to which this ownership change applies already have been significantly limited by previous ownership changes occurring in 2011 and 2013.

## 6. Shareholders' Deficit

The following reflects the activity in the shares of our common stock for the nine months ended September 30, 2015:

(shares in thousands)	2015
Beginning balance	30,667
Issuance of equity awards	464
Issuance of common stock upon conversion or exchange of Series B Notes	995
Ending balance	32,126

## 7. Stock Compensation Plans

## Performance Based Awards

On March 9, 2015, the Company granted performance stock unit awards ("2015 Performance Awards") to employees. The awards provide a target number of shares that vest equally over three years, with the first vesting occurring on February 23, 2016. In addition to meeting service conditions, the number of performance stock units to be received depends on the attainment of defined Company-wide performance goals for 2015 based on adjusted return on invested capital over a one year performance period. The number of performance stock units ultimately earned will range between zero to 200% of the target award.

A summary of performance based unvested stock unit activity at target is as follows:

(stock units in thousands)	Target Number of Units	Weighted Average Fair Value
Unvested performance stock unit awards, at December 31, 2014	—	—
2015 Performance Awards granted	217	\$18.10
2015 Performance Awards forfeited	(3	)18.23
Unvested performance stock unit awards, at September 30, 2015 <sup>(a)</sup>	214	\$18.10

<sup>(a)</sup> For the 2015 Performance Awards, participants in the aggregate can earn up to a maximum of 428 thousand performance stock units.

The Company expenses the grant date fair value of the awards which are probable of being earned in the performance period over the respective service period. Compensation cost on performance based awards was \$1.7 million and \$2.8 million for the three and nine months ended September 30, 2015. As of September 30, 2015, at target performance, \$2.5 million of unrecognized compensation cost related to performance based awards is expected to be recognized over a weighted-average period of 1.6 years.

Table of Contents

## 8. Earnings (Loss) Per Share

We calculate basic earnings (loss) per share by dividing our net earnings (loss) by our weighted-average shares outstanding at the end of the period. The calculation for diluted earnings per share adjusts the weighted average shares outstanding for our dilutive unvested shares and stock units using the treasury stock method and for our convertible notes using the if-converted method. Our calculations for basic and dilutive earnings (loss) per share for the three and nine months ended September 30, 2015 and 2014 are as follows:

(dollars in millions, except per share data, shares and stock units in thousands)	Three Months		Nine Months	
	2015	2014	2015	2014
Basic net income (loss) available to common shareholders	\$ 19.8	\$ 1.2	\$ 24.2	\$ (92.0 )
Effect of dilutive securities:				
Series B Notes <sup>(a)</sup>	—	(2.0 )	—	—
Dilutive net income (loss) available to common shareholders	\$ 19.8	\$ (0.8 )	\$ 24.2	\$ (92.0 )
Basic weighted average shares outstanding	32,065	30,639	31,602	27,896
Effect of dilutive securities:				
Unvested shares and stock units	556	282	646	—
Series B Notes	—	982	321	—
Dilutive weighted average shares outstanding	32,621	31,903	32,569	27,896
Basic earnings (loss) per share <sup>(b)</sup>	\$0.62	\$0.04	\$0.76	\$ (3.30 )
Diluted earnings (loss) per share <sup>(b)</sup>	\$0.61	\$ (0.03 )	\$0.74	\$ (3.30 )

<sup>(a)</sup> The Series B Notes were recorded at a discount that accelerated upon conversion and contained a make-whole interest premium that would have required us to pay interest as if the security were held to maturity upon conversion and, as such, would have resulted in incremental expense under the if-converted method.

<sup>(b)</sup> Earnings (loss) per share is based on unrounded figures and not the rounded figures presented.

Given our net loss position for the nine months ended September 30, 2014, there were no dilutive securities for this period.

Our anti-dilutive securities at September 30, 2015 and 2014 are as follows:

(shares, options and stock units in thousands)	2015	2014
Anti-dilutive unvested shares, options, and stock units	264	358
Anti-dilutive Series B Notes	—	981

## 9. Business Segments

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

We have the following reporting 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. This unit includes our LTL subsidiaries YRC Freight and YRC Reimer, 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

Table of Contents

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

The following table summarizes our operations by business segment:

(in millions)	YRC Freight	Regional Transportation	Corporate/ Eliminations	Consolidated
As of September 30, 2015				
Identifiable assets	\$1,452.2	\$748.6	\$(236.0)	) \$1,964.8
As of December 31, 2014				
Identifiable assets	\$1,462.1	\$685.7	\$(162.8)	) \$1,985.0
Three Months Ended September 30, 2015				
External revenue	\$789.2	\$455.7	\$—	\$1,244.9
Operating income (loss)	\$16.7	\$33.6	\$(2.6)	) \$47.7
Nine Months Ended September 30, 2015				
External revenue	\$2,322.0	\$1,367.7	\$—	\$3,689.7
Operating income (loss)	\$39.4	\$75.9	\$(7.0)	) \$108.3
Three Months Ended September 30, 2014				
External revenue	\$843.0	\$479.6	\$—	\$1,322.6
Operating income (loss)	\$8.8	\$24.4	\$(6.5)	) \$26.7
Nine Months Ended September 30, 2014				
External revenue	\$2,441.9	\$1,409.2	\$—	\$3,851.1
Operating income (loss)	\$(24.0)	) \$55.5	\$(17.2)	) \$14.3

## 10. 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 are 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. Plaintiffs' fourth motion to approve settlement was denied by the district court in October 2015, and the Company is considering all options going forward. Substantially all of the payments contemplated by the settlement would be covered by our liability insurance. The self-insured retention on this matter has been accrued. On March 4, 2015, the district court set the case for trial on the individual claims beginning June 6, 2016.

### 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.

Table of Contents

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," "could," "may," "project," "forecast," "propose," "plan," "designed," "estimate," "enable" and similar expressions which speak only as of the date the statement was made. Forward-looking statements are inherently uncertain, are based upon current beliefs, assumptions and expectations of Company management and current market conditions, 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 uncertainty 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 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;
- seasonal factors such as severe weather conditions;
- 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.

15

---

## Table of Contents

### 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 nine months ended September 30, 2015 and 2014.

**Reporting Segment Results of Operations** — an analysis of our results of operations for the three and nine months ended September 30, 2015 and 2014 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 nine months ended September 30, 2015 and 2014.

**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 “third quarter” and “first three quarters” of the years discussed below refer to the three and nine months ended September 30, respectively.

#### Our Business

We are a holding company that, through wholly owned operating subsidiaries and our interest in JHJ, 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) EBITDA and adjusted EBITDA:

EBITDA: a non-GAAP measure that reflects our earnings before interest, taxes, depreciation, and amortization expense. EBITDA is used for internal management purposes as a financial measure that reflects our core operating performance.

Table of Contents

Adjusted EBITDA: a non-GAAP measure that reflects our earnings before interest, taxes, depreciation, and amortization expense, and further adjusts for letter of credit fees, equity-based compensation expense, net gains or losses on property disposals, restructuring professional fees, nonrecurring consulting fees, expenses associated with certain lump sum payments to our IBT employees and the results of permitted dispositions, discontinued operations, among other items, 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.

Our non-GAAP financial measures have the following limitations:

EBITDA does not reflect the interest expense or the cash requirements necessary to service interest or fund principal payments on our outstanding debt;

Adjusted EBITDA does not reflect the interest expense or the cash requirements necessary to fund restructuring professional fees, nonrecurring consulting 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 EBITDA and adjusted EBITDA do 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;

Other companies in our industry may calculate adjusted EBITDA differently than we do, potentially limiting its 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 third quarter and first three quarters of 2015 and 2014:

(in millions)	Third Quarter			First Three Quarters		
	2015	2014	Percent Change	2015	2014	Percent Change
Operating revenue	\$1,244.9	\$1,322.6	(5.9)%	\$3,689.7	\$3,851.1	(4.2)%
Operating income	\$47.7	\$26.7	78.7%	\$108.3	\$14.3	NM*
Nonoperating expenses, net	\$21.2	\$29.9	(29.1)%	\$73.7	\$104.6	(29.5)%
Net income (loss)	\$19.8	\$1.2	NM*	\$24.2	\$(73.9)	NM*

(\* ) not meaningful

## Third Quarter of 2015 Compared to the Third Quarter of 2014

Our consolidated operating revenue decreased \$77.7 million, or 5.9%, during the third quarter of 2015 compared to the same period in 2014. The decrease in revenue is primarily attributed to a reduction in fuel surcharge revenue and

declines in volumes, partially offset by yield improvements.

Operating expenses for the third quarter of 2015 decreased \$98.7 million, or 7.6%, compared to the same period in 2014. The decrease in operating expenses was driven by a \$67.9 million, or 23.8%, decrease in operating expenses and supplies, a \$20.1 million, or 2.7%, decrease in salaries, wages and employee benefits, a \$7.8 million, or 5.0%, decrease in purchased transportation, and a \$3.4 million, or 5.1%, decrease in other operating expenses.

Table of Contents

The \$67.9 million, or 23.8%, decrease in operating expenses and supplies in the third quarter of 2015 was primarily the result of a \$61.7 million decrease in fuel expense compared to the third quarter of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis, as well as fewer miles driven.

The \$20.1 million, or 2.7%, decrease in salaries, wages and employee benefits was primarily attributed to a \$20.7 million decrease in wages and benefits due to lower total shipments in 2015 compared to 2014, which required fewer employee hours to process freight, in addition to a \$4.5 million decrease in workers' compensation expense primarily due to lower claim frequency in 2015, as compared to the third quarter of 2014.

The \$7.8 million, or 5.0%, decrease in purchased transportation was primarily related to a decrease in total shipments and lower rail and road rates in the third quarter of 2015, as compared to the third quarter of 2014, which is primarily driven by lower fuel surcharges paid to our providers. Offsetting this decrease is additional purchased transportation expense resulting from higher usage of leased revenue equipment due to our strategy of using operating leases to acquire new revenue equipment.

The \$3.4 million, or 5.1%, decrease in other operating expenses was primarily driven by a \$3.9 million decrease in our cargo claims expense as a result of more favorable claims experience in the third quarter of 2015, as compared to the third quarter of 2014.

Nonoperating expenses decreased \$8.7 million in the third quarter of 2015 compared to the third quarter of 2014. The decrease in nonoperating expenses was primarily driven by a \$6.9 million decrease in interest expense, primarily due to additional interest expense in the third quarter of 2014 due to the redemption of our Series A Convertible Senior Secured Notes, offset by a reduction in our outstanding debt.

Our effective tax rate for the third quarter of 2015 and 2014 was 25.3% and 137.5%, respectively. Significant items impacting the third quarter of 2015 rate include a net state and foreign tax provision, certain permanent items, and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2015. The significant items impacting the 2014 rate include the settlement of several audits with the Internal Revenue Service, 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 September 30, 2015 and December 31, 2014, substantially all of our net deferred tax assets are subject to a valuation allowance.

First Three Quarters of 2015 Compared to the First Three Quarters of 2014

Our consolidated operating revenue decreased \$161.4 million, or 4.2%, during the first three quarters of 2015 compared to the same period in 2014. The decrease in revenue for the first three quarters of 2015, as compared to the same period in 2014, is primarily attributed to a reduction in fuel surcharge revenue and declines in volumes. Partially offsetting this decrease was increased yield over the comparable prior year period as a result of our commitment to grow yield and improve profitability, which was initiated during second quarter 2014.

Operating expenses for the first three quarters of 2015 decreased \$255.4 million, or 6.7%, compared to the same period in 2014. The decrease in operating expenses was driven by a \$182.6 million, or 21.2%, decrease in operating expenses and supplies, a \$63.7 million, or 2.9%, decrease in salaries, wages and employee benefits, and an \$18.1 million, or 4.0%, decrease in purchased transportation.

•



The \$182.6 million, or 21.2%, decrease in operating expenses and supplies in the first three quarters of 2015 was primarily the result of a \$180.4 million decrease in fuel expense compared to the first three quarters of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis, as well as fewer miles driven.

The \$63.7 million, or 2.9%, decrease in salaries, wages and employee benefits was primarily attributed to a \$58.3 million decrease in wages and benefits due to lower total shipments in 2015 compared to 2014, which required fewer employee hours to process freight and a \$12.3 million decrease in workers' compensation expense resulting from lower claim frequency in 2015 as compared to the first three quarters of 2014.

The \$18.1 million, or 4.0%, decrease in purchased transportation was primarily related to a decrease in total shipments and lower rail and road rates in the first three quarters of 2015, as compared to the first three quarters of 2014, which is primarily driven by lower fuel surcharges paid to our providers. Offsetting this decrease is additional purchased transportation expense resulting from higher usage of leased revenue equipment and an increase in purchased road miles

Table of Contents

as the first three quarters of 2015 reflects higher utilization of our over-the-road purchased transportation option as permitted in our modified labor agreement that went into effect in February 2014.

Nonoperating expenses decreased \$30.9 million in the first three quarters of 2015 compared to the first three quarters of 2014 primarily driven by a \$41.3 million decrease in interest expense. In the first three quarters of 2014, we incurred additional interest expense that was driven by the acceleration of the amortization of the deferred debt costs on our then-existing term loan facility and then-existing asset based loan facility when they were extinguished in the first quarter of 2014. The increase in interest expense was partially offset by the gain we recorded on the extinguishment of debt of \$11.2 million 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 price of \$15.00 per share. Additionally, the decrease in interest expense is driven by an overall reduction in outstanding debt.

Our effective tax rate for the first three quarters of 2015 and 2014 was 30.1% and 18.2%, respectively. Significant items impacting the first three quarters of 2015 rate include a net state and foreign tax provision, certain permanent items, and a change in the valuation allowance established for the net deferred tax asset balance projected for December 31, 2015. The significant items impacting the 2014 rate include the settlement of certain tax years with the IRS, 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 September 30, 2015 and December 31, 2014, 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. This unit includes our LTL subsidiaries YRC Freight and YRC Reimer, 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 63% of consolidated operating revenue for the third quarter of 2015, as compared to 64% for the third quarter of 2014. YRC Freight represented 63% of consolidated operating revenue for both the first three quarters of 2015 and 2014. The table below provides summary financial information for YRC Freight for the third quarter and first three quarters of 2015 and 2014:

Third Quarter

First Three Quarters

Edgar Filing: YRC Worldwide Inc. - Form 10-Q

(in millions)	2015	2014	Percent Change	2015	2014	Percent Change	
Operating revenue	\$789.2	\$843.0	(6.4)%	\$2,322.0	\$2,441.9	(4.9)	)%
Operating income (loss)	\$16.7	\$8.8	89.8%	\$39.4	\$(24.0)	)	NM*
Operating ratio <sup>(a)</sup>	97.9	% 99.0	% 1.1 pp	98.3	% 101.0	% 2.7	pp

(a) pp represents the change in percentage points

(\*) not meaningful

Table of Contents

## Third Quarter of 2015 Compared to the Third Quarter of 2014

YRC Freight reported operating revenue of \$789.2 million in the third quarter of 2015, a decrease of \$53.8 million, or 6.4%, compared to the same period in 2014. The decrease in revenue is primarily attributed to a reduction in fuel surcharge revenue and declines in volume, partially offset by improved yield. The table below summarizes the key revenue metrics for the YRC Freight reporting segment for the third quarter of 2015 compared to the third quarter of 2014:

	Third Quarter		Percent Change <sup>(b)</sup>
	2015	2014	
Workdays	64.0	64.0	
Total picked up revenue (in millions) <sup>(a)</sup>	\$ 784.4	\$ 840.1	(6.6)%
Total tonnage (in thousands)	1,641	1,750	(6.2)%
Total tonnage per day (in thousands)	25.64	27.34	(6.2)%
Total shipments (in thousands)	2,740	2,957	(7.3)%
Total shipments per day (in thousands)	42.82	46.20	(7.3)%
Total picked up revenue per hundred weight	\$ 23.90	\$ 24.00	(0.4)%
Total picked up revenue per hundred weight (excluding fuel surcharge)	\$ 21.24	\$ 20.08	5.8%
Total picked up revenue per shipment	\$ 286	\$ 284	0.7%
Total picked up revenue per shipment (excluding fuel surcharge)	\$ 254	\$ 238	7.0%
Total weight per shipment (in pounds)	1,198	1,184	1.2%

(in millions)	Third Quarter	
	2015	2014
(a) Reconciliation of operating revenue to total picked up revenue:		
Operating revenue	\$ 789.2	\$ 843.0
Change in revenue deferral and other	(4.8)	(2.9)
Total picked up revenue	\$ 784.4	\$ 840.1

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

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

Operating income for YRC Freight was \$16.7 million in the third quarter of 2015 compared to \$8.8 million in the third quarter of 2014. Operating revenue in the third quarter of 2015 decreased by \$53.8 million, or 6.4%, and total operating expenses decreased by \$61.7 million, or 7.4%. The decrease in operating expense consisted primarily of a \$31.0 million, or 17.9%, decrease in operating expenses and supplies, a \$22.7 million, or 4.8%, decrease in salaries, wages and employee benefits, and a \$6.9 million, or 5.5%, decrease in purchased transportation.

The \$31.0 million, or 17.9%, decrease in operating expenses and supplies in the third quarter of 2015 was primarily the result of a \$33.4 million decrease in fuel expense compared to the third quarter of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis and fewer miles driven.

The \$22.7 million, or 4.8%, decrease in salaries, wages and employee benefits was driven by an \$18.4 million decrease in wages and benefits due to lower total shipments in 2015 compared to 2014, which required fewer employee hours to process freight and a \$3.3 million decrease in workers' compensation expense driven by lower claim frequency in 2015 as compared to 2014.

The \$6.9 million, or 5.5%, decrease in purchased transportation was primarily related to a decrease in total shipments and lower rail and road rates in the third quarter of 2015, as compared to the third quarter of 2014, which is primarily driven by lower fuel surcharges paid to our providers. Partially offsetting this decrease is additional purchased transportation expense resulting from higher usage of leased revenue equipment.

Table of Contents

## First Three Quarters of 2015 Compared to the First Three Quarters of 2014

YRC Freight reported operating revenue of \$2,322.0 million in the first three quarters of 2015, a decrease of \$119.9 million, or 4.9%, compared to the same period in 2014. The decrease in revenue is primarily attributed to a reduction in fuel surcharge revenue and declines in volume, offset by improved yield. The table below summarizes the key revenue metrics for the YRC Freight reporting segment for the first three quarters of 2015 compared to the first three quarters of 2014:

	First Three Quarters		Percent Change <sup>(b)</sup>
	2015	2014	
Workdays	190.0	190.5	
Total picked up revenue (in millions) <sup>(a)</sup>	\$2,313.9	\$2,435.3	(5.0)%
Total tonnage (in thousands)	4,892	5,192	(5.8)%
Total tonnage per day (in thousands)	25.75	27.26	(5.5)%
Total shipments (in thousands)	8,135	8,799	(7.5)%
Total shipments per day (in thousands)	42.81	46.19	(7.3)%
Total picked up revenue per hundred weight	\$23.65	\$23.45	0.9%
Total picked up revenue per hundred weight (excluding fuel surcharge)	\$20.87	\$19.55	6.8%
Total picked up revenue per shipment	\$284	\$277	2.8%
Total picked up revenue per shipment (excluding fuel surcharge)	\$251	\$231	8.8%
Total weight per shipment (in pounds)	1,203	1,180	1.9%

(in millions)	First Three Quarters	
	2015	2014
(a) Reconciliation of operating revenue to total picked up revenue:		
Operating revenue	\$2,322.0	\$2,441.9
Change in revenue deferral and other	(8.1)	(6.6)
Total picked up revenue	\$2,313.9	\$2,435.3
(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		

Operating income for YRC Freight was \$39.4 million in the first three quarters of 2015 compared to an operating loss of \$24.0 million in the same period in 2014. Operating revenue in the first three quarters of 2015 was lower by \$119.9 million, or 4.9%, and total operating expenses decreased by \$183.3 million, or 7.4%. The decrease in operating expense consisted primarily of a \$101.0 million, or 19.0%, decrease in operating expenses and supplies, a \$63.9 million, or 4.6%, decrease in salaries, wages and employee benefits and a \$24.5 million, or 6.8%, decrease in purchased transportation.

The \$101.0 million, or 19.0%, decrease in operating expenses and supplies in the first three quarters of 2015 was primarily the result of a \$103.9 million decrease in fuel expense compared to the first three quarters of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis and fewer miles driven.

The \$63.9 million, or 4.6%, decrease in salaries, wages and employee benefits was driven by a \$54.1 million decrease in wages and benefits due to lower total shipments in the first three quarters of 2015 compared to the first three quarters of 2014, which required fewer employee hours to process freight and an \$11.6 million decrease in workers' compensation expense primarily driven by favorable adjustments due to lower claim frequency in 2015, as compared to 2014.

The \$24.5 million, or 6.8%, decrease in purchased transportation was primarily related to a decrease in total shipments and lower rail and road rates in the first three quarters of 2015, as compared to the first three quarters of 2014, which is primarily driven by lower fuel surcharges paid to our providers. Partially offsetting this decrease is additional purchased transportation expense resulting from higher usage of leased revenue equipment and an increase in purchased road miles as the first three quarters of 2015 reflects higher utilization of our over-the-road purchased transportation option as permitted in our modified labor agreement that went into effect in February 2014.

Finally, on a year-over-year basis, gains from excess property sales in the first three quarters of 2014 were \$6.8 million compared to losses of \$1.7 million in the first three quarters of 2015.

Table of Contents

## Regional Transportation Results

Regional Transportation represented 37% of consolidated revenue for the third quarter of 2015, as compared to 36% for the third quarter of 2014. Regional Transportation represented 37% of consolidated revenue for both the first three quarters of 2015 and 2014. The table below provides summary financial information for Regional Transportation for the third quarter and the first three quarters of 2015 and 2014:

(in millions)	Third Quarter			First Three Quarters			
	2015	2014	Percent Change	2015	2014	Percent Change	
Operating revenue	\$455.7	\$479.6	(5.0)%	\$1,367.7	\$1,409.2	(2.9)%	
Operating income	\$33.6	\$24.4	37.7%	\$75.9	\$55.5	36.8%	
Operating ratio <sup>(a)</sup>	92.6	% 94.9	% 2.3	pp 94.5	% 96.1	% 1.6	pp

(a) pp represents the change in percentage points

## Third Quarter of 2015 Compared to the Third Quarter of 2014

Regional Transportation reported operating revenue of \$455.7 million for the third quarter of 2015, a decrease of \$23.9 million, or 5.0%, from the third quarter of 2014. The decrease in revenue is primarily attributed to a reduction in fuel surcharge revenue and declines in volume, partially offset by improved yield. The table below summarizes the key revenue metrics for the Regional Transportation reporting segment for the third quarter of 2015 compared to the third quarter of 2014:

	Third Quarter		Percent Change <sup>(b)</sup>
	2015	2014	
Workdays	64.0	64.0	
Total picked up revenue (in millions) <sup>(a)</sup>	\$455.9	\$479.9	(5.0) %
Total tonnage (in thousands)	1,974	2,046	(3.5) %
Total tonnage per day (in thousands)	30.85	31.97	(3.5) %
Total shipments (in thousands)	2,672	2,794	(4.3) %
Total shipments per day (in thousands)	41.76	43.65	(4.3) %
Total picked up revenue per hundred weight	\$11.55	\$11.73	(1.5) %
Total picked up revenue per hundred weight (excluding fuel surcharge)	\$10.32	\$9.91	4.1 %
Total picked up revenue per shipment	\$171	\$172	(0.7) %
Total picked up revenue per shipment (excluding fuel surcharge)	\$153	\$145	5.0 %
Total weight per shipment (in pounds)	1,478	1,465	0.9 %

(in millions)	Third Quarter	
	2015	2014
(a) Reconciliation of operating revenue to total picked up revenue:		
Operating revenue	\$455.7	\$479.6
Change in revenue deferral and other	0.2	0.3
Total picked up revenue	\$455.9	\$479.9

(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

Operating income for Regional Transportation was \$33.6 million for the third quarter of 2015, an increase of \$9.2 million, or 37.7%, from the same period in 2014. Operating revenue in the third quarter of 2015 was lower by \$23.9 million, or 5.0%, and total operating expenses decreased by \$33.1 million, or 7.3%. The decrease in total operating expenses was primarily driven by a \$28.9 million, or 25.6%, decrease in operating expenses and supplies in the third quarter of 2015 mostly due to a \$28.3 million

Table of Contents

decrease in fuel expense compared to the third quarter of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis and fewer miles driven.

## First Three Quarters of 2015 Compared to the First Three Quarters of 2014

Regional Transportation reported operating revenue of \$1,367.7 million for the first three quarters of 2015, a decrease of \$41.5 million, or 2.9%, from the first three quarters of 2014. The decrease in revenue is primarily attributed to a reduction in fuel surcharge revenue and declines in volume, partially offset by improved yield. The table below summarizes the key revenue metrics for the Regional Transportation reporting segment for the first three quarters of 2015 compared to the first three quarters of 2014:

	First Three Quarters		Percent Change <sup>(b)</sup>
	2015	2014	
Workdays	191.5	193.5	
Total picked up revenue (in millions) <sup>(a)</sup>	\$ 1,368.4	\$ 1,409.9	(2.9)%
Total tonnage (in thousands)	5,948	6,115	(2.7)%
Total tonnage per day (in thousands)	31.06	31.60	(1.7)%
Total shipments (in thousands)	7,987	8,306	(3.8)%
Total shipments per day (in thousands)	41.71	42.93	(2.8)%
Total picked up revenue per hundred weight	\$ 11.50	\$ 11.53	(0.2)%
Total picked up revenue per hundred weight (excluding fuel surcharge)	\$ 10.20	\$ 9.71	5.0%
Total picked up revenue per shipment	\$ 171	\$ 170	0.9%
Total picked up revenue per shipment (excluding fuel surcharge)	\$ 152	\$ 143	6.2%
Total weight per shipment (in pounds)	1,489	1,472	1.2%

(in millions)	First Three Quarters	
	2015	2014

<sup>(a)</sup> Reconciliation of operating revenue to total picked up revenue:

Operating revenue	\$ 1,367.7	\$ 1,409.2
Change in revenue deferral and other	0.7	0.7
Total picked up revenue	\$ 1,368.4	\$ 1,409.9

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

<sup>(b)</sup> Percent change based on unrounded figures and not the rounded figures presented.

Operating income for Regional Transportation was \$75.9 million for the first three quarters of 2015, an increase of \$20.4 million, or 36.8%, from the same period in 2014. Operating revenue in the first three quarters of 2015 was lower by \$41.5 million, or 2.9%, while total operating expenses decreased by \$61.9 million, or 4.6%. The decrease in total operating expenses was primarily driven by a \$71.7 million, or 20.8%, decrease in operating expenses and supplies, partially offset by a \$6.3 million, or 7.3%, increase in purchased transportation expense.

The \$71.7 million, or 20.8%, decrease in operating expenses and supplies in the first three quarters of 2015 was primarily driven by a \$76.5 million decrease in fuel expense compared to the first three quarters of 2014. This decrease was largely driven by lower fuel prices on a per gallon basis and fewer miles driven.

The \$6.3 million, or 7.3%, increase in purchased transportation in the first three quarters of 2015 was primarily driven by an \$8.1 million increase in vehicle rent expense as our percentage of leased units has increased from prior year due

to our strategy of using operating leases to acquire new revenue equipment. This is offset by \$1.2 million in decreased purchased transportation costs due to lower usage of local terminal cartage in the first three quarters of 2015, as compared to the first three quarters of 2014.

Table of Contents

## 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. For segment adjusted EBITDA, we present the reconciliation from operating income (loss) to EBITDA and EBITDA to adjusted EBITDA as it is consistent with how we measure performance.

## Consolidated Adjusted EBITDA

The reconciliation of net income (loss) to EBITDA and EBITDA to Adjusted EBITDA (defined in our Term Loan Agreement as “Consolidated EBITDA”) for the third quarter and first three quarters of 2015 and 2014, and the trailing twelve months ended September 30, 2015, is as follows:

(in millions)	Third Quarter		First Three Quarters		Four Consecutive Quarters Ended September 30, 2015
	2015	2014	2015	2014	
Reconciliation of net income (loss) to adjusted EBITDA:					
Net income (loss)	\$19.8	\$1.2	\$24.2	\$(73.9)	\$30.4
Interest expense, net	25.6	32.5	80.9	122.2	108.1
Income tax expense (benefit)	6.7	(4.4)	10.4	(16.4)	10.7
Depreciation and amortization	40.7	40.9	123.6	122.9	164.3
EBITDA	92.8	70.2	239.1	154.8	313.5
Adjustments for Term Loan Agreement:					
(Gains) losses on property disposals, net	0.9	0.2	1.5	(6.1)	(4.3)
Letter of credit expense	2.2	2.5	6.6	9.8	8.9
Restructuring professional fees	0.2	3.1	0.2	4.2	0.2
Nonrecurring consulting fees	(0.8)	—	5.1	—	5.1
Permitted dispositions and other	—	1.6	0.3	1.8	0.3
Equity based compensation expense	2.8	2.0	6.5	11.1	9.7
Amortization of ratification bonus	4.6	5.2	14.4	10.4	19.6
(Gain) loss on extinguishment of debt	—	—	0.6	(11.2)	0.6
Other, net <sup>(a)</sup>	(3.6)	(3.2)	(7.0)	(7.3)	(9.3)
Adjusted EBITDA	\$99.1	\$81.6	\$267.3	\$167.5	\$344.3

<sup>(a)</sup> As required under our Term Loan Agreement, other, net, shown above consists of the impact of certain items to be included in Adjusted EBITDA under our Term Loan Agreement.

## Segment Adjusted EBITDA

The following represents Adjusted EBITDA by segment for the third quarter and first three quarters of 2015 and 2014:

(in millions)	Third Quarter		First Three Quarters	
	2015	2014	2015	2014
Adjusted EBITDA by segment:				

Edgar Filing: YRC Worldwide Inc. - Form 10-Q

YRC Freight	\$45.2	\$38.0	\$130.4	\$55.8
Regional Transportation	52.9	43.2	135.7	111.2
Corporate and other	1.0	0.4	1.2	0.5
Adjusted EBITDA	\$99.1	\$81.6	\$267.3	\$167.5

Table of Contents

The reconciliation of operating income (loss), by segment, to EBITDA and EBITDA to Adjusted EBITDA for the third quarter and first three quarters of 2015 and 2014 is as follows:

YRC Freight segment (in millions)	Third Quarter		First Three Quarters	
	2015	2014	2015	2014
Reconciliation of operating income (loss) to adjusted EBITDA:				
Operating income (loss)	\$16.7	\$8.8	\$39.4	\$(24.0)
Depreciation and amortization	23.3	24.6	70.5	74.2
(Gains) losses on property disposals, net	1.1	0.1	1.7	(6.8)
Letter of credit expense	1.6	1.8	4.6	6.8
Nonrecurring consulting fees	(0.8)	—	5.1	—
Amortization of ratification bonus	3.0	3.4	9.3	6.7
Other, net <sup>(a)</sup>	0.3	(0.7)	(0.2)	(1.1)
Adjusted EBITDA	\$45.2	\$38.0	\$130.4	\$55.8

<sup>(a)</sup> As required under our Term Loan Agreement, other, net, shown above does not include the impact of non-cash foreign currency gains or losses.

Regional Transportation segment (in millions)	Third Quarter		First Three Quarters	
	2015	2014	2015	2014
Reconciliation of operating income to adjusted EBITDA:				
Operating income	\$33.6	\$24.4	\$75.9	\$55.5
Depreciation and amortization	17.4	16.4	53.2	49.0
(Gains) losses on property disposals, net	(0.2)	0.1	—	0.7
Letter of credit expense	0.5	0.5	1.5	2.3
Amortization of ratification bonus	1.6	1.8	5.1	3.7
Adjusted EBITDA	\$52.9	\$43.2	\$135.7	\$111.2

Corporate and other segment (in millions)	Third Quarter		First Three Quarters	
	2015	2014	2015	2014
Reconciliation of operating loss to adjusted EBITDA:				
Operating loss	\$(2.6)	\$(6.5)	\$(7.0)	\$(17.2)
Depreciation and amortization	—	(0.1)	(0.1)	(0.3)
Gains on property disposals, net	—	—	(0.2)	—
Letter of credit expense	0.1	0.2	0.5	0.7
Restructuring professional fees	0.2	3.1	0.2	4.2
Permitted dispositions and other	—	1.6	0.3	1.8
Equity based compensation expense	2.8	2.0	6.5	11.1
Other, net <sup>(a)</sup>	0.5	0.1	1.0	0.2
Adjusted EBITDA	\$1.0	\$0.4	\$1.2	\$0.5

<sup>(a)</sup> As required under our Term Loan Agreement, other, net, shown above does not include the impact of earnings 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 ABL Facility and any prospective net operating cash flows from operations. As of September 30, 2015, we had cash and cash equivalents of \$210.7 million and the borrowing base and maximum availability on our ABL Facility were \$445.1 million and \$78.6 million, respectively. The maximum availability is calculated in accordance with the terms of the ABL Facility and is derived by reducing the borrowing base by our \$366.5 million of outstanding letters of credit. While our ABL Agreement permits us to access maximum availability outside of certain financial covenant restrictions (which restrictions did not limit our availability as of September 30, 2015), the maximum amount we expect to access on our

ABL Facility at any time is maximum availability less the lower of 10% of the borrowing base

25

---

Table of Contents

(\$44.5 million at September 30, 2015) or 10% of the collateral line cap (\$45.0 million at September 30, 2015). Thus, of the \$78.6 million in maximum availability, our Managed Accessibility was \$34.1 million as of September 30, 2015. As a result, we had cash and cash equivalents and Managed Accessibility of \$244.8 million as of September 30, 2015.

Outside of funding normal operations, our principal uses of cash include making contributions to our single-employer pension plans and various multi-employer pension funds, and meeting our other cash obligations including, but not limited to, paying principal and interest on our funded debt, payments on our equipment leases and funding capital expenditures.

We have a considerable amount of indebtedness. As of September 30, 2015, we had \$1,085.5 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 2015 for our single-employer pension plans and multi-employer pension funds will be \$11.1 million and \$22.8 million, respectively. In addition, we have, and will continue to have, substantial operating lease obligations. As of September 30, 2015, our minimum rental expense under operating leases for the remainder of the year is \$17.7 million. As of September 30, 2015, our operating lease payment obligations through 2025 totaled \$232.1 million and is expected to increase as we lease additional revenue equipment.

Our capital expenditures for the first three quarters of 2015 and 2014 were \$71.8 million and \$47.6 million, respectively. These amounts were principally used to fund the purchase of used tractors and trailers, to refurbish engines for our revenue fleet and capitalized costs for technology infrastructure. Additionally, for the first three quarters of 2015, we entered into new operating leases for revenue equipment totaling \$102.0 million in future lease payments, payable over an average lease term of five years.

As of September 30, 2015, our Standard & Poor's Corporate Family Rating was "B-" and Moody's Investor Service Corporate Family Rating was "B3".

## Credit Facility Covenants

Our Term Loan Agreement has certain 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).

Four Consecutive Fiscal Quarters Ending	Maximum Total Leverage Ratio	Four Consecutive Fiscal Quarters Ending	Maximum Total Leverage Ratio
September 30, 2015	4.50 to 1.00	December 31, 2016	3.50 to 1.00
December 31, 2015	4.25 to 1.00	March 31, 2017	3.25 to 1.00
March 31, 2016	4.00 to 1.00	June 30, 2017	3.25 to 1.00
June 30, 2016	3.75 to 1.00	September 30, 2017	3.25 to 1.00
September 30, 2016	3.75 to 1.00	December 31, 2017 and thereafter	3.00 to 1.00

Consolidated Adjusted EBITDA, defined in the Term Loan Agreement as "Consolidated EBITDA," 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, restructuring professional fees, nonrecurring consulting 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 Term Loan Agreement, is the aggregate principal amount of indebtedness outstanding. Our total leverage ratio for the four consecutive fiscal quarters ending September 30, 2015 was 3.15 to 1.00. Additionally, our



ABL Facility credit agreement, among other things, restricts certain capital expenditures.

We believe that our results of operations will be sufficient to allow us to comply with the covenants in the Term Loan Agreement, fund our operations, increase working capital as necessary to support our planned revenue growth and fund capital expenditures for at least the next twelve months. In order for us to maintain compliance with the maximum total leverage ratio over the tenor of the Term Loan and satisfy our liquidity needs, we must achieve positive operating results which reflect continuing improvement over our recent results. Improvements to our profitability may include ongoing successful implementation and realization of pricing, productivity and efficiency initiatives, as well as increased volume, some of which are outside of our control.

Table of Contents

Cash Flows

Operating Cash Flow

Net cash provided by operating activities was \$91.5 million in the first three quarters of 2015 compared to net cash used in operating activities of \$26.3 million in the first three quarters of 2014. The favorable cash flow impact is primarily attributable to net income of \$24.2 million for the first three quarters of 2015 compared to a net loss of \$73.9 million for the first three quarters of 2014, driven by profitability initiatives and decreased operating expenses.

Investing Cash Flow

Investing cash flows decreased by \$62.0 million during the first three quarters of 2015 compared to the first three quarters of 2014, largely driven by a net receipt of \$16.9 million in restricted escrow refunds in 2015 compared to a net receipt of \$57.1 million in 2014. The 2014 restricted escrow deposits consist mostly of \$38.6 million for the ABL Facility, offset by the reduction of the \$90.0 million receipt for the prior asset based loan facility and the reduction of deposits required for the ABL Facility due to an increase in the borrowing base. In addition, there was a \$24.2 million increase in the acquisition of property and equipment primarily due to increased purchases of used tractors and trailers and refurbished engines for our fleet and capitalized costs for technology infrastructure.

Financing Cash Flow

Net cash used in financing activities for the first three quarters of 2015 was \$13.1 million compared to net cash provided by financing activities of \$8.2 million in the first three quarters of 2014. The cash used in the first three quarters of 2015 consists solely of repayments of our long-term debt. The cash provided during the first three quarters of 2014 was driven by the issuance of \$693.0 million in long-term debt for the Term Loan and \$250.0 million equity issuance proceeds. These were offset by \$888.7 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 for the redemption of Series A Notes and \$69.4 million for the 6% Convertible Senior Notes. We also paid \$29.0 million in debt issuance costs and \$17.1 million in equity issuance costs related to our new debt and equity issued in 2014.

Table of Contents

## Contractual Obligations and Other Commercial Commitments

The following sections provide aggregated information regarding our contractual cash obligations and other commercial commitments as of September 30, 2015.

## Contractual Cash Obligations

The following table reflects our cash outflows that we are contractually obligated to make as of September 30, 2015:

(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	\$0.2	\$—	\$1.1	
Long-term debt, including interest	63.3	108.5	702.1	—	873.9	
Lease financing obligations	41.5	84.2	38.4	28.0	192.1	(b)
Multi-employer pension deferral obligations, including interest	8.6	17.2	128.6	—	154.4	
Workers' compensation and liability claims obligations	86.1	98.7	47.0	96.1	327.9	(c)
Off balance sheet obligations:						
Operating leases <sup>(e)</sup>	65.9	99.8	40.2	26.2	232.1	
Letter of credit fees	8.8	17.6	5.5	—	31.9	
Future service obligations <sup>(d)</sup>	10.4	0.1	—	—	10.5	
Capital expenditures	11.8	—	—	—	11.8	
Total contractual obligations	\$296.7	\$426.7	\$962.0	\$150.3	\$1,835.7	

(a) Total liabilities for uncertain income tax positions as of September 30, 2015 were \$7.8 million and are classified on our consolidated balance sheet within "Claims and Other Liabilities" and are excluded from the table above.

The \$192.1 million of lease financing obligation payments represent interest payments of \$132.4 million and (b) principal payments of \$59.7 million. The remaining principle obligation is offset by the estimated book value of leased property at the expiration date of each lease agreement.

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

(d) Future service obligations consist primarily of hardware and software maintenance contracts.

During the nine months ended September 30, 2015, we entered into new operating leases for revenue equipment (e) totaling \$102.0 million in future lease payments. The total capital value of revenue equipment leases, which consists of 600 tractors and 1,350 trailers, is \$87.1 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					
ABL Facility <sup>(a)</sup>	\$—	\$—	\$78.6	(b) \$—	\$78.6
Letters of credit	—	—	366.5	—	366.5
Surety bonds	118.3	0.1	0.1	—	118.5

Edgar Filing: YRC Worldwide Inc. - Form 10-Q

Total commercial commitments	\$118.3	\$0.1	\$445.2	\$—	\$563.6
------------------------------	---------	-------	---------	-----	---------

- (a) As of September 30, 2015, we held \$72.2 million in restricted escrow, which represents cash collateral on our ABL Facility.
- (b) As of September 30, 2015, Managed Accessibility was \$34.1 million, which represents maximum availability of \$78.6 million less the lower of 10% of the borrowing base or collateral line cap.

Table of Contents

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, 2014.

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 September 30, 2015 and have concluded that our disclosure controls and procedures were effective as of September 30, 2015.

There were no changes in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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

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, 2014.

Item 5. Other Information

On October 23, 2015, the Company entered into an equity interest sale and purchase agreement with Balance Global Limited (the “Buyer”) under which the Company will sell its fifty percent interest in its Chinese joint venture, JHJ, to the Buyer for a purchase price of \$16.3 million and a guaranteed dividend payment from JHJ to the Company of \$2.0 million, for total consideration of \$18.3 million. As a condition to the closing of the contemplated sale, certain consents and approvals must be obtained from the Chinese government, which consents and approvals and the timing thereof are largely outside of the control of the Company or the Buyer.

Item 6. Exhibits

10.1 Amendment No. 2 to Credit Agreement, by and among the Company, the lenders party thereto and Credit Suisse AG, Cayman Islands Branch as administrative agent (incorporated by reference to Exhibit 10.1 to Current Report on Form 8-K, filed on September 25, 2015, File No. 000-12255).

10.2 Amendment No. 1 to Loan and Security Agreement by and among the Company, certain of the Company’s subsidiaries party thereto, the lenders party thereto and RBS Citizens Business Capital as agent (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on September 25, 2015, File No. 000-12255).

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

---

\*Indicates documents filed herewith.

30

---

Table of Contents

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: October 29, 2015

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

Date: October 29, 2015

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