

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1996

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

YELLOW CORPORATION  
(Exact name of registrant as specified in its charter)

Delaware

48-0948788

-----  
(State or other jurisdiction of  
incorporation or organization)

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

10990 Roe Avenue, P.O. Box 7563, Overland Park, Kansas 66207

-----  
(Address of principal executive offices) (Zip Code)

(913) 696-6100

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

10777 Barkley, P.O. Box 7563, Overland Park, Kansas 66207

-----  
(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 Sections 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes X No  
-----

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

Class	Outstanding at July 31, 1996
----- Common Stock, \$1 Par Value	----- 28,105,797 shares

## YELLOW CORPORATION

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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS  
Yellow Corporation and Subsidiaries  
June 30, 1996 and December 31, 1995  
(Amounts in thousands except share data)  
(Unaudited)

	June 30 1996	December 31 1995
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 16,925	\$ 25,861
Short-term investments	-	5,414
Accounts receivable	327,806	323,814
Refundable income taxes	-	49,529
Prepaid expenses and other	38,005	80,392
	-----	-----
Total current assets	382,736	485,010
	-----	-----
PROPERTY AND EQUIPMENT:		
Cost	1,995,537	1,989,389
Less - Accumulated depreciation	1,112,890	1,067,541
	-----	-----
Net property and equipment	882,647	921,848
	-----	-----
OTHER ASSETS		
	26,554	28,039
	-----	-----
	\$1,291,937	\$1,434,897
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Unsecured bank credit lines	\$ 10,000	\$ 9,000
Accounts payable and checks outstanding	100,854	154,653
Wages and employees' benefits	142,277	134,178
Other current liabilities	137,562	142,040
Current maturities of long-term debt	3,245	2,925
	-----	-----
Total current liabilities	393,938	442,796
	-----	-----
OTHER LIABILITIES:		
Long-term debt	266,235	341,648
Deferred income taxes	45,885	56,032
Claims, insurance and other	175,264	171,744
	-----	-----
Total other liabilities	487,384	569,424
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value	28,858	28,858
Capital surplus	6,678	6,678
Retained earnings	392,699	404,761
Treasury stock	(17,620)	(17,620)
	-----	-----
Total shareholders' equity	410,615	422,677
	-----	-----
	\$1,291,937	\$1,434,897
	=====	=====

The accompanying notes are an integral part of these statements.



STATEMENTS OF CONSOLIDATED INCOME  
Yellow Corporation and Subsidiaries  
For the Quarter and Six Months Ended June 30, 1996 and 1995  
(Amounts in thousands except per share data)  
(Unaudited)

	Second Quarter		Six Months	
	1996	1995	1996	1995
OPERATING REVENUE	\$759,285	\$773,825	\$1,500,963	\$1,538,823
OPERATING EXPENSES:				
Salaries, wages and benefits	506,291	514,564	1,006,571	1,016,661
Operating expenses and supplies	119,293	117,900	237,573	233,738
Operating taxes and licenses	28,083	28,307	57,700	57,266
Claims and insurance	16,945	16,808	34,296	37,222
Communications and utilities	10,961	10,540	22,286	22,009
Depreciation	32,635	33,773	66,137	67,879
Purchased transportation	36,663	46,067	76,137	89,581
Total operating expenses	750,871	767,959	1,500,700	1,524,356
INCOME FROM OPERATIONS	8,414	5,866	263	14,467
NONOPERATING (INCOME) EXPENSES:				
Interest expense	5,203	5,720	12,055	10,777
Other, net	(1,219)	(1,408)	(396)	(3,690)
Nonoperating expenses, net	3,984	4,312	11,659	7,087
INCOME (LOSS) BEFORE INCOME TAXES	4,430	1,554	(11,396)	7,380
INCOME TAX PROVISION	2,411	515	836	3,143
NET INCOME (LOSS)	\$ 2,019	\$ 1,039	\$ (12,232)	\$ 4,237
AVERAGE COMMON SHARES OUTSTANDING	28,106	28,106	28,106	28,106
EARNINGS (LOSS) PER SHARE	\$ .07	\$ .04	\$ (.44)	\$ .15

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS  
Yellow Corporation and Subsidiaries  
For the Six Months Ended June 30, 1996 and 1995  
(Amounts in thousands)  
(Unaudited)

	1996	1995
	-----	-----
OPERATING ACTIVITIES:		
Net cash from operating activities	\$ 87,976	\$ 7,043
	-----	-----
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(32,053)	(104,054)
Proceeds from disposal of property and equipment	3,930	12,858
Purchases of short-term investments	(1,684)	(5,335)
Proceeds from maturities of short-term investments	7,098	5,248
	-----	-----
Net cash used in investing activities	(22,709)	(91,283)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from unsecured bank credit lines, net	1,000	-
Commercial paper borrowings, net	(62,426)	70,537
Proceeds from issuance of long-term debt	-	37,000
Repayment of long-term debt	(12,777)	(16,700)
Cash dividends paid to shareholders	-	(13,210)
Reduction of Stock Sharing Plan debt guarantee	-	(4,961)
Shares allocated by Stock Sharing Plan	-	4,961
Other, net	-	(1)
	-----	-----
Net cash (used in) from financing activities	(74,203)	77,626
	-----	-----
NET DECREASE IN CASH	(8,936)	(6,614)
CASH, BEGINNING OF PERIOD	25,861	17,613
	-----	-----
CASH, END OF PERIOD	\$ 16,925	\$ 10,999
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes (received) paid, net	\$(42,063)	\$ 5,789
	=====	=====
Interest paid	\$ 11,982	\$ 9,507
	=====	=====

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Yellow Corporation and Subsidiaries

1. The accompanying consolidated financial statements include the accounts of Yellow Corporation and its wholly-owned subsidiaries (the company) and have been prepared by the company, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission. In the opinion of management, all normal recurring adjustments necessary for a fair statement of the results of operations for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to such rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in the company's 1995 Annual Report to Shareholders.
2. The company provides freight transportation services primarily to the less-than-truckload (LTL) market in North America through its subsidiaries, Yellow Freight System, Inc. (Yellow Freight), Preston Trucking Company, Inc. (Preston Trucking), Saia Motor Freight Line, Inc. (Saia) and WestEx, Inc. (WestEx). Yellow Technology Services, Inc. (Yellow Technology) supports the company's subsidiaries - primarily Yellow Freight - with information technology. Yellow Freight, the company's principal subsidiary, comprises approximately 77% of total revenue while Preston Trucking comprises approximately 14% and Saia comprises approximately 8%.
3. Effective January 1, 1996, the company adopted the Financial Accounting Standards Board Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. The adoption did not have a material impact on the financial condition or results of operations of the company.

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

FINANCIAL CONDITION

June 30, 1996 Compared to December 31, 1995

Working capital decreased \$53.4 million during the first six months of 1996, resulting in a \$11.2 million deficit working capital position at June 30, 1996 compared to a \$42.2 million positive position at December 31, 1995. The decrease in working capital was mostly the result of a \$45.2 million federal tax refund received in April which was used to pay down debt. The company can operate with a deficit working capital position because of rapid turnover of accounts receivable, effective cash management and ready access to funding provided by commercial paper, medium-term notes and flexible banking agreements. Accounts receivable growth was moderate during the period as increased revenue levels at the end of the respective periods of comparison were mostly offset by improvement in days sales outstanding, primarily at Yellow Freight.

## FINANCIAL CONDITION (continued)

Total debt decreased by \$74.1 million during the first six months of 1996, reflecting the \$23.0 million cash dividend from Canadian operations in March and the \$45.2 million federal tax refund in April. Net capital expenditures for the first six months of 1996 were \$28.1 million, substantially less than the \$66.1 million of depreciation expense during the period. It is anticipated that the remaining net capital spending for 1996 will be approximately \$36 million.

Effective August 2, 1996, Yellow Freight entered into a purchase agreement with a major bank which allows Yellow Freight to sell an interest of up to \$150 million in a defined pool of accounts receivables. The agreement first involves the sale of the receivables to a special purpose corporation, Yellow Receivables Corporation, whose assets will be available to satisfy its obligations prior to any distribution to Yellow Freight. The proceeds of this facility, when used, will be available for general corporate purposes and will supplement the company's other existing borrowing sources.

## RESULTS OF OPERATIONS

## Comparison of Three Months Ended June 30, 1996 and 1995

Yellow Corporation reported net income for the quarter of \$2.0 million, or \$.07 per share, compared to net income of \$1.0 million, or \$.04 per share, in the second quarter of 1995. Second quarter 1996 operating revenue was \$759.3 million, an increase over the same period last year when revenue on a comparable basis was \$755.0 million. Total revenue for the second quarter of 1995 was \$773.8 million, including \$18.8 million from subsidiaries that have been realigned or sold.

Yellow Freight recorded operating revenue of \$580.6 million in the second quarter of 1996 compared to \$595.3 million in the second quarter of 1995, a decrease of 2.5%. This decrease was caused mainly by a 4.3% decline in total tonnage, partially offset by a 2.3% increase in revenue per ton. The number of shipments handled was essentially the same as the second quarter of last year.

Yellow Freight with an operating ratio of 98.5, recorded operating income of \$8.9 million in the second quarter of 1996 compared to operating income of \$8.0 million, or an operating ratio of 98.7 during the second quarter of 1995. While revenue per ton was up 2.3%, cost per ton increased only 1.5% for the second quarter compared to the same period last year. This performance reflects firming yields, and cost reduction initiatives including productivity improvements offset by a 3.8% Teamster wage and benefit hike, April 1. The quarter also saw an optimization of the company's transit time improvement program. This resulted in reduced costs while maintaining faster service in important business lanes.

Preston Trucking recorded operating revenue of \$105.3 million in the second quarter of 1996 compared to \$104.8 million in the second quarter of 1995, an increase of .5%. The quarter saw modest improvement in pricing compared to the prior year quarter, offset by a small decrease in total tonnage. The number of shipments handled was essentially the same as the second quarter of last year.



## RESULTS OF OPERATIONS (continued)

Preston Trucking improved its performance from the weather-impacted first quarter, recording an operating loss of \$1.9 million compared to a second quarter 1995 operating loss of \$1.3 million. The new management team at Preston is aggressively pursuing new revenue streams in addition to employing yield improvement and cost control programs designed to return the carrier to profitability. Positive signs of the programs were evident in June.

Saia continued its positive contribution to the corporate bottom line with a 94.6 operating ratio. Operating income of \$3.6 million on revenue of \$65.5 million for the second quarter 1996 compares to operating income of \$2.7 million on revenue of \$51.3 million in the second quarter 1995. LTL tonnage was up 28.3% this quarter compared to the same time period last year, reflecting a similar percentage increase in the number of shipments handled. WestEx continues to perform according to plan, with rapidly increasing revenue from its California expansion. Increased density and improved margins are planned for 1997.

## Comparison of Six Months Ended June 30, 1996 and 1995

For the first half of 1996, operating revenue was \$1.50 billion, equal to \$1.50 billion in the first half of 1995 on a comparable basis. Total revenue for the first half of 1995 was \$1.54 billion, including \$35.8 million from subsidiaries that have been realigned or sold. The net loss for the first six months of 1996 was \$12.2 million, or \$.44 per share, compared to net income of \$4.2 million, or \$.15 per share, for the same period last year. A non-recurring income tax charge and severe winter storms negatively impacted the company's first half 1996 performance causing the loss for the period. The non-recurring tax charge amounted to \$6.7 million, or \$.24 per share and resulted from a cash dividend from Canadian operations of \$23.0 million which was used to pay down debt.

Yellow Freight recorded operating revenue of \$1.16 billion in the first half of 1996 compared to \$1.19 billion in the first half of 1995, a 2.6% decrease. This decrease reflects lower tonnage levels partially offset by an improvement in revenue per ton. Operating income for the first six months of 1996 was \$6.6 million compared to \$17.1 million in the same period last year. The operating income deterioration is entirely due to a first quarter variance caused by a series of severe winter storms, a decrease in the system load average attributable to a transit time improvement program implemented in the third quarter of 1995, flat pricing and contractually higher labor expenses.

Operating revenue for Preston Trucking in the first six months of 1996 was \$203.7 million, down 2.1% compared to \$208.1 million in 1995. This decrease reflects lower tonnage levels partially offset by an improvement in revenue per ton. The operating loss in the first six months of 1996 was \$7.1 million compared to an operating profit of \$.4 million in the same period last year. 1996 results include a 4.9% increase in contract wages and benefits on April 1, 1995. The relatively greater labor cost increase resulted from a wage reduction program approved in 1994 whereby employees received the contractual wage and

## RESULTS OF OPERATIONS (continued)

benefit increases as well as a step-down in the wage reduction from 7.0% to 5.0%. During the first quarter of 1996, Preston employees agreed to freeze wages in lieu of the standard contract increase scheduled for April 1, 1996. Preston's operating performance also suffered extreme adverse impacts from the severe winter weather as its service area is concentrated in the Northeast and upper Midwest.

Saia recorded operating revenue of \$126.1 million in the first half of 1996 compared to \$100.5 million in the same period of 1995, an increase of 25.5%. The increased revenue reflects a greater number of shipments handled this year compared to 1995. Operating income was \$6.6 million for the first six months of 1996 compared to \$5.3 million in the same period last year. For the balance of the year, Saia plans to continue to build its revenue density while controlling expenses in order to improve its operating margin.

## PART II - OTHER INFORMATION

## Item 5. Other Information

On August 9, 1996 the Board of Directors announced the election of Carl W. Vogt as a Director of the company. Vogt, a senior partner in the Washington office of the law firm of Fulbright & Jaworski, L.L.P., will fill a vacant seat resulting from a retirement in June. Vogt was nominated by President Bush and confirmed by the Senate in June 1992 as Chairman of the National Transportation Safety Board (NTSB). He served until 1994. NTSB is an independent federal agency responsible for investigating major transportation accidents and recommending solutions to federal and state regulatory agencies. Prior to his confirmation as chief of that agency, Vogt was Director of Amtrak, a position that he was also nominated for by President Bush. He was confirmed for that position in 1991 and stepped down to take the reigns of the NTSB. Vogt is also a Director of the Alex Brown, Flag Investors Family of Funds, a mutual fund board and serves on a number of professional and civic boards and committees. He received his Bachelor of Arts from Williams College, in Williamstown, Massachusetts and his Juris Doctorate from the University of Texas Law School.

On July 31, 1996 the company announced that Samuel A. Woodward has been named Senior Vice President - Operations and Planning for Yellow Corporation. He was also designated as an executive officer of the company. Woodward was formerly Senior Vice President and Managing Officer for SH&E, a management consulting firm located in New York. He will be responsible for profit improvements at the subsidiaries, the development of new business opportunities and overall strategic planning. Woodward's experience covers the airline, air freight and motor carrier industries. He has held senior management and Board of Director positions with several major transportation companies in the United States.

On July 18, 1996 the Board of Directors of the company approved the 1996 Stock Option Plan (Exhibit 10.5), reserving 1,500,000 shares of the company's common stock for awards to key management personnel of the

## PART II - OTHER INFORMATION (continued)

company and its operating subsidiaries, including the company's executive officers. On July 18th, the following executive officers received stock option grants of 75,000 shares each at \$12.25 per share with 25% of said options becoming exercisable on each anniversary of the date of the award:

William F. Martin, Jr.	Senior Vice President - Legal/ Corporate Secretary
H. A. Trucksess, III	Senior Vice President - Finance/ Chief Financial Officer & Treasurer
Samuel A. Woodward	Senior Vice President - Operations and Planning

## Item 6. Exhibits and Reports on Form 8-K

## (a) Exhibits

- (10.4) - Executive Officers' Agreement
- (10.5) - Yellow Corporation - 1996 Stock Option Plan
- (27) - Financial Data Schedule (for SEC use only)

## (b) Reports on Form 8-K

On May 22, 1996 a Form 8-K was filed under Item 5, Other Events, which reported that the company announced on May 15, 1996 that M. Reid Armstrong, President of Yellow Freight System, Inc., the company's principal subsidiary, will retire effective June 1. Armstrong will also step down as a member of the company's Board of Directors. A national search is being conducted to fill the vacancy. In the interim, the company's President and CEO, A. Maurice Myers, will act in the capacity of President of Yellow Freight.

## SIGNATURES

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

## YELLOW CORPORATION

-----  
Registrant

Date: August 13, 1996  
-----

/s/ A. Maurice Myers  
-----

A. Maurice Myers  
Chairman of the Board of Directors,  
President & Chief Executive Officer

Date: August 13, 1996  
-----

/s/ H. A. Trucksess, III  
-----

H. A. Trucksess, III  
Senior Vice President - Finance/  
Chief Financial Officer & Treasurer

## SEPARATION AGREEMENT AND MUTUAL RELEASE OF CLAIMS

This agreement is entered into this 15th day of May, 1996 by and between M. Reid Armstrong (hereinafter "Reid Armstrong") and Yellow Corporation, its predecessors, successors, subsidiaries including, without limitation, Yellow Freight System, Inc. (hereinafter "Yellow Freight"), affiliates, assigns, officers, directors, agents and employees (hereinafter jointly referenced as "Company") in order to set forth the terms and conditions upon which Reid Armstrong's employment with the Company will be terminated. In exchange for the mutual promises contained herein, the parties agree as follows:

1. For the period from the date of this agreement through September 30, 1996, Reid Armstrong shall continue in his present position as President of Yellow Freight at his present salary, perquisites and benefits, and shall aid and assist management of the Company in a transition to a new President of Yellow Freight. On September 30, 1996 Reid Armstrong shall submit his resignation as President and Director of Yellow Freight and Director of the Company in the form attached hereto as "Exhibit A.

The Company shall have the option of requesting and obtaining Reid Armstrong's resignation as President and Director of Yellow Freight, and Director of the Company, prior to September 30, 1996, in which event the separation payments described in Paragraph 2 below will commence as of the effective date of said resignation and shall continue through the period indicated in Paragraph 2.

Prior to September 30, 1996, this agreement may be modified or canceled upon the mutual agreement of Reid Armstrong and the Company.

2. The Company will pay Reid Armstrong \$28,750 per month from the effective date of his resignation as President of Yellow Freight, as described in Paragraph 1 above, through September 30, 1999 in bi-monthly installments. The parties agree that the Company shall withhold from such payments the appropriate deductions required by law. In the event of Reid Armstrong's death before the last installment is paid, any remaining installments will be paid to his spouse. In the event both Reid Armstrong and his spouse die before the last installment is paid, any remaining installments will be paid to the estate of the last survivor of the two or, if there is no last survivor, to Reid Armstrong's estate. The parties specifically agree that the payments due hereunder shall continue irrespective of whether or not Reid Armstrong obtains employment subsequent to the effective date of his resignation as President of Yellow Freight, as long as he does not breach the terms of this Agreement (including, without limitation the non-compete Agreement set forth in paragraph 5 below), and there shall be no set-off or reduction in compensation as a result of any earnings he receives from alternative sources.

3. For the period through September 30, 1999, Reid Armstrong's health insurance will continue to be provided and paid for by the Company on the same basis as any other employee, provided, however, that such coverage will cease if Reid Armstrong becomes otherwise employed during such period and is covered by comparable coverage paid for by such other employer. If the coverage from such other employer does not match the Company's coverage, the Company's coverage shall be secondary to that of the other employer and the Company will be responsible only for the difference in coverage between that of the Company and the other employer. If Reid Armstrong has not secured coverage under another group plan by September 30, 1999, the Company will reimburse him for the cost of continued medical coverage for himself and his spouse under the Company's retiree medical plan for up to 36 months, or until he becomes covered under another group plan, whichever comes first. The reimbursement for Reid Armstrong's spousal coverage shall terminate upon said spouse's 65th birthday. Through September 30, 1999, Reid Armstrong shall also continue to vest under the Company's Defined Benefit Pension Plan and the payments made to Reid Armstrong hereunder shall be deemed compensation for purposes of continuing accrual of benefits under such plan and Reid Armstrong shall also be entitled to continued participation in the Company's non-medical insurance coverages, except those insurance coverages that provide payment for time not worked which includes holiday, vacation, short and long-term disability. Reid Armstrong's car allowance shall discontinue as of the effective date of his resignation as President of Yellow Freight. Reid Armstrong shall not be entitled to any bonus or incentive compensation that is awarded after the effective date of his resignation as President of Yellow Freight, and shall forfeit any rights under the grant agreement awarded to Reid Armstrong pursuant to the Company's long term incentive plan on May 19, 1995.

4. The Company will provide tax return preparation services for Reid Armstrong for calendar year 1996, if the Company continues to provide the same service to its senior officers for 1996. Reid Armstrong will return all Company property in his possession, including telephones, as of the effective date of his resignation as President of Yellow Freight.

5. For the period from the effective date of Reid Armstrong's resignation as President of Yellow Freight through September 30, 1999, Reid Armstrong agrees not to form or acquire, in whole or in part, or participate in any manner as partner, employee, officer, independent contractor or consultant with any entity or concern that is now or should become during that period engaged in the interstate or intrastate transportation of general commodities by motor vehicle operating between points in the United States, Canada or Mexico. Notwithstanding the foregoing, the Company may waive the provisions of this paragraph upon request by Reid Armstrong if, in the sole and reasonable opinion of the Company, a prospective employer of Reid Armstrong's does not represent, at the time of the request or in the future, a significant competitive threat to the Company or any of its subsidiaries. It is expressly agreed between Reid Armstrong and the Company that any affiliation by Reid Armstrong with a broker of truckload commodities for transportation by motor vehicle shall not constitute a violation of this article.

6. Reid Armstrong waives and releases for himself and anyone claiming through him, his administrators, successors and assigns, fully and forever, any claim against the Company, its subsidiaries, affiliates, their predecessors, successors, officers, directors, agents, representatives, attorneys or employees, of any kind whatsoever for any action or any inaction, loss, expense, or any damage of whatever nature arising from any circumstance or occurrence from the beginning of time until the date of signing this agreement. Without limiting the foregoing, Reid Armstrong specifically waives any claim arising out of the Age Discrimination in Employment Act relating in any way to his employment with the Company or the termination thereof. The only exception to the aforementioned waiver and release will be claims by Reid Armstrong under any right arising under this agreement.

The Company waives and releases for itself and anyone claiming through it, its successors and assigns, fully and forever, any claim against Reid Armstrong, his administrators, successors and assigns, of any kind whatsoever for any action or any inaction, loss, expense or any damage of whatever nature arising from any circumstance or occurrence from the beginning of time until the date of signing this Agreement. The only exception to aforementioned waiver and release will be claims by the Company under any right arising under this Agreement.

7. Reid Armstrong further agrees that he will never disclose to anyone, except an authorized representative of the Company, as required by law, any confidential or proprietary information about the Company, its customers, its manufacturing, production, or other operational processes, its products, costs, or other financial information, or any other information he should not have released or publicized to persons outside the Company during Reid Armstrong's employment. Reid Armstrong will not denigrate the Company, its products, its services, its management or Board of Directors. This paragraph will not apply to the disclosure of general information about the Company of a kind normally disclosed to prospective employers or to any information of a routine rather than confidential, derogatory or proprietary nature.

8. The provisions of this agreement are severable, and if any part of it is found to be unenforceable or in contravention of some applicable law or regulation, including the Employee Retirement Income Security Act, or if any payment or benefit hereunder would result in any disqualification or detriment to any benefit plan of the Company, such provision will be deemed not to exist but the other provisions will remain fully valid and enforceable. In the event any provision is deemed not to exist by reason of this provision, the parties agree that the Company will pay to Reid Armstrong an equivalent amount in cash.

9. Reid Armstrong agrees that he will not disclose any information concerning this agreement to anyone except his private attorneys, his spouse, financial advisors and tax consultants, and only then if such individuals agree to keep the information confidential. The Company agrees that it will not disclose any information concerning this agreement to anyone except Company officials requiring this information in fulfilling their duties to the Company, except to the extent required by law or any applicable SEC regulations.

10. The Company represents and agrees that neither it nor its directors or officers will make any derogatory, disparaging or false statements intended to harm the business or personal reputation of Reid Armstrong. Reid Armstrong represents and agrees that he will not make any derogatory, disparaging or false statements intended to harm the business or personal reputation of the Company, its directors, officers or employees.

11. If the Company determines that Reid Armstrong has breached any of the material provisions of this Agreement, it shall give written notice of same to Reid Armstrong with such notice specifying the alleged breach and the steps necessary to cure same. If Reid Armstrong fails to cure such breach within thirty days of the date he receives such notice, then he shall be deemed in default hereunder and shall forfeit his right to any further payments, benefits or perquisites payable under this Agreement, and he shall reimburse the Company for all payments received after he breached any of said provisions. However, if the alleged breach is one which cannot reasonably be cured within thirty days, then Reid Armstrong shall be deemed to have cured same if he commences curative procedures within such thirty day period and diligently pursues same to completion. The question of whether such breach has occurred is subject to the provisions of paragraph 12. If the issue eventually results in arbitration and the arbitrator rules that the Company wrongfully withheld such payment, then he may order the Company to make such payments plus interest on each payment at the prime rate, accrued from the time each such payment should have been made.

12. If any dispute arises between the parties hereto with respect to this Agreement and its specific subject matter or any alleged breach thereof, the parties shall first seek to negotiate in good faith a resolution to such dispute and shall resort to mediation before resorting to arbitration. If good faith negotiations and a good faith attempt at mediation are not successful, the matter shall be settled by arbitration in Overland Park, Kansas in accordance with the rules then in effect of the American Arbitration Association (AAA). Arbitration shall be the exclusive remedy for any such dispute except in the event either party fails to abide by an arbitration award rendered hereunder. Regardless of whether or not both parties hereto participate in the arbitration proceeding, any arbitration award rendered hereunder shall be final and binding on each party hereto and judgment upon the award rendered may be entered in any court having jurisdiction thereof.

The party seeking arbitration shall notify the other party in writing and request the AAA to submit a list of seven potential arbitrators. In the event the parties do not agree upon an arbitrator, each party shall, in turn, strike one arbitrator from the list, Reid Armstrong having the first strike, until only one arbitrator remains, who shall arbitrate the dispute. The arbitration hearing shall be conducted within 30 days of the selection of an arbitrator or at the earliest date thereafter that the arbitrator is available.

13. This agreement shall be construed pursuant to the laws of the State of Kansas.

14. Reid Armstrong has been advised, and he understands, that he has the right to consult, and should consult, an attorney before signing this document. Further, the parties agree that Reid Armstrong has been offered at least 21 days within which to consider the agreement.

15. Reid Armstrong states that he has read this document and in signing the agreement and release has relied upon no promise or promise of benefit not expressly set forth herein. He agrees that he is entitled to no benefit under this agreement except as specifically and expressly set forth herein.

16. After signing this agreement, for a period of seven days, Reid Armstrong may revoke this agreement, and it shall not be enforceable or effective until after the passing of such seven days.

17. All obligations of the Company as set forth herein including, specifically, not by way of limitation, the payment obligations due under Section 2 above and the provision of benefits under Section 3 above shall be binding upon the Company and any of its successors or assigns including any entity which acquires substantially all of the assets of the Company and its business as a going concern. The Company specifically acknowledges and agrees that the continuation of provision of benefits under Section 3, including, specifically, the health insurance benefits referenced thereunder, is a material inducement to cause Reid Armstrong to execute this Agreement and any successor in interest to the business operations of the Company, irrespective of how same is acquired, shall be bound to the provision of such benefits, as well as all other obligations of the Company hereunder.

YELLOW CORPORATION

BY \_\_\_\_\_

ATTEST:

\_\_\_\_\_

\_\_\_\_\_  
M. Reid Armstrong

Dated: \_\_\_\_\_



## YELLOW CORPORATION - 1996 STOCK OPTION PLAN

## 1. Purpose

The Yellow Corporation 1996 Stock Option Plan is designed to enable qualified executive, managerial, supervisory and professional personnel of Yellow Corporation and its Subsidiaries to acquire or increase their ownership of common stock of the Company on reasonable terms. The opportunity so provided is intended to foster in participants a strong incentive to put forth maximum effort for the continued success and growth of the Company and its subsidiaries, to aid in retaining individuals who put forth such efforts, and to assist in attracting the best available individuals in the future.

## 2. Definitions

When used herein, the following terms shall have the meaning set forth below:

2.1 "Award" shall mean an Option, an SAR or a Restricted Stock Award.

2.2 "Board" means the Board of Directors of Yellow Corporation.

2.3 "Committee" means the members of the Board's Compensation Committee who are non-employees and "disinterested persons" as defined in Rule 16b-3(c)(2)(i) of the Securities and Exchange Commission as it exists on the effective date of the Plan or a subsequently amended or interpreted.

2.4 "Company" means Yellow Corporation.

2.5 "IRC '86" means the Internal Revenue Code of 1986, as in effect as of the effective date of the Plan or as thereafter amended, and applicable regulations.

2.6 "Fair Market Value" means with respect to the Company's Shares the closing price of the Shares as reported by NASDAQ or if the closing price is not reported, the bid price of the Shares as reported by NASDAQ on the last day prior to the date on which the value is to be determined on which transactions in Shares were so reported.

2.7 "Grantee" means a person to whom an Award is made.

2.8 "Non-Qualified Stock Option" or "NQS0" means an Option awarded under the Plan which by its terms and conditions is not, and is not intended to be, an "Incentive Stock Option" as defined by IRC '86.

2.9 "Option" means the right to purchase, at a price, for a term, under conditions, and for cash or other considerations fixed by the Committee in accordance with the Plan, and subject to such other limitations and restrictions as the Plan and the Committee impose, a number of shares specified by the Committee.

2.10 "Plan" means the Company's 1996 Stock Option Plan.

2.11 "Restricted Stock Award" means the grant of a right to receive, at a time or times fixed by the Committee in accordance with the Plan, and subject to such other limitations and restrictions as the Plan and the Committee impose, the number of Shares specified by the Committee.

2.12 "SAR" means a right to surrender to the Company all or a portion of an Option to be paid therefore an amount, as determined by the Committee, no greater than the excess, if any, of (i) the Fair Market Value, on the date such right is exercised, of the Shares to which the Option or portion thereof relates, over (ii) the aggregate option price of those Shares.

2.13 "Shares" means shares of the Company's common stock or, if by reason of the adjustment provisions hereof any rights under an Award under the Plan.

2.14 "Subsidiary" means any business, whether or not incorporated, in which the Company, at the time an Award is granted to an employee thereof, or in other cases, at the time of reference, owns directly or indirectly not less than 50% of the equity interest.

2.15 "Successor" means the legal representative of the estate of a deceased Grantee or the person or persons who shall acquire the right to exercise an Option or an SAR, or to receive Shares issuable in satisfaction of a Restricted Stock Award, by bequest or inheritance or by reason of the death of the Grantee, as provided in accordance with Section 10 hereof.

2.16 "Term" means the period during which a particular Option or SAR may be exercised or the period during which the restrictions placed on a Restricted Stock Award are in effect.

2.17 "QDRO" means a qualified domestic relations order as defined by IRC '86 or Title I of the Employee Retirement Income Security Act, or the rules thereunder.

### 3. Administration of the Plan

3.1 The Plan shall be administered by the Committee.

3.2 The Committee shall have plenary authority, subject to the provisions of the Plan, to determine when and to whom Awards shall be granted, the Term of each Award, the number of Shares covered by it, the participation by Grantee in other plans, and any other terms or conditions of each such Award. The Committee may grant such additional benefits in connection with any Award as it deems appropriate. The number of Shares, the Term, the other terms and conditions of a particular kind of Award and any additional benefits granted in connection with any Award need not be the same, even as to Awards made at the same time. The Committee's actions in making Awards and fixing their size, Term and other terms and conditions and in granting any additional benefits in connection with any Award shall be conclusive on all persons.

3.3 The Committee shall have the sole responsibility for construing and interpreting the Plan, for establishing and amending such rules and regulations as it deems necessary or desirable for the proper administration of the Plan, and for resolving all questions arising under the Plan. Any decision or action taken by the Committee arising out of or in connection with the construction, administration, interpretation and effect of the Plan and of its rules and regulations shall, to the extent permitted by law, be within its absolute discretion, except as otherwise specifically provided herein, and shall be conclusive and binding upon all Grantees, all Successors, and any other persons, whether that person is claiming under or through any Grantee or otherwise.

3.4 The Committee shall regularly inform the Board as to its actions with respect to all Awards under the Plan and the Terms and conditions of such Awards in a manner, at such times, and in such form as the Board may reasonably request.

#### 4. Eligibility

Awards may be made under the Plan only to employees of the Company or a Subsidiary who have executive, managerial, supervisory or professional responsibilities. Officers shall be employees for this purpose, whether or not they are also Directors, but a Director who is not such an employee shall not be eligible to receive an Award. Awards may be made to eligible employees whether or not they have received prior Awards, under the Plan or under any previously adopted plan, and whether or not they are participants in other benefit plans of the Company. In making a determination concerning the granting of Awards to eligible employees, the Committee may take into account the nature of the services they have rendered or that the Committee expects they will render, their present and potential contributions to the success of the business, the number of years of effective service they are expected to have and such other factors as the Committee in its sole discretion shall deem relevant.

#### 5. Shares Subject to Plan

1,500,000 Shares are hereby reserved for issuance in connection with Awards under the Plan. The Shares so issued may be unreserved Shares held in the treasury however acquired or Shares which are authorized but unissued. Any Shares subject to issuance upon exercise of Options or upon the lapsing of restrictions imposed in connection with the making of Restricted Stock Award prior to issuance of the Shares shall once again be available for issuance in satisfaction of Awards only to the extent that cash is issued in satisfaction of the exercise of such Shares.

#### 6. Granting of Options

6.1 Subject to the terms of the Plan, the Committee may from time to time grant Options to eligible employees.

6.2 The purchase price of each Share subject to Option shall be fixed by the Committee, but shall not be less than 100% of the Fair Market Value of the Share on the date the Option is approved by the Board.

6.3 Each Option shall expire and all right to purchase Shares thereunder shall cease on the date fixed by the Committee, which subject to the terms of the Plan, shall not be later than the tenth anniversary of the grant date of the Option.

6.4 Each Option shall become exercisable at the time, and for the number of Shares, fixed by the Committee. Except to the extent otherwise provided in or pursuant to Sections 10 and 11, no Option shall become exercisable as to any Shares prior to the first anniversary of the date on which the Option was granted.

## 7. Stock Appreciation Rights

7.1 The Committee may, in its discretion, grant an SAR to the holder of an Option, either at the time the Option is granted or by amending the instrument evidencing the grant of the Option at any time after the Option is granted and more than six months before the end of the Term of the Options, so long as the grant is made during the period in which grants of SARs may be made under the Plan.

7.2 Each SAR shall be for such Term, and shall be subject to such other terms and conditions, as the Committee shall impose. The terms and conditions may include Committee approval of the exercise of the SAR, limitations on the time within which and the extent to which such SAR shall be exercisable, limitations on the amount of appreciation which may be recognized with regard to such SAR, and specification of what portion, if any, of the amount payable to the Grantee upon his exercise of an SAR shall be paid in cash and what portion, if any, shall be payable in Shares. If and to the extent that Shares are issued in satisfaction of amounts payable on exercise of an SAR, the Shares shall be valued at their Fair Market Value on the date of exercise.

7.3 Except to the extent otherwise provided in or pursuant to Sections 10 and 11, no SAR shall be exercisable during the first six months after its date of grant.

7.4 Upon exercise of an SAR the Option, or portion thereof, with respect to which such right is exercised shall be surrendered and shall not thereafter be exercisable.

## 8. Restricted Stock Awards

8.1 Subject to the terms of the Plan, the Committee may also grant eligible employees Restricted Stock Awards.

8.2 The terms and conditions of any such Award, including restrictions on transfer or on the ability of the Grantee to make elections with respect to the taxation of the Award without the consent of the Committee, shall be determined by the Committee. Except as provided in or pursuant to Sections 10 and 11, no such restrictions shall lapse earlier than the first, or later than the tenth, anniversary of the date of the Awards.

8.3 The Committee may establish terms and conditions under which the Grantee of a Restricted Stock Award shall be entitled to receive a credit equivalent to any dividend payable with respect to the number of Shares which, as of the record date for such dividend, had been awarded but not delivered to him. Any such dividend equivalent shall be paid to the Grantee of the Restricted Stock Award at such time or times during the period when the Shares are being held by the Company pursuant to the terms of the Restricted Stock Award, or at the time the Shares to which the dividend equivalents apply are delivered to the Grantee, as the

committee shall determine. Any arrangement for the payment of dividend equivalents shall be terminated if, under the terms and conditions established by the Committee, the right to receive Shares being held pursuant to the terms of the Restricted Stock Award shall lapse.

8.4 The Committee, as defined by the Plan, may adopt and apply rules to ensure compliance with tax withholding requirements, including, but not limited to, the retention of a sufficient number of restricted shares upon which restrictions have lapsed to pay such tax.

#### 9. Non-Transferability of Rights

No rights under any Award shall be transferable otherwise than by will or the laws of descent and distribution or pursuant to a QDRO, and the rights, and except to the extent otherwise provided in Section 13, the benefits, of any such Award may be exercised and received, respectively, during the lifetime of the Grantee only by him or by his guardian or legal representative or by an "alternate payee" pursuant to a QDRO.

#### 10. Death or Termination of Employment

10.1 Subject to the provisions of the Plan, the Committee may make such provisions concerning exercise or lapse of Options or SARs on death or termination of employment as it shall in its discretion determine. No such provision shall extend the Term of an Option or SAR, nor shall any such provision permit an Option or SAR to be exercised prior to six months after the date on which it was granted, except in the event of death or termination by reason of disability.

10.2 The effect of death or termination of employment on Shares issued or issuable pursuant to any Restricted Stock Awards shall be as stated in the Award.

10.3 Transfers of employment between the Company and a Subsidiary, or between Subsidiaries, shall not constitute termination of employment for purposes of any Award. The Committee may specify in the terms and conditions of an Award whether any authorized leave of absence or absence for military or government service or for any other reason shall constitute a termination of employment for purposes of the Award and the Plan.

#### 11. Provisions Relating to Termination of the Company's Separate Existence

The Committee may provide that in the event that the Company is to be wholly or partly liquidated, or agrees to participate in a merger, consolidation or reorganization in which it, or an entity controlled by it, is not the surviving entity, any or all Options and SARs granted under the Plan shall be immediately exercisable in full and any or all Restricted Stock Awards made under the Plan shall be immediately payable in full.

## 12. Writings Evidencing Awards

Each Award granted under the Plan shall be evidenced by a writing which may, but need not, be in the form of an agreement to be signed by the Grantee. The writing shall set forth the nature and size of the Award, its Term, the other terms and conditions thereof, other than those set forth in the Plan, and such other information as the Committee directs. Acceptance of any benefits of an Award by the Grantee shall be conclusively presumed to be an assent to the terms and conditions set forth therein, whether or not the writing is in the form of an agreement to be signed by the Grantee.

## 13. Exercise of Rights Under Awards

13.1 A person entitled to exercise an Option or SAR may do so by delivery of a written notice to that effect specifying the number of Shares with respect to which the Option or SAR is being exercised and any other information the Committee may prescribe.

13.2 The notice shall be accompanied by payment in full for the purchase price any Shares to be purchased with such payment being made in cash; shares of the Company's common stock having a Fair Market Value equivalent to the purchase price of such Shares; a combination thereof; or cashless exercise pursuant to the Cashless Exercise Program offered by the Company. No Shares shall be issued upon exercise of an Option until full payment has been made therefor.

13.3 The notice of exercise of an SAR shall be accompanied by the Grantee's copy of the writing or writings evidencing the grant of the SAR and the related Option. No SARs, except those which entitle the Grantee to receive only Shares, shall be exercised during the period after it becomes exercisable except in accordance with the rules of the Securities and Exchange Commission.

13.4 Upon exercise of an Option or SAR, or after grant of a Restricted Stock Award but before a distribution of Shares in satisfaction thereof, the Grantee may request in writing that the Shares to be issued in satisfaction of the Award be issued in the name of the Grantee and another person as joint tenants with right of survivorship or as tenants in common.

13.5 All notices or requests provided for herein shall be delivered to the Secretary of the Company.

## 14. Effective Date of the Plan and Duration

14.1 The Plan shall become effective on July 18, 1996, subject to approval on that date, at a meeting of the Company's Board of Directors.

14.2 No Awards may be granted under the Plan on or after July 18, 2006 although the terms of any Award may be amended at any time prior to the end of its Term in accordance with the Plan.

## 15. Date of Award

The date of an Award shall be the date on which the Committee's determination to grant the same is final, or such later date as shall be specified by the Committee in connection with its determination.

## 16. Shareholder Status

No person shall have any rights as a shareholder by virtue of the grant of an Award under the Plan except with respect to Shares actually issued to that person.

## 17. Postponement of Exercise

The Committee may postpone any exercise of an Option or SAR or the distribution of any portion of a Restricted Stock Award for such time as the Committee in its discretion may deem necessary in order to permit the Company (i) to effect or maintain registration of the Plan or the Shares issuable upon the exercise of an Option or an SAR or distributable in satisfaction of a Restricted Stock Award under the Securities Act of 1933, as amended, or the securities laws of any applicable jurisdiction, (ii) to permit any action to be taken in order to comply with restrictions or regulations incident to the maintenance of a public market for its Shares, or (iii) to determine that such Shares and the Plan are exempt from such registration or that no action of the kind referred to in (ii) above needs to be taken; and the Company shall not be obligated by virtue of any terms and conditions of any Award or any provision of the Plan to recognize the exercise of an Option or an SAR to sell or issue shares in violation of the Securities Act of 1933 or the law of any government having jurisdiction thereof. Any such postponement shall not extend the Term of an Option or SAR or shorten the Term of any restriction attached to any Restricted Stock Award. Neither the Company nor its directors or officers shall have any obligation or liability to the Grantee of an Award, to the Grantee's Successor or to any other person with respect to any Shares as to which the Option or SAR shall lapse because of such postponement or as to which issuance under a Restricted Stock Award was delayed.

## 18. Termination, Suspension or Modification of Plan

The Board may at any time terminate, suspend or modify the Plan. However, no termination, suspension or modification of the Plan shall adversely affect any right acquired by any Grantee or any Successor under an Award granted before the date of such termination, suspension or modification, unless such Grantee or Successor shall consent; but it shall be conclusively presumed that any adjustment for changes in capitalization as provided for herein does not adversely affect any such right. Any member of the Board who is an officer or employee of the Company or a Subsidiary shall be without vote on any proposed amendment to the Plan, or on any other matter which might affect that member's individual interest under the Plan.

## 19. Adjustment for Changes in Capitalization

Any increase in the number of outstanding Shares of the Company occurring through stock splits or stock dividends after the adoption of the Plan shall be reflected proportionately in an increase in the aggregate number of Shares then available for the grant of Awards under the Plan, or becoming available through the termination, surrender or lapse of Awards previously granted but unexercised, and in the number of Shares subject to Awards then outstanding; and a proportionate reduction shall be made in the per share option price as to any outstanding

Options. Any fractional shares resulting from such adjustment shall be eliminated. If changes in capitalization other than those considered above shall occur, the Board shall make such adjustment in the number or class of shares, remaining subject to Awards then outstanding and in the per share option price as the Board in its discretion may consider appropriate, and all such adjustments shall be conclusive upon all persons.

## 20. Delivery of Shares in Lieu of Cash Incentive Awards

20.1 Any employee otherwise eligible for an Award under the Plan who is eligible to receive a cash incentive payment from the Company under any management incentive plan may make application to the Committee in such manner as may be prescribed from time to time by the Committee, to receive Shares from the Plan in lieu of all or any portion of such cash payment.

20.2 The Committee may in its discretion honor such application by delivering Shares from the Plan to such employee equal in Fair Market Value to that portion of the cash payment otherwise payable to the employee under such incentive plan for which a Share delivery is to be made in lieu of cash payment.

20.3 Any Shares delivered to employees under the plan in lieu of cash incentive payments shall come from the aggregate number of Shares authorized for use by the Plan and shall not be available for any other Awards under the Plan.

20.4 Such applications and such delivery of Shares shall not be permitted on or after July 18, 2006.

## 21. Loans

21.1 The Company may make loans to Grantees for the sole purpose of exercising Option Awards under the Plan and meeting the Federal tax consequences of such exercise. Such loans shall be subject to the terms and conditions established by the Committee from time to time which shall in all cases include those specific items contained in this Section 21 as well as such other items as may be established by the Committee.

21.2 No loan shall exceed the exercise price of the option to be exercised plus the amount of Federal income taxes reasonably estimated to be due at the exercise of the option or within the next following seven month period.

21.3 No loan shall have a term exceeding five years subject to renewal at the discretion of the Committee and notwithstanding any other terms of the loan shall be fully due and payable on the loan recipient's termination of employment. In the case of termination due to disability, the Committee at its discretion, may extend the terms of the loan beyond termination.

21.4 Interest shall be charged on the loan with a rate established by the Committee but in no case less than an amount equal to any dividends payable during the term of the loan on the Shares being purchased by the Grantee at the exercise of the Option. Such minimum interest rate shall be determined by dividing the dividends paid on such Shares during the preceding twelve months by the Option price for such Shares.



21.5 If such a loan is made to a Grantee, the Company shall not deliver a certificate or any shares purchased with the loan proceeds, until such time as the loan is repaid.

## 22. No-Uniform Determination

The Committee's determination under the Plan including, without limitation, determination of the persons to receive Awards, the form, amount and type of Awards (e.g. NQSOs, Restricted Stock Awards), the terms and provisions of Awards and the written material evidencing such Awards, the grant of additional benefits in connection with any Award, and the granting or rejecting of loans or applications for delivery of stock in lieu of cash bonus or incentive payments need not be uniform and may be made selectively among otherwise eligible employees, whether or not such employees are similarly situated.

## 23. Taxes

The Company shall be entitled if necessary or desirable to pay or withhold the amount of any tax attributable to any amounts payable under any Awards after giving the person entitled to receive such amount notice as far in advance as practicable, and the Company may defer making payment of any Award if any such tax, charge or assessment may be pending until indemnification to its satisfaction.

## 24. Tenure

An employee's right, if any, to continue in the employ of the Company or a Subsidiary shall not be affected by the fact that he is a participant under this Plan. At the sole discretion of the Committee, an employee terminated for cause may be required to forfeit all of his rights under the Plan, except as to Options or SARs already exercised and Restricted Stock Awards on which restrictions have already lapsed.

## 25. Application of Proceeds

The proceeds received by the Company from the sale of its Shares under the Plan shall be used for general corporate purposes.

## 26. Other Actions

Nothing in the Plan shall be construed to limit the authority of the Company to exercise its corporate rights and powers, including, by way of illustration and not by way of limitation, the right to grant options for proper corporate purposes otherwise than under the Plan to any employee or any other person, firm, corporation, association or other entity, or to grant options to, or assume options of, any person in connection with the acquisition, by purchase, lease, merger, consolidation or otherwise, of all or any part of the business and assets of any person, firm, corporation, association or other entity.

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