

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-12255

YELLOW ROADWAY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

10990 Roe Avenue, Overland Park, Kansas

(Address of principal executive offices)

48-0948788

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

66211

(Zip Code)

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

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

NONE

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

Common Stock, \$1 Par Value Per Share

(Title of class)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The aggregate market value of the voting and non-voting common equity held by nonaffiliates of the registrant at June 30, 2004 was \$1,913,499,270.

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

<u>Class</u>	<u>Outstanding at February 28, 2005</u>
Common Stock, \$1 Par Value Per Share	48,869,291 shares

DOCUMENTS INCORPORATED BY REFERENCE

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

- 1) Proxy Statement related to the 2005 Annual Meeting of Shareholders—Part III

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**Yellow Roadway Corporation
Form 10-K
Year Ended December 31, 2004**

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This entire annual report, including (among other items) management's discussion and analysis and certain statements in the Notes to Consolidated Financial Statements, includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21 of the Securities Exchange Act of 1934, as amended (each a "forward-looking statement"). Forward-looking statements include those preceded by, followed by or include the words "should," "could," "may," "expect," "believe," "estimate" or similar expressions. Our actual results could differ materially from those projected by these forward-looking statements due to a number of factors, including (without limitation), inflation, inclement weather, price and availability of fuel, competitor pricing activity, expense volatility, ability to capture cost synergies, changes in equity and debt markets, a downturn in general or regional economic activity, effects of a terrorist attack, and labor relations, including (without limitation), the impact of work rules, work stoppages, strikes or other disruptions, any obligations to multi-employer health, welfare and pension plans, wage requirements and employee satisfaction as well as those factors discussed in the Economic Factors and Seasonality section below.

PART I

Item 1. Business

General Development of the Business

Yellow Roadway Corporation (also referred to as "Yellow Roadway," "we" or "our"), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of asset and non-asset-based transportation services. The Yellow Roadway portfolio of brands provides one of the most comprehensive packages of services for the shipment of industrial, commercial and retail goods domestically and internationally. Our operating subsidiaries which are also our reportable segments include the following:

- Yellow Transportation, Inc. ("Yellow Transportation") is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through centralized management and customer facing organizations. Approximately 40 percent of Yellow Transportation shipments are completed in two days or less.
- Roadway Express, Inc. ("Roadway Express") is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through regionalized management and customer facing organizations. Approximately 30 percent of Roadway Express shipments are completed in two days or less. Roadway Express owns 100 percent of Reimer Express Lines Ltd. ("Reimer"), located in Canada, that specializes in shipments into, across and out of Canada.
- Roadway Next Day Corporation is a holding company focused on business opportunities in the regional and next-day delivery lanes. Roadway Next Day Corporation owns 100 percent of New Penn Motor Express, Inc. ("New Penn"), which provides regional, next-day ground services through a network of facilities located in the Northeastern United States ("U.S."), Quebec, Canada and Puerto Rico.
- Meridian IQ, Inc. ("Meridian IQ") is a non-asset-based global transportation management company that plans and coordinates the movement of goods throughout the world, providing customers a faster return on investment, more efficient supply-chain processes and a single source for transportation management solutions.

For revenue and other information regarding these segments, see the Business Segments note under Item 8, Financial Statements and Supplementary Data. Yellow Roadway Technologies, Inc. ("YR Technologies"), a captive corporate resource, provides innovative technology solutions and services exclusively for Yellow Roadway companies. In addition to delivering and supporting highly integrated applications and solutions, YR

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Technologies provides value-added technical, network, secure data, and enterprise system management services to our operating subsidiaries. Costs incurred by YR Technologies, primarily personnel costs, are charged to our operating subsidiaries via a management fee.

Incorporated in Delaware in 1983 and headquartered in Overland Park, Kansas, we employed approximately 50,000 people as of December 31, 2004. The mailing address of our headquarters is 10990 Roe Avenue, Overland Park, Kansas 66211, and our telephone number is (913) 696-6100. Our website is www.yellowroadway.com. Through the "SEC Filings" link on our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"): our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended. All such filings may be viewed or printed from our website free of charge.

On December 11, 2003, we successfully closed the acquisition of Roadway Corporation ("Roadway"). Roadway became Roadway LLC ("Roadway Group") and a subsidiary of Yellow Roadway. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately \$1.1 billion. The Roadway Group has two operating segments, Roadway Express and New Penn. The results of the Roadway Group are included herein since the date of acquisition.

Narrative Description of the Business

Operating Units

Yellow Transportation

Yellow Transportation offers a full range of services for the movement of industrial, commercial, and retail goods and provides transportation services by moving shipments through its regional, national and international networks of terminals, utilizing primarily ground transportation equipment that we own or lease. The Yellow Transportation mission is to be the leading provider of guaranteed, time-definite, defect-free, hassle-free transportation services for business customers worldwide. Yellow Transportation addresses the increasingly complex transportation needs of its customers through service offerings such as:

- *Exact Express*[®]—a premium expedited and time-definite ground service with an industry-leading 100% satisfaction guarantee;
- *Definite Delivery*[®]—a guaranteed on-time service with constant shipment monitoring and proactive notification;
- *Standard Ground*[™]—a ground service with complete coverage of North America;
- *Standard Ground*[™] *Regional Advantage*—a high-speed service for shipments moving between 500 and 1,500 miles; and
- *MyYellow*[®].com—a leading edge e-commerce web site offering secure and customized online resources to manage transportation activity.

Yellow Transportation, founded in 1924, serves more than 400,000 manufacturing, wholesale, retail and government customers throughout North America. Operating from 332 strategically located facilities with 12,945 doors, Yellow Transportation provides service throughout North America, including within Puerto Rico and Hawaii. Shipments range from 100 to 40,000 pounds, with an average shipment size of 1,000 pounds traveling an average distance of more than 1,200 miles. Yellow Transportation has nearly 700 employees with sales responsibilities.

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As of December 31, 2004, approximately 23,000 Yellow Transportation employees are dedicated to operating the system that supports 280,000 shipments in transit at any time. An operations research and engineering team is responsible for the equipment, routing, sequencing and timing of nearly 59 million miles per month. At December 31, 2004, Yellow Transportation had 7,858 owned tractors, 536 leased tractors, 33,106 owned trailers and 58 leased trailers.

Based in Overland Park, Kansas, Yellow Transportation accounted for 47 percent of our total operating revenue in 2004, 92 percent of our total operating revenue in 2003 and 97 percent of our total operating revenue in 2002 (excluding SCS Transportation, Inc. ("SCST"), which we spun off in 2002).

Roadway Express

Founded in 1930, Roadway Express, through its extensive network of 366 terminals with 13,745 doors located throughout North America, offers long-haul, interregional and regional less-than-truckload ("LTL") freight services on two-day and beyond lanes. Roadway Express is a leading transporter of industrial, commercial and retail goods with a variety of innovative services designed to meet customer needs. Roadway Express provides seamless, general commodity freight service among all 50 states, Canada, Mexico and Puerto Rico, and offers import and export services to more than 100 additional countries worldwide through offshore agents. Reimer Express Lines provides service in Canada, while Roadway Express, S.A. de C.V. handles service in Mexico. Both companies are subsidiaries of Roadway Express.

General commodity freight includes apparel, appliances, automotive parts, chemicals, food, furniture, glass machinery, metal and metal products, non-bulk petroleum products, rubber, textiles, wood and miscellaneous manufactured products. Roadway Express also offers truckload ("TL") services to complement its LTL business, usually to fill back hauls and maximize equipment utilization. Back haul is the process of moving trailers (often empty or partially full) back to their destination after a delivery. In addition, Roadway Express provides higher margin specialized services, including guaranteed expedited services, time-specific delivery, North American international services, coast-to-coast air delivery, sealed trailers, product returns, cold-sensitive protection and government material shipments. The Roadway Express suite of time-based services provides customers the flexibility to choose next day and beyond service on the ground or in the air at any hour, day or night, anywhere across North America with extreme reliability. These service offerings include:

- *Time-Critical™ Service*—a premium expedited and time-definite service designed to meet any need at any speed with delivery windows as precise as one hour. Time Critical service delivers industry-leading reliability with over 99% on-time service performance for 8 years running and is backed by a 100% on-time, no-invoice guarantee.
- *Time-Critical™ Multi-Day Window Service*—a service option providing customers the ability to select any size multiple day delivery window and is guaranteed not to deliver early or late. Multi-Day Window service is ideal for vendors shipping to retailers trying to avoid costly charge-backs when faced with strict window delivery requirements.
- *Time-Advantage™ Service*—Roadway's newest expedited service option providing customers the ability to pick the speed to match their need on the ground or in the air anywhere throughout North America.
- *Sealed Divider™*—a dedicated service providing extra protection in transit with customers paying only for the space used on the trailer.
- *My.roadway.com*—a secure e-commerce web site offering online resources for shipment visibility and management in real time.

Roadway Express employed approximately 23,000 employees as of December 31, 2004. At that date, it owned 6,457 tractors and 29,994 trailers and leased 2,903 tractors and 2,101 trailers. Headquartered in Akron, Ohio, Roadway Express accounted for 46 percent of our total operating revenue in 2004.

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New Penn

Founded in 1931, New Penn is a regional, next-day, ground LTL carrier of general commodities. Through a network of 23 terminals with 1,235 doors, and using 854 owned tractors and 1,716 owned trailers as of December 31, 2004, New Penn services twelve states in the Northeastern U.S., Quebec and Puerto Rico and has links to the Midwest and Southeast regions of the U.S. and Ontario. At December 31, 2004, New Penn had more than 2,000 employees. Ninety-five percent of New Penn shipments are delivered next-day in the Northeast region of the U.S. Headquartered in Lebanon, Pennsylvania, New Penn accounted for four percent of our total operating revenue in 2004.

Reimer Express Lines

Founded in 1952, Reimer, a wholly owned subsidiary of Roadway Express, offers Canadian shippers a selection of direct connections within Canada, throughout North America and around the world. Its network and information systems are completely integrated with those of Roadway Express. Integration with Roadway Express enables Reimer to provide seamless cross-border services between Canada, Mexico and the U.S. At December 31, 2004, Reimer had approximately 1,400 employees and operated through 22 terminals. Reimer owned 301 tractors (excludes owner-operator tractors) and 499 trailers and leased 86 tractors and 535 trailers as of December 31, 2004. All of the operating statistics of Reimer disclosed in this paragraph are also included in the Roadway Express statistics previously discussed.

Meridian IQ

Meridian IQ is a non-asset global transportation management company that plans and coordinates the movement of goods worldwide to provide customers a single source for transportation management solutions. Non-asset-based service providers (i.e. logistics providers), such as Meridian IQ, arrange for and expedite the movement of goods and materials through the supply chain. As is typical with logistics providers, Meridian IQ neither owns nor operates the physical assets necessary to move goods, eliminating the significant capital requirements that asset-based providers normally require. This lower asset requirement allows the non-asset-based firms to reduce variable costs in economic downturns.

Meridian IQ delivers a wide range of global transportation management services, with the ability to provide customers improved return-on-investment results through flexible, fast and easy-to-implement transportation services and technology management solutions. Meridian IQ has approximately 18,000 transactional and 200 contractual customers.

Meridian IQ offers the following services:

- *International forwarding and customs brokerage*—arranging for the administration, transportation and delivery of goods to over 74 countries;
- *Multi-modal brokerage services*—providing companies with daily shipment needs with access to volume capacity and specialized equipment at competitive rates;
- *Domestic forwarding and expedited services*—arranging guaranteed, time-definite transportation for companies within North America requiring time-sensitive delivery options and guaranteed reliability; and
- *Transportation solutions and technology management*—web-native transportation management systems enabling customers to manage their transportation network centrally with increased efficiency and visibility. When combined with network consulting and operations management any organization, regardless of size, can outsource transportation functions partially or even entirely with Meridian IQ.

At December 31, 2004, Meridian IQ had approximately 650 employees, including 125 located in the United Kingdom. Meridian IQ has a sales force of approximately 40, including 10 located in the U.K. Additionally, the nearly 700 members of the Yellow Transportation sales force assist Meridian IQ in developing sales leads. Based

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in Overland Park, Kansas, Meridian IQ accounted for three percent of our total operating revenue in 2004, four percent of our total operating revenue in 2003 and three percent of our total operating revenue (excluding SCST) in 2002.

Yellow Roadway Technologies

Yellow Roadway Technologies is headquartered in Overland Park, Kansas and has approximately 300 employees. Yellow Roadway Technologies and Meridian IQ together provide hosting, infrastructure services and managed transportation business systems development.

Competition

Customers have a wide range of choices. We believe that service quality, performance, technology, service variety, responsiveness, and flexibility are important competitive differentiators.

Few U.S.-based LTL competitors offer comparably broad service capabilities. By integrating traditional ground, expedited, air cargo, and managed transportation solutions, we can provide consumers with a single source answer to shipping challenges with a foundation of service excellence and quality as its basis. Our market studies show a continued preference among customers for transportation providers based on quality and value, and we focus on these attributes. By increasing the depth of the services we offer, we also believe that we can compete against the largest transportation competitors from a value perspective.

Yellow Transportation, Roadway Express and New Penn operate in a highly competitive environment against a wide range of transportation service providers. These competitors include a few global, integrated transportation services providers, a small number of national transportation services providers similar in size and scope to Yellow Transportation and Roadway Express, a moderate number of regional or interregional providers and a large number of relatively small, shorter-haul transportation companies. Yellow Transportation and Roadway Express also compete in and against several modes of transportation, including LTL, TL, air cargo, rail, consolidators and private fleets.

Truck-based transportation includes private fleets and two “for-hire” carrier groups. The private carrier segment consists of fleets owned and operated by shippers who move their own goods. The two “for-hire” groups are based on the typical shipment sizes handled by transportation service companies. Truckload refers to providers transporting shipments that generally fill a trailer, and LTL or shared load refers to providers transporting shipments from multiple shippers that alone would not fill a trailer.

Shared load transportation providers, LTL, consolidate numerous orders generally ranging from 100 to 10,000 pounds from businesses in different locations. Orders are consolidated at individual locations within a certain radius from service centers. As a result, shared load carriers require expansive networks of pickup and delivery operations around local service centers and, with respect to national carriers, shipments are moved between origin and destination through a series of regional distribution centers. Depending on the distance shipped, shared load providers are often classified into three sub-groups:

- **Regional**—Average distance is typically less than 500 miles with a focus on one- and two-day delivery times. Regional transportation companies can move shipments directly to their respective destination centers, which increases service reliability and avoids costs associated with intermediate handling.
- **Interregional**—Average distance is usually between 500 and 1,000 miles with a focus on two- and three-day delivery times. There is a blurring of lines between regional and national providers, as each sees the interregional segment as a growth opportunity, and there are no providers who focus exclusively on this sector.
- **National**—Average distance is typically in excess of 1,000 miles with focus on two- to five-day delivery times. National providers rely on interim shipment handling through a network of terminals, which

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require numerous satellite service centers, multiple distribution centers and a relay network. To gain service and cost advantages, they often ship directly between service centers, minimizing intermediate handling.

Yellow Transportation and Roadway Express provide service to all three sub-groups. Entry into the LTL trucking industry on a small scale with a limited service area is relatively easy. The larger the service area the greater the barriers to entry, due to the need for broader geographic coverage and additional equipment and facility requirements associated with this coverage. The level of technology applications required and the ability to generate shipment densities that provide adequate labor and equipment utilization also make larger-scale entry into the market difficult.

The competition of Meridian IQ includes transportation management systems providers, domestic and international freight forwarders, freight brokers, and third party logistics companies.

Regulation

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

Yellow Transportation, Roadway Express and New Penn are subject to regulatory and legislative changes, which can affect our economics and those of our competitors. Various state agencies regulate us, and our operations are also subject to various federal, foreign, state, provincial and local environmental laws and regulations dealing with transportation, storage, presence, use, disposal and handling of hazardous materials, discharge of storm-water and underground fuel storage tanks.

We believe that our operations are in substantial compliance with current laws and regulations.

We further describe our operations in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of this report.

Environmental Matters

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

During 2004, we spent approximately \$3.4 million to comply with U.S. federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, "Environmental Regulations"). In 2005, we expect to spend approximately \$4.0 million to comply with the Environmental Regulations. Based upon current information, we believe that our compliance with Environmental Regulations will not have a material adverse effect upon our capital expenditures, results of operation and competitive position because we have either made adequate reserves for such compliance expenditures or the cost for such compliance is expected to be small in comparison with our overall net worth.

We estimate that we will incur less than \$1 million in capital expenditures for environmental control equipment during 2005. We believe that capital expenditures for environmental control equipment for 2005 will

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not have a material adverse effect upon our financial condition because the aggregate amount of these expenditures is expected to be small in comparison with our overall net worth.

The Comprehensive Environmental Response, Compensation and Liability Act (known as the “Superfund Act”) imposes liability for the release of a “hazardous substance” into the environment. Superfund liability is imposed without regard to fault and even if the waste disposal was in compliance with the then current laws and regulations. With the joint and several liability imposed under the Superfund Act, a potentially responsible party (“PRP”) may be required to pay more than its proportional share of such environmental remediation. Several of our subsidiaries have been identified as PRPs at various sites discussed below. The U.S. Environmental Protection Agency (“the EPA”) and appropriate state agencies are supervising investigative and cleanup activities at these sites. The EPA has identified Yellow Transportation as a PRP for three locations: Omega Chemical Site, Whittier, CA; a site at Dupo, IL; and Alburn Incinerator, Inc., Chicago, IL. We estimate that the combined potential costs at the Omega and Alburn sites will not exceed \$0.3 million. With respect to the Dupo site, it appears that Yellow Transportation delivered less than 100 gallons of waste to this site, which is *de minimis* in relation to other respondents. The EPA has issued an order under Section 106(a) of the Super fund Act for Yellow Transportation and 18 other respondents to begin remediation efforts at the Omega site. The EPA has identified Roadway Express as a PRP for five locations: Operating Industries Site, Monterey Park, CA; BEMS Landfill, Mt. Holly, NJ; Double Eagle Site, Oklahoma City, OK; M&J Solvent Site, Atlanta, GA and FL Petroleum Reprocessors Site, Davie, FL. We estimate that combined potential costs at these five sites will not exceed \$0.7 million. Yellow Transportation and Roadway Express are classified as *de minimis* PRPs at all of these locations.

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

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

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

This section, “Environmental Matters,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “believe”, “expect”, “estimate”, “may” and similar expressions are intended to identify forward-looking statements. Our expectations regarding our compliance with Environmental Regulations and our expenditures to comply with Environmental Regulations, including (without limitation) our capital expenditures on environmental control equipment, and the effect that liability from Environmental Regulation or Superfund sites may have on our financial condition or results of operations, are only our forecasts regarding these matters. These forecasts may be substantially different from actual results, which may be affected by the following factors: changes in Environmental Regulations; unexpected, adverse outcomes with respect to sites where we have been named as a PRP, including (without limitation) the sites described above; the discovery of new sites of

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which we are not aware and where additional expenditures may be required to comply with Environmental Regulations; an unexpected discharge of hazardous materials in the course of our business or operations; an acquisition of one or more new businesses; a catastrophic event causing discharges into the environment of hydrocarbons; the inability of other PRPs to pay their share of liability for a Superfund site; and a material change in the allocation to us of the volume of discharge and a resulting change in our liability as a PRP with respect to a site.

Economic Factors and Seasonality

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

Financial Information About Geographic Areas

Our revenue from foreign sources is largely derived from Canada, United Kingdom and Mexico. We have certain long-lived assets located in these countries as well. We discuss this information in the Business Segments note under Item 8, Financial Statements and Supplementary Data, of this report.

Item 2. Properties

At December 31, 2004, we operated a total of 721 freight terminals located in 50 states, Puerto Rico, Canada and Mexico. Of this total, 447 were owned terminals and 274 were leased, generally for terms of three years or less. The number of vehicle back-in doors totaled 27,925, of which 23,467 were at owned terminals and 4,458 were at leased terminals. The freight terminals vary in size ranging from one to three doors at small local terminals, to over 380 doors at the largest consolidation and distribution terminal. We own substantially all of the larger terminals, containing the greatest number of doors, are owned. In addition, we and our subsidiaries own and occupy general office buildings in Overland Park, Kansas, Akron, Ohio, Lebanon, Pennsylvania and Winnipeg, Manitoba. Our owned freight terminals and office buildings are unencumbered.

Our facilities and equipment are adequate to meet current business requirements in 2005. Refer to Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a more detailed discussion of expectations regarding capital spending in 2005.

Item 3. Legal Proceedings

We discuss legal proceedings in the Commitments, Contingencies, and Uncertainties note under Item 8, Financial Statements and Supplementary Data, of this report.

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

We did not submit any matters to the vote of our stockholders during the fourth quarter of the most recent fiscal year.

PART II

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

As of February 28, 2005, approximately 17,300 shareholders of record held Yellow Roadway common stock. Our only class of stock outstanding is common stock, traded through the NASDAQ Stock Market. Trading activity averaged 1,019,000 shares per day during 2004, up from 831,000 per day in 2003. The NASDAQ Stock Market quotes prices for our common stock under the symbol "YELL." The high and low prices at which Yellow Roadway common stock traded for each calendar quarter in 2004 and 2003 are shown below.

Quarterly Financial Information (unaudited)

(in thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2004				
Operating revenue	\$ 1,552,135	\$ 1,674,131	\$ 1,767,082	\$ 1,774,137
Losses (gains) on property disposals, net	462	(193)	(859)	(3,957)
Operating income	41,318	88,241	120,592	111,450
Net income	18,156	46,917	55,909	63,345
Diluted earnings per share	0.38	0.97	1.15	1.24
Common stock:				
High	38.86	39.95	46.89	56.49
Low	29.77	32.41	38.32	45.20
2003				
Operating revenue	\$ 681,093	\$ 713,453	\$ 770,705	\$ 903,365 ^(a)
Losses (gains) on property disposals, net	11	30	381	(589)
Acquisition charges	—	—	864	2,260
Operating income	11,759	32,333	37,812	6,698 ^(b)
Net income (loss)	5,626	18,360	17,369	(672)
Diluted earnings (loss) per share	0.19	0.62	0.58	(0.02)
Common stock:				
High	27.75	28.03	33.95	36.96
Low	21.18	22.01	21.63	29.35

- (a) Fourth quarter 2003 information included Roadway LLC revenue of \$141.0 million and an operating loss of \$6.3 million from the date of acquisition, December 11, through December 31.
- (b) Fourth quarter 2003 operating income included \$17.5 million related to conforming accounting policies and a \$2.0 million legal provision in addition to the \$2.3 million of acquisition charges and \$0.6 million of gains on property disposals shown above.

We did not declare any cash dividends on our common stock in 2004 or 2003.

The information required by this item with respect to information regarding our equity compensation plans is included under the caption "Equity Compensation Plan Information" in our Proxy Statement related to the 2005 Annual Meeting of Shareholders and is incorporated herein by reference.

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Item 6. Selected Financial Data

	2004	2003 ^(a)	2002 ^(b)	2001	2000
(in thousands except per share data)					
For the Year					
Operating revenue	\$6,767,485	\$3,068,616	\$2,624,148	\$2,505,070	\$2,799,131
Operating income	361,601	88,602	46,864	38,195	126,747
Losses (gains) on property disposals, net	(4,547)	(167)	425	(186)	(14,372)
Acquisition, spin-off and reorganization charges	—	3,124	8,010	5,601	—
Interest expense	43,954	20,606	7,211	8,437	10,131
Assets backed securitization (“ABS”) facility charges	—	—	2,576	7,996	10,052
Income from continuing operations (after tax)	184,327	40,683	23,973	10,589	61,605
Net income (loss)	184,327	40,683	(93,902)	15,301	68,018
Depreciation and amortization expense	171,468	87,398	79,334	76,977	78,587
Net capital expenditures from continuing operations	164,289	99,134	82,830	81,435	70,689
Net cash from operating activities from continuing operations	435,718	155,736	25,808	12,189	151,592
At Year-End					
Net property and equipment	1,422,718	1,403,268	564,976	559,532	554,150
Total assets	3,627,169	3,463,229	1,042,985	1,285,777	1,308,477
Long-term debt, less current portion	403,535	836,082	50,024	213,745	136,645
ABS facility ^(c)	—	71,500	50,000	141,500	177,000
Total debt, including ABS facility	657,935	909,339	124,285	361,526	382,437
Total shareholders’ equity	1,214,191	1,002,085	359,958	490,989	459,776
Measurements					
Basic per share data:					
Income from continuing operations	3.83	1.34	0.86	0.44	2.50
Net income (loss)	3.83	1.34	(3.35)	0.63	2.76
Average common shares outstanding—basic	48,149	30,370	28,004	24,376	24,649
Diluted per share data:					
Income from continuing operations	3.75	1.33	0.84	0.43	2.49
Net income (loss)	3.75	1.33	(3.31)	0.62	2.74
Average common shares outstanding—diluted	49,174	30,655	28,371	24,679	24,787
Debt to capitalization	35.1%	47.6%	25.7%	42.4%	45.4%
Debt to capitalization, less available cash	31.2%	45.4%	21.0%	41.1%	44.0%
Shareholders’ equity per share	24.66	20.97	12.17	19.75	19.32
Common stock price range:					
High	56.49	36.96	32.21	27.57	22.13
Low	29.77	21.18	18.31	15.50	13.81
Other Data					
Average number of employees	50,000	50,000 ^(d)	23,000	30,000	32,900
Operating ratio:					
Yellow Transportation	94.0%	95.7%	97.2%	97.8%	94.9%
Roadway Express	94.9%	—	—	—	—
New Penn	87.0%	—	—	—	—

(a) Represents the results of all Yellow Roadway entities including Roadway LLC entities from the date of acquisition, December 11, through December 31.

(b) In 2002, we completed the spin-off of SCS Transportation, Inc. (“SCST”). Financial Summary data has been reclassified for all periods presented to disclose SCST as a discontinued operation.

(c) Prior to December 31, 2002, the ABS facility was treated as a sale of assets and the sold receivables and related obligations were not reflected on the Consolidated Balance Sheets.

(d) In 2003, prior to the acquisition of Roadway on December 11, 2003, we had an average of 25,000 employees.

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

Overview

Yellow Roadway Corporation (also referred to as "Yellow Roadway," "we" or "our"), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of asset and non-asset-based transportation services. Yellow Roadway Technologies, Inc., a captive corporate resource, provides innovative technology solutions and services exclusively for Yellow Roadway companies. Our operating subsidiaries include the following:

- Yellow Transportation, Inc. ("Yellow Transportation") is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through centralized management and customer facing organizations. Approximately 40 percent of Yellow Transportation shipments are completed in two days or less.
- Roadway Express, Inc. ("Roadway Express") is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through regionalized management and customer facing organizations. Approximately 30 percent of Roadway Express shipments are completed in two days or less. Roadway Express owns 100 percent of Reimer Express Lines Ltd. ("Reimer"), located in Canada, that specializes in shipments into, across and out of Canada.
- Roadway Next Day Corporation is a holding company focused on business opportunities in the regional and next-day delivery lanes. Roadway Next Day Corporation owns 100 percent of New Penn Motor Express, Inc. ("New Penn"), which provides regional, next-day ground services through a network of facilities located in the Northeastern United States ("U.S."), Quebec, Canada and Puerto Rico.
- Meridian IQ, Inc. ("Meridian IQ") is a non-asset-based global transportation management company that plans and coordinates the movement of goods throughout the world, providing customers a faster return on investment, more efficient supply-chain processes and a single source for transportation management solutions.

The following management's discussion and analysis explains the main factors impacting our results of operations, liquidity and capital expenditures and the critical accounting policies of Yellow Roadway. This information should be read in conjunction with the accompanying financial statements and notes to the financial statements.

Our Operating Environment

We operate in a highly competitive environment, yet one where we believe the right value proposition for our customers permits us to recover our cost of capital over the business cycle. Historically, our customers viewed us solely as a less-than-truckload ("LTL") carrier with limited service opportunities. Over the last several years significant changes have occurred in our environment, including: consolidation and liquidation of LTL carriers; the increased presence of global, small package providers such as FedEx Corporation and United Parcel Service, Inc.; and increasing needs and demands of our stakeholders. We continue to proactively address these changes through our focused strategy of being a global transportation services provider. Over the last few years, we have spun-off our nonunion, regional carriers, raised substantial capital through a successful equity offering, expanded our service offerings, and completed multiple acquisitions of non-asset-based companies. In 2003, we continued to implement our strategy, as we negotiated a five-year labor agreement with the International Brotherhood of Teamsters, completed another non-asset-based acquisition, and acquired Roadway Express. In 2004, we were especially focused on the synergy opportunities that the Roadway acquisition presented, which effectively doubled our revenue, and meeting the demands of our customers during this strong economic period. From a services perspective, we targeted our premium services revenue lines and will continue this focus in 2005, including the introduction of a next-day offering to Yellow Transportation's suite of services.

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We will continue to face challenges in the environment that we operate, primarily due to the changing competitive landscape and meeting our stakeholders' demands. Specific economic areas that impact our ability to generate profits and cash flows include the levels of consumer spending and manufacturing activity. We monitor these areas primarily through growth in real gross domestic product ("GDP") and the industrial production index ("IPI"). Real GDP measures the value of goods and services produced in the U.S., excluding inflation, and the IPI measures the physical units and inputs into the U.S. production process. According to the St. Louis FREDII database, in 2004 real GDP declined from a 3.9 percent annualized rate in the first six months of the year to a 3.5 percent annualized rate during the last six months of the year. In addition, the Federal Reserve G17 release states the IPI grew at a 5.0 percent seasonally adjusted annualized rate in the first half of the year and slowed to a 4.0 percent annualized rate in the second half of the year. These factors, while declining in the later half of the year, were still strong enough to contribute to our increased profits from 2003 to 2004, as discussed in our Results of Operations section. We manage the impact of our customers' spending and manufacturing activity through, among others, pricing discipline, cost management programs, maintaining adequate debt capacity, investment in technology and continuous improvement programs. We continue to be well positioned in the transportation industry with a strong ability to take advantage of the positive economic conditions.

Acquisition of Roadway Corporation

On July 8, 2003 we announced our intention to acquire Roadway Corporation ("Roadway") in approximately a half cash, half stock transaction, and on December 11, 2003 we closed the acquisition. As a result of the acquisition, Roadway Corporation became Roadway LLC, a subsidiary of Yellow Roadway. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock, based on an exchange ratio of 1.752 and an average price per share of \$31.51 (subject to proration and allocation provisions), for a total purchase price of \$1.1 billion. The purchase price also included approximately \$19 million for investment banking, legal and accounting fees that Yellow Roadway incurred to consummate the acquisition, resulting in total cash consideration of \$513 million. In addition, by virtue of the merger, we assumed \$225.0 million of principal senior notes due 2008 with a fair value of \$249.2 million at the acquisition date and acquired available cash of \$106.3 million.

During 2004, we worked toward the integration of Roadway LLC and the application of synergies to both Roadway Express and Yellow Transportation including the identification of best practices within the two organizations. We successfully identified cost synergies and, coupled with a positive economy, realized strong operating results in our first year as a combined entity. We will continue to be challenged in identifying and capturing additional cost synergies and maintaining our separate brands.

Results of Operations

Our Results of Operations section focuses on the highlights and significant items that impacted our operating results over the last three years. We will discuss the areas that caused material fluctuations and required specific evaluation by management. Our discussion will also explain the adjustments to operating income that management excludes when internally evaluating segment performance because the items are not related to the segments' core operations. Please refer to our Business Segments note for further discussion.

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Yellow Transportation Results

Yellow Transportation represented approximately 47 percent, 92 percent and 97 percent of our consolidated revenue in 2004, 2003 and 2002, respectively. The table below provides summary information for Yellow Transportation for the three years ended December 31:

	2004	2003	2002	Percent Change	
				2004 vs. 2003	2003 vs. 2002
(in millions)					
Operating revenue	\$3,180.6	\$2,811.9	\$2,547.1	13.1%	10.4%
Operating income	191.5	119.9	70.6	59.7%	69.8%
Adjustments to operating income ^(a)	(3.1)	19.0	0.5	n/m ^(b)	n/m
Adjusted operating income ^(d)	188.4	138.9	71.1	35.6%	95.3%
Operating ratio	94.0%	95.7%	97.2%	1.7pp ^(c)	1.5pp
Adjusted operating ratio	94.1%	95.1%	97.2%	1.0pp	2.1pp

(a) Represents charges that management excludes when evaluating segment performance to better understand our core operations (see discussion below).

(b) Not meaningful.

(c) Percentage points.

(d) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles.

2004 compared to 2003

Yellow Transportation revenue increased by \$368.7 million in 2004 compared to 2003 due to improving economic conditions, continued emphasis on premium services and meeting customer requirements and increased revenue from fuel surcharge. The fuel surcharge, adjusted weekly based on a national index, represents an amount charged to customers that adjusts for changing fuel prices and is common throughout the transportation industry. The two primary components of LTL revenue are volume, comprised of the number of shipments and the weight per shipment, and price, usually evaluated on a per hundred weight basis. In 2004, Yellow Transportation LTL tonnage increased by 5.6 percent per day, and LTL revenue per hundred weight improved by 5.3 percent from 2003.

Premium services, an integral part of our strategy to offer a broad portfolio of services and meet the increasingly complex transportation needs of our customers, continued to produce favorable operating results. Premium services at Yellow Transportation include, among others, Exact Express[®], an expedited and time-definite ground service with a 100 percent satisfaction guarantee; and Definite Delivery[®], a guaranteed on-time service with constant shipment monitoring and notification. In 2004, total Exact Express revenue increased by nearly 47 percent and Definite Delivery revenue increased by nearly 5 percent, in each case, compared to 2003. Yellow Transportation also offers Standard Ground[™] Regional Advantage, a high-speed service for shipments moving between 500 and 1,500 miles. Standard Ground Regional Advantage revenue represented nearly 23 percent of total Yellow Transportation revenue in 2004 and increased by nearly 15 percent from 2003. This service provides higher utilization of assets by use of more direct loading and bypassing intermediate handling at distribution centers.

Despite increases in contractual wages and benefits and purchased transportation rates, Yellow Transportation operating income improved by \$71.6 million in 2004 compared to 2003. Operating income increased primarily as a result of higher volume, better yield, increased fuel surcharge, effective labor management and overall effective cost management including the realization of synergies associated with the Roadway acquisition. The strong operating income results highlight our continued ability to effectively balance volume and price. Purchased transportation (mostly rail) raised operating expenses by \$31.4 million in 2004 from 2003. The increase resulted from a combination of higher volumes and increased rates. Operating expenses as a percentage of revenue decreased in 2004 by 1.7 percentage points compared to 2003, resulting in an operating

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ratio of 94.0 percent. Operating ratio refers to a common industry measurement calculated by dividing a company's operating expenses by its operating revenue. In addition to the operating ratio, we evaluate our results based on incremental margins, or the change in operating income year-over-year divided by the change in revenue year-over-year. The incremental margin at Yellow Transportation from 2003 to 2004 was 13.4 percent after adjustments to operating income, as discussed below.

Adjustments to operating income represent charges that management excludes when evaluating segment performance to better understand the results of our core operations. With the exception of property disposals, most of these charges do not occur on a regular basis and can distort our operating results. Management excludes the impact of gains and losses from the disposal of property as they reflect charges not related to the segment's primary business. The following table provides a detail of these charges incurred for the three years ended December 31:

	2004	2003	2002
(in millions)			
Property (gains) losses	\$(3.1)	\$ (0.2)	\$ 0.3
Conforming accounting policies	—	17.5	—
Significant legal provision	—	1.7	—
Reorganization charges	—	—	0.2
	<u>—</u>	<u>—</u>	<u>—</u>
Total adjustments to operating income	\$(3.1)	\$19.0	\$ 0.5

2003 compared to 2002

Yellow Transportation revenue increased by \$264.8 million in 2003 compared to 2002 due to improving economic conditions, growth in market share from the 2002 closure of Consolidated Freightways ("CF"), a competitor, and continued emphasis on premium services and meeting customer requirements. In 2003, Yellow Transportation LTL tonnage increased by 5.5 percent on a per day basis, and LTL revenue per hundred weight improved by 4.9 percent from 2002.

In 2003, total Exact Express revenue increased by 59 percent and Definite Delivery revenue increased by 34 percent compared to 2002. Yellow Transportation also offers Standard Ground™ Regional Advantage, a high-speed service for shipments moving between 500 and 1,500 miles. Standard Ground Regional Advantage revenue represented nearly 24 percent of total Yellow Transportation revenue in 2003 and increased by 7 percent from 2002.

Despite increases in contractual wages and benefits and purchased transportation rates, Yellow Transportation operating income improved by \$49.3 million in 2003 compared to 2002. Operating income increased primarily as a result of increased revenue and effective cost management in areas such as workers' compensation and bad debts and miscellaneous operating supplies. The strong operating income results highlight our continued ability to effectively balance volume and price. Purchased transportation (mostly rail) raised operating expenses by \$24.2 million in 2003 from 2002. The increase resulted from a combination of higher volumes and increased rates. Operating expenses as a percentage of revenue decreased in 2003 by 1.5 percentage points compared to 2002, resulting in an operating ratio of 95.7 percent. The incremental margin at Yellow Transportation from 2002 to 2003 was 25.6 percent after adjustments to operating income, as discussed below.

Yellow Transportation 2003 operating income includes a \$5.0 million reduction in claims and insurance expense for an insurance recovery related to two former employees falsifying claims over several years. We reviewed and made appropriate adjustments to our procedures and controls in response to the falsifications.

The table provided above reflects the detail of adjustments to operating income incurred during 2003 and 2002. Also, included in the 2003 adjustments to operating income are charges for conforming accounting policies in 2003 that consisted of adjustments for recognizing handling costs for workers' compensation and property

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damage and liability claims, and a change in policy for accrual of the January 1 holiday pay for union employees. Previously, Yellow Transportation managed the administrative portion of claims handling for self-insurance on workers' compensation and property damage and liability claims. As a result of an initiative to begin outsourcing these functions at Yellow Transportation, we recorded a one-time charge in 2003 of \$14.6 million for the liability associated with future claims handling costs related to existing claims. Roadway Express also recorded a similar liability as a purchase accounting adjustment. The significant legal provision related to a claim from a former employee that we believe may result in an adverse outcome; we recorded a small portion of the claim as a corporate charge for a total provision of \$2.0 million.

Roadway Express Results

Roadway Express results were included in 2003 consolidated results only from the acquisition date of December 11, 2003 through December 31, 2003. Prior to the acquisition, Roadway Express operated using different accounting policies. Therefore, conforming adjustments are needed for evaluating prior period results. In addition, prior to the acquisition date in 2003, Roadway Express results reflected asset and liability valuations prior to adjustments to fair market value as required in purchase accounting. For these reasons management evaluates the segment's results primarily based on a combination of sequential growth month over month, comparison versus plan, and comparison to adjusted 2003 results.

2004 compared to 2003

Roadway Express revenue increased by \$165.8 million or 5.6 percent to \$3,119.9 million in 2004 compared to adjusted 2003 due primarily to improving economic conditions, growth in premium services and increased revenue from fuel surcharge. Total tonnage, on a picked up basis, increased 2.2 percent, while LTL tonnage (shipments weighing less than 10,000 pounds) was flat compared to 2003. However, on a year-over-year sequential quarterly basis, Roadway experienced significant recovery in LTL tonnage, which constitutes over 90 percent of total revenue, as follows: first quarter (2.4%), second quarter (2.0%), third quarter 1.4%, fourth quarter 3.2%. This recovery reflects the refocused efforts of the Roadway team and particularly those of the sales organization, which was restructured at the end of 2003 and early 2004. In addition to the improved tonnage, Roadway Express LTL revenue per hundred weight increased 4.3 percent in 2004. Roadway Express represented approximately 46 percent of our consolidated revenue for 2004.

Roadway Express' guaranteed service products, namely Time Critical™ Service and Time Advantage™ Service, continue to be an integral part of our focus to maintain and improve our ability to meet the needs of our customers. Roadway Express premium products encompass expedited ground, air, and time-definite deliveries. In 2004, total premium services revenue grew by 60 percent compared to 2003.

Operating income was \$158.3 million for 2004. Roadway Express operating ratio was 94.9 percent, a 3.3 point improvement compared to an adjusted 98.2 percent in 2003. These results show our ability and commitment to control cost throughout Roadway Express business, as well as reflect improved yield, improved volume during the later half of the year and increased fuel surcharge.

Synergy efforts have allowed combined efficiencies in information technology and in purchased transportation, insurance premiums, and other general office services. Other efforts included streamlining processes, utilizing technology improvements, and reorganization of sales, operations and general office staff. Operating expenses were reduced as a percentage of revenue despite revenue growth through strict management controls and effective and efficient work systems. Improvements were made to efficiencies in terminal operations in both dock and pickup and delivery. Cargo claims expense decreased 10.2 percent in 2004 while travel, entertainment, and other expenses were down 11.5 percent compared to 2003.

Workers' compensation claims decreased 8.3 percent in 2004 compared to 2003, while workers compensation self insurance expenditures decreased 6.8 percent. Management remains committed to the

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continued reduction of lost time injuries through a safe and effective work environment. Depreciation and amortization increased \$7.6 million through the amortization of intangible assets recognized due to the acquisition.

Property disposals in 2004 resulted in a net gain of \$1.4 million for the year. These disposals were primarily for consolidation and relocation of terminals to reduce redundancy of operating facilities. Because property disposals are often not recurring items, management excludes these items in the normal course of evaluating the operating results of the business.

New Penn Results

New Penn results were included in 2003 consolidated results only from the acquisition date of December 11, 2003 through December 31, 2003. Therefore, management makes adjustments similar to those made at Roadway Express, to New Penn's results in evaluating the segment's performance. Management primarily evaluates the segment's results based on a combination of factors such as sequential month over month growth, comparison versus plan, and comparison to adjusted 2003 results.

New Penn increased revenue by \$44.1 million or 20.4 percent to \$260.6 million in 2004 compared to adjusted 2003. The primary reasons for this growth were revitalized sales efforts and closure of a major competitor in the Northeast region, where New Penn primarily operates, as well as favorable economic conditions. Total tonnage, on a picked up basis, increased 16.2 percent, with LTL tonnage increasing 15.4 percent. New Penn also experienced tonnage gains on a sequential quarter-over-quarter basis throughout the year as follows: first quarter 9.9%, second quarter 16.8%, third quarter 22.2%, fourth quarter 15.3%. New Penn LTL revenue per hundred weight increased 3.9 percent in 2004.

Operating income was \$33.9 million with an accompanying operating ratio of 87.0 percent. New Penn was able to benefit from capacity utilization, particularly in line haul and city operations. This was accomplished along with matching staffing levels with tonnage and revenue growth to achieve effective and efficient operations. Amortization of intangible assets recognized due to the acquisition was \$3.8 million in 2004. New Penn represented approximately four percent of our consolidated revenue for 2004. New Penn is a premium service carrier with 96 percent of its freight delivered next day and has historically maintained an on-time service ratio in excess of 98 percent.

2003 Roadway LLC Results

As Roadway LLC and its operating segments, Roadway Express and New Penn, were only included in our results from the date of acquisition, December 11, through December 31, 2003, a detailed discussion of their results is not material to our 2003 results of operations. Roadway Express contributed \$131.2 million in revenue and New Penn contributed \$9.8 million in revenue for the period December 11 through December 31, 2003. Combined the Roadway LLC segments reported an operating loss of \$6.3 million during this same period mostly due to a combination of volume and pricing.

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Meridian IQ Results

Meridian IQ is our non-asset-based segment that plans and coordinates the movement of goods throughout the world. Meridian IQ represented approximately three percent of our consolidated revenue in 2004 and approximately four percent in 2003. The table below provides summary financial information for Meridian IQ for the three years ended December 31:

(in millions)	Percent Change				
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
Operating revenue	\$213.2	\$120.3	\$81.8	77.3%	47.1%
Operating income (loss)	3.7	0.3	(2.7)	n/m	n/m

2004 compared to 2003

Meridian IQ revenue increased by \$92.9 million or 77.3 percent in 2004. The significant increase in revenue resulted from a combination of organic growth within Meridian IQ existing services and recent acquisitions. Operating income increased by \$3.4 million in 2004 over 2003. Increased revenue, partially offset by higher marketing costs, produced the improved operating results.

2003 compared to 2002

Due to the recent formation of Meridian IQ, in 2002 we evaluated results primarily based on sequential growth month over month. Throughout 2002, Meridian IQ had consistent revenue and operating income improvement, with modestly profitable results in the second half of the year. In 2003, Meridian IQ revenue increased by 47 percent to total revenue of \$120.3 million versus \$81.8 million in 2002. The increase in revenue resulted from a combination of organic growth, higher premium services and recent non-asset-based acquisitions (as discussed in the acquisitions footnote under Item 8, Financial Statements and Supplementary Data). A prior year operating loss of \$2.7 million turned into an operating profit of \$0.3 million in 2003; after adjustments to operating income for acquisition charges of \$0.5 million, the segment generated an operating profit of \$0.8 million.

Consolidated Results

Our consolidated results include the results of each of the operating segments previously discussed and corporate charges for the entire periods presented. In 2003, consolidated results also included the results of Roadway LLC and its operating segments from the date of acquisition, December 11, through December 31. As we have previously discussed the operating results of our segments, this section will focus on corporate charges and items that are evaluated on a consolidated basis.

The following table summarizes the Statement of Consolidated Operations for the three years ended December 31:

(in millions)	Percent Change				
	2004	2003	2002	2004 vs. 2003	2003 vs. 2002
Operating revenue	\$6,767.5	\$3,068.6	\$2,624.1	120.5%	16.9%
Operating income	361.6	88.6	46.9	308.1%	88.9%
Nonoperating expenses, net	63.9	21.8	9.3	193.1%	134.4%
Income from continuing operations	184.3	40.7	24.0	352.8%	69.6%
Loss from discontinued operations	—	—	(117.9)	—	n/m
Net income (loss)	\$ 184.3	\$ 40.7	\$ (93.9)	352.8%	143.3%

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2004 compared to 2003

Our consolidated revenue is reflective of increased revenue at all of our operating companies due in part to a strong economic environment. When compared to pro forma 2003 amounts, our consolidated revenue increased 11 percent with strong increases in premium services and an overall positive pricing environment.

Consolidated operating income of \$361.6 million greatly exceeded pro forma 2003 operating income of \$148.6 million. This improvement is due to a variety of factors including the strong economy and our ability to capture cost synergies of approximately \$50 million through our cost reduction program. Corporate expenses reflect increased performance incentive accruals related to our increased operating results and increased professional fees associated with the Sarbanes-Oxley Act of 2002 of \$5.5 million and \$2.6 million of fees associated with the exchange of our contingently convertible notes in December 2004. These expenses were offset by the higher corporate-allocated management fees and the absence of costs associated with sponsoring a trade conference that we have hosted every other year (approximately \$4.0 million in 2003). Corporate expenses for 2003 also included approximately \$2.7 million for acquisition-related charges, consisting mostly of marketing and promotional activities related to the Roadway transaction.

Consolidated nonoperating expenses included a write off of deferred debt issuance costs of \$18.3 million resulting from our September 2004 debt refinancing. Additionally, nonoperating expenses were unfavorably impacted by increased interest expense of \$23.3 million due to the additional debt we issued to consummate the Roadway acquisition and the assumption of \$225.0 million of senior notes issued by Roadway.

Our effective tax rate for 2004 was 38.1 percent compared to 39.1 percent for 2003. The lower tax rate resulted primarily from a favorable change in the relationship of non-deductible business expenses relative to our profit before tax offset by an increase in earnings attributable to states with higher rates.

2003 compared to 2002

Operating revenue in 2003 increased by \$444.5 million, or nearly 17 percent, from 2002. Of this increase, the results of Roadway Express and New Penn for the stub period attributed \$141.0 million, or five percent of our total revenue. When excluding the results of Roadway LLC segments for the stub period, our revenue increased by \$303.5 million, or 12 percent, from 2002. Our revenue growth resulted from improving economic conditions, increased premium services, non-asset-based acquisitions and meeting customer requirements.

Consolidated operating income improved by \$41.7 million in 2003 compared to 2002 due to increased revenue and effective cost management at Yellow Transportation and Meridian IQ, and despite significant adjustments to operating income and stub period operating losses of \$6.3 million for the Roadway segments. Corporate operating losses in 2003 included approximately \$2.7 million for acquisition-related charges, consisting mostly of marketing and promotional activities related to the Roadway transaction. Corporate operating losses, after adjustments for acquisition and spin-off charges, increased in 2003 from 2002 by \$7.9 million, as detailed in our Business Segments note. We expensed \$4.0 million in the first quarter of 2003 for an industry conference that we have hosted every other year. Corporate costs also increased in 2003 by \$3.1 million compared to 2002, due to higher performance incentive accruals based on our improved operating results.

Nonoperating expenses increased \$12.5 million in 2003 compared to 2002 as a result of the acquisition-related financing costs, partially offset by increased interest income. As mentioned previously, we recorded a nonoperating loss on the extinguishment of debt of \$2.3 million from the repurchase and defeasance of our remaining medium-term notes. In 2003, we entered into arrangements for \$1.1 billion of committed financing with our investment bankers that would allow us to complete the Roadway acquisition if we were not able to obtain financing elsewhere. Although we obtained more favorable financing arrangements through our contingent convertible senior notes offerings and the term loan, we paid a commitment fee of \$4.5 million upon the expiration of the committed financing agreement that occurred on December 11, 2003. This commitment fee was recorded as "interest expense" in our Statement of Consolidated Operations. Interest expense related to our contingent convertible senior notes and term loan approximated \$6.5 million for 2003.

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Our effective tax rate for 2003 was 39.1 percent compared to 36.2 percent in 2002. The higher tax rate resulted primarily from our income allocation among subsidiaries and their relative state tax rates. In 2003, Yellow Transportation, a higher tax rate subsidiary, generated a larger percentage of our profits before tax compared to 2002. Our notes to the financial statements provide an analysis of the income tax provision and the effective tax rate.

Financial Condition

Liquidity

Our liquidity needs arise primarily from capital investment in new equipment, land and structures, and information technology, as well as funding working capital requirements. To provide short-term and longer-term liquidity, we maintain capacity under a \$500 million unsecured bank credit agreement and a \$450 million asset-backed securitization ("ABS") agreement involving Yellow Transportation and Roadway Express accounts receivable. We believe these facilities both of which are more fully described in the Debt and Financing note under Item 8, Financial Statements and Supplementary Data, provide adequate capacity to fund our current working capital and capital expenditure requirements.

The following table provides details of the outstanding components and available unused capacity under the current bank credit agreement and the ABS agreement at December 31:

(in millions)	2004	2003
Capacity:		
Unsecured credit facility:		
Revolving loan	\$ 500.0	\$ 250.0
Term loan	—	175.0
Letters of credit facility	—	250.0
ABS facility	450.0	200.0
Total capacity	950.0	875.0
Amounts outstanding:		
Term loan	—	(175.0)
Letters of credit facility	—	(250.0)
Letters of credit under revolving loan	(275.4)	(24.4)
ABS facility	—	(71.5)
Total outstanding	(275.4)	(520.9)
Available unused capacity	\$ 674.6	\$ 354.1

In accordance with the terms of the agreement, we must comply with certain financial covenants primarily relating to our leverage ratio, fixed charges coverage ratio and minimum net worth. As of December 31, 2004, we were in compliance with all terms of the agreement. We do not consider these covenants overly restrictive, and we believe we have considerable flexibility in operating our business in a prudent manner.

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Cash Flow Measurements

We use free cash flow as a measurement to manage working capital and capital expenditures. Free cash flow indicates cash available to fund additional capital expenditures, to reduce outstanding debt (including current maturities), or to invest in our growth strategies. This measurement is used for internal management purposes and should not be construed as a better measurement than net cash from operating activities as defined by generally accepted accounting principles. The following table illustrates our calculation for determining free cash flow for the years ended December 31:

	<u>2004</u>	<u>2003</u>
(in millions)		
Net cash from operating activities	\$ 435.7	\$ 155.7
Net property and equipment acquisitions	(164.3)	(99.1)
Proceeds from stock options	15.9	4.7
Free cash flow	\$ 287.3	\$ 61.3

Our additional free cash flow of \$226.0 million from 2003 to 2004 resulted primarily from increases in income from operations of \$143.6 million, lower payments on accounts payable of \$13.0 million, increase in other working capital items of \$81.9 million and claims and other changes of \$7.6 million, all of which are offset by an increase in ending accounts receivable of \$62.8 million, reflective of increased volume. Claims and other primarily represents increased pension and workers' compensation accruals. Other working capital changes included increased wage and benefit obligations that approximated \$102.9 million, which is offset by a \$41.4 million Roadway tax deposit and \$28.0 million increase in prepaid tires. In addition, accrued income taxes created a fluctuation of \$45.3 million between 2004 and 2003 due to improved operating results in 2004 and a reduction in rate.

Other items considered in evaluating free cash flow include net property and equipment acquisitions and proceeds from exercise of stock options. In 2004, net property and equipment acquisitions increased by \$65.2 million mostly due to the inclusion of Roadway LLC's activity consisting of \$49.1 million investment in revenue equipment and \$16.7 million investment in technology equipment and software. Net capital expenditures in 2004 at Yellow Transportation were consistent with 2003 and included an increase in revenue equipment purchases over 2003 of \$7.5 million offset by increased dispositions of land and structures of \$7.2 million in 2004. Our proceeds received from exercise of stock options increased by \$11.2 million in 2004 from 2003 mostly due to the increase in stock price and the lack of restrictions of exercising related to the pending acquisition of Roadway that was present in 2003.

Capital Expenditures

Our capital expenditures focus primarily on the replacement of revenue equipment, land and structures, additional investments in information technology and acquisitions. As reflected on our Consolidated Balance Sheets, our business is capital intensive with significant investments in terminal facilities and a fleet of tractors and trailers. We determine the amount and timing of capital expenditures based on numerous factors, including anticipated growth, economic conditions, new or expanded services, regulatory actions and availability of financing. The acquisition of Roadway did not change our capital expenditures philosophy from previous years, given the similarity of our operations. However, as we expected, our capital expenditures increased significantly due to the acquisition.

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

	2004	2003	2002
(in millions)			
Revenue equipment	\$ 118.6	\$ 62.0	\$ 71.5
Land, structures and technology	45.7	37.2	11.3
Total before acquisition of companies and discontinued operations	164.3	99.2	82.8
Acquisition of companies	10.5	513.3	18.0
Discontinued operations	—	—	24.4
Total net capital expenditures	\$ 174.8	\$ 612.5	\$ 125.2

Capital expenditures for 2004 reflect the inclusion of \$66.4 million net expenditures of Roadway LLC as discussed above in the Liquidity section and Meridian IQ's acquisition of GPS Logistics (EU) Limited. Capital expenditures for 2003 included the cash portion of the Roadway acquisition for a total of \$513 million, while 2002 included the Meridian IQ acquisitions of MegaSys and Clicklogistics for a total of \$18 million. We expect 2005 gross capital spending to approximate \$235 to \$245 million, including about \$145 million for revenue equipment and approximately \$55 million for technology. This spending level includes an increase of approximately \$20 to \$25 million for synergy projects. We also expect \$25 to \$30 million in proceeds from the disposition of real estate in 2005. Our philosophy continues to be consistent funding of capital expenditures even during economic downturns while still generating free cash flow. We believe our financial condition and access to capital, as they exist today, are adequate to fund our anticipated capital expenditures and future growth opportunities.

Our expectation regarding our ability to fund capital expenditures out of existing financing facilities and cash flow is only our forecast regarding this matter. This forecast may be substantially different from actual results. In addition to the factors previously described in the Forward-Looking Statements section, the following factors could affect levels of capital expenditures: the accuracy of our estimates regarding our spending requirements; the occurrence of any unanticipated acquisition opportunities; changes in our strategic direction; the need to spend additional capital on synergy opportunities; and the need to replace any unanticipated losses in capital assets.

Nonunion Pension Obligations

We provide defined benefit pension plans for employees not covered by collective bargaining agreements. The Yellow qualified plan covers approximately 4,000 employees and the Roadway LLC qualified plan covers approximately 5,000 employees. On January 1, 2004, the existing qualified benefit plans were closed to new participants. All new U.S. – salaried nonunion employees (except those currently participating in other profit sharing plans) and all Meridian IQ employees now participate in a defined contribution retirement plan.

We expect pension funding and expense to remain an area of management focus over the next several years. Given the dependence on the economy and the significant amounts involved, pension funding could have a material impact on our liquidity. Using our current plan assumptions of an 8.75 percent return on assets and discount rate of 5.75 percent (6.25 percent for 2004 actual), we either recorded or expect to record the following:

	Cash Funding	Pension Expense	Shareholders' Equity Increase (Decrease), net of tax
(in millions)			
2004 Actual	\$ 42.3	\$ 48.3	\$ (16.8)
2005 Expected	48.0	56.0	8.7
2006 Expected	42.5	54.3	8.8

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Our actual 2004 pension expense of \$48.3 million was less than the \$52.2 million we estimated at December 31, 2003 due to an assumption change related to the Yellow Transportation salary scale. The expected expense was based on a flat salary scale of 4.5 percent while the actual expense was based on a graded salary scale as determined by a salary study and incorporated in our actuarial valuation. The increase reflected in our estimated 2005 expense is a result of the 50 basis point decrease in our discount rate.

The above discussion includes forward-looking statements as indicated by “expect” and “estimate” and the actual results may be materially different. Factors that affect these results include actual return on plan assets and discount rate changes among others.

Contractual Obligations and Other Commercial Commitments

The following tables provide aggregated information regarding our contractual obligations and commercial commitments as of December 31, 2004. Most of these obligations and commitments have been discussed in detail either in the preceding paragraphs or the notes to the financial statements. The tables do not include expected pension funding as disclosed separately in the previous section.

Contractual Cash Obligations

(in millions)	Payments Due by Period				Total
	Less than 1 year	2-3 years	4-5 years	After 5 years	
Balance sheet obligations:					
Long-term debt including interest	\$ 41.3	\$ 73.4	\$ 283.2	\$ 652.1	\$1,050.0
Off balance sheet obligations:					
Operating leases	75.1	79.3	24.6	9.2	188.2 ^(a)
Capital expenditures	38.0	—	—	—	38.0
Total contractual obligations	\$ 154.4	\$ 152.7	\$ 307.8	\$ 661.3	\$1,276.2

(a) The net present value of operating leases, using a discount rate of 10 percent, was \$160.3 million at December 31, 2004.

Our consolidated balance sheet at December 31, 2004 reflects \$250 million contingently convertible notes classified as a current liability as our note holders had the right, at their option, to convert their notes, in whole or in part, into cash and shares of common stock as more fully described in Item 8, Debt and Financing. However, we have reflected the obligation above based on the stated maturity as we believe the likelihood of a note holder presenting their notes for conversion to be remote.

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	2-3 years	4-5 years	After 5 years	
Available line of credit	\$ —	\$ —	\$ 224.6	\$ —	\$224.6
Letters of credit	275.4	—	—	—	275.4
Lease guarantees for SCST	1.7	2.0	0.4	—	4.1
Surety bonds	57.3	6.4	0.4	—	64.1
Total commercial commitments	\$ 334.4	\$ 8.4	\$ 225.4	\$ —	\$568.2

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Our outstanding letters of credit at December 31, 2004 included \$2.5 million for workers' compensation, property damage and liability claims against SCST. We agreed to maintain the letters of credit outstanding at the spin-off date until SCST obtained replacement letters of credit or third party guarantees. SCST agreed to use its reasonable best efforts to obtain these letters of credit or guarantees, which in many cases would allow us to obtain a release of our letters of credit. SCST also agreed to indemnify us for any claims against the letters of credit that we provide. SCST reimburses us for all fees incurred related to the remaining outstanding letters of credit. We also provided a guarantee of \$4.1 million regarding certain lease obligations of SCST.

Critical Accounting Policies

Preparation of our financial statements requires accounting policies that involve significant estimates and judgments regarding the amounts included in the financial statements and disclosed in the accompanying notes to the financial statements. We continually review the appropriateness of our accounting policies and the accuracy of our estimates including discussion with the Audit/Ethics Committee of our Board of Directors who make recommendations to management regarding these policies. Even with a thorough process, estimates must be adjusted based on changing circumstances and new information. Management has identified the policies described below as requiring significant judgment and having a potential material impact to our financial statements.

Revenue Reserves

We consider our policies regarding revenue-related reserves as critical based on their significance in evaluating our financial performance by management and investors. We have an extensive system that allows us to accurately capture, record and control all relevant information necessary to effectively manage our revenue reserves.

For shipments in transit, Yellow Transportation, Roadway Express and New Penn record revenue based on the percentage of service completed as of the period end and accrue delivery costs as incurred. In addition, Yellow Transportation, Roadway Express and New Penn recognize revenue on a gross basis because the entities are the primary obligors even when they use other transportation service providers who act on their behalf. Yellow Transportation, Roadway Express and New Penn remain responsible to their customers for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. Meridian IQ recognizes revenue upon the completion of services. In certain logistics transactions where Meridian IQ acts as an agent, revenue is recorded on a net basis. Net revenue represents revenue charged to customers less third party transportation costs. Where Meridian IQ acts as principal, it records revenue from these transactions on a gross basis, without deducting transportation costs. Management believes these policies most accurately reflect revenue as earned. Our revenue-related reserves involve three primary estimates: shipments in transit, rerate reserves, and uncollectible accounts.

Shipments in Transit

We assign pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At the end of each period, we estimate the amount of revenue earned on shipments in transit based on actual shipments picked up and scheduled delivery dates. We calculate a percentage of completion using this data and the day of the week on which the period ends. Management believes this provides a reasonable estimation of the revenue actually earned.

Rerate Reserves

At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the

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same month as the original rating, a portion occurs during the following periods. We accrue a reserve for rerating based on historical trends. At December 31, 2004 and 2003, our financial statements included a rerate reserve of \$25.1 million and \$21.8 million, respectively. The increase in the rerate reserve from 2003 to 2004 is reflective of our overall increase in operations.

Uncollectible Accounts

We record an allowance for doubtful accounts primarily based on historical uncollectible amounts. We also take into account known factors surrounding specific customers and overall collection trends. Our process involves performing ongoing credit evaluations of customers, including the market in which they operate and the overall economic conditions. We continually review historical trends and make adjustments to the allowance for doubtful accounts as appropriate. Our allowance for doubtful accounts totaled \$22.4 million and \$20.8 million as of December 31, 2004 and 2003, respectively. The increase in the allowance for doubtful accounts from 2003 to 2004 is reflective of our overall increase in operations.

Claims and Insurance

We are self-insured up to certain limits for workers' compensation, cargo loss and damage, property damage and liability claims. We measure the liabilities associated with workers' compensation and property damage and liability claims primarily through actuarial methods that an independent third party performs. Actuarial methods include estimates for the undiscounted liability for claims reported, for claims incurred but not reported and for certain future administrative costs. These estimates are based on historical loss experience and judgments about the present and expected levels of costs per claim and the time required to settle claims. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Actual claims may vary from these estimates due to a number of factors, including but not limited to, accident frequency and severity, claims management, changes in healthcare costs and overall economic conditions. We discount the actuarial calculations to present value based on the U.S. Treasury rate, at the date of occurrence, for maturities that match the expected payout of the liabilities. As of December 31, 2004 and 2003, we had \$320.8 million and \$299.3 million accrued for claims and insurance. The increase in claims and insurance from 2003 to 2004 is reflective of our overall increase in operations.

Pension

With the exception of Meridian IQ, New Penn and Reimer, Yellow Roadway and its operating subsidiaries sponsor qualified and nonqualified defined benefit pension plans for most employees not covered by collective bargaining agreements. Meridian IQ and New Penn do not offer defined benefit pension plans and instead offer retirement benefits through either contributory 401(k) savings plans or profit sharing plans. Effective January 1, 2004, all new U.S. – salaried nonunion employees (except those currently participating in other profit sharing plans) and all Meridian IQ employees now participate in a new defined contribution retirement plan. The existing Yellow Roadway qualified plans are closed to new participants. We account for pension benefits using actuarial methods based on numerous estimates, including employee turnover, mortality and retirement ages, expected return on plan assets, discount rates, and future salary increases. The most critical of these factors, due to their potential impact on pension cost, are discussed in more detail below.

Return on Plan Assets

The return on plan assets represents a long-term assumption of our portfolio performance that can impact our pension expense and our minimum liability. With \$673 million of plan assets, a 50-basis-point decrease in the return rate would increase annual pension expense by approximately \$3.2 million and would decrease our minimum liability reflected in shareholders' equity by approximately \$1.1 million, net of tax.

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We believe our 2004 expected rate of return of 8.75 percent is appropriate based on our historical experience in this investment portfolio as well as a review of other objective indices. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2004 consisted of 68 percent in equities and 32 percent in fixed-income securities. This allocation is consistent with the long-term asset allocation for the plans. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately. Refer to our discussion of Nonunion Pension Obligations under the Financial Condition section for details of actual and anticipated pension charges.

Discount Rate

The discount rate refers to the interest rate used to discount the estimated future benefit payments earned to their present value, also referred to as the benefit obligation. The discount rate allows us to calculate what it would cost to settle the pension obligations as of the measurement date, December 31, and impacts the following year's pension cost. We determine the discount rate based on high-grade corporate bonds with principal payments and maturities that approximate our expected benefit payments.

Although the discount rate used requires little judgment, changes in the rate can significantly impact our pension cost. For example, a 50-basis-point decrease in our discount rate would increase annual pension expense by approximately \$11.0 million and increase our minimum liability reflected in shareholders' equity by approximately \$18.3 million, net of tax, assuming all other factors remain constant. Changes in the discount rate do not have a direct impact on cash funding requirements. The discount rate can fluctuate considerably over periods depending on overall economic conditions that impact long-term corporate bond yields. At December 31, 2004 and 2003, we used a discount rate of 5.75 percent and 6.25 percent, respectively.

Future Salary Increases

We make assumptions of future salary increases for plan participants based on general inflation and cost of living expectations. As pension benefits are based on participants' earned wages, estimated levels of our future performance also factor into the calculation. We believe these increases require less judgment than other pension estimates but can have a significant impact on our future pension expense. Our 2004 assumed rate of future annual increases of 3.8 percent represents a weighted average of the Yellow and Roadway plans and reflects the recent experience of both plans.

Multi-Employer Plans

Yellow Transportation, Roadway Express and New Penn contribute to approximately 90 separate multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 80 percent of total employees). The largest of these plans, the Central States Southeast and Southwest Areas Pension Plan (the "Central States Plan") provides retirement benefits to approximately 53 percent of our total employees. The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the required contribution for the period and recognize as a liability any contributions due and unpaid.

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan in an under-funded status would render us liable for a proportionate share of the multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability also applies to our unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which we cannot independently validate, we believe that our portion of the contingent liability in the case of a full withdrawal or termination would be material to our financial position and

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results of operations. Yellow Transportation, Roadway Express and New Penn have no current intention of taking any action that would subject us to obligations under the legislation.

Yellow Transportation, Roadway Express and New Penn each have collective bargaining agreements with their unions that stipulate the amount of contributions each company must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code (the "Code") and related regulations establish minimum funding requirements for these plans. Under recent legislation, qualified multi-employer plans are permitted to exclude certain recent investment losses from the minimum funding formula through 2005. The Central States Plan, in particular, has informed us that its recent investment performance has adversely affected its funding levels and that the plan is seeking corrective measures to address its funding. During the benefit period of the recent legislation, the Central States Plan is expected to meet the minimum funding requirements. In the unlikely event that the Central States Plan does not elect to receive the benefit of the legislation, the Company believes that the plan would not meet the minimum funding requirements that the Code and related regulations require. If any of these multi-employer pension plans, including the Central States Plan, fails to meet minimum funding requirements and the trustees of such a plan are unable to obtain a waiver of the requirements or certain changes in how the applicable plan calculates its funding level from the Internal Revenue Service ("IRS") or reduce pension benefits to a level where the requirements are met, the IRS could impose an excise tax on all employers participating in these plans. To avoid these taxes, contributions in excess of our contractually agreed upon rates could be required to correct the funding deficiency. If an excise tax were imposed on the participating employers or additional contributions required, it could have a material adverse impact on the financial results of Yellow Roadway.

Property and Equipment and Definite Life Intangibles

Impairment Testing

We review property and equipment and definite life intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

We believe that the accounting estimate related to asset impairment is a critical accounting estimate because: (1) it requires our management to make assumptions about future revenues over the life of the asset, and (2) the impact that recognizing an impairment would have on our financial position, as well as our results of operations, could be material. Management's assumptions about future revenues require significant judgment because actual revenues have fluctuated in the past and may continue to do so.

In estimating future revenues, we use our internal business forecasts. We develop our forecasts based on recent revenue data for existing services and other industry and economic factors.

Depreciable Lives of Assets

We perform annual internal studies to confirm the appropriateness of depreciable lives for each category of property and equipment. These studies utilize models, which take into account actual usage, physical wear and tear, and replacement history to calculate remaining life of our asset base. We also make assumptions regarding future conditions in determining potential salvage values. These assumptions impact the amount of depreciation expense recognized in the period and any gain or loss once the asset is disposed.

Goodwill and Indefinite Life Intangibles

Goodwill and indefinite life intangibles are reviewed at least annually for impairment, or more frequently if indicators of impairment exist. Goodwill is tested by comparing net book value of the reporting unit (identified as our operating segments) to fair value. Indefinite life intangibles are tested by comparing book value to estimated fair value.

We believe that the accounting estimate related to goodwill and indefinite life intangibles is a critical accounting estimate because (1) it requires our management to make assumptions about fair values, and (2) the impact of recognizing an impairment could be material to our financial position, as well as our results of operations. Management's assumptions about fair values require significant judgment because broad economic factors and industry factors can result in variable and volatile fair values.

Management completed impairment analyses on both goodwill and indefinite life intangibles in the fourth quarter of 2004. These tests were performed internally. As of December 31, 2004 no impairment existed.

New Accounting Pronouncements

SFAS No. 153, Exchange of Nonmonetary Assets—An Amendment of APB Opinion No. 29

On December 16, 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 153, Exchanges of Nonmonetary Assets—An Amendment of APB Opinion No. 29. The amendments made by SFAS No. 153 are based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. Further, the amendments eliminate the narrow exception for nonmonetary exchanges of similar productive assets and replace it with a broader exception for exchanges of nonmonetary assets that do not have "commercial substance." Previously, Opinion 29 required that the accounting for an exchange of a productive asset should be based on the recorded amount of the asset relinquished. The provisions in SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Early application is permitted and companies must apply the standard prospectively. We do not expect SFAS No. 153 to have a material effect on our financial statements.

SFAS No. 123 (Revised 2004), Share-Based Payment

On December 16, 2004, the FASB issued SFAS No. 123 (Revised 2004), Share-Based Payment. The new FASB rule requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. That cost will be measured based on the fair value of the equity or liability instruments issued. We will be required to apply SFAS No. 123R as of July 1, 2005, the beginning of our third quarter and intend to use the modified-prospective-transition method, as defined therein. The scope of SFAS No. 123R includes a wide range of share-based compensation arrangements including share options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans. SFAS No. 123R replaces FASB SFAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. We do not expect SFAS No. 123R to have a material effect on our financial statements.

Outlook

Economists expect continued growth in capital spending in 2005, underpinned by high returns on capital, rising business confidence, healthy balance sheets and still favorable financing conditions. As the U.S. dollar continues to depreciate in the international market, economists expect U.S. exports to rise and be supportive of economic growth. Our economic assumptions also include year-over-year gains in the industrial production index and real gross domestic product of 3.5 percent; a positive for our industry. Management expects firm LTL pricing trends to continue during the upcoming year. We will continue to focus on achieving synergies available

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to us as a result of our combined organization. With our significant operating leverage, we are well positioned to take advantage of continued economic strength.

Item 7A. Qualitative and Quantitative Disclosures About Market Risk

Market Risk Position

We have exposure to a variety of market risks, including the effects of interest rates, foreign exchange rates and fuel prices.

Interest Rate Risk

To provide adequate funding through seasonal business cycles and minimize overall borrowing costs, we utilize both fixed rate and variable rate financial instruments with varying maturities. At December 31, 2004, as no amounts were outstanding under our asset-based securitization agreement or revolving line of credit, all of our debt was at fixed rates.

The table below provides information regarding our interest rate risk related to fixed-rate debt as of December 31, 2004. Principal cash flows are stated in millions and weighted average interest rates are by contractual maturity. We estimate the fair value of our industrial development bonds by discounting the principal and interest payments at current rates available for debt of similar terms and maturity. The fair values of our senior notes due 2008 and contingent convertible senior notes have been calculated based on the quoted market prices at December 31, 2004. The market price for the contingent convertible senior notes reflects the combination of debt and the conversion option components of the convertible instrument. We consider the fair value of variable-rate debt to approximate the carrying amount due to the fact that the interest rates are generally set for periods of three months or less, therefore, we exclude it from the table below.

(in millions)	2005	2006	2007	2008	2009	Thereafter	Total	Fair value
Fixed-rate debt	\$ 4.4	\$—	\$—	\$227.5	\$ 1.0	\$ 406.0	\$638.9	\$921.2
Average interest rate	5.25%	—	—	8.22%	6.13%	4.40%		

Our consolidated balance sheet at December 31, 2004 reflects \$250 million contingently convertible notes classified as a current liability as our note holders had the right, at their option, to convert their notes, in whole or in part, into cash and shares of common stock as more fully described in Item 8, Debt and Financing. However, we have reflected the obligation above based on the stated maturity as we believe the likelihood of a note holder presenting their notes for conversion to be remote.

Foreign Exchange Rates

Revenue, operating expenses, assets and liabilities of our Canadian, Mexican and United Kingdom subsidiaries are denominated in local currencies, thereby creating exposure to fluctuations in exchange rates. The risks related to foreign currency exchange rates are not material to our consolidated financial position or results of operations. During 2004 we entered into two foreign currency hedges both of which matured December 31, 2004. These instruments were to effectively hedge our exposure to foreign currency fluctuations on certain intercompany debt with GPS Logistics (EU) Limited, a wholly owned subsidiary. It is expected that we will continue to hedge this exposure in 2005.

Fuel Price Volatility

Yellow Transportation, Roadway Express and New Penn currently have effective fuel surcharge programs in place. As discussed previously, these programs are well established within the industry and customer acceptance of fuel surcharges remains high. Since the amount of fuel surcharge is based on average, national diesel fuel prices and is reset weekly, our exposure to fuel price volatility is significantly reduced.

Item 8. Financial Statements and Supplementary Data

CONSOLIDATED BALANCE SHEETS
Yellow Roadway Corporation and Subsidiaries

	December 31, 2004	December 31, 2003
<i>(in thousands except per share data)</i>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 106,489	\$ 75,166
Accounts receivable, less allowances of \$22,371 and \$20,839	778,596	699,142
Fuel and operating supplies	20,916	16,452
Deferred income taxes, net	66,496	23,614
Prepaid expenses	80,944	70,062
	<hr/>	<hr/>
Total current assets	1,053,441	884,436
	<hr/>	<hr/>
Property and Equipment:		
Land	336,613	351,969
Structures	916,550	906,434
Revenue equipment	1,067,663	968,742
Technology equipment and software	181,444	154,688
Other	170,019	156,781
	<hr/>	<hr/>
	2,672,289	2,538,614
Less—accumulated depreciation	(1,249,571)	(1,135,346)
	<hr/>	<hr/>
Net property and equipment	1,422,718	1,403,268
	<hr/>	<hr/>
Goodwill	632,141	617,313
Intangibles	468,310	467,114
Other assets	50,559	91,098
	<hr/>	<hr/>
Total assets	\$ 3,627,169	\$ 3,463,229
	<hr/>	<hr/>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Checks outstanding in excess of bank balances	\$ 112,917	\$ 101,395
Accounts payable	194,172	158,780
Wages, vacations and employees' benefits	427,731	351,287
Claims and insurance accruals	124,060	112,005
Other current and accrued liabilities	86,459	66,473
Asset backed securitization ("ABS") borrowings	—	71,500
Current maturities of contingently convertible notes	250,000	—
Current maturities of other long-term debt	4,400	1,757
	<hr/>	<hr/>
Total current liabilities	1,199,739	863,197
	<hr/>	<hr/>
Other Liabilities:		
Long-term debt, less current portion	403,535	836,082
Deferred income taxes, net	319,839	298,256
Claims and other liabilities	489,865	463,609
Commitments and Contingencies		
Shareholders' Equity:		
Common stock, \$1 par value per share—authorized 120,000 shares, issued 51,303 and 50,146 shares	51,303	50,146
Preferred stock, \$1 par value per share—authorized 5,000 shares, none issued	—	—
Capital surplus	694,504	653,739
Retained earnings	550,484	366,157
Accumulated other comprehensive loss	(33,159)	(23,167)
Unamortized equity awards	(10,479)	(567)
Treasury stock, at cost (2,066 and 2,359 shares)	(38,462)	(44,223)
	<hr/>	<hr/>
Total shareholders' equity	1,214,191	1,002,085
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$ 3,627,169	\$ 3,463,229
	<hr/>	<hr/>

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Yellow Roadway Corporation and Subsidiaries
For the years ended December 31

(in thousands except per share data)	2004	2003	2002
Operating Revenue	\$ 6,767,485	\$ 3,068,616	\$ 2,624,148
Operating Expenses:			
Salaries, wages and employees' benefits	4,172,144	1,970,440	1,717,382
Operating expenses and supplies	1,011,864	449,825	385,522
Operating taxes and licenses	169,374	83,548	75,737
Claims and insurance	132,793	67,670	57,197
Depreciation and amortization	171,468	87,398	79,334
Purchased transportation	752,788	318,176	253,677
Losses (gains) on property disposals, net	(4,547)	(167)	425
Acquisition, spin-off and reorganization charges	—	3,124	8,010
Total operating expenses	6,405,884	2,980,014	2,577,284
Operating income	361,601	88,602	46,864
Nonoperating (Income) Expenses:			
Interest expense	43,954	20,606	7,211
ABS facility charges	—	—	2,576
Interest income	(2,080)	(1,706)	(843)
Write off debt issuance costs	18,279	—	—
Other	3,785	2,888	334
Nonoperating expenses, net	63,938	21,788	9,278
Income from Continuing Operations Before Income Taxes	297,663	66,814	37,586
Income Tax Provision	113,336	26,131	13,613
Income from Continuing Operations	184,327	40,683	23,973
Income (loss) from discontinued operations, net	—	—	(117,875)
Net Income (Loss)	\$ 184,327	\$ 40,683	\$ (93,902)
Average Common Shares Outstanding—Basic	48,149	30,370	28,004
Average Common Shares Outstanding—Diluted	49,174	30,655	28,371
Basic Earnings (Loss) Per Share:			
Income from continuing operations	\$ 3.83	\$ 1.34	\$ 0.86
Income (loss) from discontinued operations	—	—	(4.21)
Net income (loss)	\$ 3.83	\$ 1.34	\$ (3.35)
Diluted Earnings (Loss) Per Share:			
Income from continuing operations	\$ 3.75	\$ 1.33	\$ 0.84
Income (loss) from discontinued operations	—	—	(4.15)
Net income (loss)	\$ 3.75	\$ 1.33	\$ (3.31)

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Yellow Roadway Corporation and Subsidiaries
For the years ended December 31

	2004	2003	2002
(in thousands except per share data)			
Operating Activities:			
Net income (loss)	\$ 184,327	\$ 40,683	\$ (93,902)
Noncash items included in net income (loss):			
Depreciation and amortization	171,468	87,398	79,334
Deferred debt issuance cost write off	18,279	—	—
Loss from discontinued operations	—	—	117,875
Deferred income tax provision, net	17,996	25,767	1,449
Losses (gains) on property disposals, net	(4,547)	(167)	425
Changes in assets and liabilities, net:			
Accounts receivable	(70,230)	(7,430)	(49,633)
Accounts receivable securitizations	—	—	(91,500)
Accounts payable	34,284	21,294	5,928
Other working capital items	41,865	(40,053)	38,468
Claims and other	30,792	23,189	14,386
Other	11,484	5,055	2,978
Net change in operating activities of discontinued operations	—	—	17,250
Net cash provided by operating activities	435,718	155,736	43,058
Investing Activities:			
Acquisition of property and equipment	(201,818)	(103,327)	(86,337)
Proceeds from disposal of property and equipment	37,529	4,193	3,507
Acquisition of companies	(10,463)	(513,338)	(18,042)
Other	4,494	—	—
Net capital expenditures of discontinued operations	—	—	(24,372)
Net cash used in investing activities	(170,258)	(612,472)	(125,244)
Financing Activities:			
Unsecured bank credit lines, net	—	—	(85,000)
Senior secured credit facility	—	175,000	—
ABS borrowings, net	(71,500)	21,500	—
Issuance of long-term debt	—	400,000	—
Debt issuance costs	(2,938)	(34,734)	—
Repayment of long-term debt	(175,044)	(60,342)	(44,600)
Proceeds from issuance of common stock	—	—	93,792
Dividend from subsidiary upon spin-off	—	—	113,790
Treasury stock purchases	—	(2,921)	—
Proceeds from exercise of stock options	15,859	4,685	13,704
Other	(514)	—	—
Net cash (used in) provided by financing activities	(234,137)	503,188	91,686
Net Increase In Cash and Cash Equivalents	31,323	46,452	9,500
Cash and Cash Equivalents, Beginning of Year	75,166	28,714	19,214
Cash and Cash Equivalents, End of Year	\$ 106,489	\$ 75,166	\$ 28,714
Supplemental Cash Flow Information:			
Income taxes paid, net	\$ 85,316	\$ 15,957	\$ 8,272
Interest paid	59,044	13,498	11,518
Issuance of common stock for Roadway acquisition	—	583,883	—

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY
Yellow Roadway Corporation and Subsidiaries
For the years ended December 31

	2004	2003	2002
<i>(in thousands except per share data)</i>			
Common Stock			
Beginning balance	\$ 50,146	\$ 31,825	\$ 31,028
Exercise of stock options	766	279	737
Issuance of equity awards, net	428	—	—
Issuance of common stock for Roadway acquisition	—	18,038	—
Other	(37)	4	60
Ending balance	51,303	50,146	31,825
Capital Surplus			
Beginning balance	653,739	80,610	41,689
Exercise of stock options, including tax benefits	19,634	5,749	15,296
Issuance of equity awards, net	16,162	—	—
Issuance of common stock for Roadway acquisition	—	565,845	—
Employer contribution to 401(k) plan	4,867	—	—
Equity offering and other	102	1,535	23,625
Ending balance	694,504	653,739	80,610
Retained Earnings			
Beginning balance	366,157	325,474	537,496
Stock dividend to SCST shareholders	—	—	(118,120)
Net income (loss)	184,327	40,683	(93,902)
Ending balance	550,484	366,157	325,474
Accumulated Other Comprehensive Loss			
Beginning balance	(23,167)	(35,596)	(6,252)
Minimum pension liability adjustment, net of tax	(16,761)	10,548	(30,848)
Foreign currency translation adjustments, net of tax	6,769	386	73
Fair value of interest rate swaps, net of tax	—	1,495	1,431
Ending balance	(33,159)	(23,167)	(35,596)
Unamortized Equity Awards			
Beginning balance	(567)	(1,053)	—
Issuance of equity awards, net	(16,128)	—	(1,458)
Amortization of equity awards	6,216	486	405
Ending balance	(10,479)	(567)	(1,053)
Treasury Stock, At Cost			
Beginning balance	(44,223)	(41,302)	(112,972)
Treasury stock purchases	—	(2,921)	—
Employer contribution to 401(k) plan	5,761	—	—
Equity offering—reissuance of treasury stock	—	—	71,670
Ending balance	(38,462)	(44,223)	(41,302)
Total Shareholders' Equity	\$1,214,191	\$1,002,085	\$ 359,958

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF COMPREHENSIVE INCOME
Yellow Roadway Corporation and Subsidiaries
For the years ended December 31

(in thousands except per share data)	2004	2003	2002
Net income (loss)	\$ 184,327	\$ 40,683	\$ (93,902)
Other comprehensive income (loss), net of tax:			
Minimum pension liability adjustment	(16,761)	10,548	(30,848)
Foreign currency translation adjustments	6,769	386	73
Fair value of interest rate swaps	—	1,495	1,431
Other comprehensive income (loss)	(9,992)	12,429	(29,344)
Comprehensive income (loss)	\$ 174,335	\$ 53,112	\$ (123,246)

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements
Yellow Roadway Corporation and Subsidiaries

Description of Business

Yellow Roadway Corporation (also referred to as “Yellow Roadway,” “we” or “our”), one of the largest transportation service providers in the world, is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of asset and non-asset-based transportation services. Yellow Roadway Technologies, Inc., a captive corporate resource, provides innovative technology solutions and services exclusively for Yellow Roadway companies. Our operating subsidiaries include the following:

- Yellow Transportation, Inc. (“Yellow Transportation”) is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through centralized management and customer facing organizations. Approximately 40 percent of Yellow Transportation shipments are completed in two days or less.
- Roadway Express, Inc. (“Roadway Express”) is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through regionalized management and customer facing organizations. Approximately 30 percent of Roadway Express shipments are completed in two days or less. Roadway Express owns 100 percent of Reimer Express Lines Ltd. (“Reimer”), located in Canada, that specializes in shipments into, across and out of Canada.
- Roadway Next Day Corporation is a holding company focused on business opportunities in the regional and next-day delivery lanes. Roadway Next Day Corporation owns 100 percent of New Penn Motor Express, Inc. (“New Penn”), which provides regional, next-day ground services through a network of facilities located in the Northeastern United States (“U.S.”), Quebec, Canada and Puerto Rico.
- Meridian IQ, Inc. (“Meridian IQ”) is a non-asset-based global transportation management company that plans and coordinates the movement of goods throughout the world, providing customers a faster return on investment, more efficient supply-chain processes and a single source for transportation management solutions.

On December 11, 2003, we successfully closed the acquisition of Roadway Corporation (“Roadway”). Roadway became Roadway LLC (“Roadway Group”) and a subsidiary of Yellow Roadway. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately \$1.1 billion. The Roadway Group has two operating segments, Roadway Express and New Penn.

Principles of Consolidation and Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of Yellow Roadway Corporation and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements and are not otherwise discussed in a separate note.

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Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2004, approximately 80 percent of our labor force is subject to collective bargaining agreements that expire in 2008.

Revenue Recognition

For shipments in transit, Yellow Transportation, Roadway Express and New Penn record revenue based on the percentage of service completed as of the period end and accrue delivery costs as incurred. In addition, Yellow Transportation, Roadway Express and New Penn recognize revenue on a gross basis because the entities are the primary obligors even when they use other transportation service providers who act on their behalf. Yellow Transportation, Roadway Express and New Penn remain responsible to their customers for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. We assign pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. We accrue a reserve for rerating based on historical trends.

Meridian IQ recognizes revenue upon the completion of services. In certain logistics transactions where Meridian IQ acts as an agent, revenue is recorded on a net basis. Net revenue represents revenue charged to customers less third party transportation costs. Where Meridian IQ acts as principal, it records revenue from these transactions on a gross basis, without deducting transportation costs. Management believes these policies most accurately reflect revenue as earned.

Foreign Currency

Our functional currency is the U.S. dollar, whereas, our foreign operations utilize the local currency as their functional currency. Accordingly, for purposes of translating foreign subsidiary financial statements to the U.S. dollar reporting currency, assets and liabilities of our foreign operations are translated at the fiscal year end exchange rates and income and expenses are translated at the average exchange rates for the fiscal year. Foreign currency gains and losses resulting from foreign currency transactions are included in consolidated operations in the year of occurrence.

Financial and Derivative Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximates their fair value due to the short-term nature of these instruments.

Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended, requires companies to recognize all derivative financial instruments as either assets or liabilities at their fair value. In December 2000, we entered into a three-year interest rate swap agreement ("the swap") to hedge a portion of our variable rate debt, and in December 2003 the swap expired. This swap was designated and qualified as a cash flow hedge, accordingly the effective portion of the gain or loss

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on the swap was reported as a component of other comprehensive income and reclassified into earnings in the same periods during which the hedged transaction affected earnings. As a result of the swap, we recorded immaterial gains in 2003 and 2002 in other net nonoperating expense representing the ineffectiveness of the correlation between the hedge and the asset-based securitization facility financing rate. At December 31, 2002, accumulated other comprehensive loss included a \$1.5 million unrealized loss on the interest rate contract. We recognized the differential paid under the contract designated as a hedge as adjustments to interest expense. These adjustments approximated \$2.4 million in 2003 and \$2.1 million in 2002 in additional interest expense.

During 2004 we entered into two forward contracts to hedge our exposure to foreign currency risk related to an intercompany note between a United States subsidiary and a United Kingdom subsidiary. These contracts expired December 31, 2004 and did not have a material impact to our operations.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, and property damage and liability that insurance does not cover. We include these costs in "claims and insurance" expense except for workers' compensation, which is included in "salaries, wages, and employees' benefits."

We base reserves for workers' compensation and property damage and liability claims primarily upon actuarial analyses that independent actuaries prepare. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of such claims. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs, and certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results. At December 31, 2004 and 2003, estimated future payments related to these claims aggregated \$348.7 million and \$336.8 million, respectively. The present value of these estimated future payments was \$300.7 million at December 31, 2004 and \$279.2 million at December 31, 2003. Through 2003, Yellow Transportation internally managed the administrative portion of claims handling for self-insurance on workers' compensation and property damage and liability claims. As a result of an initiative to begin outsourcing these functions, we recorded a one-time charge in 2003 of \$14.6 million for the liability associated with future claims handling costs related to existing claims.

Stock-Based Compensation

Yellow Roadway has various stock-based employee compensation plans, which are described more fully in the Stock Compensation Plans note. We account for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, as amended ("APB 25"). We do not reflect compensation costs in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

Option Value Information

We estimated the pro forma calculations in the table below using the Black-Scholes option pricing model with the following weighted average assumptions:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Dividend yield	— %	— %	— %
Expected volatility	45.2%	46.7%	39.0%
Risk-free interest rate	2.6%	1.9%	2.6%
Expected option life (years)	3.6	3.0	3.0
Fair value per option	\$ 12.61	\$ 8.41	\$ 7.81

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Pro Forma Information

The following table illustrates the effect on income from continuing operations, net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation (“SFAS No. 123”). As our options vest ratably over stated periods, we recognize the related expense herein on a straight line basis.

	<u>2004</u>	<u>2003</u>	<u>2002</u>
(in millions except per share data)			
Net income (loss)—as reported	\$ 184.3	\$ 40.7	\$ (93.9)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1.6)	(2.1)	(1.4)
Pro forma net income (loss)	\$ 182.7	\$ 38.6	\$ (95.3)
Basic earnings (loss) per share:			
Income from continuing operations—as reported	\$ 3.83	\$ 1.34	\$ 0.86
Income from continuing operations—pro forma	3.80	1.27	0.81
Net income (loss)—as reported	3.83	1.34	(3.35)
Net income (loss)—pro forma	3.80	1.27	(3.40)
Diluted earnings (loss) per share:			
Income from continuing operations—as reported	\$ 3.75	\$ 1.33	\$ 0.84
Income from continuing operations—pro forma	3.72	1.26	0.79
Net income (loss)—as reported	3.75	1.33	(3.31)
Net income (loss)—pro forma	3.72	1.26	(3.36)

Property and Equipment

Yellow Roadway carries property and equipment at cost less accumulated depreciation. We compute depreciation using the straight-line method based on the following service lives:

	<u>Years</u>
Structures	10 – 40
Revenue equipment	5 – 14
Technology equipment and software	3 – 5
Other	3 – 10

We charge maintenance and repairs to expense as incurred, and capitalize replacements and improvements when these costs extend the useful life of the asset.

Our investment in technology equipment and software consists primarily of advanced customer service and freight management equipment and related software. We capitalize certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll, and payroll-related costs for employees directly associated with the project. For the years ended December 31, 2004, 2003 and 2002 we capitalized \$7.3 million, \$3.3 million, and \$1.3 million, respectively, which were primarily payroll and payroll-related costs.

For the years ended December 31, 2004, 2003, and 2002, depreciation expense was \$158.1 million, \$85.8 million, and \$78.9 million, respectively.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of identifiable amortizable intangibles and property, plant and equipment may be impaired, we would perform an evaluation of recoverability in accordance

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with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If an evaluation were required, we would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required.

Acquisition, Spin-off and Reorganization Charges

There were no acquisition, spin-off or reorganization charges during the year ended December 31, 2004. Acquisition charges of \$3.1 million in 2003 related mostly to marketing and promotional expenses primarily for the acquisition of Roadway Corporation. Spin-off charges of \$6.9 million in 2002 included bank fees and external legal and accounting services due to the spin-off of SCST. Reorganization costs of \$1.0 million in 2002 were primarily associated with the reorganization of Yellow Transportation and Transportation.com. These charges included employee separation, lease termination and rent costs.

Acquisitions

In accordance with SFAS No. 141, Business Combinations ("SFAS No. 141"), Yellow Roadway allocates the purchase price of its acquisitions to the tangible and intangible assets and liabilities of the acquired entity based on their fair values. We record the excess purchase price over the fair values as goodwill. The fair value assigned to intangible assets acquired is based on valuations that independent third party appraisal firms prepared using estimates and assumptions provided by management. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), we do not amortize goodwill and intangible assets with indefinite useful lives but review these assets at least annually for impairment. We would recognize impairment loss to the extent that the carrying amount exceeds the assets' fair value. Intangible assets with estimatable useful lives are amortized on a straight-line basis over their respective useful lives.

Roadway Corporation

On December 11, 2003, we closed the acquisition of Roadway. Consideration for the acquisition included approximately \$494.0 million in cash and approximately 18.0 million shares of Yellow Roadway common stock, based on an exchange ratio of 1.752 and an average price per share of \$31.51 (subject to proration and allocation provisions), for a total purchase price of approximately \$1.1 billion. The purchase price also included approximately \$19 million for investment banking, legal and accounting fees that Yellow Roadway incurred to consummate the acquisition, resulting in total cash consideration of \$513 million. We recorded the net assets at their estimated fair values and included operating results in our financial statements from the date of acquisition. We allocated the purchase price at December 31, 2003, on a preliminary basis using information then available. The allocation of the purchase price to the assets and liabilities acquired was finalized in the fourth quarter of 2004 including receipt of an independent valuation. The final purchase price allocation is shown below and resulted in \$5.9 million increase to goodwill from our preliminary allocation.

Prior to the acquisition, Roadway had agreements in place with key management personnel that would require Roadway to pay specific amounts to those individuals upon a change in control of the entity. On December 11, 2003, in conjunction with the closing of the transaction, Roadway paid \$15.9 million to the individuals covered by the agreement that would not be joining the new Yellow Roadway organization. This amount was expensed in the pre-acquisition financial statements of Roadway Corporation. The remaining amount covered under the agreement of \$10.6 million was placed in a trust account for possible payment to the three individuals that remain Roadway employees. If any of these individuals are terminated within two years of the effective date of the acquisition and the applicable conditions of their respective agreements are met, they would receive the agreed to payments, and we would recognize an expense for those payments at the time of the triggering event. If termination does not occur by December 2005, the funds will be released from restriction and reclassified from prepaid expenses to cash on our Consolidated Balance Sheet.

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In connection with the acquisition, we incurred \$12.0 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and contract terminations. We have recognized such costs as a liability assumed as of the acquisition date, resulting in additional goodwill. These restructuring costs consisted of \$10.5 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and \$1.5 million for contract terminations. All of these restructuring items were effectuated within one year of the acquisition in accordance with purchase accounting requirements. During the year ended December 31, 2004, we paid \$7.7 million of restructuring costs resulting in a \$4.3 million accrued liability at December 31, 2004.

The final purchase price allocation was as follows:

<i>(in millions)</i>	
Cash and cash equivalents	\$ 106.3
Accounts receivable	365.7
Other current assets	19.7
Property, plant and equipment	805.8
Other long-term assets	32.2
Intangible assets	470.7
Goodwill	603.0
Accounts payable and other current liabilities	(519.6)
Long-term debt (\$225.0 million principal)	(249.2)
Deferred income taxes, net	(218.8)
Other long-term liabilities	(317.5)
	<hr/>
Total purchase price	\$1,098.3
	<hr/>

Intangible Assets

Of the \$470.7 million that we allocated to intangible assets, \$344.7 million was assigned to the Roadway and New Penn trade names, which are not subject to amortization. Of the remaining value, \$110.0 million and \$16.0 million were assigned to customer relationships and software related assets, respectively. We assigned the customer relationships and software assets a weighted average life of 17 years and 3 years, respectively.

Goodwill

In considering the acquisition of Roadway, we based our proposed purchase price on the increased value that the combined Yellow Roadway organization could provide to its investors, customers and employees. This value can be attributed to our increased scale and ability to compete in a highly competitive domestic and global transportation marketplace, the reputation and recognition of the distinct brands, and the service capabilities and technologies of both companies. We recorded \$602.9 million in goodwill as part of the acquisition, allocating \$544.3 million to Roadway Express and \$58.6 million to New Penn. Of the total goodwill recorded, the amount that may be deductible for tax purposes is not material to our results of operations.

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Pro Forma Results

The following unaudited pro forma financial information presents the combined results of operations of Yellow Roadway as if the acquisition had occurred as of the beginning of the years presented. The unaudited pro forma financial information is not intended to represent or be indicative of the consolidated results of operations of Yellow Roadway that would have been reported had the acquisition been completed as of the dates presented, and should not be taken as representative of the future consolidated results of operations of Yellow Roadway. Summarized unaudited pro forma results were as follows for the years ended December 31:

	<u>2003</u>	<u>2002</u>
<i>(in millions except per share data)</i>		
Operating revenue	\$6,120.8	\$5,637.9
Income from continuing operations	38.1	43.6
Net income (loss)	38.0	(70.5)
Diluted earnings (loss) per share:		
Income from continuing operations	0.79	0.94
Net income (loss)	0.79	(1.51)

GPS Logistics, Inc.

In February 2004, MIQ LLC (formerly known as Yellow GPS), a subsidiary of Meridian IQ, exercised and closed its option to purchase GPS Logistics (EU) Limited. MIQ LLC made a payment of \$7.6 million (\$6.4 million, net of cash acquired), which is subject to upward and downward adjustments based on the financial performance of GPS Logistics (EU) Limited. The initial payment plus acquisition expenses of \$0.3 million were allocated as follows: \$3.3 million to goodwill, \$3.2 million to amortizable intangible assets, and \$1.4 million to miscellaneous assets and liabilities. The results of GPS Logistics (EU) Limited have been included in our financial statements since the date of acquisition. The pro forma effect of this acquisition is not material to our results of operations.

In September 2004, MIQ LLC paid an additional \$3.7 million to the former owner of GPS Logistics (EU) Limited, which represented a hold back payment in accordance with the terms of the February 2004 transaction. This amount has been allocated to goodwill in the accompanying financial statements. In February 2006 a final computation will be performed to determine if any additional purchase price is required. Any earn out payments will be determined based on the twelve month periods ended February 28, 2007 and 2008 operating results.

MIQ LLC is also subject to earn out payments related to the August 2003 acquisition of the U.S. assets of GPS Logistics, Inc. This amount, if any, is limited to \$3.5 million and will be determined annually based on certain operating results for the fiscal years ending December 31, 2004 through 2006.

MIQ LLC also has an option to acquire the Asian business of GPS Logistics Group Ltd. (not previously acquired) at a price that varies with the performance of that business. If MIQ LLC does not exercise the Asian option, it will be required to pay a deferred option price to the shareholders of GPS Logistics Group Ltd.

Clicklogistics, Inc. and MegaSys, Inc.

In the third quarter of 2002, Meridian IQ acquired selected assets, consisting primarily of customer contracts, of Clicklogistics, Inc. ("Clicklogistics") for nominal cash consideration. Clicklogistics provided non-asset transportation and logistics management services. In that same period, Meridian IQ completed the acquisition of MegaSys, Inc. ("MegaSys"), a Greenwood, Indiana based provider of non-asset transportation and logistics management services, for approximately \$17 million. The acquisition price primarily related to \$9.3 million of goodwill and \$7.1 million of identifiable intangible assets.

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Goodwill and Intangibles

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. In accordance with SFAS No. 142, we review goodwill at least annually for impairment based on a fair value approach. During the fourth quarter of 2004, we completed our annual impairment testing of goodwill and tradenames, which are deemed to have indefinite lives, and determined there was no impairment.

The following table shows the changes in the carrying amount of goodwill attributable to each segment:

(in millions)	Roadway Express	New Penn	Meridian IQ	Total
Balances at December 31, 2002	\$ —	\$ —	\$ 20.5	\$ 20.5
Goodwill resulting from acquisition	474.7	122.3	—	597.0
Changes in foreign currency exchange rates	(0.2)	—	—	(0.2)
Balances at December 31, 2003	474.5	122.3	20.5	617.3
Final purchase price allocation adjustment	69.6	(63.7)	—	5.9
Goodwill resulting from acquisition	—	—	7.4	7.4
Change in foreign currency exchange rates	1.1	—	0.4	1.5
Balances at December 31, 2004	\$ 545.2	\$ 58.6	\$ 28.3	\$ 632.1

The components of amortizable intangible assets are as follows at December 31:

(in millions)	Weighted Average Life (years)	2004		2003	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	17	\$ 118.2	\$ 9.0	\$ 117.4	\$ 1.3
Marketing related	6	1.0	0.4	0.7	0.2
Technology based	3	17.5	6.1	17.1	0.6
Intangible assets		\$ 136.7	\$ 15.5	\$ 135.2	\$ 2.1

Total marketing related intangible assets with indefinite lives, primarily tradenames, were \$346.9 million and \$334.1 million as of December 31, 2004 and 2003, respectively. During 2004 these amounts were impacted by final purchase price allocation adjustments of \$11.2 million and changes in foreign currency exchange rates of \$1.7 million. These intangible assets are not subject to amortization, but are subjected to the impairment test previously discussed.

Amortization expense for intangible assets, as reflected in income from continuing operations, was \$13.4 million and \$1.6 million for the years ending December 31, 2004 and 2003, respectively. Estimated amortization expense for the next five years is as follows:

(in millions)	2005	2006	2007	2008	2009
Estimated amortization expense	\$13.2	\$12.8	\$7.9	\$7.5	\$7.3

Employee Benefits

Pension and Other Postretirement Benefit Plans

Qualified and Nonqualified Defined Benefit Pension Plans

With the exception of Meridian IQ, New Penn and Reimer, Yellow Roadway and its operating subsidiaries sponsor qualified and nonqualified defined benefit pension plans for most employees not covered by collective bargaining agreements (approximately 10,000 employees). Qualified and nonqualified pension benefits are based on years of service and the employees' covered earnings. Employees covered by collective bargaining agreements participate in various multi-employer pension plans to which Yellow Roadway contributes, as discussed later in this section. Meridian IQ and New Penn do not offer defined benefit pension plans and instead offer retirement benefits through either contributory 401(k) savings plans or profit sharing plans, as discussed later in this section. Effective January 1, 2004, all new U.S. – salaried nonunion employees (except those currently participating in other profit sharing plans) and all Meridian IQ employees participate in a new defined contribution retirement plan. The existing Yellow Roadway defined benefit pension plans are closed to new participants.

Our funding policy is to target contributions at the minimum required tax-deductible contribution for the year while taking into consideration each plan's funded status, any variable Pension Benefit Guarantee Corporation premiums and the outlooks for required funding. Our actuarial valuation measurement date for our principal pension plans and postretirement benefit plan is December 31.

Other Postretirement Benefit Plan

Roadway LLC sponsors a postretirement healthcare benefit plan that covers nonunion employees of Roadway hired before February 1, 1997. Health care benefits under this plan end when the participant attains age 65.

Definitions

We have defined the following terms to provide a better understanding of our pension and other postretirement benefits:

Projected benefit obligation: The projected benefit obligation is the present value of future benefits to employees attributed to service as of the measurement date, including assumed future salary increases through retirement.

Plan assets: Represents the assets currently invested in the plans. Assets used in calculating the funded status are measured at the current market value at December 31.

Funded status: The funded status represents the difference between the projected benefit obligation and plan assets.

Net amount recognized: The net amount recognized represents the amount accrued by Yellow Roadway for pension costs.

Unfunded accumulated benefit obligation: The accumulated benefit obligation is the present value of future benefits attributed to service as of the measurement date, assuming no future salary growth. The unfunded accumulated benefit obligation represents the difference between the accumulated benefit obligation and the plan assets.

Accumulated postretirement benefit obligation: The accumulated postretirement benefit obligation is the present value of other postretirement benefits to employees attributed to service as of the measurement date.

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Funded Status

The following table sets forth the plans' funded status:

	Pension Benefits		Other Postretirement Benefits ^(a)	
	2004	2003	2004	2003
<i>(in millions)</i>				
Change in benefit obligation:				
Benefit obligation at prior year end	\$ 915.2	\$ 417.7	\$ 53.1	\$ —
Service cost	39.2	17.4	0.8	0.1
Interest cost	57.1	27.8	2.2	0.2
Plan amendment	0.2	0.1	(15.0)	—
Participant contributions	—	—	0.7	—
Benefits paid	(45.4)	(17.6)	(3.0)	(0.1)
Foreign exchange rate loss	0.4	0.6	—	—
Acquisition of Roadway	—	457.2	—	52.9
Actuarial (gain) loss	81.2	12.0	(0.9)	—
Benefit obligation at year end	\$1,047.9	\$ 915.2	\$ 37.9	\$ 53.1
Change in plan assets:				
Fair value of plan assets at prior year end	\$ 614.7	\$ 248.7	\$ —	\$ —
Actual return on plan assets	60.4	66.6	—	—
Employer contributions	43.0	35.6	2.3	0.1
Participant contributions	—	—	0.7	—
Benefits paid	(45.4)	(17.6)	(3.0)	(0.1)
Foreign exchange rate loss	0.6	0.8	—	—
Acquisition of Roadway	—	280.6	—	—
Fair value of plan assets at year end	\$ 673.3	\$ 614.7	\$ —	\$ —
Funded status:				
Funded status	\$ (374.6)	\$(300.6)	\$(37.9)	\$(53.1)
Unrecognized prior service cost	11.1	12.3	—	—
Unrecognized net actuarial (gain) loss	162.8	94.2	(0.9)	—
Net amount recognized	\$ (200.7)	\$(194.1)	\$(38.8)	\$(53.1)

(a) Other postretirement benefits are shown for the period from the date of the Roadway acquisition through December 31, 2003. Prior to the acquisition we did not provide these benefits.

As a part of our acquisition of Roadway LLC, certain changes were made to the post retirement benefit plan available to certain Roadway LLC employees. These plan changes revised the cost sharing structure between the employer and the different employee groups. The reduction to the liability of \$15.0 million was recognized in purchase accounting.

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Benefit Plan Obligations

Amounts recognized for the benefit plan liabilities in the Consolidated Balance Sheets at December 31 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
(in millions)				
Prepaid benefit cost	\$ 7.4	\$ 7.2	\$ —	\$ —
Accrued benefit costs	(278.9)	(246.4)	(38.8)	(53.1)
Intangible asset	11.1	12.3	—	—
Accumulated other comprehensive loss (pretax)	59.7	32.8	—	—
Net amount recognized	\$(200.7)	\$(194.1)	\$(38.8)	\$(53.1)

Weighted average actuarial assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of increase in compensation levels	3.76%	3.87%	—	—

Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31:

	2004	2003
(in millions)		
Projected benefit obligation	\$1,041.6	\$910.1
Accumulated benefit obligation	889.3	769.7
Fair value of plan assets	663.6	605.9

The total accumulated benefit obligation for all plans was \$894.3 million and \$773.9 million at December 31, 2004 and 2003, respectively.

Accumulated other comprehensive loss

The components of accumulated other comprehensive loss at December 31 are as follows:

	2004	2003	2002
(in millions)			
Balance at beginning of year	\$ 32.8	\$ 48.0	\$ —
Current period change	26.9	(15.2)	48.0
Balance at end of year, before tax	\$ 59.7	\$ 32.8	\$ 48.0
Tax expense	(22.6)	(12.5)	(17.2)
Balance at end of year, net of tax	\$ 37.1	\$ 20.3	\$ 30.8

Future Contributions and Benefit Payments

We expect to contribute approximately \$49.2 million to our pension plans in 2005.

Expected benefit payments for each of the next five years ended December 31 are as follows:

	2005	2006	2007	2008	2009	2010-2014
(in millions)						
Expected benefit payments	\$ 34.8	\$ 37.9	\$ 42.8	\$ 49.8	\$ 54.4	\$ 385.6

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Pension and Other Postretirement Costs

The components of our net periodic pension cost for the years ended December 31, 2004, 2003 and 2002, and other postretirement costs for the year ended December 31, 2004 and the period from date of acquisition through December 31, 2003, were as follows:

	Pension Costs			Other Post-retirement Costs	
	2004	2003	2002	2004	2003
(in millions)					
Service cost	\$ 39.2	\$ 17.4	\$ 15.8	\$ 0.8	\$ 0.1
Interest cost	57.1	27.9	25.6	2.2	0.2
Expected return on plan assets	(53.0)	(28.1)	(25.1)	—	—
Amortization of net transition obligation	—	(1.4)	(2.4)	—	—
Amortization of prior service cost	1.4	1.4	1.4	—	—
Amortization of net loss	5.5	2.1	—	—	—
Net periodic pension cost	\$ 50.2	\$ 19.3	\$ 15.3	\$ 3.0	\$ 0.3
Weighted average assumptions for the years ended December 31:					
Discount rate	6.25%	6.75%	7.25%	6.25%	6.25%
Rate of increase in compensation levels	3.77%	4.50%	4.50%	—	—
Expected rate of return on assets	8.75%	9.00%	9.00%	—	—

We believe our 2004 expected rate of return of 8.75 percent is appropriate based on our historical experience in this investment portfolio as well as a review of other objective indices. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2004 consisted of 68 percent in equities and 32 percent in fixed-income securities. This allocation is consistent with the long-term asset allocation for the plans. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately.

Target asset allocations are as follows:

	Yellow Plans	Roadway Plans
Small-cap U.S. equities	10.0%	10.0%
Large-cap U.S. equities	40.0%	37.0%
International equities	15.0%	22.0%
Fixed-income securities	35.0%	31.0%
Total	100.0%	100.0%

Other Postretirement Benefit Plans

Assumed health care cost trend rates at December 31 are as follows:

	2004	2003
Health care cost trend used in the current year	10.5%	11.5%
Health care cost trend rate assumed for next year	10.0%	10.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement benefit plans. The policy of Roadway LLC regarding the management of health care costs passes the increase beyond a fixed threshold to the plan participants. As a result, a one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and the interest cost components.

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A one-percentage-point decrease in assumed health care cost trend rates would have the following effects:

(in millions)	<u>2004</u>
Effect on total of service and interest cost	\$2.7
Effect on postretirement benefit obligation	2.5

The estimated employer contributions during the year ended December 31, 2005 are approximately \$3.2 million.

Expected benefit payments for each of the next five years ended December 31 are as follows:

(in millions)	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010- 2014</u>
Expected benefit payments	\$3.2	\$3.5	\$3.8	\$3.9	\$4.2	\$ 23.2

Multi-Employer Plans

Yellow Transportation, Roadway Express and New Penn contribute to approximately 90 separate multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 80 percent of total employees). The largest of these plans, the Central States Southeast and Southwest Areas Pension Plan (the "Central States Plan") provides retirement benefits to approximately 53 percent of our total employees. The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the required contribution for the period and recognize as a liability any contributions due and unpaid.

Yellow Roadway contributed and charged to expense the following amounts to these plans for the years ended December 31:

(in millions)	<u>2004</u>	<u>2003</u>	<u>2002</u>
Health and welfare	\$421.4	\$195.7	\$156.1
Pension	378.0	178.6	159.0
Total	\$799.4	\$374.3	\$315.1

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan in an under-funded status would render us liable for a proportionate share of the multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability also applies to our unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which we cannot independently validate, we believe that our portion of the contingent liability in the case of a full withdrawal or termination would be material to our financial position and results of operations. Yellow Transportation, Roadway Express and New Penn have no current intention of taking any action that would subject us to obligations under the legislation.

Yellow Transportation, Roadway Express and New Penn each have collective bargaining agreements with their unions that stipulate the amount of contributions each company must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code (the "Code") and related regulations establish minimum funding requirements for these plans. Under recent legislation, qualified multi-employer plans are permitted to exclude certain recent investment losses from the minimum funding formula through 2005. The Central States Plan, in particular, has informed us that its recent investment performance has adversely affected its funding levels and that the plan is seeking corrective measures to address its funding. During the benefit period of the recent legislation, the Central States Plan is expected to meet the minimum funding requirements. In the unlikely event that the Central States Plan does not elect to receive the benefit of the legislation, the Company believes

that the plan would not meet the minimum funding requirements that the Code and related regulations require. If any of these multi-employer pension plans, including the Central States Plan, fails to meet minimum funding requirements and the trustees of such a plan are unable to obtain a waiver of the requirements or certain changes in how the applicable plan calculates its funding level from the Internal Revenue Service ("IRS") or reduce pension benefits to a level where the requirements are met, the IRS could impose an excise tax on all employers participating in these plans. To avoid these taxes, contributions in excess of our contractually agreed upon rates could be required to correct the funding deficiency. If an excise tax were imposed on the participating employers or additional contributions required, it could have a material adverse impact on the financial results of Yellow Roadway.

401(k) Savings Plans and Profit Sharing Plans

Yellow Roadway and its operating subsidiaries sponsor defined contribution plans, primarily for employees not covered by collective bargaining agreements. The plans principally consist of contributory 401(k) savings plans and noncontributory profit sharing plans. The Yellow Roadway contributory 401(k) savings plan consists of both a fixed matching percentage and a discretionary amount. The maximum nondiscretionary company match for the Yellow Roadway plan is equal to 25 percent of the first six percent in cash and 25 percent of the first six percent in Yellow Roadway common stock, for a total match of 50 percent of the first six percent of before-tax participant contributions. Any discretionary contributions for the Yellow Roadway 401(k) savings plan are determined annually by the Board of Directors and may be in the form of cash, stock or other property. Effective December 31, 2003, Meridian IQ terminated its 401(k) savings plan and began participating in the Yellow Roadway plan. Prior to its merger into the Yellow Roadway 401(k) savings plan effective December 31, 2004, the Roadway LLC 401(k) savings plan provided for a maximum nondiscretionary company match of 100 percent of the first four and a half percent of participant contributions (either before-tax or after-tax contributions), with all nondiscretionary company matching contributions in stock. Any discretionary contributions for the Roadway LLC 401(k) savings plan were determined annually and if made, would be in stock. Employer contributions for the year ended December 31, 2004 were \$13.7 million. Employer contributions for each of the two years in the period ended December 31, 2003, were not material to our operations.

For the Yellow Roadway noncontributory profit sharing plan, which was established effective January 1, 2004, the nondiscretionary company contribution is based on years of participation service and compensation, with a maximum fixed contribution of 5 percent of compensation for more than ten years of participation service. The Yellow Roadway profit sharing plan also provides for a discretionary performance based contribution of a maximum of 2½ percent of compensation. Any discretionary contributions are determined annually by the Board of Directors. Contributions under the Yellow Roadway profit sharing plan may be made in cash or other property, as determined by the Board of Directors, and nondiscretionary contributions will generally be made in cash. New Penn provides a noncontributory profit sharing plan for employees not covered by collective bargaining agreements. Any contributions are discretionary employer contributions. Employer contributions to our profit sharing plans in 2004 totaled \$2.2 million. Amounts for the two years ended December 31, 2003 were not material to our operations.

Our employees covered under collective bargaining agreements may also participate in a contributory 401(k) plan. We do not make employer contributions to the plan on their behalf.

Performance Incentive Awards

Yellow Roadway and its operating subsidiaries each provide annual performance incentive awards to nonunion employees, which are based primarily on actual operating results achieved compared to targeted operating results, and are paid in cash. Income from continuing operations in 2004, 2003, and 2002 included performance incentive expense for nonunion employees of \$110.4 million, \$27.6 million, and \$15.6 million, respectively. We pay annual performance incentive awards primarily in the first quarter of the following year, except for Roadway Express who pays awards quarterly.

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Performance Based Long-Term Incentive Plan

We implemented a long-term incentive plan in 2002 and replaced it in 2004 with a new long-term incentive and equity award plan. These plans replaced the use of stock options as the exclusive vehicle for delivering long-term incentive compensation potential to certain executive officers. Awards under the plans can be made in cash and performance share units at the discretion of the Board of Directors.

During the year ended December 31, 2004, we recorded the issuance of 436,747 share units to certain executive officers, key employees and our Board of Directors under these plans. The weighted-average grant-date fair value of these awards was \$38.43 per unit. According to the plan provisions, the share units provide the holders the right to receive one share of common stock upon vesting of one share unit. With respect to 177,721 units awarded, the vesting provision states that fifty percent of the awarded performance share units will vest three years from the date of grant and the remaining 50 percent will vest six years from the date of grant. Vesting for 133,309 units is 100 percent on the third anniversary of the date of grant, 41,147 vest ratably over three years and 84,570 vest ratably over one year. During the year ended December 31, 2004, 8,588 share units at a weighted-average grant date fair value of \$30.75 were forfeited resulting in 428,159 share units outstanding (\$38.58 weighted-average grant date fair value) at December 31, 2004.

Income from continuing operations in 2004, 2003 and 2002 included performance incentive expense under these plans of \$16.3 million, \$5.4 million and \$2.0 million, respectively.

Debt and Financing

At December 31, total debt consisted of the following in order of seniority:

(in millions)	2004	2003
ABS borrowings, secured by accounts receivable	\$ —	\$ 71.5
Term loan	—	175.0
Senior notes due 2008	244.0	248.9
Industrial development bonds, primarily secured by related facilities	13.9	13.9
Contingent convertible senior notes	400.0	400.0
Capital leases and other	—	0.1
	<hr/>	<hr/>
Total debt	\$ 657.9	\$ 909.4
ABS borrowings	—	(71.5)
Current maturities	(254.4)	(1.8)
	<hr/>	<hr/>
Long-term debt	\$ 403.5	\$ 836.1

Variable-Rate Debt

In September 2004, we replaced our previous \$375 million secured credit agreement with a new \$500 million unsecured credit agreement. This new facility provides a revolving loan up to the maximum limit of \$500 million offset by any letters of credit outstanding, which are limited to \$375 million. The revolving loan allows for tranches denominated in foreign currencies, including a \$50 million Canadian dollar tranche and a \$10 million euro/pound sterling tranche. Any borrowings under the foreign denominated tranches reduce the available borrowings under the total facility. As of December 31, 2004, no amounts were outstanding under this agreement.

Our interest rate on the unsecured credit agreement is based on the London inter-bank offer rate ("LIBOR") plus a fixed spread. We are also required to pay certain commitment fees on the total capacity and the fixed spread plus fronting fees related to the outstanding letters of credit. In accordance with the terms of the agreement, we must comply with certain financial covenants primarily relating to our leverage ratio, fixed

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charges coverage ratio and minimum net worth. As of December 31, 2004, we were in compliance with all terms of the agreement.

At the time of our refinancing, we had a \$75 million term loan outstanding under our previous secured credit facility. We borrowed under our ABS facility (discussed below) to repay that term loan amount. As of December 31, 2004, we were not drawn on the new unsecured credit facility but have issued certain letters of credit which serve primarily as collateral for our self-insurance programs, mainly in the areas of workers' compensation, property damage and liability claims. Collateral requirements for letters of credit and surety bonds, an alternative form of self-insurance collateral, fluctuate over time with general conditions in the insurance market. In conjunction with the refinancing, we wrote off \$18.3 million of deferred debt issuance costs associated with the secured credit facility. We incurred approximately \$2.0 million of costs associated with the new unsecured credit facility which have been capitalized and will be recognized over the debt term. The facility matures in September 2009.

We also maintain an asset-backed securitization (ABS) facility that provides us with additional liquidity and lower borrowing costs through access to the asset-backed commercial paper market. By using the ABS facility, we obtain a variable rate based on the A1/P1 commercial paper rate, plus a fixed increment for utilization. We also pay certain administration fees that are paid regardless of borrowings. The ABS facility allows us to transfer an ongoing pool of receivables to a conduit administered by an independent financial institution ("the conduit"). In May 2004, we replaced our then existing ABS facility with a new ABS facility. The new ABS facility involved receivables of Yellow Transportation and Roadway Express and had an increased limit of \$300 million, up from the previous limit of \$200 million. In September 2004 we again modified our existing ABS facility, increasing the limit to \$450 million. Under the terms of the agreement, Yellow Transportation and Roadway Express provide servicing of the receivables and retain the associated collection risks. The termination date of the ABS facility is May 20, 2005 at which time we intend and expect to renew on an annual basis. As of December 31, 2004 no amounts were outstanding under this facility.

The ABS facility is operated by Yellow Roadway Receivables Funding Corporation ("YRRFC"), a special purpose entity and wholly owned subsidiary of Yellow Roadway. Under the terms of the agreement, we may transfer trade receivables to YRRFC which is designed to isolate the receivables for bankruptcy purposes. The conduit must purchase from YRRFC an undivided ownership interest in those receivables. The percentage ownership interest in receivables purchased by the conduit may increase or decrease over time, depending on the characteristics of the receivables, including delinquency rates and debtor concentrations. Management will continue to evaluate the financial position of Yellow Transportation and Roadway Express, including the transferred receivables and related borrowings. As a result, the Yellow Roadway consolidated financial statements and segment reporting will not be impacted by this change. However, as the receivables will be legally owned by YRRFC, separate subsidiary financial statements filed with the Securities and Exchange Commission due to the issuance of public debt will not reflect the transferred receivables and related borrowings.

The table below provides the borrowing and repayment activity under the ABS facility, as well as the resulting balances, for the years ending December 31 of each period presented:

(in millions)	2004	2003
ABS obligations outstanding at January 1	\$ 71.5	\$ 50.0
Transfer of receivables to conduit (borrowings)	1,004.4	151.0
Redemptions from conduit (repayments)	(1,075.9)	(129.5)
ABS obligations outstanding at December 31	\$ —	\$ 71.5

Prior to December 31, 2002, the ABS facility was treated as a sale of assets and the sold receivables and related obligations were not reflected on the Consolidated Balance Sheets. Our loss on the sale of receivables under the ABS facility to the conduit was \$2.6 million in 2002. This charge is reflected as ABS facility charges on the Statements of Consolidated Operations.

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The following table provides a detail of the outstanding components and available unused capacity under the bank credit agreement and ABS agreement at December 31:

(in millions)	2004	2003
Capacity:		
Revolving loan	\$ 500.0	\$ 250.0
Term loan	—	175.0
Letters of credit facility	—	250.0
ABS facility	450.0	200.0
Total capacity	\$ 950.0	\$ 875.0
Amounts outstanding:		
Term loan	—	(175.0)
Letters of credit facility	—	(250.0)
Letters of credit under revolver loan	(275.4)	(24.4)
ABS facility	—	(71.5)
Total outstanding	(275.4)	(520.9)
Available unused capacity	\$ 674.6	\$ 354.1

At December 31, 2003, Reimer had a \$10.0 million secured revolving line of credit available with no outstanding borrowings. In the first quarter of 2004, we closed the facility.

Fixed-Rate Debt

Contingently Convertible Notes

On August 8, 2003, we closed the sale of \$200 million of 5.0 percent contingent convertible senior notes due 2023 (“contingent convertible senior notes”) and on August 15, 2003 we closed the sale of an additional \$50 million of the notes pursuant to the exercise of the option of the initial purchasers. We received net proceeds from the sales of \$242.5 million, after fees.

The \$250 million contingent convertible senior notes have an annual interest rate of 5.0 percent and are convertible into shares of Yellow Roadway common stock at a conversion price of \$39.24 per share only upon the occurrence of certain other events. The contingent convertible senior notes may not be redeemed by us for seven years but are redeemable at any time thereafter at par. Holders of the contingent convertible senior notes have the option to require Yellow Roadway to purchase their notes at par on August 8, 2010, 2013 and 2018, and upon a change in control of the company. These terms and other material terms and conditions applicable to the contingent convertible senior notes are set forth in the indenture governing the notes.

On November 25, 2003, we closed the sale of \$150 million of 3.375 percent contingent convertible senior notes due 2023. We received net proceeds from the offering of \$145.5 million, after fees, and used the proceeds to fund the acquisition of Roadway.

The \$150 million contingent convertible senior notes have an annual interest rate of 3.375 percent and are convertible into shares of Yellow Roadway common stock at a conversion price of \$46.00 per share only upon the occurrence of certain other events. The contingent convertible senior notes may not be redeemed by us for nine years but are redeemable at any time thereafter at par. Holders of the contingent convertible senior notes have the option to require Yellow Roadway to purchase their notes at par on November 25, 2012, 2015 and 2020, and upon a change in control of the company. These terms and other material terms and conditions applicable to the contingent convertible senior notes are set forth in the indenture governing the notes.

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In December 2004, we completed exchange offers pursuant to which holders of the 5 percent contingent convertible senior notes and the 3.375 percent contingent convertible senior notes (collectively, the “Existing Notes”) could exchange their Existing Notes for an equal amount of our new 5 percent net share settled contingently convertible senior notes due 2023 and new 3.375 percent net share settled contingently convertible senior notes due 2023 (collectively, the “New Notes”), respectively. The New Notes contain a net share settlement feature that, upon conversion, provides for the principal amount of the New Notes to be settled in cash and the excess value to be settled in common stock, as well as an additional change of control feature. The results of the exchange offer included \$247.7 million aggregate principal amount of the \$250 million of 5 percent contingent convertible senior notes outstanding and \$144.6 million aggregate principal amount of the \$150 million of 3.375 percent contingent convertible senior notes outstanding, representing 99.06 percent and 96.41 percent, respectively, of the Existing Notes validly and timely tendered in exchange for an equal principal amount of the New Notes.

The accounting for convertible debt with the settlement features contained in our New Notes is addressed in the consensus reached by the Emerging Issues Task Force of the Financial Accounting Standards Board with respect to the accounting for Instrument C as set forth in EITF 90-19, “Convertible Bonds with Issuer Option to Settle for Cash Upon Conversion.” We are contractually obligated to settle the conversion obligations of the New Notes consistent with Instrument C. Because the accreted value of the New Notes will be settled for cash upon the conversion, only the conversion spread (the excess conversion value over the accreted value), which will be settled in stock, will result in potential dilution in our earnings-per-share computations. (See further discussion of dilution related to the Existing Notes and the New Notes in Earnings Per Common Share.)

On December 31, 2004, the conversion triggers with respect to the \$250 million contingent convertible senior notes had been met. Accordingly, as of December 31, 2004, our note holders had the right, at their option, to convert their notes, in whole or in part, into cash and shares of our common stock as described above, subject to certain limitations. This conversion option, coupled with our obligation to settle any conversion by remitting to the note holder the accreted value of the note in cash, resulted in the classification of the \$250 million contingent convertible senior notes as a current liability on the accompanying consolidated balance sheets as of December 31, 2004. The future balance sheet classification of these liabilities will be monitored at each quarterly reporting date, and will be determined based on an analysis of the various conversion rights described above. We believe the likelihood of a note holder presenting their notes for conversion to be remote.

Other

We have loan guarantees, mortgages, and lease contracts in connection with the issuance of industrial development bonds (“IDBs”) used to acquire, construct or expand terminal facilities. Rates on these bonds range from 5.3 percent to 6.1 percent, with principal payments due through 2010.

On September 30, 2003, we completed the repurchase of \$24 million aggregate principal amount of our medium-term notes (“MTNs”). The remaining \$20 million aggregate principal amount of MTNs outstanding, after scheduled principal payments during 2003 of \$11.3 million, were defeased under the terms thereof. Defeasance refers to the process of placing sufficient funds in an irrevocable trust to pay and discharge the MTNs as they become due. As a result, we were considered legally released as the primary obligor, and the MTNs were removed from our balance sheet. The interest rate on the notes ranged from 6.1 percent to 7.8 percent with scheduled maturities ranging from October 2003 to August 2008. During the year ended December 31, 2003, we recognized a loss on the extinguishment of debt of \$2.3 million from the repurchase and defeasance that we reflected in “other” nonoperating expenses on our Statement of Consolidated Operations. We funded the repurchase and defeasance with cash on hand.

As part of our acquisition of Roadway and by virtue of the merger agreement, we assumed \$225.0 million face value of 8.25 percent senior notes due in full on December 1, 2008 (“senior notes due 2008”), with interest payments due semi-annually on June 1 and December 1. The senior notes due 2008 were revalued as part of

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purchase accounting and assigned a fair value of \$249.2 million on December 11, 2003. The premium over the face value of the senior notes due 2008 is being amortized as a reduction to interest expense over the remaining life of the notes. The unamortized premium at December 31, 2004 and 2003 was \$19.0 million and \$23.9 million, respectively.

Based on the borrowing rates currently available to us for debt with similar terms and remaining maturities and the quoted market prices for the senior notes due 2008 and contingent convertible senior notes, the fair value of fixed-rate debt at December 31, 2004 and 2003, was approximately \$921.2 million and \$761.0 million, respectively. The carrying amount of such fixed-rate debt at December 31, 2004 and 2003, was \$657.9 million and \$662.8 million, respectively.

The principal maturities of total debt for the next five years and thereafter are as follows:

(in millions)	IDBs	Contingent convertible senior notes	Senior notes due 2008	Total
2005	\$ 4.4	\$ —	\$ —	\$ 4.4
2006	—	—	—	—
2007	—	—	—	—
2008	2.5	—	225.0 ^(a)	227.5
2009	1.0	—	—	1.0
Thereafter	6.0	400.0 ^(b)	—	406.0
Total	\$13.9	\$ 400.0	\$ 225.0	\$ 638.9

(a) As discussed above, the senior notes due 2008 had a carrying value of \$244.0 million at December 31, 2004 and a principal maturity value of \$225.0 million.

(b) Our consolidated balance sheet at December 31, 2004 reflects \$250 million contingently convertible notes classified as a current liability as our note holders had the right, at their option, to convert their notes, in whole or in part, into cash and shares of common stock as we've fully described in Item 8, Debt and Financing. However, we've reflected the obligation above based on the stated maturity as we believe the likelihood of a note holder presenting their notes for conversion to be remote.

Stock Compensation Plans

Yellow Roadway has reserved 9.0 million shares of its common stock for issuance to key management personnel under six stock option plans and 3.1 million shares remain available at December 31, 2004. Our long-term incentive plan implemented in 2002 and replaced in 2004 with a new long-term incentive and equity award plan, and discussed under our Employee Benefits note, replaced the use of stock options as the exclusive vehicle for delivering long-term incentive compensation potential to our executive officers. The stock option plans generally permit grants of nonqualified stock options and grants of stock options coupled with a grant of stock appreciation rights ("SARs"). In addition, we had previously reserved 200,000 shares of our common stock for issuance to our Board of Directors under a stock compensation plan, which has subsequently been replaced with the 2004 long-term incentive and equity award plan. Under the plans, the exercise price of each option equals the closing market price of our common stock on the date of grant. The options vest ratably, generally over a period of four years, and expire ten years from the date of the grant.

Yellow Roadway implemented a new long-term incentive and equity award plan in 2004 which reserved 3.4 million of the 9.0 million shares discussed above. This plan permits the issuance of restricted stock and restricted stock units, as well as options, SARs, and performance stock and performance stock unit awards.

Yellow Roadway implemented a stock option plan in 2002 which reserved 1.0 million of the 9.0 million shares discussed above, and in 2004, 195,000 shares were subsequently de-registered. This plan permits the

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issuance of restricted stock and restricted stock units, as well as options, SARs, and performance stock and performance stock unit awards. The maximum cumulative number of shares that can be awarded in any form other than options or SARs is 200,000 shares.

We adjusted our outstanding stock options in 2002 to reflect the impact of the spin-off of SCST. For employees who continued employment with Yellow Corporation, the option remained an option for Yellow common stock with the number of shares covered by the option and related exercise price adjusted to preserve the intrinsic value. For employees who worked for SCST after the spin-off, the Yellow Corporation options were cancelled and SCST issued options to purchase SCST common stock with the number of shares of SCST common stock and exercise price set to preserve the intrinsic value.

As of December 31, 2004, 2003 and 2002, options on approximately 517,000 shares, 904,000 shares and 736,000 shares, respectively, were exercisable at weighted average exercise prices of \$19.11 per share, \$19.44 per share and \$17.77 per share, respectively. The weighted average remaining contract life on outstanding options at December 31, 2004, 2003 and 2002 was 5.8 years, 6.7 years and 7.4 years, respectively.

A summary of activity in our stock option plans is presented in the following table:

	Shares (in thousands)	Exercise Price	
		Weighted Average	Range
Outstanding at December 31, 2001	2,271	\$ 18.46	\$ 11.50–27.00
Granted	900	26.81	22.42–29.67
Exercised	(737)	17.76	10.56–24.79
SCST spin-off adjustment	(352)	—	—
Forfeited / expired	(86)	17.83	10.56–24.05
Outstanding at December 31, 2002	1,996	\$ 21.27	\$ 10.56–29.67
Granted	113	25.17	23.67–26.94
Exercised	(279)	16.80	13.48–29.67
Forfeited / expired	(33)	26.67	14.57–29.67
Outstanding at December 31, 2003	1,797	\$ 22.14	\$ 11.25–29.67
Granted	28	34.65	31.59–36.35
Exercised	(766)	20.72	11.25–29.67
Forfeited / expired	(61)	30.95	14.57–36.35
Outstanding at December 31, 2004	998	\$ 23.04	\$ 11.25–31.59

The following table summarizes information about stock options outstanding as of December 31, 2004:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Shares (in thousands)	Weighted Average Remaining Contractual Years	Weighted Average Exercise price	Shares (in thousands)	Weighted Average Exercise price
\$ 11.25 – 17.50	346	5.7	\$ 16.44	343	\$ 16.43
\$ 17.51 – 26.50	302	3.5	\$ 22.90	127	\$ 22.43
\$ 26.51 – 31.59	350	7.9	\$ 29.68	47	\$ 29.67

Income Taxes

We use the liability method to reflect income taxes on our financial statements. We recognize deferred tax assets and liabilities by applying enacted tax rates and regulations to the differences between the carrying value

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of existing assets and liabilities and their respective tax basis and capital loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. We assess the realizability of deferred tax assets for capital and operating loss carryforwards and provide valuation allowances when we determine it is more likely than not that such losses will not be realized within the applicable carryforward period. We have not recognized deferred taxes for U.S. federal income taxes on foreign subsidiaries' earnings that are deemed to be permanently reinvested and any related taxes associated with such earnings are not material. Deferred tax liabilities (assets) were comprised of the following at December 31:

(in millions)	2004	2003
Depreciation	\$ 297.2	\$ 280.8
Prepays	8.7	7.9
Employee benefits	56.2	85.2
Revenue	36.2	30.7
Intangibles	172.5	181.3
Other	26.4	17.7
	<u> </u>	<u> </u>
Gross tax liabilities	\$ 597.2	\$ 603.6
	<u> </u>	<u> </u>
Claims and insurance	\$(154.7)	\$(146.9)
Bad debts	(12.7)	(11.1)
Employee benefits	(122.3)	(120.2)
Revenue	(18.9)	(12.6)
Other	(35.2)	(38.1)
	<u> </u>	<u> </u>
Gross tax assets	\$(343.8)	\$(328.9)
	<u> </u>	<u> </u>
Net tax liability	\$ 253.4	\$ 274.7
	<u> </u>	<u> </u>

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate from continuing operations follows:

	2004	2003	2002
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net	2.3	1.3	(0.8)
Nondeductible business expenses	1.5	3.3	4.5
Foreign tax credit and rate differential	(0.1)	0.1	(2.2)
Other, net	(0.6)	(0.6)	(0.3)
	<u> </u>	<u> </u>	<u> </u>
Effective tax rate	38.1%	39.1%	36.2%
	<u> </u>	<u> </u>	<u> </u>

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The income tax provision from continuing operations consisted of the following:

	2004	2003	2002
(in millions)			
Current:			
U.S federal	\$ 81.3	\$ 3.0	\$12.7
State	9.3	(1.1)	(0.4)
Foreign	4.8	(1.5)	(0.2)
Current income tax provision	\$ 95.4	\$ 0.4	\$12.1
Deferred:			
U.S federal	\$ 15.9	\$23.3	\$ 0.6
State	2.1	2.5	0.7
Foreign	(0.1)	(0.1)	0.2
Deferred income tax provision	\$ 17.9	\$25.7	\$ 1.5
Income tax provision	\$113.3	\$26.1	\$13.6
Based on the income from continuing operations before income taxes:			
Domestic	\$283.6	\$71.7	\$37.9
Foreign	14.1	(4.9)	(0.3)
Income from continuing operations before income taxes	\$297.7	\$66.8	\$37.6

Previously, the Internal Revenue Service (“IRS”) challenged the timing of a deduction by Roadway Express related to prior years’ contributions to certain union pension plans. During the year ended December 31, 2004 we reached an agreement with the IRS and paid \$41.4 million (\$32.3 million net of tax benefit) to resolve this matter. Additional state tax and interest payments of approximately \$9.0 million (\$7.4 million net of tax benefit) resulting from the federal adjustments were made in January of 2005. We had specifically established reserves related to these payments in purchase accounting.

Commitments, Contingencies, and Uncertainties

Yellow Roadway incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to “operating expense and supplies” on the Statements of Consolidated Operations. Actual rental expense, as reflected in income from continuing operations, was \$95.1 million, \$42.6 million, and \$34.8 million for the years ended December 31, 2004, 2003, and 2002, respectively.

We utilize certain terminals and equipment under operating leases. At December 31, 2004, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

	2005	2006	2007	2008	2009	Thereafter
(in millions)						
Minimum annual rentals	\$ 75.1	\$ 48.9	\$ 30.4	\$ 17.6	\$ 7.0	\$ 9.2

We expect in the ordinary course of business that leases will be renewed or replaced as they expire.

Projected 2005 gross capital expenditures are expected to be \$235 to \$245 million, of which approximately \$38.0 million was committed at December 31, 2004.

Our outstanding letters of credit at December 31, 2004 included \$2.5 million for workers’ compensation, property damage and liability claims against SCST. We agreed to maintain the letters of credit outstanding at the spin-off date until SCST obtained replacement letters of credit or third party guarantees. SCST agreed to use its reasonable best efforts to obtain these letters of credit or guarantees, which in many cases would allow us to obtain a release of our letters of credit. SCST also agreed to indemnify us for any claims against the letters of credit that we provide. SCST reimburses us for all fees incurred related to the remaining outstanding letters of credit. We also provided a guarantee of \$4.1 million regarding certain lease obligations of SCST.

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We are involved in litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and 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 with regard to the litigation and proceedings to which we are a party.

Environmental Matters

Remediation costs are accrued based on estimates of known environmental remediation exposure using currently available facts, existing environmental permits and technology and presently enacted laws and regulations. Our estimates of costs are developed based on internal evaluations and, when necessary, recommendations from external environmental consultants. These accruals are recorded when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related costs, and the amounts can be reasonably estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. These accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Where we have been identified as a potentially responsible party in a U.S. federal "Superfund" site, we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste contributed to the site by us to the total volume of waste at the site. As of December 31, 2004, recorded balances related to these matters were not material.

Business Segments

Yellow Roadway reports financial and descriptive information about its reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. We manage the segments separately because each requires different operating, marketing and technology strategies. We evaluate performance primarily on adjusted operating income and return on capital.

Yellow Roadway has four reportable segments, which are strategic business units that offer complementary transportation services to their customers. Yellow Transportation and Roadway Express are unionized carriers that provide comprehensive regional, national and international transportation services. New Penn is also a unionized carrier that focuses on business opportunities in the regional and next-day delivery lanes. Meridian IQ, our non-asset based segment, provides domestic and international freight forwarding, multi-modal brokerage and transportation management services.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate operating losses represent operating expenses of the holding company, including salaries, wages and benefits, along with incentive compensation and professional services for all periods presented. In 2004, corporate operating losses also included increased professional fees associated with the Sarbanes-Oxley Act of 2002 of \$5.5 million and \$2.6 million of fees associated with the exchange of our contingently convertible notes in December 2004. In 2003, corporate operating losses also included \$4.0 million for an industry conference that we have hosted every other year. In 2002, corporate operating losses included approximately \$6.9 million related to the spin-off of SCST. Corporate identifiable assets primarily refer to cash and cash equivalents, in addition to pension intangible assets. Intersegment revenue relates to transportation services provided by Yellow Transportation to Meridian IQ and Roadway Express and charges to Yellow Transportation for use of various Meridian IQ service names.

Revenue from foreign sources totaled \$220.2 million, \$29.5 million, and \$24.8 million, in 2004, 2003, and 2002 respectively, and is largely derived from Canada, United Kingdom and Mexico. Long-lived assets located in foreign countries totaled \$23.5 million and \$16.7 million at December 31, 2004 and 2003, respectively.

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The following table summarizes our operations by business segment:

(in millions)	Yellow Transportation	Roadway ^(a) Express	New ^(a) Penn	Meridian IQ	Corporate/ Eliminations	Consolidated
2004						
External revenue	\$ 3,177.7	\$ 3,118.2	\$260.6	\$ 211.0	\$ —	\$ 6,767.5
Intersegment revenue	2.9	1.7	—	2.2	(6.8)	—
Operating income (loss)	191.5	158.3	33.9	3.7	(25.8)	361.6
Adjustments to operating income ^(b)	(3.1)	(1.4)	—	—	—	(4.5)
Adjusted operating income (loss) ^(c)	188.4	156.9	33.9	3.7	(25.8)	357.1
Identifiable assets	1,030.4	2,110.4	248.9	108.0	129.5	3,627.2
Capital expenditures, net	95.1	47.8	18.6	2.7	0.1	164.3
Depreciation and amortization	85.8	70.5	11.7	3.5	—	171.5
2003						
External revenue	\$ 2,809.5	\$ 131.2	\$ 9.8	\$ 118.1	\$ —	\$ 3,068.6
Intersegment revenue	2.4	—	—	2.2	(4.6)	—
Operating income (loss)	119.9	(6.1)	(0.2)	0.3	(25.3)	88.6
Adjustments to operating income ^(b)	19.0	—	—	0.5	3.0	22.5
Adjusted operating income (loss) ^(c)	138.9	(6.1)	(0.2)	0.8	(22.3)	111.1
Identifiable assets	986.5	2,002.4	340.7	79.9	53.7	3,463.2
Capital expenditures, net	94.3	1.2	0.5	3.1	0.1	99.2
Depreciation and amortization	80.3	3.5	0.7	2.9	—	87.4
2002						
External revenue	\$ 2,544.6	\$ —	\$ —	\$ 79.5	\$ —	2,624.1
Intersegment revenue	2.5	—	—	2.3	(4.8)	—
Operating income (loss)	70.6	—	—	(2.7)	(21.0)	46.9
Adjustments to operating income ^(b)	0.5	—	—	1.3	6.6	8.4
Adjusted operating income (loss) ^(c)	71.1	—	—	(1.4)	(14.4)	55.3
Identifiable assets	940.3	—	—	64.6	38.1	1,043.0
Capital expenditures, net	81.2	—	—	1.5	0.1	82.8
Depreciation and amortization	77.0	—	—	2.3	—	79.3

- (a) In 2003, the segment information shown for Roadway Express and New Penn represented income statement and capital expenditure information from the date of acquisition December 11, through December 31, 2003 and identifiable assets as of December 31, 2003.
- (b) Management excludes these items when evaluating operating income and segment performance to better evaluate the results of our core operations. In 2004, adjustments included gains on property disposals. In 2003, adjustments included acquisition charges, conforming accounting policies, a significant legal provision and losses (gains) on property disposals. In 2002, adjustments included spin-off and reorganization charges and losses (gains) on property disposals.
- (c) This measurement is used for internal management purposes and should not be construed as a better measurement than operating income as defined by generally accepted accounting principles.

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Earnings per Common Share

	2004	2003	2002
<i>(in thousands except per share data)</i>			
Income from continuing operations	\$ 184,327	\$ 40,683	\$ 23,973
Income (loss) from discontinued operations	—	—	(117,875)
Net income (loss)	\$ 184,327	\$ 40,683	\$ (93,902)
Average common shares outstanding—basic	48,149	30,370	28,004
Effect of dilutive equity awards	613	285	367
Contingent convertible notes dilution	412	—	—
Average common shares outstanding—diluted	49,174	30,655	28,371
Basic earnings (loss) per share:			
Income from continuing operations	\$ 3.83	\$ 1.34	\$ 0.86
Income (loss) from discontinued operations	—	—	(4.21)
Net income (loss)	\$ 3.83	\$ 1.34	\$ (3.35)
Effect of dilutive instruments on earnings (loss) per share:			
Income from continuing operations	\$ (0.08)	\$ (0.01)	\$ (0.02)
Loss from discontinued operations	—	—	0.06
Net income (loss)	\$ (0.08)	\$ (0.01)	\$ 0.04
Diluted earnings (loss) per share:			
Income from continuing operations	\$ 3.75	\$ 1.33	\$ 0.84
Income (loss) from discontinued operations	—	—	(4.15)
Net income (loss)	\$ 3.75	\$ 1.33	\$ (3.31)

The impacts of certain options were excluded from the calculation of diluted earnings per share because average exercise prices were greater than the average market price of common shares. Data regarding those options is summarized below:

	2004	2003	2002
<i>(in thousands except per share data)</i>			
Weighted average option shares outstanding	—	148	129
Weighted average exercise price	\$—	\$29.67	\$29.67

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Discontinued Operations

Summarized results of operations related to SCST (as reported in discontinued operations) are as follows for the nine months ended September 30, 2002:

	2002
(in millions except per share data)	
Operating revenue	\$ 581.2
Operating expenses	559.8
Operating income	21.4
Nonoperating expenses, net	4.7
Income before income taxes	16.7
Provision for income taxes	6.8
Income from continuing operations	9.9
Loss on disposal of SCST	(52.6)
Cumulative effect of change in accounting for goodwill	(75.2)
Loss from discontinued operations	\$(117.9)
Discontinued operations basic earnings (loss) per share:	
Income from continuing operations	\$ 0.35
Loss on disposal of SCST	(1.88)
Cumulative effect of change in accounting for goodwill	(2.68)
Loss from discontinued operations	\$ (4.21)
Discontinued operations diluted earnings (loss) per share:	
Income from continuing operations	\$ 0.35
Loss on disposal of SCST	(1.85)
Cumulative effect of change in accounting for goodwill	(2.65)
Loss from discontinued operations	\$ (4.15)

We did not charge to discontinued operations the management fees and other corporate services that we previously allocated to SCST, as we continue to incur a majority of the expense. We allocated interest expense to discontinued operations based on our overall effective borrowing rate applied to the debt reduction we realized from the spin-off. Interest expense included in discontinued operations was \$4.6 million for the nine months ended September 30, 2002. In addition, supplemental cash flow information for 2002, as shown on our Statements of Consolidated Cash Flows, includes cash paid on behalf of SCST until the spin-off date.

At December 31, 2001, we had \$100.6 million of goodwill, consisting primarily of \$75.2 million remaining from the acquisition of Jevic. Based on an estimate of Jevic's discounted cash flows, we determined that 100 percent of the Jevic goodwill was impaired due to lower business volumes, compounded by a weak economy and an increasingly competitive business environment. As a result, we recorded a non-cash charge of \$75.2 million in the first quarter of 2002, which was reflected as a cumulative effect of a change in accounting principle. Due to the spin-off, we reclassified the non-cash charge to "discontinued operations" on our Statement of Consolidated Operations.

Subsequent Events

USF Corporation

On February 27, 2005, USF Corporation (USF) and Yellow Roadway announced that we have entered into a definitive agreement pursuant to which Yellow Roadway will acquire USF through the merger of USF with and into a wholly owned subsidiary of Yellow Roadway. The transaction is valued at approximately \$1.37 billion

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(based on the Yellow Roadway trailing 90-day closing stock price as of February 18, 2005). Yellow Roadway will also assume approximately \$99 million in net USF debt, resulting in a total enterprise value of approximately \$1.47 billion. Each USF shareholder has the right to elect for each share either \$45 in cash or 0.9024 shares of Yellow Roadway common stock at a fixed exchange ratio. All shareholder elections will be adjusted such that the gross cash consideration will total approximately \$639 million, based on USF shares currently outstanding, and the balance will be paid in stock. The transaction is subject to the approval of shareholders of both companies. In addition, the acquisition is subject to the expiration or termination of the waiting period pursuant to the Hart-Scott-Rodino Antitrust Improvement Act of 1976, as amended and other customary closing conditions. We expect the transaction to close in the 2005 second quarter.

GPS Logistics, Inc.

In March 2005, MIQ LLC exercised its option to purchase GPS Logistics Group Ltd., the Asian operations of GPS Logistics, Inc. Under the terms of the purchase agreement, MIQ LLC is required to make a payment on March 31, 2005 based on a computation related to sustainable cash flow and working capital. This payment is not expected to exceed \$7.0 million, and is subject to subsequent upward and downward adjustments based on the financial performance of the Asia business through March 2007. Additional earn out payments could be required based on the financial performance of the Asia business during the period March 2007 to March 2009. The pro forma effect of this acquisition is not material to our results of operations.

Condensed Consolidating Financial Statements

Guarantees of the Contingent Convertible Senior Notes

In August 2003, Yellow Roadway issued 5.0 percent contingent convertible senior notes due 2023 pursuant to Rule 144A under the Securities Act of 1933, as amended. In November 2003, we issued 3.375 percent contingent convertible senior notes (the August and November issuances, collectively, may also be known as the “contingent convertible senior notes”) due 2023, pursuant to Rule 144A under the Securities Act of 1933, as amended. In connection with the contingent convertible senior notes, the following 100 percent owned subsidiaries of Yellow Roadway have issued guarantees in favor of the holders of the contingent convertible senior notes: Yellow Transportation, Inc., Mission Supply Company, Yellow Relocation Services, Yellow Roadway Technologies, Inc., Meridian IQ Inc., MIQ LLC (formerly Yellow GPS, LLC), Globe.com Lines, Inc., Roadway LLC, Roadway Next Day Corporation, and Roadway Express, Inc. Each of the guarantees is full and unconditional and joint and several.

The summarized consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of Yellow Roadway or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents summarized condensed consolidating financial information as of December 31, 2004 and 2003 with respect to the financial position and for the years ended December 31, 2004, 2003 and 2002 for results of operations and cash flows of Yellow Roadway and its subsidiaries. The 2003 Condensed Consolidating Statements of Operations and Condensed Consolidating Statements of Cash Flows contain Roadway LLC information from the date of acquisition (December 11) through December 31. The Parent column presents the financial information of Yellow Roadway, the primary obligor of the contingent convertible senior notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the contingent convertible senior notes. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws, Yellow Roadway Receivables Funding Corporation, Yellow Receivables Corporation and Roadway Funding, Inc., the special-purpose entities that are or were associated with our ABS agreements.

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Condensed Consolidating Balance Sheets

December 31, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ 82	\$ 7	\$ 17	\$ —	\$ 106
Intercompany advances receivable	—	484	—	(484)	—
Accounts receivable, net	3	14	762	—	779
Prepaid expenses and other	4	149	15	—	168
Total current assets	89	654	794	(484)	1,053
Property and equipment	—	2,541	131	—	2,672
Less—accumulated depreciation	—	(1,231)	(18)	—	(1,249)
Net property and equipment	—	1,310	113	—	1,423
Investment in subsidiaries	1,162	97	—	(1,259)	—
Receivable from affiliate	8	127	39	(174)	—
Goodwill and other assets	218	953	180	(200)	1,151
Total assets	\$1,477	\$ 3,141	\$ 1,126	\$ (2,117)	\$ 3,627
Intercompany advances payable	\$ —	\$ —	\$ 684	\$ (684)	\$ —
Accounts payable	8	276	23	—	307
Wages, vacations and employees' benefits	17	391	20	—	428
Claims and insurance accruals	—	117	7	—	124
Other current and accrued liabilities	17	66	3	—	86
Current maturities of long-term debt	250	4	—	—	254
Total current liabilities	292	854	737	(684)	1,199
Payable to affiliate	—	16	158	(174)	—
Long-term debt, less current portion	150	254	—	—	404
Deferred income taxes, net	(5)	286	39	—	320
Claims and other liabilities	18	457	15	—	490
Commitments and contingencies	—	—	—	—	—
Shareholders' equity	1,022	1,274	177	(1,259)	1,214
Total liabilities and shareholders' equity	\$1,477	\$ 3,141	\$ 1,126	\$ (2,117)	\$ 3,627

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December 31, 2003 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ 19	\$ 20	\$ 36	\$ —	\$ 75
Intercompany advances receivable	180	4	—	(184)	—
Accounts receivable, net	3	351	345	—	699
Prepaid expenses and other	5	97	8	—	110
Total current assets	207	472	389	(184)	884
Property and equipment	—	2,443	96	—	2,539
Less—accumulated depreciation	—	(1,130)	(6)	—	(1,136)
Net property and equipment	—	1,313	90	—	1,403
Investment in subsidiaries	1,374	131	—	(1,505)	—
Receivable from affiliate	—	150	—	(150)	—
Goodwill and other assets	39	884	253	—	1,176
Total assets	\$ 1,620	\$ 2,950	\$ 732	\$ (1,839)	\$ 3,463
Intercompany advances payable	\$ —	\$ —	\$ 184	\$ (184)	\$ —
Accounts payable	12	231	17	—	260
Wages, vacations and employees' benefits	6	330	15	—	351
Other current and accrued liabilities	(7)	173	12	—	178
ABS borrowings	—	—	72	—	72
Current maturities of long-term debt	2	—	—	—	2
Total current liabilities	13	734	300	(184)	863
Intercompany debt	—	—	150	(150)	—
Long-term debt, less current portion	573	263	—	—	836
Deferred income taxes, net	(12)	263	47	—	298
Claims and other liabilities	14	437	13	—	464
Commitments and contingencies	—	—	—	—	—
Shareholders' equity	1,032	1,253	222	(1,505)	1,002
Total liabilities and shareholders' equity	\$ 1,620	\$ 2,950	\$ 732	\$ (1,839)	\$ 3,463

Condensed Consolidating Statements of Operations

For the year ended December 31, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 48	\$ 6,291	\$ 483	\$ (55)	\$ 6,767
Operating expenses:					
Salaries, wages and employees' benefits	37	3,900	235	—	4,172
Operating expenses and supplies	32	921	108	(49)	1,012
Operating taxes and licenses	—	159	10	—	169
Claims and insurance	3	126	4	—	133
Depreciation and amortization	—	156	15	—	171
Purchased transportation	—	663	94	(4)	753
Losses (gains) on property disposals, net	—	(4)	(1)	—	(5)
Total operating expenses	72	5,921	465	(53)	6,405
Operating income (loss)	(24)	370	18	(2)	362
Nonoperating (income) expenses:					
Interest expense	28	72	33	(89)	44
Other, net	(1)	64	(130)	87	20
Nonoperating (income) expenses, net	27	136	(97)	(2)	64
Income (loss) before income taxes	(51)	234	115	—	298
Income tax provision	(8)	81	41	—	114
Subsidiary earnings	227	74	—	(301)	—
Net income (loss)	\$ 184	\$ 227	\$ 74	\$ (301)	\$ 184

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For the year ended December 31, 2003 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ 13	\$ 3,029	\$ 40	\$ (13)	\$ 3,069
Operating expenses:					
Salaries, wages and employees' benefits	15	1,936	19	—	1,970
Operating expenses and supplies	18	421	24	(13)	450
Operating taxes and licenses	—	82	2	—	84
Claims and insurance	—	66	2	—	68
Depreciation and amortization	—	86	1	—	87
Purchased transportation	—	306	12	—	318
Losses (gains) on property disposals, net	—	—	—	—	—
Spin-off and reorganization charges	3	—	—	—	3
Total operating expenses	36	2,897	60	(13)	2,980
Operating income (loss)	(23)	132	(20)	—	89
Nonoperating (income) expenses:					
Interest expense	18	6	7	(10)	21
Other, net	(2)	54	(61)	10	1
Nonoperating (income) expenses, net	16	60	(54)	—	22
Income (loss) before income taxes	(39)	72	34	—	67
Income tax provision	(14)	28	12	—	26
Subsidiary earnings	(65)	1	—	64	—
Net income (loss)	\$ 40	\$ 43	\$ 22	\$ (64)	\$ 41
For the year ended December 31, 2002 (in millions)					
Operating revenue	\$ 44	\$ 2,599	\$ 25	\$ (44)	\$ 2,624
Operating expenses:					
Salaries, wages and employees' benefits	12	1,698	7	—	1,717
Operating expenses and supplies	15	355	32	(16)	386
Operating taxes and licenses	—	75	1	—	76
Claims and insurance	1	56	—	—	57
Depreciation and amortization	—	79	—	—	79
Purchased transportation	—	244	10	—	254
Losses (gains) on property disposals, net	—	—	—	—	—
Spin-off and reorganization charges	7	1	—	—	8
Total operating expenses	35	2,508	50	(16)	2,577
Operating income (loss)	9	91	(25)	(28)	47
Nonoperating (income) expenses:					
Interest expense	8	4	3	(8)	7
ABS facility charges	—	—	3	—	3
Other, net	(5)	75	(51)	(20)	(1)
Nonoperating (income) expenses, net	3	79	(45)	(28)	9
Income (loss) from continuing operations before income taxes	6	12	20	—	38
Income tax provision	1	6	7	—	14
Subsidiary earnings	(19)	—	—	19	—
Income (loss) from continuing Operations	24	6	13	(19)	24
Income from discontinued operations, net	—	—	(118)	—	(118)
Net income (loss)	\$ 24	\$ 6	\$ (105)	\$ (19)	\$ (94)

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Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	\$ 63	\$ 450	\$ (78)	\$ —	\$ 435
Investing activities:					
Acquisition of property and equipment	—	(175)	(27)	—	(202)
Proceeds from disposal of property and equipment	—	34	4	—	38
Acquisition of subsidiaries	(10)	—	—	—	(10)
Other	4	—	—	—	4
Net cash used in investing activities	(6)	(141)	(23)	—	(170)
Financing Activities:					
ABS borrowings	—	—	(72)	—	(72)
Debt issuance costs	(3)	—	—	—	(3)
Repayment of long-term debt	(179)	4	—	—	(175)
Proceeds from exercise of stock options	16	—	—	—	16
Intercompany advances / repayments	172	(326)	154	—	—
Net cash provided by (used in) financing activities	6	(322)	82	—	(234)
Net increase (decrease) in cash and cash equivalents	63	(13)	(19)	—	31
Cash and cash equivalents, beginning of year	19	20	36	—	75
Cash and cash equivalents, end of year	\$ 82	\$ 7	\$ 17	\$ —	\$ 106
For the year ended December 31, 2003 (in millions)					
Operating activities:					
Net cash from (used in) operating activities	\$(120)	\$ 278	\$ 42	\$ (44)	\$ 156
Investing activities:					
Acquisition of property and equipment	—	(103)	(1)	—	(104)
Proceeds from disposal of property and equipment	—	4	—	—	4
Acquisition of subsidiaries	(513)	—	—	—	(513)
Net cash used in investing activities	(513)	(99)	(1)	—	(613)
Financing Activities:					
Proceeds from issuance of debt	575	—	—	—	575
ABS borrowings	—	—	22	—	22
Debt issuance costs	(35)	—	—	—	(35)
Repayment of long-term debt	(55)	(5)	—	—	(60)
Treasury stock purchases	(3)	—	—	—	(3)
Proceeds from exercise of stock options	5	—	—	—	5
Intercompany advances / repayments	143	(156)	(31)	44	—
Net cash provided by (used in) financing activities	630	(161)	(9)	44	504
Net increase (decrease) in cash and cash equivalents	(3)	18	32	—	47
Cash and cash equivalents, beginning of year	22	2	4	—	28
Cash and cash equivalents, end of year	\$ 19	\$ 20	\$ 36	\$ —	\$ 75

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For the year ended December 31, 2002 (in millions)	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	\$ 19	\$ 143	(95)	\$ (24)	\$ 43
Investing activities:					
Acquisition of property and equipment	—	(86)	—	—	(86)
Proceeds from disposal of property and equipment	—	3	—	—	3
Acquisition of subsidiaries	(17)	(1)	—	—	(18)
Net capital expenditures of discontinued operations	—	—	(24)	—	(24)
Net cash used in investing activities	(17)	(84)	(24)	—	(125)
Financing Activities:					
Unsecured bank credit lines, net	(85)	—	—	—	(85)
Repayment of long-term debt	(22)	—	(23)	—	(45)
Dividend from subsidiary upon spin-off	—	—	114	—	114
Proceeds from exercise of stock options	14	—	—	—	14
Proceeds from issuance of common stock	94	—	—	—	94
Intercompany advances / repayments	8	(59)	27	24	—
Net cash provided by (used in) financing activities	9	(59)	118	24	92
Net increase (decrease) in cash and cash equivalents	11	—	(1)	—	10
Cash and cash equivalents, beginning of year	11	2	6	—	19
Cash and cash equivalents, end of year	\$ 22	\$ 2	\$ 5	\$ —	\$ 29

Guarantees of the Senior Notes Due 2008

In connection with the senior notes due 2008, assumed by virtue of the merger agreement, and in addition to the primary obligor, Roadway LLC, Yellow Roadway and its following 100 percent owned subsidiaries have issued guarantees in favor of the holders of the senior notes due 2008: Roadway Next Day Corporation, New Penn Motor Express, Inc., Roadway Express, Inc., Roadway Reverse Logistics, Inc. and Roadway Express International, Inc. Each of the guarantees is full and unconditional and joint and several.

The summarized consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of Yellow Roadway or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents summarized condensed consolidating financial information of Yellow Roadway and its subsidiaries as of December 31, 2004 and 2003 with respect to the financial position, and for the years ended December 31, 2004 and 2003 for results of operations and cash flows. The 2003 Condensed Consolidating Statements of Operations and Condensed Consolidating Statements of Cash Flows contain Roadway LLC information from the date of acquisition (December 11) through December 31. The primary obligor column presents the financial information of Roadway LLC. The Guarantors column presents the financial information of all guarantors of the senior notes due 2008 including Yellow Roadway, the holding company. The Non-Guarantors column presents the financial information of all non-guarantors, including those subsidiaries that are governed by foreign laws and Yellow Roadway Receivables Funding Corporation, Yellow Receivables

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Corporation and Roadway Funding, Inc., the special-purpose entities that are or were associated with our ABS agreements.

Condensed Consolidating Balance Sheets

December 31, 2004 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Cash and cash equivalents	\$ —	\$ 89	\$ 17	\$ —	\$ 106
Intercompany advances receivable	76	542	—	(618)	—
Accounts receivable, net	—	(1)	780	—	779
Prepaid expenses and other	11	69	88	—	168
Total current assets	87	699	885	(618)	1,053
Property and equipment	—	876	1,796	—	2,672
Less—accumulated depreciation	—	(70)	(1,179)	—	(1,249)
Net property and equipment	—	806	617	—	1,423
Investment in subsidiaries	671	57	1	(729)	—
Receivable from affiliate	650	(12)	12	(650)	—
Goodwill and other assets	6	1,045	100	—	1,151
Total assets	\$ 1,414	\$ 2,595	\$ 1,615	\$ (1,997)	\$ 3,627
Intercompany advances payable	\$ —	\$ —	\$ 618	\$ (618)	\$ —
Accounts payable	—	123	184	—	307
Wages, vacations and employees' benefits	—	238	190	—	428
Claims and insurance accruals	—	59	65	—	124
Other current and accrued liabilities	(16)	71	31	—	86
Current maturities of long-term debt	—	250	4	—	254
Total current liabilities	(16)	741	1,092	(618)	1,199
Due to affiliate	—	626	24	(650)	—
Long-term debt, less current portion	244	150	10	—	404
Deferred income taxes, net	(9)	212	117	—	320
Claims and other liabilities	—	334	156	—	490
Commitments and contingencies	—	—	—	—	—
Shareholders' equity	1,195	532	216	(729)	1,214
Total liabilities and shareholders' equity	\$ 1,414	\$ 2,595	\$ 1,615	\$ (1,997)	\$ 3,627

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December 31, 2003 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Cash and cash equivalents	\$ —	\$ 62	\$ 13	\$ —	\$ 75
Intercompany advances receivable	38	109	104	(251)	—
Accounts receivable, net	—	329	370	—	699
Prepaid expenses and other	—	39	71	—	110
Total current assets	38	539	558	(251)	884
Property and equipment	—	812	1,727	—	2,539
Less—accumulated depreciation	—	(3)	(1,133)	—	(1,136)
Net property and equipment	—	809	594	—	1,403
Investment in subsidiaries	593	1,402	8	(2,003)	—
Receivable from affiliate	650	—	—	(650)	—
Goodwill and other assets	21	1,073	82	—	1,176
Total assets	\$ 1,302	\$ 3,823	\$ 1,242	\$ (2,904)	\$ 3,463
Intercompany advances payable	\$ —	\$ —	\$ 251	\$ (251)	\$ —
Accounts payable	1	123	136	—	260
Wages, vacations and employees' benefits	1	188	162	—	351
Other current and accrued liabilities	(31)	110	99	—	178
ABS borrowings	—	—	72	—	72
Current maturities of long-term debt	—	2	—	—	2
Total current liabilities	(29)	423	720	(251)	863
Due to affiliate	—	650	—	(650)	—
Long-term debt, less current portion	249	573	14	—	836
Deferred income taxes, net	(11)	205	104	—	298
Claims and other liabilities	1	347	116	—	464
Commitments and contingencies	—	—	—	—	—
Shareholders' equity	1,092	1,625	288	(2,003)	1,002
Total liabilities and shareholders' equity	\$ 1,302	\$ 3,823	\$ 1,242	\$ (2,904)	\$ 3,463

Condensed Consolidated Statements of Operations

For the year ended December 31, 2004 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating revenue	\$ —	\$ 3,229	\$ 3,539	\$ (1)	\$ 6,767
Operating expenses:					
Salaries, wages and benefits	—	2,082	2,090	—	4,172
Operating expenses and supplies	—	465	548	(1)	1,012
Operating taxes and licenses	—	80	89	—	169
Claims and insurance	—	63	70	—	133
Depreciation and amortization	—	79	92	—	171
Purchased transportation	—	306	447	—	753
Losses (gains) on property disposals, net	—	(1)	(4)	—	(5)
Acquisition charges	—	—	—	—	—
Total operating expenses	—	3,074	3,332	(1)	6,405
Operating income (loss)	—	155	207	—	362
Nonoperating (income) expenses:					
Interest expense	14	46	38	(54)	44
Other, net	(53)	65	(46)	54	20
Nonoperating (income) expenses, net	(39)	111	(8)	—	64
Income before income taxes	39	44	215	—	298
Income tax provision	15	24	75	—	114
Subsidiary earnings	72	140	—	(212)	—
Net income (loss)	\$ 96	\$ 160	\$ 140	\$ (212)	\$ 184

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Condensed Consolidating Statements of Operations

For the year ended December 31, 2003 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating revenue	\$ —	\$ 149	\$ 2,938	\$ (18)	\$ 3,069
Operating expenses:					
Salaries, wages and benefits	—	106	1,864	—	1,970
Operating expenses and supplies	—	39	425	(14)	450
Operating taxes and licenses	—	4	80	—	84
Claims and insurance	—	4	64	—	68
Depreciation and amortization	—	4	83	—	87
Purchased transportation	—	17	303	(2)	318
Losses (gains) on property disposals, net	—	—	—	—	—
Acquisition charges	—	3	—	—	3
Total operating expenses	—	177	2,819	(16)	2,980
Operating income (loss)	—	(28)	119	(2)	89
Nonoperating (income) expenses:					
Interest expense	1	20	5	(5)	21
ABS facility charges	—	—	—	—	—
Other, net	(3)	(1)	2	3	1
Nonoperating (income) expenses, net	(2)	19	7	(2)	22
Income (loss) before income taxes	2	(47)	112	—	67
Income tax provision	1	(18)	43	—	26
Subsidiary earnings	6	(65)	—	59	—
Net income (loss)	\$ (5)	\$ 36	\$ 69	\$ (59)	\$ 41

Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2004 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	\$ 34	\$ 198	\$ 203	\$ —	\$ 435
Investing activities:					
Acquisition of property and equipment	—	(92)	(110)	—	(202)
Proceeds from disposal of property and equipment	—	28	10	—	38
Acquisition of subsidiaries	—	(10)	—	—	(10)
Other	4	—	—	—	4
Net cash used in investing activities	4	(74)	(100)	—	(170)
Financing Activities:					
ABS borrowings, net	—	—	(72)	—	(72)
Debt issuance costs	—	(3)	—	—	(3)
Repayment of long-term debt	—	(175)	—	—	(175)
Proceeds from exercise of stock options	—	16	—	—	16
Intercompany advances / repayments	(38)	65	(27)	—	—
Net cash provided by (used in) financing activities	(38)	(97)	(99)	—	(234)
Net increase (decrease) in cash and cash equivalents	—	27	4	—	31
Cash and cash equivalents, beginning of year	—	62	13	—	75
Cash and cash equivalents, end of year	\$ —	\$ 89	\$ 17	\$ —	\$ 106

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For the year ended December 31, 2003 (in millions)	Primary Obligor	Guarantors	Non- Guarantors	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	\$ (24)	\$ 9	\$ 171	\$ —	\$ 156
Investing activities:					
Acquisition of property and equipment	—	(3)	(101)	—	(104)
Proceeds from disposal of property and equipment	—	1	3	—	4
Acquisition of subsidiaries	—	(513)	—	—	(513)
Net cash used in investing activities	—	(515)	(98)	—	(613)
Financing Activities:					
Issuance of long-term debt	—	575	—	—	575
ABS borrowings, net	—	—	22	—	22
Debt issuance costs	—	(35)	—	—	(35)
Repayment of long-term debt	—	(55)	(5)	—	(60)
Treasury stock purchases	—	(3)	—	—	(3)
Proceeds from exercise of stock options	—	5	—	—	5
Intercompany advances / repayments	—	91	(91)	—	—
Net cash provided by (used in) financing activities	—	578	(74)	—	504
Net increase (decrease) in cash and cash equivalents	(24)	72	(1)	—	47
Cash and cash equivalents, beginning of year	24	(10)	14	—	28
Cash and cash equivalents, end of year	\$ —	\$ 62	\$ 13	\$ —	\$ 75

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Yellow Roadway Corporation

We have audited the accompanying consolidated balance sheets of Yellow Roadway Corporation (the “Company”) and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, shareholders’ equity, and comprehensive income for each of the years in the three-year period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yellow Roadway Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company’s internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 4, 2005, expressed an unqualified opinion on management’s assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Yellow Roadway Corporation

We have audited management's assessment, included in the accompanying *Management's Report On Internal Control Over Financial Reporting*, that Yellow Roadway Corporation ("the Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, shareholders' equity, and comprehensive income for each of the years in the three-year period ended December 31, 2004, and our report dated March 4, 2005, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

During the years ended December 31, 2004 and 2003, there were no disagreements with KPMG LLP on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure which, if not resolved to the satisfaction of KPMG LLP, would have caused them to make reference to the subject matter of the disagreement in connection with the audit reports on our consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We maintain a rigorous set of disclosure controls and procedures designed to ensure that information required to be disclosed in our filings under the Securities and Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our principal executive and financial officers have evaluated our disclosure controls and procedures as of the end of the period covered by this report and have determined that the Company's disclosure controls and procedures are effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining a system of adequate internal control over the Company's financial reporting, which is designed to provide reasonable assurance regarding the preparation of reliable published consolidated financial statements. The system contains self-monitoring mechanisms, and actions are taken to correct deficiencies as they are identified.

The Company's management assessed the effectiveness of the Company's system of internal control over financial reporting as of December 31, 2004. In making this assessment, the Company's management used the criteria for effective internal control over financial reporting described in "Internal Control – Integrated Framework" that the Committee of Sponsoring Organizations of the Treadway Commission issued.

Based on its assessment using those criteria, management believes that, as of December 31, 2004, the Company's system of internal control over financial reporting was effective.

KPMG LLP, the registered public accounting firm that audited our December 31, 2004 consolidated financial statements, has issued an attestation report on management's assessment of the Company's system of internal control over financial reporting. The KPMG LLP attestation report is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the fiscal quarter ended December 31, 2004 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

PART III**Item 10. Directors and Executive Officers of the Registrant**

The information required by this item relating to our directors and nominees, and compliance with Section 16(a) of the Securities Act of 1934 is included under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement related to the 2005 Annual Meeting of Shareholders and is incorporated herein by reference.

The following are our executive officers as of March 15, 2005:

<u>Name</u>	<u>Age</u>	<u>Position(s) Held</u>
William D. Zollars	57	Chairman of the Board, President and Chief Executive Officer of Yellow Roadway (since November 1999); President of Yellow Transportation (1996–1999); Senior Vice President of Ryder Integrated Logistics, Inc. (1994–1996).
Donald G. Barger, Jr.	62	Senior Vice President and Chief Financial Officer of Yellow Roadway (since November 2000); Vice President and Chief Financial Officer of Hillenbrand Industries, Inc. (1998–2000); Vice President and Chief Financial Officer of Worthington Industries (1993–1998).
Daniel J. Churay	42	Senior Vice President, General Counsel and Secretary of Yellow Roadway (since September 2002); Senior Counsel, Fulbright & Jaworski L.L.P. (2002); Deputy General Counsel and Assistant Secretary of Baker Hughes Incorporated (1998–2002).
James D. Staley	54	President and Chief Executive Officer of Roadway LLC (since December 2003); President and Chief Executive Officer of Roadway Corporation (2003); President and Chief Operating Officer of Roadway Express (1998–2003); Vice President—Operations of Roadway Express (1993–1998).
Robert L. Stull	49	President of Roadway Express, Inc (since March 2003); Vice President—New Venture Commerce of Roadway Corporation (1999–2003); Vice President—Western Division of Roadway Express, Inc. (1994–1999).
James L. Welch	50	President and Chief Executive Officer of Yellow Transportation (since June 2000); Central Group Vice President of Yellow Transportation (1998–2000).
Steven T. Yamasaki	50	Senior Vice President—Human Resources of Yellow Roadway (since May 2003); Senior Vice President—Human Resources of ConAgra Foods, Inc. (2003); Vice President—Human Resources of Honeywell International (1997–2003).
Bhadresh A. Sutaria	45	Vice President, Controller and Chief Accounting Officer of Yellow Roadway (since January 2004); Vice President, Finance and Strategy of Mascon (2000–2004); Associate Director, Corporate Planning and Analysis of Monsanto Corporation (1993–2000).

The terms of each Yellow Roadway officer designated above are scheduled to expire at the Board of Directors’ meeting immediately following our Annual Meeting of Shareholders. The terms of each officer of our subsidiary companies are scheduled to expire on the date of the next annual meeting of shareholders of that company or until the officer’s successor is elected or otherwise qualified or until the Board of Directors otherwise removes the officer. No family relationships exist among any of the executive officers named above.

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We have adopted a written Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers. It is available in the governance section of the investor relations page of our website located at www.yellowroadway.com, or a copy may be obtained without charge by contacting the Company's investor relations representative by telephone at (913) 696 6100 or by mail at Yellow Roadway Corporation, Attention: Investor Relations, 10990 Roe Avenue, Overland Park, KS 66211.

Item 11. Executive Compensation

The information required by this item is included under the caption "Executive Compensation" in our Proxy Statement related to the 2005 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item relating to security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is included under the captions "Amount and Nature of Beneficial Ownership" and "Equity Compensation Plan Information" in our Proxy Statement related to the 2005 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions

None.

Item 14. Principal Accountants Fees and Services

The information required by this item is included under the caption "Audit/Ethics Committee Report" in our Proxy Statement related to the 2005 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) (1) Financial Statements Schedule

	<u>Pages</u>
Independent Auditors' Report on Financial Statement Schedule	79
For the years ended December 31, 2004, 2003 and 2002: Schedule II—Valuation and Qualifying Accounts	80

Schedules other than those listed are omitted for the reason that they are not required or are not applicable.

(a) (2) Exhibits

Form 10-K Exhibits

- 2.1 Agreement and Plan of Merger, dated as of February 27, 2005, by and among Yellow Roadway Corporation, Yankee II LLC and USF Corporation (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K, filed on February 27, 2005, Reg. No. 000-12255).
- 3.1 Certificate of Incorporation of the company (incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 3.2 Certificate of Amendment to the Certificate of Incorporation of the company changing the name of the company to Yellow Roadway Corporation (incorporated by reference to Exhibit 4.2 to the Registration Statement on Form S-8, SEC File No. 333-111499).
- 3.3 Bylaws of the company (incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, Reg. No. 000-12255).
- 4.1 Certificate of Incorporation of the company (incorporated by reference to Exhibit 3.1 to this Annual Report on Form 10-K), as amended by Certificate of Amendment to the Certificate of Incorporation (incorporated by reference to Exhibit 3.2 to this Annual Report on Form 10-K).
- 4.2 Bylaws (incorporated by reference to Exhibit 3.3 to this Annual Report on Form 10-K).
- 4.3 Indenture (including form of note) dated August 8, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 5.0% Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-4, filed on August 19, 2003, Reg. No. 333-108081).
- 4.4 Registration Rights Agreement dated August 8, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Securities Inc., as representative of the initial purchasers (incorporated by reference to Exhibit 4.6 to Registration Statement on Form S-4, filed on August 19, 2003, Reg. No. 333-108081).
- 4.5 Indenture (including form of note) dated November 25, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 3.375% Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.7 to Registration Statement on Form S-8, filed on December 23, 2003, Reg. No. 333-111499).
- 4.6 Registration Rights Agreement dated November 25, 2003 among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Securities Inc., as representative of the initial purchasers (incorporated by reference to Exhibit 4.8 to Registration Statement on Form S-8, filed on December 23, 2003, Reg. No. 333-111499).

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- 4.7 Indenture (including form of note) dated November 30, 2001 among Roadway Corporation (predecessor in interest to Roadway LLC), certain subsidiary guarantors and SunTrust Bank, as trustee, relating to Roadway's 8 ¼% Senior Notes due December 1, 2008 (incorporated by reference to Exhibit 4.9 to Registration Statement on Form S-8, filed on December 23, 2003, Reg. No. 333-111499).
- 4.8 Supplemental Indenture, dated as of December 11, 2003, among Roadway LLC, as successor obligor, Yellow Roadway Corporation, as a Guarantor, and SunTrust Bank, as Trustee, supplementing the Indenture, dated as of November 30, 2001 for the Roadway Corporation 8¼% Senior Notes due December 1, 2008 (incorporated by reference to Exhibit 4.8 to the Annual Report on Form 10-K for the year ended December 31, 2003, Reg. No. 000-12255).
- 4.9 Indenture (including form of note) dated December 31, 2004, among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 5.0% Net Share Settled Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.7 to Amendment No. 1 to Registration Statement on Form S-4/A, filed on November 30, 2004, Reg. No. 333-119990).
- 4.10 Indenture (including form of note) dated December 31, 2004, among Yellow Roadway Corporation, certain subsidiary guarantors and Deutsche Bank Trust Company Americas, as trustee, relating to Yellow Roadway Corporation's 3.375% Net Share Settled Contingent Convertible Senior Notes due 2023 (incorporated by reference to Exhibit 4.8 to Amendment No. 1 to Registration Statement on Form S-4/A, filed on November 30, 2004, Reg. No. 333-119990).
- 10.1 Credit Agreement, dated as of September 10, 2004, among Yellow Roadway Corporation, the lenders party to the Credit Agreement, Bank of America, N.A., SunTrust Bank, as Syndication Agents, U.S. Bank National Association, Wachovia Bank, National Association, as Documentation Agents, JPMorgan Chase Bank, Toronto Branch, as Canadian Agent, J.P. Morgan Europe Limited, as UK Agent, and JPMorgan Chase Bank, as Administrative Agent. (incorporated by reference to Exhibit 10.2 to Current Report on Form 8-K, filed on September 16, 2004, Reg. No. 000-12255).
- 10.2 Master Separation and Distribution Agreement dated as of September 30, 2002, between Yellow Roadway Corporation and SCS Transportation, Inc. (incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, Reg. No. 000-12255).
- 10.3 Tax Indemnification and Allocation Agreement dated as of September 30, 2002, between Yellow Roadway Corporation and SCS Transportation, Inc. (incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2002, Reg. No. 000-12255).
- 10.4 Receivables Sale Agreement, dated as of May 21, 2004, between Yellow Transportation, Inc. and Roadway Express, Inc., as the Originators, and Yellow Roadway Receivables Funding Corporation, as the Buyer (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2004, Reg. No. 000-12255).
- 10.5 Amended and Restated Receivables Purchase Agreement, dated as of September 10, 2004, among Yellow Roadway Receivables Funding Corporation, as Seller, Falcon Asset Securitization Corporation, Blue Ridge Asset Funding Corporation, and Three Pillars Funding LLC, as Conduits, the financial institutions party thereto, as Committed Purchasers, Wachovia Bank, National Association, as Blue Ridge Agent, SunTrust Capital Markets, Inc., as Three Pillars Agent and Bank One, NA (Main Office Chicago), as Falcon Agent and as Administrative Agent. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on September 16, 2004, Reg. No. 000-12255).
- 10.6 Employment Agreement dated December 15, 1999 between Yellow Roadway Corporation and William D. Zollars (incorporated by reference to Exhibit 10 to the Annual Report on Form 10-K for the year ended December 31, 1999, Reg. No. 000-12255) and Amendment Number One to Employment Agreement dated December 15, 1999 between Yellow Roadway Corporation and William D. Zollars (incorporated by reference to Exhibit 10(a) to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2000, Reg. No. 000-12255).

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- 10.7 Employment Agreement, dated as of October 10, 2003, by and between Roadway LLC and James D. Staley (incorporated by reference to Exhibit 10.1 to Amendment No. 3 to Registration Statement on Form S-4, filed on October 17, 2003, Reg. No. 333-108081).
- 10.8* Form of Executive Severance Agreement between Yellow Roadway Corporation and its executive officers.
- 10.9 Yellow Roadway Corporation 2002 Stock Option and Share Award Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8, SEC File No. 333-88268, filed on May 15, 2002).
- 10.10 1999 Stock Option Plan (incorporated by reference to Exhibit 4 to the Registration Statement on Form S-8, SEC File No. 333-49620, filed on November 9, 2000).
- 10.11* 1997 Stock Option Plan.
- 10.12 1996 Stock Option Plan (incorporated by reference to Exhibit 10.6 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.13 1992 Stock Option Plan (incorporated by reference to Exhibit 10.7 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.14 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.8 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.15 Form of Option Agreement pursuant to Directors' Stock Compensation Plan for January 2003 grants (incorporated by reference to Exhibit 10.15 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.16 Form of Option Agreement pursuant to Directors' Stock Compensation Plan for grants prior to January 2003 (incorporated by reference to Exhibit 10.16 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.17 Supplemental Retirement Income Agreement dated July 20, 2001, between Yellow Roadway Corporation and Donald G. Barger, Jr. (incorporated by reference to Exhibit 10 to the Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, Reg. No. 000-12255).
- 10.18 Executive Deferred Compensation Plan (incorporated by reference to Exhibit 10.11 to the Annual Report on Form 10-K for the year ended December 31, 2002, Reg. No. 000-12255).
- 10.19 Amended Directors' Stock Compensation Plan (incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-8, SEC File No. 333-49618).
- 10.20 Roadway Corporation 401(a)(17) Benefit Plan (Effective January 1, 2002), as amended by First Amendment to the Roadway Corporation 401(a)(17) Benefit Plan and Second Amendment to the Roadway Corporation 401(a)(17) Benefit Plan (incorporated by reference to Exhibit 10.25 to the Annual Report on Form 10-K for the year ended December 31, 2003, Reg. No. 000-12255).
- 10.21 Roadway Corporation Excess Benefit Plan (Effective as of January 1, 2002), as amended by First Amendment to the Roadway Corporation Excess Benefit Plan and Second Amendment to the Roadway Corporation Excess Benefit Plan (incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K for the year ended December 31, 2003, Reg. No. 000-12255).
- 10.22 Roadway LLC Pension Plan, amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.27 to the Annual Report on Form 10-K for the year ended December 31, 2003, Reg. No. 000-12255).
- 10.23 Yellow Corporation Pension Plan, amended and restated as of January 1, 2004 (incorporated by reference to Exhibit 10.28 to the Annual Report on Form 10-K for the year ended December 31, 2003, Reg. No. 000-12255).

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10.24	Yellow Roadway Corporation 2004 Long-term Incentive and Equity Award Plan (incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q for the quarter ended September 30, 2004, Reg. No. 000-12255).
10.25*	Yellow Roadway Corporation 2004 Long-term Incentive Plan.
10.26*	Form of Yellow Roadway Corporation Share Unit Agreement.
10.27*	Form of Yellow Roadway Corporation Director Share Unit Agreement.
10.28	Yellow Roadway Corporation Director Compensation Plan (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K, filed on December 13, 2004, Reg. No. 000-12255)
10.29	Yellow Roadway Corporation Executive Ownership Guidelines (incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K, filed on December 13, 2004, Reg. No. 000-12255)
16.1	Letter from Arthur Andersen LLP dated May 17, 2002, regarding change in certifying accountant (incorporated by reference to Exhibit 16 to the Current Report on Form 8-K for the event dated as of May 17, 2002)
21.1*	Subsidiaries of the company
23.1*	Consent of KMPG LLP
23.2*	Consent of Ernst & Young LLP
31.1*	Certification 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 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 Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1*	Roadway LLC and Subsidiaries Audited Consolidated Financial Statements for the year ended December 31, 2004 and the period December 12 to December 31, 2003
99.2*	Roadway LLC and Subsidiaries Audited Consolidated Financial Statements for the period January 1 to December 11, 2003 and the year ended December 31, 2002
99.3*	Roadway Express, Inc. and Subsidiaries Audited Consolidated Financial Statements for the year ended December 31, 2004 and the Period December 12 to December 31, 2003
99.4*	Roadway Express, Inc. and Subsidiaries Audited Consolidated Financial Statements for the period January 1 to December 11, 2003 and the year ended December 31, 2002
99.5*	Roadway Next Day Corporation Audited Consolidated Financial Statements for the year ended December 31, 2004 and the period December 12 to December 31, 2003
99.6*	Roadway Next Day Corporation Audited Consolidated Financial Statements for period January 1 to December 11, 2003 and the year ended December 31, 2002

* Indicates documents filed herewith.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Yellow Roadway Corporation:

Under date of March 4, 2005, we reported on the consolidated balance sheets of Yellow Roadway Corporation and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2004, which appears in the December 31, 2004 annual report on Form 10-K of Yellow Roadway Corporation. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule of valuation and qualifying accounts (Schedule II). The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

Yellow Roadway Corporation and Subsidiaries
Valuation and Qualifying Accounts
For the Years Ended December 31, 2004, 2003 and 2002

<u>COL. A</u>	<u>COL. B</u>	<u>COL. C</u>		<u>COL. D</u>	<u>COL. E</u>
<u>Description</u>	<u>Balance, Beginning Of Year^(a)</u>	<u>Additions</u>		<u>Deductions^(b)</u>	<u>Balance, End Of Year^(d)</u>
		<u>-1- Charged To Costs/ Expenses</u>	<u>-2- Charged To Other Accounts</u>		
		(in millions)			
<u>Year ended December 31, 2004:</u>					
Deducted from asset account—					
Allowance for uncollectible accounts	\$ 20.8	\$ 22.3	\$ 0.4	\$ (21.1)	\$ 22.4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Added to liability account—					
Claims and insurance accruals	\$ 299.3	\$ 207.2	\$ 0.2	\$ (185.9)	\$ 320.8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Year ended December 31, 2003:</u>					
Deducted from asset account—					
Allowance for uncollectible accounts	\$ 15.7	\$ 14.7	\$ 6.2 ^(c)	\$ (15.8)	\$ 20.8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Added to liability account—					
Claims and insurance accruals	\$ 115.2	\$ 114.6	\$ 170.4 ^(c)	\$ (100.9)	\$ 299.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
<u>Year ended December 31, 2002:</u>					
Deducted from asset account—					
Allowance for uncollectible accounts	\$ 7.7	\$ 25.8	\$ 0.2	\$ (18.0)	\$ 15.7
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Added to liability account—					
Claims and insurance accruals	\$ 110.3	\$ 95.9	\$ —	\$ (91.0)	\$ 115.2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

- (a) All balances shown have been reclassified to reflect valuation and qualifying accounts of continuing operations due to the spin-off of SCST on September 30, 2002.
- (b) Regarding the allowance for uncollectible accounts, amounts primarily relate to uncollectible accounts written off, net of recoveries. For the claims and insurance accruals, amounts primarily relate to payments of claims and insurance.
- (c) These amounts primarily represent the beginning balances for Roadway LLC as of December 11, 2003.
- (d) 2003 balances include the results of Roadway LLC from the date of acquisition (December 11) through December 31, 2003.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 ROADWAY CORPORATION

By: /s/ WILLIAM D. ZOLLARS

William D. Zollars
Chairman of the Board, President
and Chief Executive Officer

March 15, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ DONALD G. BARGER, JR. Senior Vice President March 15, 2005

Donald G. Barger, Jr. and Chief Financial Officer

/s/ BHADRESH A. SUTARIA Vice President, Corporate March 15, 2005

Bhadresh A. Sutaria Controller & Chief Accounting Officer

/s/ CASSANDRA C. CARR Director March 15, 2005

Cassandra C. Carr

/s/ HOWARD M. DEAN Director March 15, 2005

Howard M. Dean

/s/ FRANK P. DOYLE Director March 15, 2005

Frank P. Doyle

/s/ JOHN F. FIEDLER Director March 15, 2005

John. F. Fiedler

/s/ DENNIS E. FOSTER Director March 15, 2005

Dennis E. Foster

/s/ JOHN C. MCKELVEY Director March 15, 2005

John C. McKelvey

/s/ PHILLIP J. MEEK Director March 15, 2005

Phillip J. Meek

/s/ WILLIAM L. TRUBECK Director March 15, 2005

William L. Trubeck

/s/ CARL W. VOGT Director March 15, 2005

Carl W. Vogt

EXECUTIVE SEVERANCE AGREEMENT

THIS EXECUTIVE SEVERANCE AGREEMENT (this “**Agreement**”) between Yellow Roadway Corporation, a Delaware corporation (“**Yellow**”) and [name] (the “**Executive**”),

WITNESSETH:

WHEREAS, the duly authorized Compensation Committee (the “**Committee**”) of the Board of Directors (the “**Board**”) of Yellow or the Board, has approved Yellow entering into revised severance agreements with key executives of Yellow and its Subsidiaries (collectively, the “**Corporation**”);

WHEREAS, the duly authorized Committee or the Board has selected the Executive as a key executive of the Corporation; and

WHEREAS, should Yellow receive any proposal from a third person concerning a possible Business Combination (defined below) with, or acquisition of equity securities of, Yellow, the Board believes it important that the Corporation and the Board be able to rely upon the Executive to continue in his position, and that Yellow have the benefit of the Executive performing his duties without his being distracted by the personal uncertainties and risks created by such a proposal;

NOW, THEREFORE, the parties agree as follows:

1. Definitions. As used in this Agreement, the following capitalized terms shall have the meanings given the terms in this Section 1.

- (a) “**Business Combination**” means any transaction that is referred to as such in the Certificate of Incorporation of Yellow, as amended.
- (b) “**Cause**” means
 - (1) a conviction of a felony involving moral turpitude by a court of competent jurisdiction that is no longer subject to direct appeal,
 - (2) conduct that is materially and demonstrably injurious to Yellow, or
 - (3) the Executive’s willful engagement in one or more acts of dishonesty resulting in material personal gain to the Executive at the expense of Yellow.
- (c) “**Change of Control**,” for the purposes of this Agreement, shall be deemed to have taken place if:
 - (1) a third person, including a “group” as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, purchases or otherwise acquires shares of the Corporation after the date of this Agreement and as a result of the purchase or acquisition becomes the beneficial owner of shares of the Corporation having 20% or more of the total number of votes that may be cast in any election of directors of Yellow; or
 - (ii) as the result of, or in connection with any cash tender or exchange offer, merger or other Business Combination, or contested election, or any combination of the those transactions, the Continuing Directors shall cease to constitute a majority of the Board of Yellow or any successor to Yellow.

- (d) **“Continuing Director”** means a director of Yellow who meets the definition of Continuing Director contained in the Certificate of Incorporation of Yellow, as amended.
- (e) **“Normal Retirement Age”** means the last day of the calendar month in which the Executive’s 65th birthday occurs.
- (f) **“Permanent Disability”** means, as determined in the reasonable discretion of the Board or the duly authorized Committee, a physical or mental condition that permanently renders the Executive incapable of exercising the duties and responsibilities of the position the Executive held immediately prior to any Change of Control.
- (g) **“Subsidiary”** means any domestic or foreign entity, of which Yellow or its Subsidiaries directly or indirectly owns a majority of the entity’s shares or other equity interests normally entitled to vote in electing directors or selecting management.
- (h) **“Target Bonus”** means the incentive compensation that the Board or the duly authorized Committee set or approved, that the Corporation has targeted to pay the Executive if the Executive, the Corporation or a Subsidiary achieves certain specified objectives that the Board or the duly authorized Committee has outlined or approved. The term **“Target Bonus”** for the year of a Termination means the Target Bonus of the Executive calculated as if the Executive were entitled to receive 100% of the Target Bonus for the relevant period without regard to whether the specified objectives are actually achieved.
- (i) **Construction & Interpretation.** As used in this Agreement, unless the context expressly requires the contrary, references to Sections shall mean the sections and subsections of this Agreement; references to “including” shall mean “including (without limitation)”; references to a “person” shall mean both legal entities and natural persons; references to the singular shall include the plural and *vice versa*; and references to the masculine shall include the feminine and neutral, and *vice versa*.

2. Services During Certain Events. If a third person begins a tender or exchange offer for the shares of the Corporation, circulates a proxy to shareholders of the Corporation, or takes other steps seeking to effect a Change of Control, the Executive agrees that the Executive will not voluntarily leave the employ of the Corporation without the consent of the Corporation and will render the services contemplated in the recitals to this Agreement, until the third person has abandoned or terminated the third person’s efforts to effect a Change of Control or until 90 days after a Change of Control has occurred. If the Executive fails to comply with the provisions of this Section 2, the Corporation will suffer damages that are difficult, if not impossible, to ascertain. Accordingly, should the Executive fail to comply with the provisions of this Section 2, the Corporation shall retain the amounts that would otherwise be payable to the Executive (other than accrued salary under Section 4(a) and normal health, welfare and retirement benefits until the date of the Executive’s termination) under this Agreement as fixed, agreed and liquidated damages but shall have no other recourse against the Executive.

3. Termination After or in Connection With a Change of Control. For purposes of this Agreement, the term **“Termination”** shall include the following in this Section 3:

- (a) the Corporation’s termination of the Executive’s employment with the Corporation within two years after a Change of Control for any reason other than death, Permanent Disability, retirement at or after his Normal Retirement Age or Cause;
- (b) the Corporation’s termination of the employment of the Executive with the Corporation, for any reason other than death, Permanent Disability, retirement at or after his Normal Retirement Age or Cause, if the termination occurs at any time between:
 - (1) the date the Corporation enters into a definitive agreement or files a proxy statement, or the date a third person begins a tender or exchange offer, in each case, in connection with a transaction that would constitute a Change of Control, or the date the Corporation takes other steps seeking to effect a Change of Control, and

- (2) the date the Change of Control transaction is either consummated, abandoned or terminated (for this purpose, the Board shall have the sole and absolute discretion to determine that a proposed transaction has been abandoned), or
- (c) the resignation of the Executive after the occurrence of any of the following events within two years after a Change of Control:
 - (1) an adverse change of the Executive's title or a reduction or adverse change in the nature or scope of the Executive's authority or duties from those the Executive exercised and performed immediately prior to the Change of Control;
 - (2) a transfer of the Executive to a location that is more than 35 miles away from the location where the Executive was employed immediately prior to the Change of Control;
 - (3) a substantial increase occurs in the amount of time the Executive is required to spend traveling (for this purpose, a "substantial increase" will be deemed to occur if the Executive is required to travel in an amount greater than 30% more in any calendar year, measured in number of days, as compared to the average number of days the Executive was required to travel during the three preceding calendar years).
 - (4) any reduction in the rate of the Executive's annual salary below his rate of annual salary immediately prior to the Change of Control; or
 - (5) any reduction in the level of the Executive's fringe benefits or bonus below a level consistent with the Corporation's practice prior to the Change of Control, other than changes applicable to all similarly situated executives of the Corporation.

4. Termination Payments. In the event of a Termination, Yellow shall provide to the Executive the following benefits:

- (a) Yellow shall pay to the Executive, in accordance with its normal payroll policies, the compensation and benefits that the Executive accrued through the date of Termination. This amount shall include the pro rata amount of the Executive's Target Bonus for the year that includes the date of Termination.
- (b) Yellow shall pay to the Executive, on or before the Executive's last day of employment with the Corporation, as additional compensation for services rendered to the Corporation, a lump sum cash amount (subject to the minimum applicable federal, state or local lump sum withholding requirements, if any, unless the Executive requests that a greater amount be withheld) equal to two times the sum of:
 - (1) the Executive's current base salary, and
 - (2) the Executive's Target Bonus in effect for the year that includes the date of the Executive's Termination (or if no such Target Bonus has been set, the Target Bonus for the prior year).

If there are fewer than 120 whole or partial months remaining from the date of the Executive's Termination to his Normal Retirement Age, in lieu of the amount described above in this Section 4(b), Yellow shall pay to the Executive, on or before the Executive's last day of employment with the Corporation, as additional compensation for services rendered to the Corporation, a lump sum cash amount (subject to the minimum applicable federal, state or local lump sum withholding requirements, if any, unless the Executive requests that a greater amount be withheld) equal to three times the sum of:

- (3) the Executive's current base salary, and
- (4) the Executive's Target Bonus in effect for the year that includes the date of the Executive's Termination.

- (c) During the “**Applicable Period**” (defined below), following the Executive’s Termination, the Corporation shall arrange to provide the Executive with substantially similar benefits to the benefits the Executive would have received if the Executive had remained an employee of the Corporation, including the applicable medical, dental, life insurance, short-term disability, long-term disability and perquisite plans and programs covering key executives of the Corporation; *provided* that the Executive shall not be entitled to accrue any benefits after Termination under any 401(k) plan or defined benefit or contribution pension plan of the Corporation. “**Applicable Period**” means:
- (1) if there are fewer than 120 whole or partial months remaining from the date of the Executive’s Termination to his Normal Retirement Date, three years, or
 - (2) if Section 4(c)(1) above is not applicable, two years,
- in each case, from the date of the Executive’s termination.
- (d) The Executive shall be entitled to the Gross-Up Payment, if any, described in Section 6.

5. Equity Grants and Awards. In the event of a Change of Control, all options to acquire shares of Yellow, all shares of restricted Yellow stock, all performance or share units and all other equity or phantom equity incentives that the Corporation granted the Executive under any plan of the Corporation, including Yellow’s 1992, 1996, 1997 and 1999 Stock Option Plans, Yellow’s 2002 Stock Option and Share Award Plan, Yellow’s Executive Performance Plan, as amended, Yellow’s 2004 Long-Term Incentive and Equity Award Plan, and the 2004 Long-Term Incentive Plan, as amended from time to time, shall become immediately vested, exercisable and non-forfeitable and all conditions of any grant or award (including any required holding periods) shall be deemed to have been satisfied. If the Executive is a participant in Yellow’s 2004 Long-Term Incentive Plan or any similar or successor plan,

- (a) for any incomplete performance period under the plan, the Corporation shall pay the Executive any cash or equity component upon the Change of Control that the plan provides only if the plan so provides, assuming that the Corporation would meet a Target performance for each period;
- (b) for any completed performance period under the plan, to the extent the Executive has not received the grant for the period:
 - (i) if 75% or more of the data of the comparative companies necessary for completing the calculation is available, then the Executive shall receive the remaining portion of the grant upon the Change of Control based on the data available seven days prior to the Change of Control; otherwise
 - (ii) if less than 75% of the data of the comparative companies necessary for completing data is available, then the Executive shall receive the remaining portion of the grant upon the Change of Control, assuming that the Corporation would meet the Target performance for the period; *provided* that if the Executive had previously received a partial grant and that grant exceeded a grant for Target performance, the Executive shall not be required to return the prior grant;

and, in each case, any equity component shall be treated in accordance with the first sentence of this Section 5.

6. Additional Payments by Yellow.

- (a) **Gross-Up Payment.** If it shall be determined that the Corporation’s payment or provision of any payment or benefit of any type to or for the benefit of the Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (determined without regard to any additional payments required under this Section 6) (the “**Total Payments**”) would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the “**Code**”) (or any similar tax that may hereafter be imposed) or any interest or penalties with respect to the excise tax (the excise tax, together with any interest and penalties, are collectively referred to as the “**Excise Tax**”), then

Yellow shall pay the Executive an additional payment (a “**Gross-Up Payment**”) in an amount such that after the Executive’s payment of all taxes (including all federal, state or local taxes and any interest or penalties imposed with respect to those taxes), including any Excise Tax, imposed upon the Gross-Up Payment, the Executive retains an amount of the Gross-Up Payment equal to the Excise Tax imposed upon the Total Payments. Yellow shall pay the Gross-Up Payment promptly following the Accounting Firm’s (defined below) determination described in Section 6(b) or in accordance with Section 6(c).

- (b) **Accounting Firm Determination.** An independent accounting firm that Yellow retains (the “**Accounting Firm**”) shall make all determinations that this Section 6 requires, including whether a Gross-Up Payment is required and the amount of the Gross-Up Payment. Yellow shall cause the Accounting Firm provide detailed supporting calculations both to Yellow and the Executive within 15 business days of the date of Termination, if applicable, or such earlier time that Yellow requests. If the Accounting Firm determines that the Executive is not required to pay an Excise Tax, the Accounting Firm shall furnish the Executive with an opinion that the Executive has substantial authority not to report any Excise Tax on his federal income tax return. The Accounting Firm’s determination shall be binding upon Yellow and the Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the Accounting Firm’s initial determination, it is possible that Gross-Up Payments that Yellow will not have been made should have been made (“**Underpayment**”) consistent with the calculations that this Agreement requires. If Yellow exhausts its remedies pursuant to Section 6(c) and the Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and Yellow shall pay the Underpayment promptly to or for the benefit of the Executive. Yellow shall promptly pay all expenses of the Accounting Firm.
- (c) **Notification Required.** The Executive shall notify Yellow in writing of any Internal Revenue Service claim that, if successful, would require Yellow’s payment of the Gross-Up Payment. The Executive shall give Yellow the notification as soon as practicable but no later than ten business days after the Executive knows of the claim and shall apprise Yellow of the nature of such claim and the date on which such claim is requested to be paid; *provided* that the Executive’s failure to give the notice within the 10-day period shall only prejudice the Executive’s rights pursuant to Section 6 to the extent that Yellow’s ability to reduce the amount of the Gross-Up Payment have been prejudiced. The Executive shall not pay the claim prior to the expiration of the 30-day period following the date on which the Executive gives notice to Yellow (or such shorter period ending on the date that any payment of taxes with respect to the claim is due). If Yellow notifies the Executive in writing prior to the expiration of the period that it desires to contest the claim, the Executive shall:
- (1) give Yellow any information that Yellow reasonably requests relating to the claim,
 - (2) take such action in connection with contesting the claim as Yellow shall reasonably request in writing from time to time, including, accepting legal representation with respect to the claim by an attorney that Yellow reasonably selects,
 - (3) cooperate with Yellow in good faith to effectively contest the claim,
 - (4) permit Yellow to participate in any proceedings relating to the claim; *provided*, that Yellow shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in connection with the contest and shall indemnify and hold the Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties, imposed as a result of the representation and payment of costs and expenses.

Without limitation on the foregoing provisions of this Section 6(c), Yellow shall control all proceedings taken in connection with the contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of a claim and may, at its sole option, either direct the Executive to pay the tax claimed and sue for a refund, or contest the claim in any permissible manner. The Executive agrees to prosecute the contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as Yellow shall determine; *provided*, that if Yellow directs the Executive to pay the claim and sue for a refund, Yellow

shall advance the amount of the payment to the Executive, on an interest-free basis and shall indemnify and hold the Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties, imposed with respect to the advance or with respect to any imputed income with respect to the advance; and *further provided* that any extension of the statute of limitations relating to payment of taxes for the taxable year of the Executive with respect to which the contested amount is claimed to be due is limited solely to the contested amount. Yellow's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable under this Agreement and the Executive shall be entitled to settle or contest, as the case may be, any other issue that the Internal Revenue Service or any other taxing authority raises.

- (d) **Repayment.** If, after the Executive's receipt of an amount that Yellow paid or advanced pursuant to this Section 6, the Executive becomes entitled to receive a refund with respect to the claim, the Executive shall (subject to Yellow's complying with the requirements of this Section 6), promptly pay to Yellow the amount of the refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the Executive's receipt of an amount that Yellow paid or advanced pursuant to this Section 6, a determination is made that the Executive shall not be entitled to any refund with respect to the claim and Yellow does not notify the Executive in writing of its intent to contest the denial of refund prior to the expiration of 30 days after the determination, then the payment or advance shall be forgiven and shall not be required to be repaid and the amount of the payment or advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

7. General.

- (a) **Confidentiality.** The Executive shall hold in a fiduciary capacity for the benefit of the Corporation all data, reports and other information relating to the business of the Corporation that comes into the possession of the Executive during the Executive's employment with the Corporation (collectively, "**Confidential Information**"). During the Executive's employment with the Corporation and after termination of the Executive's employment, the Executive agrees:
- (i) to take all such precautions as may be reasonably necessary to prevent the disclosure to any third person of any of the Confidential Information;
 - (ii) not to use for the Executive's own benefit any of the Confidential Information; and
 - (iii) not to aid any other person in the use of the Confidential Information in competition with the Corporation; *provided* that nothing in this Agreement shall prohibit the Executive from disclosing or using any Confidential Information:
 - (A) in the performance of the Executive's duties as an employee of the Corporation,
 - (B) as required by applicable law,
 - (C) in connection with the enforcement of the Executive's rights under this Agreement or any other agreement with the Corporation,
 - (D) in connection with the defense or settlement of any claim, suit or action brought or threatened against the Executive by or in the right of the Corporation, or
 - (E) with the prior written consent of the Board.

Notwithstanding any provision contained herein to the contrary, the term "**Confidential Information**" shall not be deemed to include any general knowledge, skills or experience acquired by the Executive or any knowledge or information known or available to the public in general. The Executive further agrees that, within 90 days after termination of the Executive's employment for any reason, the Executive will surrender to the Corporation all Confidential Information, and any copies of Confidential Information, in

his possession and agrees that all the materials and copies, are at all times the property of the Corporation. Notwithstanding the foregoing, the Executive shall be permitted to retain copies of, or have access to, all Confidential Information relating to any disagreement, dispute or litigation (pending or threatened) involving the Executive.

- (b) **Remedies.** In the event of a breach or threatened breach by the Executive of the provisions of Section 7(a), the Corporation shall be entitled to an injunction restraining the Executive from violating Section 7(a) without the necessity of posting a bond. Nothing herein shall be construed as prohibiting the Corporation from pursuing any other remedies available to it at law or in equity. The parties agree that the provisions of this Section 7(a) shall survive the termination of the Executive's employment with the Corporation, as the continuation of this covenant is necessary for the protection of the Corporation.
- (c) **Payment Obligations Absolute.** Yellow's obligation to pay the Executive the compensation and to make the arrangements provided herein shall be absolute and unconditional and shall not be affected by any circumstance, including any setoff, counterclaim, recoupment, defense or other right that the Corporation may have against the Executive or anyone else, except as provided in Section 2 and except for any setoff, counterclaim, recoupment, defense or other right that the Corporation may have against the Executive for actions that the Executive may have taken that fall within the definition of Cause (in Section 1(b)) irrespective of whether the Corporation terminated the Executive for Cause or not. All amounts that Yellow owes under this Agreement shall be paid without notice or demand. Each and every payment that Yellow makes under this Agreement shall be final, and Yellow will not seek to recover all or any part of the payment from the Executive or from whosoever may be entitled to the payment, for any reason whatsoever. The Executive shall not be obligated to seek other employment in mitigation of the amounts payable or arrangements made under any provision of this Agreement, and the obtaining of any such other employment shall in no event affect any reduction of Yellow's obligations to make the payments that this Agreement requires.
- (d) **Obligations to Pay Costs.** If the Corporation terminates the Executive, and if the Executive successfully asserts a claim, action or proceeding against the Corporation for benefits under this Agreement or any other agreement between the Executive and the Corporation, the Corporation shall promptly pay or reimburse the Executive for all costs and expenses, including court costs and attorneys' fees, that the Executive incurs in connection with the claim, action or proceeding. For purposes of this Section 7(e), the Executive will be deemed to have successfully asserted a claim, action or proceeding against the Corporation if, as a result of the claim, action or proceeding, the Corporation pays to the Executive, under this Agreement or any other agreement between the Executive and the Corporation, any amounts in addition to the amounts the Executive would be entitled to receive upon a termination for Cause.
- (e) **Successors.** This Agreement shall be binding upon and insure to the benefit of the Executive and his estate and the Corporation and any successor of the Corporation, but the Executive may neither assign nor pledge this Agreement or any rights arising under this Agreement.
- (f) **Severability.** Any provision in this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to the jurisdiction, be ineffective only to the extent of the prohibition or unenforceability without invalidating or affecting the remaining provisions of this Agreement, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable the provision in any other jurisdiction.
- (g) **Controlling Law.** The laws of the State of Delaware, without reference to its law on conflicts of law, shall govern this Agreement shall in all respects.
- (h) **Termination.** A majority of the Continuing Directors may terminate this Agreement upon notifying the Executive; except that a termination shall not be made, and if made shall have no effect,
 - (1) within two years after the Change of Control in question, or

- (2) during any period of time when Yellow has knowledge that any third person has taken steps reasonably calculated to effect a Change of Control until, in the opinion of a majority of the Continuing Directors the third person has abandoned or terminated his efforts to effect a Change of Control. Any decision by a majority of the Continuing Directors that the third person has abandoned or terminated his efforts to effect a Change of Control shall be conclusive and binding on the Executive.
- (i) This Agreement amends, restates, replaces and supercedes that Executive Severance Agreement dated as of [date] between the Corporation and the Executive in its entirety.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the __ day of _____, 20__.

EXECUTIVE:

YELLOW ROADWAY CORPORATION

[name]

By: _____
Daniel J. Churay
Vice President, General Counsel
and Secretary

**YELLOW CORPORATION
1997 STOCK OPTION PLAN**

1. PURPOSE-

The Yellow Corporation 1997 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 or SAR.

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-employee directors as defined in Rule 16b-3 of the Securities and Exchange Commission as it exists on the effective date of the Plan or as subsequently amended or interpreted and are "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986 and the regulations thereunder.

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 date on which the value is to be determined or, if the stock did not trade on that date, the next preceding date on which such stock traded.

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

2.8 "Non-Qualified Stock Option" or "NQSO" 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 1997 Stock Option Plan.

2.11 "SAR" means a right to surrender to the Company all or a portion of an Option and to be paid therefor 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.

2.12 "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 pertain to any other security, such other security.

2.13 "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.

2.14 "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, by bequest or inheritance or by reason of the death of the Grantee, as provided in accordance with Section 9 hereof.

2.15 "Term" means the period during which a particular Option or SAR may be exercised.

2.16 "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

Subject to adjustment as provided in Section 18 below, 1,400,000 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 shall once again be available for issuance in satisfaction of Awards to the extent that (i) cash is issued in satisfaction of the exercise of such Shares or (ii) the Option expires or terminates unexercised as to any Shares covered thereby. Subject to adjustment as provided in Section 18 below, the maximum number of Shares with respect to which options or SARs may be granted during any calendar year to any employee under the Plan shall be 200,000 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 last business day prior to the date the Option is granted.

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 9 and 10, 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 Option, 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 9 and 10, 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. 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 12, 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.

9. DEATH OR TERMINATION OF EMPLOYMENT

9.1 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.

9.2 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.

10. 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.

11. 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.

12. EXERCISE OF RIGHTS UNDER AWARDS

12.1 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.

12.2 The notice shall be accompanied by payment in full for the purchase price of 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.

12.3 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.

12.4 Upon exercise of an Option or SAR, 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.

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

13. EFFECTIVE DATE OF THE PLAN AND DURATION.

13.1 The Plan shall become effective on July 15, 1997, subject to stockholder approval at the 1998 Annual Meeting of Stockholders of the Company where such approval is required by applicable SEC or stock market regulations.

13.2 No Awards may be granted under the Plan on or after July 16, 2007 although the terms of any Award may be amended at any time prior to the end of its Term in accordance with the Plan.

14. 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.

15. STOCKHOLDER STATUS

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

16. POSTPONEMENT OF EXERCISE

The Committee may postpone any exercise of an Option or SAR 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 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. 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.

17. 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.

18. 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 to reflect such change in capitalization, and all such adjustments shall be conclusive upon all persons.

19. DELIVERY OR SHARES IN LIEU OF CASH INCENTIVE AWARDS

19.1 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.

19.2 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.

19.3 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.

19.4 Such applications and such delivery of Shares shall not be permitted on or after July 16, 2007.

20. LOANS

20.1 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 20 as well as such other items as may be established by the Committee.

20.2 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.

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

20.4 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.

20.5 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.

21. 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, SARs), 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.

22. TAXES

The Company is authorized to pay or withhold the amount of any tax attributable to any amounts payable under any Awards, 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. This authority shall include authority to withhold or receive Shares and to make cash payments in respect thereof in satisfaction of an individual's tax obligations.

23. 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.

24. 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.

25. 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.

26. GOVERNING LAW

The Plan and all determinations made and actions taken pursuant hereto shall be governed by and construed in accordance with the laws of the State of Delaware.

**YELLOW ROADWAY
2004 LONG-TERM INCENTIVE PLAN**

Plan Provision

Performance Focus	Consolidated Yellow Roadway Corporation (“Company”) performance
Performance Period	Overlapping three-year performance periods
Performance Criteria	Company performance measured against the S&P Mid Cap Index (400 companies) with target at the 50 th percentile, threshold at the 25 th percentile and maximum at the 75 th percentile. In addition, the Compensation Committee of the Board of Directors of the Company (the “Compensation Committee”) may reduce any potential payment, under the Plan, based upon peer company performance relative to the Company or other performance factors that the Compensation Committee deems relevant.
Performance Measures and Weights	70% return on committed capital 30% net operating profit after taxes (“NOPAT”) growth
Threshold and Maximum Payment	Threshold 25% of target and maximum 200% of target.
Plan Formula	
Form of Payment	50% cash and 50% Performance Share Units, awarded at the end of performance period. Performance Share Units are determined by dividing the cash value by the average daily share price through the performance period. Performance Share Units are converted to shares of stock and delivered to the participant upon becoming fully vested and all holding periods are fully satisfied. The Compensation Committee may, based upon an estimated calculation, pay out a percentage of any earned award (on both cash and equity portions) in the first quarter of the year following the performance period with the balance to be paid by the end of the 3 rd quarter in that year once the final calculations can be made. The Compensation Committee, in its sole discretion, may determine the sample size of the comparison companies in the applicable S&P index.
Vesting of Performance Share Units	50% of the Performance Share Units vest after three years and the remaining 50% of the Performance Share Units vest after six years, in each case, from the date of grant. The participant will not receive any stock on the vesting of the first 50% until the holding period is satisfied on the 6 th anniversary of the date of grant or termination of employment after vesting, whichever occurs earlier.
Termination of Employment	Vested Performance Share Units are converted to stock and delivered to the participant. Non-vested units are forfeited, and no payment is made for incomplete performance periods. The Compensation Committee, at its sole discretion, may determine to deliver unvested units to the terminating participant based on the circumstances of his or her separation from the Company.

Retirement and Disability

If the participant is age 65 upon termination of employment or is deemed to be totally or permanently disabled, both vested and non-vested Performance Share Units are converted to stock and delivered to the participant. If the participant terminates employment prior to age 65 and the participant is at least 55 years of age with the participant's age plus years of service equal to at least 75, the Performance Share Units shall continue to vest on the same schedule as if the participant remained employed until age 65, and upon age 65 after such retirement all remaining Performance Share Units shall become fully vested and convert to shares of stock; *provided*, that the participant does not breach the non-competition covenant contained in the Performance Share Award agreement. For incomplete performance cycles upon such retirement, the participant will be paid both cash and stock at the end of the performance period on a pro rata basis based on the length of time he or she was actively employed during the performance period.

Death

Vested and non-vested Performance Share Units are converted to stock and delivered to the person's estate. For incomplete performance cycles, the participant's estate will be paid both cash and stock at the end of the performance period on a pro rata basis based on the length of time he or she was employed during the performance period.

Change of Control of Yellow Roadway

Vested and non-vested Performance Share Units are converted to shares of stock and delivered to the participant in the event of a "Change of Control". For incomplete performance cycles, the participant will be paid both cash and stock on the date of the "Change of Control" on a pro rata basis based on the length of time he or she was actively employed during the performance period, assuming that the Company would meet a Target performance for each period. For the purposes of this Plan, "Change of Control" shall have the meaning that term is given in the Executive Severance Agreement between the participant and the Company, as it may be amended from time to time; or, if no such agreement exists, the meaning that term is given in the latest Executive Severance Agreement between the Company and its Chief Executive Officer.

New Participants

New participants in the plan will enter the plan at the effective date determined by the Compensation Committee and will have their target payment adjusted for partially completed performance periods.

Implementation of the revised Plan

Because of the impact of the Company's acquisition of Roadway Corporation ("Roadway") on the 2002-2004 and 2003-2005 performance cycles, Yellow Corporation ("Yellow") only performance, compared to the S&P Small Cap Index, will be used for 2002 and 2003 for Yellow participants and Roadway only performance, compared to the S&P Small Cap Index, will be used for 2002 and 2003 for Roadway participants. Yellow Roadway Corporation performance as compared to the S&P Mid Cap Index for 2004 and 2005 will be used for those years for all participants. This 2004 Long Term Incentive Plan amends and restates the Long Term Incentive Plan adopted in 2002 in its entirety.

[COMPANY LOGO]

YELLOW ROADWAY CORPORATION
SHARE UNIT AGREEMENT

[NAME OF GRANTEE]
GRANTEE

DATE OF GRANT:

TOTAL NUMBER OF
UNITS GRANTED:

VESTING SCHEDULE: [Long-Term Incentive Program: 50% of the Units vest on the third anniversary of the date of grant (subject to the additional holding period described herein); and the remaining 50% of the Units vest on the sixth anniversary of the date of grant.
The Company will not deliver any shares with respect to vested Units until the earlier of the sixth anniversary from the date of grant, termination of the Grantee’s employment with the Company, retirement, death, disability or a Change of Control (as described in the terms and conditions)]
[Executive Share Program: 100% of the Units vest on the third anniversary of the date of grant]
[Roadway Express Transitional Incentive Plan: 40% of the Units vest on the first anniversary of the date of grant; an additional 30% of the Units vest on the second anniversary of the date of grant; and; and the remaining 30% of the Units vest on the sixth anniversary of the date of grant.]

GRANT OF SHARE UNITS

Pursuant to action taken by the Compensation Committee (the “Committee”) of the Board of Directors of YELLOW ROADWAY CORPORATION, a Delaware corporation (the “Company”), for the purposes of administration of the Yellow Roadway Corporation [2002 Stock Option and Share Award Plan][2004 Long-Term Incentive and Equity Award Plan] or any successor thereto (the “Plan”), the above-named Grantee is hereby granted rights to receive the above number of shares of the Company’s \$1 par value per share common stock in accordance with the Vesting Schedule described above on a one share per one unit basis and subject to the other terms and conditions described in this Share Unit Agreement (this “Agreement”).

By your acceptance of the Share Units (the “Units”) represented by this Agreement, you agree that the Units are granted under and governed by the terms of the Plan, this Agreement and the Terms and Conditions of Share Agreements (_____, 20____) attached to this Agreement; you acknowledge that you have received, reviewed and understand the Plan, including the provisions that the Committee’s decision on any matter arising under the Plan is conclusive and binding; and you agree that this Agreement amends and supercedes any other agreement or statement, oral or written, in its entirety regarding the vesting or holding period of these Units.

YELLOW ROADWAY CORPORATION

Name:
Title:

Agreement agreed and
accepted by:

Grantee Name: _____

YELLOW ROADWAY CORPORATION

TERMS AND CONDITIONS

OF

SHARE UNIT AGREEMENTS

_____, 20____

These Terms and Conditions are applicable to Share Units (the "Units") granted pursuant to the **Yellow Roadway Corporation [2002 Stock Option and Share Award Plan][2004 Long-Term Incentive and Equity Award Plan]** or any successor thereto (the "Plan").

1. **Acceleration of Vesting.** Notwithstanding the provisions of the vesting schedule provided in the Share Unit Agreement, the vesting of the underlying shares for each Unit shall be accelerated and all units shall vest upon the following circumstances:
- 1.1 **Death or Permanent and Total Disability.** If the Grantee dies or is deemed to be "permanently and totally disabled" (as defined herein) while in the employ of the Company or a subsidiary of the Company (a "Subsidiary") and prior to the time the Units vest, the Units shall become fully vested and convert to shares of Yellow Roadway Corporation common stock. For purposes of this Section, a Grantee shall be considered "permanently and totally disabled" if he is unable to engage in any substantial gainful employment by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months. The existence of a permanent and total disability shall be evidenced by such medical certification as the Secretary of the Company shall require and as the Committee approves.
- 1.2 **Change of Control of the Company.** If a "Change of Control" of the Company occurs while the Grantee is in the employ of the Company or a Subsidiary prior to the time the Units vest, the Units shall become fully vested and convert to shares of Yellow Roadway Corporation common stock. For the purposes of this Section, a "Change of Control" shall be deemed to have taken place if:
- 1.2.1 a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, purchases or otherwise acquires shares of the Company after the date of grant and as a result thereof becomes the beneficial owner of shares of the Company having 20% or more of the total number of votes that may be cast for election of directors of the Company; or
- 1.2.2 as the result of, or in connection with any cash tender or exchange offer, merger or other Business Combination, or contested election, or any combination of the foregoing transactions, the Continuing Directors shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company.
- For the purposes of this Section, "Business Combination" means any transaction that is referred to in any one or more of clauses (a) through (e) of Section 1 of Subparagraph A of Article Seventh of the Certificate of Incorporation of the Company; and "Continuing Director" means a director of the Company who meets the definition of Continuing Director contained in Section 7 of Subparagraph C of Article Seventh of the Certificate of Incorporation of the Company.
- 1.3 **Retirement.** If the Grantee terminates employment with the Company and its Subsidiaries and is at least 65 years of age upon that termination, the Units shall become fully vested and convert to shares of Yellow Roadway Corporation common stock. If the Grantee terminates employment with the Company and its Subsidiaries prior to age 65 and the Grantee is at least 55 years of age with the Grantee's age plus years of service equal to at least 75, the Units shall continue to vest on the same schedule as if the Grantee remained employed with the Company and its Subsidiaries until age 65, and upon age 65 after such retirement all remaining Units shall become fully vested and convert to shares of Yellow Roadway Common stock; *provided*, that the Grantee does not breach the following covenant in Section 1.4.

Yellow Roadway Corporation
Terms and Conditions of
Share Units
_____, 20____

1.4 **Prohibited Activities.** Notwithstanding any other provision of these Terms and Conditions and the Share Unit Agreement, if the Grantee engages in a “Prohibited Activity” (defined below) while in the employment of the Company or any of its subsidiaries or during the period from the date of retirement under Section 1.3 until all units vest pursuant to that section, then Grantee shall forfeit the right to any further vesting of the Grantee’s units and shall not receive any undelivered shares of the Company’s common stock pursuant to the Share Unit Agreement, and the Share Unit Agreement shall immediately thereupon wholly and completely terminate. If the Company receives an allegation of a Prohibited Activity, the Company, in its discretion, may suspend delivery of shares with respect to Units for up to three months to permit the investigation of the allegation. If the Company determines that the Grantee did not engage in any Prohibited Activities, the Company shall deliver shares with respect to any Units that have vested for which all restrictions have lapsed. A “Prohibited Activity” shall be deemed to have occurred, if the Grantee:

- 1.4.1 divulges any non-public, confidential or proprietary information of the Company or of its past or present subsidiaries (collectively, the “Company Group”), but excluding information that
 - 1.4.1.1 becomes generally available to the public other than as a result of the Grantee’s public use, disclosure, or fault, or
 - 1.4.1.2 becomes available to the Grantee on a non-confidential basis after the Grantee’s employment termination date from a source other than a member of the Company Group prior to the public use or disclosure by the Grantee; *provided* that the source is not bound by a confidentiality agreement or otherwise prohibited from transmitting the information by a contractual, legal or fiduciary obligation; or
- 1.4.2 directly or indirectly, consults or becomes affiliated with, conducts, participates or engages in, or becomes employed by, any business that is competitive with the business of any current member of the Company Group, wherever from time to time conducted throughout the world, including situations where the Grantee solicits or participates in or assists in any way in the solicitation or recruitment, directly or indirectly, of any employees of any current member of the Company Group.

2. Lapse of Rights upon Termination of Employment.

Except as provided above, upon termination of the Grantee’s employment with the Company or any Subsidiary, the Grantee shall forfeit any unvested Unit.

3. Transfers of Employment; Authorized Leave.

- 3.1 **Transfers of Employment.** Transfers of employment between the Company and a Subsidiary, or between Subsidiaries, shall not constitute a termination of employment for purposes of the Unit.
- 3.2 **Authorized Leave.** Authorized leaves of absence from the Company shall not constitute a termination of employment for purposes of the Unit. For purposes of the Unit, an authorized leave of absence shall be an absence while the Grantee is on military leave, sick leave, or other bona fide leave of absence so long as the Grantee’s right to employment with the Company is guaranteed by statute, a contract or Company policy.
- 3.3 **Withholding.** To the extent the Grantee has taxable income in connection with the grant or vesting of the Unit or the delivery of shares of Company common stock, the Company is authorized to withhold from any compensation payable to Grantee, including shares of common stock that the Company is to deliver to the Grantee, any taxes required to be withheld by foreign, federal, state, provincial or local law. By executing the Share Unit Agreement, the Grantee authorizes the Company to withhold any applicable taxes.

4. Non-transferability. No rights under the Share Unit Agreement shall be transferable otherwise than by will, the laws of descent and distribution or pursuant to a Qualified Domestic Relations Order (“QDRO”), and, except to the extent otherwise provided herein, the rights and the benefits of the Share Unit Agreement may be exercised and received, respectively, during the lifetime of the Grantee only by the Grantee or by the Grantee’s guardian or legal representative or by an “alternate payee” pursuant to a QDRO.

Yellow Roadway Corporation
Terms and Conditions of
Share Units
_____, 20____

5. **Limitation of Liability.** Under no circumstances will the Company be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.
6. **Units Subject to Plan.** A copy of the Plan is included with the Share Unit Agreement. The provisions of the Plan as now in effect and as the Plan may be amended in the future (but only to the extent such amendments are allowed by the provisions of the Plan) are hereby incorporated in the Share Unit Agreement by reference as though fully set forth herein. Upon request to the Secretary of the Company, a Grantee may obtain a copy of the Plan and any amendments.
7. **Definitions.** Unless redefined herein, all terms defined in the Plan have the same meaning when used as capitalized terms in this Agreement.
8. **Compliance with Regulatory Requirements.** Notwithstanding anything else in the Plan, the shares received upon vesting of the Units may not be sold, pledged or hypothecated until such time as the Company complies with all regulatory requirements regarding registration of the Shares to be issued under the terms of the Plan.

Yellow Roadway Corporation
Terms and Conditions of
Share Units
_____, 20____

[CORPORATE LOGO]

**YELLOW ROADWAY CORPORATION
SHARE UNIT AGREEMENT**

[NAME OF GRANTEE]
GRANTEE

DATE OF GRANT:

**TOTAL NUMBER OF
UNITS GRANTED:** **1,500 Units**

VESTING SCHEDULE: **500 Units on each of the first, second and third anniversaries of the date of grant**

GRANT OF SHARE UNITS

Pursuant to action taken by the Board of Directors of **YELLOW ROADWAY CORPORATION**, a Delaware corporation (the "Company"), for the purposes of administration of the Yellow Roadway Corporation 2004 Long-Term Incentive and Equity Award Plan or any successor thereto (the "Plan"), the above-named Grantee is hereby granted rights to receive the above number of shares of the Company's \$1 par value per share common stock in accordance with the Vesting Schedule described above on a one share per one unit basis and subject to the other terms and conditions described in this Share Unit Agreement (this "Agreement").

By your acceptance of the Share Units (the "Units") represented by this Agreement, you agree that the Units are granted under and governed by the terms of the Plan, this Agreement and the Terms and Conditions of Share Agreements (July 15, 2004) attached to this Agreement; you acknowledge that you have received, reviewed and understand the Plan, including the provisions that the decision of the Compensation Committee (the "Committee") of the Board of Directors of the Company on any matter arising under the Plan is conclusive and binding; and you agree that this Agreement amends and supercedes any other agreement or statement, oral or written, in its entirety regarding the vesting or holding period of these Units.

YELLOW ROADWAY CORPORATION

Daniel J. Churay
Senior Vice President, General Counsel & Secretary

Agreement agreed and
accepted by:

Grantee Name: _____

YELLOW ROADWAY CORPORATION

TERMS AND CONDITIONS
OF
SHARE UNIT AGREEMENTS
July 15, 2004

These Terms and Conditions are applicable to Share Units (the "Units") granted pursuant to the **Yellow Roadway Corporation 2004 Long-Term Incentive and Equity Award Plan** or any successor thereto (the "Plan").

1. **Acceleration of Vesting.** Notwithstanding the provisions of the vesting schedule provided in the Share Unit Agreement, the vesting of the underlying shares for each Unit shall be accelerated and all units shall vest upon the following circumstances:
 - 1.1 **Death or Permanent and Total Disability.** If the Grantee dies or is deemed to be "permanently and totally disabled" (as defined herein) while serving as a director of the Company and prior to the time the Units vest, the Units shall become fully vested and convert to shares of Yellow Roadway Corporation common stock. For purposes of this Section, a Grantee shall be considered "permanently and totally disabled" if the Grantee is unable to continue the Grantee's service as a director by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months. The existence of a permanent and total disability shall be evidenced by such medical certification as the Secretary of the Company shall require and as the Committee approves.
 - 1.2 **Change of Control of the Company.** If a "Change of Control" of the Company occurs while the Grantee is serving as a director of the Company prior to the time the Units vest, the Units shall become fully vested and convert to shares of Yellow Roadway Corporation common stock. For the purposes of this Section, a "Change of Control" shall be deemed to have taken place if:
 - 1.2.1 a third person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended, purchases or otherwise acquires shares of the Company after the date of grant and as a result thereof becomes the beneficial owner of shares of the Company having 20% or more of the total number of votes that may be cast for election of directors of the Company; or
 - 1.2.2 as the result of, or in connection with any cash tender or exchange offer, merger or other Business Combination, or contested election, or any combination of the foregoing transactions, the Continuing Directors shall cease to constitute a majority of the Board of Directors of the Company or any successor to the Company.

For the purposes of this Section, "Business Combination" means any transaction that is referred to in any one or more of clauses (a) through (e) of Section 1 of Subparagraph A of Article Seventh of the Certificate of Incorporation of the Company; and "Continuing Director" means a director of the Company who meets the definition of Continuing Director contained in Section 7 of Subparagraph C of Article Seventh of the Certificate of Incorporation of the Company.
2. **Non-transferability.** No rights under the Share Unit Agreement shall be transferable otherwise than by will, the laws of descent and distribution or pursuant to a Qualified Domestic Relations Order ("QDRO"), and, except to the extent otherwise provided herein, the rights and the benefits of the Share Unit Agreement may be exercised and received, respectively, during the lifetime of the Grantee only by the Grantee or by the Grantee's guardian or legal representative or by an "alternate payee" pursuant to a QDRO.
3. **Limitation of Liability.** Under no circumstances will the Company be liable for any indirect, incidental, consequential or special damages (including lost profits) of any form incurred by any person, whether or not foreseeable and regardless of the form of the act in which such a claim may be brought, with respect to the Plan or the Company's role as Plan sponsor.

Yellow Roadway Corporation
Terms and Conditions of
Share Units
July 15, 2004

4. **Units Subject to Plan.** A copy of the Plan is included with the Share Unit Agreement. The provisions of the Plan as now in effect and as the Plan may be amended in the future (but only to the extent such amendments are allowed by the provisions of the Plan) are hereby incorporated in the Share Unit Agreement by reference as though fully set forth herein. Upon request to the Secretary of the Company, a Grantee may obtain a copy of the Plan and any amendments.
5. **Definitions.** Unless redefined herein, all terms defined in the Plan have the same meaning when used as capitalized terms in this Agreement.
6. **Compliance with Regulatory Requirements.** Notwithstanding anything else in the Plan, the shares received upon vesting of the Units may not be sold, pledged or hypothecated until such time as the Company complies with all regulatory requirements regarding registration of the Shares to be issued under the terms of the Plan.

Yellow Roadway Corporation
Terms and Conditions of
Share Units
July 15, 2004

Subsidiaries of Yellow Roadway Corporation
at December 31, 2004

Name	Percentage Ownership	Jurisdiction of Incorporation or Formation
Express Lane Service, Inc.	100%	Delaware
OPK Insurance Co. Ltd.	100%	Bermuda
Reimer Finance, LP	1% ¹	Canada
Roadway LLC	100%	Delaware
Integres Global Logistics, Inc.	15.36%	Delaware
Roadway Express, Inc.	100%	Delaware
Reimer Express Lines Ltd.	100%	Canada
3727484 Manitoba Ltd.	100%	Canada
Reimer Express Driver Training Institute Inc.	100%	Canada
Reimer Finance, LP	99% ¹	Canada
Meridian IQ (EU) B.V.	100%	Netherlands
Roadway Express International, Inc.	100%	Delaware
Transcontinental Lease, S. de R.L. de C.V.	2% ²	Mexico
Roadway Express S.A. de C.V.	95.99%	Mexico
Roadway Reverse Logistics, Inc.	100%	Ohio
Transcontinental Lease, S. de R.L. de C.V.	98% ²	Mexico
Roadway Next Day Corporation	100%	Pennsylvania
New Penn Motor Express, Inc.	100%	Pennsylvania
Yellow Roadway Receivables Funding Corporation	100%	Delaware
Yellow Roadway Technologies, Inc.	100%	Delaware
Meridian IQ, Inc.	100%	Delaware
MIQ LLC	100%	Delaware
Globe.com Lines, Inc.	100%	Delaware
Meridian IQ LA, S.R.L.	1% ³	Peru
Yellow Transportation, Inc.	100%	Indiana
Mission Supply Company	100%	Kansas
Yellow Relocation Services, Inc.	100%	Kansas
Yellow Transportation of British Columbia, Inc.	100%	Canada
Yellow Transportation of Ontario, Inc.	100%	Canada
YRC Transportation S.A. de C.V.	53.8% ⁴	Mexico
YRC Services, S. de R.L. de C.V.	100%	Mexico
YRC Transportation S.A. de C.V.	46.2% ⁴	Mexico
YRC Yellow LLC	100%	Kansas
YRC Enterprise Services, Inc.	100%	Delaware
YRC International Investments, Inc.	100%	Delaware
Meridian IQ LA, S.R.L.	99% ³	Peru
YGPS (EU) Limited	100%	United Kingdom
GPS Logistics (EU) Limited	100%	United Kingdom
Meridian IQ (UK) Limited	100%	United Kingdom
YRC Mortgages, LLC	100%	Delaware

¹ Reimer Finance, LP is owned 99% by Roadway Express, Inc. and 1% by Yellow Roadway Corporation.

² Transcontinental Lease, S. de R.L. de C.V. is owned 98% by Roadway Express, Inc. and 2% by Roadway Express International, Inc.

³ Meridian IQ LA, S.R.L. is owned 99% by YRC International Investments, Inc. and 1% by Meridian IQ, Inc.

⁴ Yellow Transportation Mexicana S.A. de C.V. is owned 53.8% by Yellow Transportation of Ontario, Inc. 46.2 % by Yellow Transportation, Inc.

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Yellow Roadway Corporation:

We consent to the incorporation by reference in the registration statements (No. 333-109896 and 333-113021) on Form S-3, (No. 333-108081 and 333-119990) on Form S-4, and (Nos. 33-47946, 333-02977, 333-16697, 333-59255, 333-49618, 333-49620, 333-88268, 333-111499, 333-121370, and 333-121470) on Form S-8 of Yellow Roadway Corporation of our reports dated March 4, 2005, with respect to the consolidated balance sheets of Yellow Roadway Corporation as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, shareholders' equity, and comprehensive income for each of the years in the three-year period ended December 31, 2004, and the related financial statement schedule, management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 and the effectiveness of internal control over financial reporting as of December 31, 2004, which reports appear in the December 31, 2004 annual report on Form 10-K of Yellow Roadway Corporation.

/s/ KPMG LLP

Kansas City, Missouri
March 15, 2005

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference of our reports dated January 22, 2004 with respect to the consolidated financial statements of Roadway Corporation included as Exhibit 99.2, the consolidated financial statements of Roadway Express, Inc. included as Exhibit 99.4, and the consolidated financial statements of Roadway Next Day Corporation included as Exhibit 99.6 in Yellow Roadway Corporation's Annual Report on Form 10-K filed with the Securities and Exchange Commission in the following Registration Statements on Form S-8 (Nos. 33-47946, 333-02977, 333-16697, 333-59255 333-49618, 333-49620, 333-88268, 333-111499 and 333-121470), the Registration Statements on Form S-3 (No. 333-109896 and 333-113021) and the Registration Statements on Form S-4 (No. 333-108081 and 333-119990) of Yellow Roadway Corporation.

/s/ Ernst & Young LLP

Akron, Ohio
March 11, 2005

CERTIFICATION PURSUANT TO
EXCHANGE ACT RULES 13A-14 AND 15D-14,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, William D. Zollars, certify that:

- (1) I have reviewed this annual report on Form 10-K of Yellow Roadway Corporation (“registrant”);
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;
- (5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors:
 - a. All significant deficiencies in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: March 15, 2005

/s/ William D. Zollars

William D. Zollars

Chairman of the Board, President and
Chief Executive Officer

CERTIFICATION PURSUANT TO
EXCHANGE ACT RULES 13A-14 AND 15D-14,
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Donald G. Barger, certify that:

- (1) I have reviewed this annual report on Form 10-K of Yellow Roadway Corporation (“registrant”);
- (2) Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
- (4) The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting;
- (5) The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s Board of Directors:
 - a. All significant deficiencies in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal controls over financial reporting.

Date: March 15, 2005

/s/ Donald G. Barger, Jr.

Donald G. Barger, Jr.
Senior Vice President and
Chief Financial Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Yellow Roadway Corporation on Form 10-K for the year ended December 31, 2004, as filed with the Securities and Exchange Commission of the date hereof (the "Report"), I, William D. Zollars, Chief Executive Officer of Yellow Roadway Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Yellow Roadway Corporation.

Date: March 15, 2005

/s/ William D. Zollars

William D. Zollars
Chairman of the Board of
Directors, President & Chief
Executive Officer

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Yellow Roadway Corporation on Form 10-K for the period ended December 31, 2004, as filed with the Securities and Exchange Commission of the date hereof (the "Report"), I, Donald G. Barger, Jr., Chief Financial Officer of Yellow Roadway Corporation, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15 (d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Yellow Roadway Corporation.

Date: March 15, 2005

/s/ Donald G. Barger, Jr.

Donald G. Barger, Jr.
Senior Vice President
& Chief Financial Officer

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway LLC and Subsidiaries

A wholly owned subsidiary of Yellow Roadway Corporation

Consolidated Balance Sheets as of December 31, 2004 and 2003;

Statements of Consolidated Operations for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Statements of Consolidated Cash Flows for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Parent Company Investment and Comprehensive Income for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

with Report of Independent Auditors

Independent Auditors' Report

The Board of Directors
Yellow Roadway Corporation:

We have audited the accompanying consolidated balance sheets of Roadway LLC and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, and parent company investment and comprehensive income for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Roadway LLC and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

CONSOLIDATED BALANCE SHEETS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation

(in thousands)	December 31, 2004	December 31, 2003
Assets		
CURRENT ASSETS		
Cash and cash equivalents	\$ 19,306	\$ 49,879
Accounts receivable, less allowances of \$453 and \$5,205	28,022	343,231
Accounts receivable from parent and affiliate	407,585	—
Fuel and operating supplies	9,087	5,340
Deferred income taxes	47,614	16,113
Prepaid expenses	19,229	12,935
Total current assets	530,843	427,498
PROPERTY AND EQUIPMENT		
Land	241,874	254,707
Structures	383,038	378,087
Revenue equipment	169,734	114,517
Technology equipment and software	41,617	22,223
Other	62,141	55,213
	898,404	824,747
Less – accumulated depreciation	(73,068)	(3,285)
Net property and equipment	825,336	821,462
Goodwill	603,851	596,845
Intangibles	459,742	460,372
Other assets	12,224	32,314
Total assets	\$2,431,996	\$2,338,491
Liabilities and Parent Company Investment		
CURRENT LIABILITIES		
Checks outstanding in excess of bank balances	\$ 28,288	\$ 37,215
Accounts payable	108,280	81,486
Advances payable to parent	—	56,067
Wages, vacations and employees' benefits	224,695	186,400
Claims and insurance accruals	59,875	53,460
Other current and accrued liabilities	39,282	35,193
Total current liabilities	460,420	449,821
OTHER LIABILITIES		
Long-term debt	244,035	248,895
Deferred income taxes, net	215,010	213,689
Claims and other liabilities	316,511	334,321
Commitments and contingencies		
PARENT COMPANY INVESTMENT		
Capital surplus	1,098,292	1,097,221
Retained earnings (deficit)	93,114	(4,558)
Accumulated other comprehensive income (loss)	4,614	(898)
Total parent company investment	1,196,020	1,091,765
Total liabilities and parent company investment	\$2,431,996	\$2,338,491

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Revenue	\$ 3,380,494	\$ 141,018
Operating Expenses:		
Salaries, wages and employees' benefits	2,091,061	93,842
Operating expenses and supplies	506,872	22,300
Operating taxes and licenses	82,557	4,363
Claims and insurance	60,657	3,748
Depreciation and amortization	82,158	4,200
Purchased transportation	358,523	18,867
Gains on property disposals, net	(1,434)	(6)
Total operating expenses	3,180,394	147,314
Operating income (loss)	200,100	(6,296)
Nonoperating (Income) Expenses:		
Interest expense	13,984	684
Related party financing charges, net	35,614	—
Interest income	(1,502)	(35)
Other	2,339	257
Nonoperating expenses, net	50,435	906
Income (Loss) Before Income Taxes	149,665	(7,202)
Income Tax Provision (Benefit)	51,993	(2,644)
Net Income (Loss)	\$ 97,672	\$ (4,558)

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Activities:		
Net income (loss)	\$ 97,672	\$ (4,558)
Noncash items included in net income (loss):		
Depreciation and amortization	82,158	4,200
Deferred income tax, net	1,086	—
Gain on property disposals, net	(1,434)	(6)
Changes in assets and liabilities, net:		
Accounts receivable	565	20,568
Accounts payable	13,991	(5,191)
Other working capital items	(13,865)	(18,465)
Claims and other	(3,069)	295
Other	3,241	317
Net cash provided by (used in) operating activities	180,345	(2,840)
Investing Activities:		
Acquisition of property and equipment	(93,968)	(2,948)
Proceeds from disposal of property and equipment	27,565	1,203
Other	4,494	—
Net cash used in investing activities	(61,909)	(1,745)
Financing Activities:		
Intercompany activity, net	(149,009)	(51,843)
Net cash used in financing activities	(149,009)	(51,843)
Net Decrease In Cash and Cash Equivalents	(30,573)	(56,428)
Cash and Cash Equivalents, Beginning of Period	49,879	106,307
Cash and Cash Equivalents, End of Year	\$ 19,306	\$ 49,879
Supplemental Cash Flow Information:		
Income taxes paid (received)	\$ 55,729	\$ (28)
Interest paid	35,161	—

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF PARENT COMPANY INVESTMENT AND COMPREHENSIVE INCOME
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation

(in thousands)	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 12, 2003	\$1,097,221	\$ —	\$ —	\$1,097,221
Net loss	—	(4,558)	—	(4,558)
Changes in foreign currency translation adjustment	—	—	(898)	(898)
Total comprehensive loss				(5,456)
Balances at December 31, 2003	1,097,221	(4,558)	(898)	1,091,765
Net income	—	97,672	—	97,672
Changes in foreign currency translation adjustment	—	—	5,578	5,578
Minimum pension liability adjustment	—	—	(66)	(66)
Total comprehensive income				103,184
Purchase price adjustments	1,071	—	—	1,071
Balances as of December 31, 2004	\$1,098,292	\$93,114	\$ 4,614	\$1,196,020

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Roadway LLC and Subsidiaries

Description of Business

Roadway LLC (also referred to as “Roadway,” “the Company,” “we” or “our”) is a holding company with two primary operating entities, Roadway Express, Inc. and Roadway Next Day Corporation. The operating subsidiaries are described as follows:

- Roadway Express, Inc. (“Roadway Express”) is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through decentralized management and customer facing organizations. Approximately 30 percent of Roadway Express shipments are completed in two days or less. Roadway Express owns 100 percent of Reimer Express Lines Ltd. (“Reimer”) located in Canada that specializes in shipments into, across and out of Canada.
- Roadway Next Day Corporation is a holding company focused on business opportunities in the regional and next-day delivery lanes. Roadway Next Day Corporation owns 100 percent of New Penn Motor Express, Inc. (“New Penn”), which provides superior quality regional, next-day ground services through a network of facilities located in the Northeastern United States, Quebec, Canada and Puerto Rico.

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation. The combined company was renamed Yellow Roadway Corporation (“Yellow Roadway”). Roadway Corporation was merged with and into Roadway LLC, a newly formed limited liability company and a wholly owned subsidiary of Yellow Roadway and the limited liability company changed its name to Roadway LLC after the merger. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock.

In accordance with Statement of Financial Accounting Standards No. 141, Business Combinations (“SFAS No. 141”), the acquisition was accounted for under purchase accounting. As a result, the accompanying 2003 Statements of Consolidated Operations and Statements of Consolidated Cash Flows present the results from the date of acquisition.

Principles of Consolidation and Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of Roadway LLC and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements and are not discussed in a separate note.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2004, approximately 80 percent of our labor force is subject to collective bargaining agreements that expire in 2008.

Foreign Currency

Our functional currency is the U.S. dollar, whereas, our foreign operations utilize the local currency as their functional currency. Accordingly, for purposes of translating foreign subsidiary financial statements to the U.S. dollar reporting currency, assets and liabilities of our foreign operations are translated at the fiscal year end exchange rates and income and expenses are translated at the weighted-average exchange rates for the fiscal year. Foreign currency gains and losses resulting from foreign currency transactions are included in consolidated operations in the year of occurrence.

Revenue Recognition

For shipments in transit, Roadway records revenue based on the percentage of service completed as of the period end and accrues delivery costs as incurred. In addition, Roadway recognizes revenue on a gross basis since the Company is the primary obligor even when the Company uses other transportation service providers who act on their behalf, because the Company is responsible to the customer for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. In addition, Roadway retains all credit risk. Roadway assigns pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. Roadway accrues a reserve for rerating based on historical trends. Management believes these policies most accurately reflect revenue as earned.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximates their fair value due to the short-term nature of these instruments.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, and property damage and liability that insurance does not cover. We include these costs in claims and insurance expense except for workers' compensation, which it includes in salaries, wages, and employees' benefits.

We base reserves for workers' compensation and property damage and liability claims primarily upon actuarial analyses prepared by independent actuaries. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of such claims. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs, and certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results. At December 31, 2004 and 2003, estimated future payments related to these claims aggregated \$192.0 million and \$189.7 million, respectively. The present value of these estimated future payments was \$166.7 million and \$161.7 million at December 31, 2004 and 2003, respectively.

Property and equipment

Roadway carries property and equipment at cost less accumulated depreciation. The values assigned to property and equipment at the date of the acquisition were principally determined by independent, third party appraisers. We compute depreciation using the straight-line method based on the following service lives:

	<u>Years</u>
Structures	10 – 40
Revenue equipment	5 – 14
Technology equipment and software	3 – 5
Other	3 – 10

We charge maintenance and repairs to expense as incurred, and capitalize replacements and improvements when these costs extend the useful life of the asset.

Our investment in technology equipment and software consists primarily of advanced customer service and freight management equipment and related software. We capitalize certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll, and payroll-related costs for employees directly associated with the project. For the year ended December 31, 2004, we capitalized \$1.9 million for software costs. For the period ended December 31, 2003, the amount capitalized was immaterial to the Company's financial statements.

For the year ended December 31, 2004 we recorded \$70.3 million in depreciation expense. For the period December 12 through December 31, 2003, depreciation expense was \$3.6 million.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of identifiable amortizable intangibles and property, plant and equipment may be impaired, we would perform an evaluation of recoverability in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If an evaluation were required, we would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required.

Acquisition

In accordance with SFAS No. 141, Yellow Roadway allocates the purchase price of its acquisitions to the tangible and intangible assets and liabilities of the acquired entity based on their fair values. Yellow Roadway records the excess purchase price over the fair values as goodwill. The fair value assigned to intangible assets acquired is based on valuations prepared by independent third party appraisal firms using estimates and assumptions provided by management. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), we do not amortize goodwill and intangible assets with indefinite useful lives but review these assets at least annually for impairment. An impairment loss would be recognized to the extent that the carrying amount exceeds the assets' fair value. Intangible assets with estimatable useful lives are amortized on a straight-line basis over their respective useful lives.

Roadway Corporation

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation and all of its outstanding stock in approximately a half cash, half stock transaction. As part of the transaction, Yellow Corporation changed its name to Yellow Roadway Corporation. In addition, Roadway Corporation became Roadway LLC ("Roadway") and a wholly owned subsidiary of Yellow Roadway.

Principal operating subsidiaries of Roadway include Roadway Express and New Penn. Roadway Express is a leading transporter of industrial, commercial and retail goods in the two- to five-day regional and long-haul markets. New Penn is a next-day, ground, less-than-truckload, carrier of general commodities.

Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock, based on an exchange ratio of 1.752 and an average price per share of \$31.51 (subject to proration and allocation provisions), for a total purchase price of approximately \$1.1 billion. The purchase price also included approximately \$19 million for investment banking, legal and accounting fees that Yellow Roadway incurred to consummate the acquisition, resulting in total cash consideration of \$513 million. The entire purchase price has been reflected in these financial statements. We recorded the net assets at their estimated fair values and included operating results in our financial statements from the date of acquisition. We allocated the purchase price at December 31, 2003, on a preliminary basis using information then available. The allocation of the purchase price to the assets and liabilities acquired was finalized in the fourth quarter of 2004 including receipt of an independent valuation. The total purchase price increased by \$1.1 million, as reflected in the change in capital surplus. The final purchase price allocation is shown below and resulted in \$5.9 million increase to goodwill from our preliminary allocation.

Prior to the acquisition, Roadway had agreements in place with key management personnel that would require Roadway to pay specific amounts to those individuals upon a change in control of the entity. On December 11, 2003, in conjunction with the closing of the transaction, Roadway paid \$15.9 million to the individuals covered by the agreement that would not be joining the new Yellow Roadway organization. This amount was expensed in the pre-acquisition financial statements of Roadway Corporation. The remaining amount covered under the agreement of \$10.6 million was placed in a trust account for possible payment to the three individuals that remain Roadway employees. If any of these individuals are terminated within two years and the applicable conditions of their respective agreements are met, they would receive the agreed to payments, and Roadway LLC would recognize an expense for those payments at the time of the triggering event. If termination does not occur by December 2005, the funds will be released from restriction and reclassified from prepaid expenses to cash on our Consolidated Balance Sheet.

In connection with the acquisition, we incurred \$12.0 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and contract terminations. We have recognized such costs as a liability assumed as of the acquisition date, resulting in additional goodwill. These restructuring costs consisted of \$10.5 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and \$1.5 million for contract terminations. All of these restructuring items were effectuated within one year of the acquisition in accordance with purchase accounting requirements. During the year ended December 31, 2004, we paid \$7.7 million of restructuring costs resulting in a \$4.3 million accrued liability at December 31, 2004.

The final purchase price allocation was as follows:

<u>(in thousands)</u>	
Cash and cash equivalents	\$ 106,307
Accounts receivable	365,695
Other current assets	19,735
Property, plant and equipment	805,814
Other long-term assets	32,200
Intangible assets	470,700
Goodwill	602,960
Accounts payable and other current liabilities	(519,607)
Long-term debt	(249,165)
Deferred income taxes, net	(218,796)
Other long-term liabilities	(317,551)
Total purchase price	\$1,098,292

Intangible Assets

Of the \$470.7 million allocated to intangible assets, \$344.7 million was assigned to the Roadway and New Penn trade names, which are not subject to amortization. Of the remaining value, \$110.0 million and \$16.0 million were assigned to customer relationships and software related assets, respectively. Yellow Roadway assigned the customer relationships and software assets a weighted average life of 17 years and 3 years, respectively.

Goodwill

Yellow Roadway recorded \$602.9 million in goodwill as part of the acquisition, allocating \$544.3 million to Roadway Express and \$58.6 million to New Penn. Of the total goodwill recorded, the amount that may be deductible for tax purposes is not material to the results of operations of Roadway.

Goodwill and Intangibles

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. In accordance with SFAS No. 142, we review goodwill at least annually for impairment based on a fair value approach. During the fourth quarter of 2004, we completed our annual impairment testing of goodwill and tradenames, which are deemed to have indefinite lives, and determined there was no impairment.

The following table shows the changes in the carrying amount of goodwill attributable to each segment:

(in thousands)	Roadway Express	New Penn	Total
Balances at December 31, 2002	\$ —	\$ —	\$ —
Goodwill resulting from acquisition	474,738	122,332	597,070
Changes in foreign currency exchange rates	(225)	—	(225)
Balances at December 31, 2003	474,513	122,332	596,845
Final purchase price allocation adjustment	69,617	(63,727)	5,890
Changes in foreign currency exchange rates	1,116	—	1,116
Balances at December 31, 2004	\$ 545,246	\$ 58,605	\$ 603,851

The components of amortizable intangible assets at December 31 are as follows:

(in thousands)	Weighted Average Life (years)	2004		2003	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	17	\$ 110,000	\$ 7,007	\$ 111,800	\$ 356
Technology based	3	16,000	5,429	16,000	273
Intangible assets		\$ 126,000	\$ 12,436	\$ 127,800	\$ 629

Total marketing related intangible assets with indefinite lives, primarily tradenames, were \$346.1 million and \$333.2 million at December 31, 2004 and 2003, respectively. During 2004 these amounts were impacted by additional purchase price adjustments of \$11.2 million and changes in foreign currency exchange rates of \$1.7 million. These intangible assets are not subject to amortization, but are subjected to the annual impairment test previously discussed.

Amortization expense for intangible assets was \$11.8 million and \$0.6 million for the year ended December 31, 2004 and the period December 12 through December 31, 2003, respectively. Estimated amortization expense for the next five years is as follows:

(in thousands)	2005	2006	2007	2008	2009
Estimated amortization expense	\$11,752	\$11,497	\$6,734	\$6,503	\$6,503

Employee Benefits

Pension and Other Postretirement Benefit Plans

Qualified and Nonqualified Defined Benefit Pension Plans

Roadway and its operating subsidiaries sponsor qualified and nonqualified defined benefit pension plans for most employees not covered by collective bargaining agreements (approximately 5,000 employees). Qualified and nonqualified pension benefits are based on years of service and the employees' covered earnings. Employees covered by collective bargaining agreements participate in various multi-employer pension plans to which Roadway contributes, as discussed later in this section. New Penn does not offer defined benefit pension plan and instead offers retirement benefits through a contributory profit sharing plan, with discretionary employer contributions only. Additionally, on January 1, 2004, all U.S.-salaried, nonunion employees (except those currently participating in other profit sharing plans) participate in a new defined contribution retirement plan. With the implementation of the defined contribution retirement plan, the existing Roadway LLC defined benefit pension plan was closed to new participants.

Our funding policy is to target contributions at the minimum required tax-deductible contribution for the year while taking into consideration each plan's funded status, any variable Pension Benefit Guarantee Corporation premiums and the outlooks for required funding. Our actuarial valuation measurement date for our principal pension plans and post retirement benefits plan is December 31.

Other Postretirement Benefit Plan

Roadway LLC sponsors a postretirement healthcare benefit plan that covers non-union employees of Roadway hired before February 1, 1997. Health care benefits under this plan end when the participant attains age 65.

Definitions

We have defined the following terms to provide a better understanding of our pension and other postretirement benefits:

Projected benefit obligation: The projected benefit obligation is the present value of future benefits to employees attributed to service as of the measurement date, including assumed future salary increases through retirement.

Plan assets: Represents the assets currently invested in the plans. Assets used in calculating the funded status are measured at the current market value at December 31.

Funded status: The funded status represents the difference between the projected benefit obligation and plan assets.

Net amount recognized: The net amount recognized represents the amount accrued by Roadway for pension costs.

Unfunded accumulated benefit obligation: The accumulated benefit obligation is the present value of future benefits attributed to service as of the measurement date, assuming no future salary growth. The unfunded accumulated benefit obligation represents the difference between the accumulated benefit obligation and the plan assets.

Accumulated postretirement benefit obligation: The accumulated postretirement benefit obligation is the present value of other postretirement benefits to employees attributed to service as of the measurement date.

Funded Status

The following table sets forth the plans' funded status:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	For the year ended December 31, 2004	For the period December 12 to December 31, 2003	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Change in benefit obligation:				
Benefit obligation at beginning of period	\$ 454,715	\$ 457,181	\$ 53,076	\$ 52,934
Service cost	21,649	1,192	767	109
Interest cost	29,440	1,461	2,188	169
Plan amendment	97	—	(14,944)	—
Participant contributions	—	—	720	—
Benefits paid	(31,164)	(5,119)	(3,032)	(136)
Actuarial (gain) loss	56,854	—	(930)	—
Benefit obligation at year end	\$ 531,591	\$ 454,715	\$ 37,845	\$ 53,076
Change in plan assets:				
Fair value of plan assets at beginning of period	\$ 283,056	\$ 280,601	\$ —	\$ —
Actual return on plan assets	26,403	7,574	—	—
Employer contributions	20,241	—	2,312	134
Participants contributions	—	—	720	—
Benefits paid	(31,164)	(5,119)	(3,032)	(134)
Fair value of plan assets at year end	\$ 298,536	\$ 283,056	\$ —	\$ —
Funded status:				
Funded status	\$ (233,055)	\$ (171,659)	\$ (37,845)	\$ (53,076)
Unrecognized prior service costs	97	—	—	—
Unrecognized net actuarial (gain) loss	48,860	(6,309)	(932)	(2)
Net amount recognized	\$ (184,098)	\$ (177,968)	\$ (38,777)	\$ (53,078)

During the year ended December 31, 2004, certain changes were made to the postretirement benefit plan. These plan changes revised the cost sharing structure between the employer and the different employee groups. The reduction of the liability of \$14.9 million was recognized in purchase accounting.

Benefit Plan Obligations

Amounts recognized for the benefit plan liabilities in the Consolidated Balance Sheet at December 31 are as follows:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Accrued benefit costs	\$ (184,302)	\$ (177,968)	\$ (38,777)	\$ (53,078)
Intangible asset	97	—	—	—
Accumulated other comprehensive loss (pretax)	107	—	—	—
Net amount recognized	\$ (184,098)	\$ (177,968)	\$ (38,777)	\$ (53,078)

Weighted average actuarial assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of increase in compensation levels	3.25%	3.25%	—	—

Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Projected benefit obligation	\$531,591	\$454,715
Accumulated benefit obligation	429,606	378,485
Fair value of plan assets	298,536	283,056

The total accumulated benefit obligation from all plans was \$429.6 million and \$378.5 million at December 31, 2004 and 2003, respectively.

Future Contributions and Benefit Payments

We expect to contribute approximately \$30.5 million to our pension plan in 2005.

Expected benefit payments for each of the next five years ended December 31 are as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>
Expected benefit payments	\$20,260	\$22,436	\$25,953	\$31,010	\$33,122	\$ 228,694

Pension and Other Postretirement Costs

The components of our net periodic pension cost and other postretirement costs were as follows:

<u>(in thousands)</u>	<u>Pension Costs</u>		<u>Other Postretirement Costs</u>	
	<u>For the year ended December 31, 2004</u>	<u>For the period December 12 to December 31, 2003</u>	<u>For the year ended December 31, 2004</u>	<u>For the period December 12 to December 31, 2003</u>
Service cost	\$ 21,649	\$ 1,192	\$ 767	\$ 109
Interest cost	29,440	1,461	2,188	169
Expected return on plan assets	(24,781)	—	—	—
Amortization of unrecognized net actuarial loss	64	(1,266)	—	—
Net periodic pension cost	<u>\$ 26,372</u>	<u>\$ 1,387</u>	<u>\$ 2,955</u>	<u>\$ 278</u>

Weighted average assumptions for the period ended December 31:

Discount rate	6.25%	6.75%	6.25%	6.25%
Rate of increase in compensation levels	3.25%	3.25%	—	—
Expected rate of return on assets	8.75%	8.50%	—	—

We believe our 2004 expected rate of return of 8.75 percent is appropriate based on our historical experience in this investment portfolio as well as a review of other objective indices. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2004 consisted of 68 percent in equities and 32 percent in fixed-income securities. This allocation is consistent with the long-term asset allocation for the plans. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately.

Target asset allocations are as follows:

Small-cap U.S. equities	10.0%
Large-cap U.S. equities	37.0%
International equities	22.0%
Fixed-income securities	31.0%
Total	100.0%

Other Postretirement Benefit Plans

Assumed health care cost trend rates at December 31 are as follows:

	<u>2004</u>	<u>2003</u>
Health care cost trend used in the current period	10.5%	11.5%
Health care cost trend rate assumed for next year	10.0%	10.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The policy of Roadway LLC regarding the management of health care costs passes the increase beyond a fixed threshold to the plan participants. As a result, a one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and the interest cost components. A one-percentage-point decrease in assumed health care cost trend rates would have the following effects:

<u>(in thousands)</u>	<u>2004</u>
Effect on total of service and interest cost	\$2,746
Effect on postretirement benefit obligation	2,543

The estimated employer contributions during the year ended December 31, 2005 are approximately \$3.2 million.

Expected benefit payments for each of the next five years ended December 31 are as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010- 2014</u>
Expected benefit payments	\$3,247	\$3,542	\$3,780	\$3,862	\$4,190	\$23,162

Multi-Employer Plans

Roadway Express and New Penn contribute to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 80 percent of total employees). The largest of these plans, the Central States Southeast and Southwest Areas Pension Plan (the "Central States Plan") provides retirement benefits to approximately 53 percent of our total employees. The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the required contribution for the period and recognize as a liability any contributions due and unpaid.

Roadway contributed and charged to expense the following amounts to these plans for the period ended December 31:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Health and welfare	\$214,382	\$ 8,851
Pension	187,389	10,478
Total	\$401,771	\$19,329

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan in an underfunded status would render us liable for a proportionate share of such multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability also applies to our unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which we cannot independently validate, we believe that our portion of the contingent liability in the case of a full withdrawal or termination would be material to our financial position and results of operations. Roadway Express and New Penn have no current intention of taking any action that would subject us to obligations under the legislation.

Roadway Express and New Penn each have collective bargaining agreements with their unions that stipulate the amount of contributions each company must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code and related regulations establish minimum funding requirements for these plans. Under recent legislation, qualified multi-employer plans are permitted to exclude certain recent investment losses from the minimum funding formula through 2005. The Central States Plan, in particular, has informed us that its recent investment performance has adversely affected its funding levels and that the fund is seeking corrective measures to address its funding. During the benefit period of the recent legislation, the Central States Plan is expected to meet the minimum funding requirements. If any of these plans, including (without limitation) the Central States Plan, fail to meet minimum funding requirements and the trustees of such a plan are unable to obtain waivers of the requirements or certain changes in how the applicable plan calculates its funding level from the Internal Revenue Service ("IRS") or reduce pension benefits to a level where the requirements are met, the IRS could impose an excise tax on all employers participating in these plans and require contributions in excess of our contractually agreed upon rates to correct the funding deficiency. If an excise tax were imposed on the participating employers and additional contributions required, it could have a material adverse impact on the financial results of Roadway.

401(k) Savings Plans and Profit Sharing Plans

In 2004, Roadway LLC employees not covered by collective bargaining agreements participated in the Roadway 401(k) Savings Plan, a defined contribution plan, which provided for both nondiscretionary and discretionary employer contributions and provided a maximum matching percentage of 100 percent of the first four and a half percent of an eligible employee's contributions, including before-tax and after-tax contributions. The entire matching component of the Roadway plan was provided with Yellow Roadway common stock. Effective December 31, 2004, the Roadway 401(k) savings plan was merged into the Yellow Roadway 401(k) savings plan. The Yellow Roadway 401(k) savings plan is a contributory plan and provides for a nondiscretionary matching contribution and a discretionary contribution. The maximum nondiscretionary company match for these plans will be equal to 25 percent of the first six percent in cash and 25 percent of the first six percent in Yellow Roadway common stock, for a total match of 50 percent of the first six percent of a participant's before-tax contributions. Any discretionary contributions for the 401(k) savings plan are determined annually by the Board of Directors and may be in the form of cash, stock or other property. Employer contributions for the year ended December 31, 2004 were \$7.3 million. Employer contributions for the period ended December 31, 2003 were not material to our operations.

Roadway LLC also participates in the Yellow Roadway noncontributory profit sharing plan, which was established effective January 1, 2004, and the nondiscretionary company contribution is based on years of participation service and compensation, with a maximum fixed contribution of 5% of compensation for more than ten years of participation service. The Yellow Roadway profit sharing plan also provides for a discretionary performance based contribution of a maximum of 2 1/2% of compensation. Any discretionary contributions are determined annually by the Board of Directors. Contributions under the Yellow Roadway profit sharing plan may be made in cash or other property, as determined by the Board of Directors, and nondiscretionary contributions will generally be made in cash. New Penn also provides a noncontributory profit sharing plan for employees not covered by collective bargaining agreements. Any contributions are discretionary employer contributions. Employer contributions to our profit sharing plans in 2004 totaled \$1.8 million. Amounts for the period ended December 31, 2003 were not material to our operations.

Our employees covered under collective bargaining agreements may also participate in a contributory 401(k) plan. We do not make employer contributions to the plan on their behalf.

Performance Incentive Awards

Roadway LLC and its operating subsidiary, Roadway Express, provide quarterly performance incentive awards to nonunion employees, which are based primarily on actual operating results achieved compared to targeted operating results, and are paid in cash. Income from continuing operations in 2004 included performance incentive expense for nonunion employees of \$56.1 million. Performance incentive awards expense for nonunion employees for the period ended December 31, 2003 were not material to our operations.

Related Party Transactions

Yellow Roadway maintains an asset backed securitization (“ABS”) facility that involves receivables of Yellow Transportation, Inc. and Roadway Express. The ABS facility is operated by Yellow Roadway Receivables Funding Corporation (“YRRFC”), a special purpose entity wholly owned by Yellow Roadway. As the receivables of Roadway Express are sold to YRRFC, the accompanying balance sheet at December 31, 2004 reflects these amounts of \$334.5 million as accounts receivable from affiliate, net of certain financing costs. These finance charges were \$35.6 million during the year ended December 31, 2004.

We paid management fees to Yellow Roadway of \$24.0 million in 2004 that we include in “operating expenses and supplies.” The management fees were paid for various corporate and administrative services. Management fees are charged based on direct benefits received or as a percentage of revenue. We were also charged \$2.2 million by Yellow Roadway for fees related to letters of credit issued to serve as collateral for our self-insurance programs, primarily in the areas of workers’ compensation, property damage and liability claims. At December 31, 2004, we had a net short-term advances receivable of \$73.0 million due from Yellow Roadway. For the year ended December 31, 2004, we earned interest income of \$0.4 million from the short-term advances receivable under borrowing arrangements with Yellow Roadway. The interest rate was based on the London inter-bank offer rate plus a fixed increment and was 2.56 percent at December 31, 2004. Related party transactions relating to 2003 results were immaterial to our operations.

Debt and Financing

Roadway has \$225.0 million face value of 8.25 percent senior notes due in full on December 1, 2008 (“senior notes due 2008”), with interest payments due semi-annually on June 1 and December 1. The senior notes due 2008 were revalued as part of purchase accounting and assigned a fair value \$249.2 million on December 11, 2003, respectively. The premium over the face value of the senior notes due 2008 is being amortized as a reduction to interest expense over the remaining life of the notes. The unamortized premium at December 31, 2004 and 2003 was \$19.0 million and \$23.9 million, respectively resulting in a carrying amount of \$244.0 million and \$248.9 million at December 31, 2004 and 2003, respectively. The fair value of this debt approximates its carrying value at December 31, 2004.

At December 31, 2003, Reimer had a \$10.0 million secured revolving line of credit available with no outstanding borrowings. In the first quarter of 2004, we closed the facility.

Income Taxes

We use the liability method to reflect income taxes on our financial statements. We recognize deferred tax assets and liabilities by applying enacted tax rates and regulations to the differences between the carrying value of existing assets and liabilities and their respective tax basis and capital loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. We assess the realizability of deferred tax assets for capital and operating loss carryforwards and provide valuation allowances when we determine it is more likely than not that such losses will not be realized within the applicable

carryforward period. We have not recognized deferred taxes for U.S. federal income taxes on foreign subsidiaries' earnings that are deemed to be permanently reinvested and any related taxes associated with such earnings are not material. Deferred tax liabilities (assets) were comprised of the following at December 31:

(in thousands)	2004	2003
Depreciation	\$ 180,638	\$ 177,923
Employee benefits	2,820	28,653
Intangibles	172,479	181,072
Prepays	134	—
Revenue	8,667	6,907
Other	5,394	308
Gross tax liabilities	\$ 370,132	\$ 394,863
Claims and insurance	\$ (89,429)	\$ (65,324)
Employee benefits	(89,286)	(113,191)
Other	(27,117)	(21,868)
Valuation allowance	3,096	3,096
Gross tax assets	\$(202,736)	\$(197,287)
Net tax liability	\$ 167,396	\$ 197,576

The Company recorded approximately \$3.1 million of deferred income tax assets for investment in certain joint ventures at December 31, 2004 and 2003. For financial reporting purposes, a valuation allowance of \$3.1 million has been recognized to offset the deferred tax assets relating to investment in such joint ventures at December 31, 2004 and 2003.

We have a tax sharing policy with our parent that requires us to share in our parent's consolidated tax burden based on our respective share of taxable income or losses relative to our parent's other subsidiaries. In addition, we retain any respective tax credits related to our operations.

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate from continuing operations follows:

	2004	2003
Federal statutory rate	35.0%	35.0%
State income taxes, net	2.8	4.3
Nondeductible business expenses	1.5	(2.0)
Foreign tax credit and rate differential	(0.2)	(1.2)
Other, net	(4.4)	0.6
Effective tax rate	34.7%	36.7%

For 2004, "Other, net" is primarily composed of intercompany charges not included in the accompanying statements of operations.

The income tax provision (benefit) consisted of the following:

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Current:		
U.S federal	\$ 39,255	\$ (1,608)
State	7,557	(444)
Foreign	4,095	16
Current income tax	\$ 50,907	\$ (2,036)
Deferred:		
U.S federal	\$ 1,019	\$ (362)
State	(14)	(34)
Foreign	81	(212)
Deferred income tax	\$ 1,086	\$ (608)
Income tax provision (benefit)	\$ 51,993	\$ (2,644)
Based on the income (loss) before income taxes:		
Domestic	\$ 136,770	\$ (6,372)
Foreign	12,895	(830)
Income (loss) before income taxes	\$ 149,665	\$ (7,202)

Previously, the Internal Revenue Service (“IRS”) challenged the timing of a deduction by Roadway Express related to prior years’ contributions to certain union pension plans. During the year ended December 31, 2004 we reached an agreement with the IRS and paid \$41.4 million (\$32.3 million net of tax benefit) to resolve this matter. Additional state tax and interest payments of approximately \$9.0 million (\$7.4 million net of tax benefit) resulting from the federal adjustments were made in January of 2005. We had specifically established reserves related to these payments in purchase accounting.

Commitments, Contingencies, and Uncertainties

Roadway incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to “operating expense and supplies” on the Statement of Consolidated Operations. Actual rental expense for the year ended December 31, 2004 and for the period December 12 to December 31, 2003 was \$52.5 million and \$2.9 million, respectively.

We utilize certain terminals and equipment under operating leases. At December 31, 2004, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

(in thousands)	2005	2006	2007	2008	2009	Thereafter
Minimum annual rentals	\$42,110	\$30,272	\$22,411	\$14,617	\$5,672	\$ 6,657

We expect in the ordinary course of business that leases will be renewed or replaced as they expire. Projected 2005 net capital expenditures are expected to be \$70.0 to \$80.0 million, of which \$17.4 million was committed at December 31, 2004.

We are involved in litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and 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 with regard to the litigation and proceedings to which we are a party.

Environmental Matters

Remediation costs are accrued based on estimates of known environmental remediation exposure using currently available facts, existing environmental permits and technology and presently enacted laws and regulations. Our estimates of costs are developed based on internal evaluations and, when necessary, recommendations from external environmental consultants. These accruals are recorded when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related costs, and the amounts can be reasonably estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. These accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Where we have been identified as a potentially responsible party in a United States federal "Superfund" site, we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste contributed to the site by us to the total volume of waste at the site. As of December 31, 2004, recorded balances related to these matters were not material.

Business Segments

Roadway reports financial and descriptive information about its reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. We manage the segments separately because each requires different operating, marketing and technology strategies. We evaluate performance primarily on adjusted operating income and return on capital.

Roadway has two reportable segments, which are strategic business units that offer complementary transportation services to their customers. Roadway Express is a unionized carrier that provides comprehensive regional, national and international transportation services. New Penn is also a unionized carrier that focuses on business opportunities in the regional and next-day markets.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate identifiable assets primarily refer to cash, cash equivalents and an investment in a joint venture.

Revenue from foreign sources totaled \$145.2 million and \$5.7 million during the year ended December 31, 2004 and for the period December 12 to December 31, 2003, respectively, and is largely derived from Canada and Mexico. Long-lived assets located in foreign countries totaled \$19.2 million and \$12.9 million at December 31, 2004 and 2003, respectively.

The following table summarizes our operations and identifiable assets by business segment:

<u>(in thousands)</u>	<u>Roadway Express</u>	<u>New Penn</u>	<u>Corporate / Eliminations</u>	<u>Consolidated</u>
For the year ended December 31, 2004				
External revenue	\$3,119,927	\$260,572	\$ (5)	\$3,380,494
Operating income	166,203	33,897	—	200,100
Identifiable assets	2,073,961	265,333	92,702	2,431,996
Capital expenditures, net	47,816	18,587	—	66,403
Depreciation and amortization	70,491	11,667	—	82,158
For the period December 12 to December 31, 2003				
External revenue	\$ 131,248	\$ 9,770	\$ —	\$ 141,018
Operating loss	(6,075)	(221)	—	(6,296)
Identifiable assets	2,002,421	340,713	(4,643)	2,338,491
Capital expenditures, net	1,216	534	(5)	1,745
Depreciation and amortization	3,455	745	—	4,200

Condensed Consolidating Financial Statements

Guarantees of the Senior Notes Due 2008

Roadway LLC, the primary obligor of the senior notes due 2008, and its following 100 percent owned subsidiaries issued guarantees in favor of the holders of the notes: Roadway Next Day Corporation, New Penn Motor Express, Inc., Roadway Express, Inc., Roadway Reverse Logistics, Inc. and Roadway Express International, Inc. In addition, per virtue of the merger agreement, Yellow Roadway Corporation issued a guarantee in favor of the holders of the notes. Each of the guarantees is full and unconditional and joint and several.

The summarized consolidating financial statements are presented in lieu of separate financial statements and other related disclosures of the subsidiary guarantors and issuer because management does not believe that such separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of Roadway LLC or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents summarized condensed consolidating financial information of Roadway LLC and its subsidiaries as of December 31, 2004 and 2003 with respect to the financial position, and for the year ended December 31, 2004 and the period from the date of acquisition through December 31, 2003 for results of operations and cash flow. The primary obligor column presents the financial information of Roadway LLC. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the senior notes due 2008 with the exception of Yellow Roadway, the holding company. The Non-Guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those subsidiaries that are governed by foreign laws, Yellow Roadway Receivables Funding Corporation and Roadway Funding, Inc., the special-purpose entities that are or were associated with our asset-backed securitization agreements.

Condensed Consolidating Balance Sheets

December 31, 2004 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ —	\$ 7	\$ 12	\$ —	\$ 19
Intercompany advances receivable	76	332	(10)	10	408
Accounts receivable, net	—	8	20	—	28
Prepaid expenses and other	11	65	—	—	76
Total current assets	87	412	22	10	531
Property and equipment	—	875	23	—	898
Less – accumulated depreciation	—	(69)	(4)	—	(73)
Net property and equipment	—	806	19	—	825
Investment in subsidiary	671	58	—	(729)	—
Intercompany note receivable	650	10	—	(660)	—
Goodwill and other assets	6	1,033	37	—	1,076
Total assets	\$ 1,414	\$ 2,319	\$ 78	\$ (1,379)	\$ 2,432
Accounts payable	\$ —	\$ 127	\$ 10	\$ —	\$ 137
Advances payable to parent	—	650	—	(650)	—
Wages, vacations and employees' benefits	—	221	4	—	225
Other current and accrued liabilities	(17)	115	—	—	98
Total current liabilities	(17)	1,113	14	(650)	460
Long-term debt, less current portion	244	—	—	—	244
Deferred income taxes, net	(9)	217	7	—	215
Claims and other liabilities	—	317	—	—	317
Parent company investment	1,196	672	57	(729)	1,196
Total liabilities and parent company investment	\$ 1,414	\$ 2,319	\$ 78	\$ (1,379)	\$ 2,432

December 31, 2003 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	\$ —	\$ 44	\$ 6	\$ —	\$ 50
Intercompany advances receivable	38	56	103	(197)	—
Accounts receivable, net	—	326	17	—	343
Prepaid expenses and other	—	34	—	—	34
Total current assets	38	460	126	(197)	427
Property and equipment	—	811	13	—	824
Less – accumulated depreciation	—	(3)	—	—	(3)
Net property and equipment	—	808	13	—	821
Investment in subsidiary	593	29	—	(622)	—
Intercompany note receivable	650	—	—	(650)	—
Goodwill and other assets	21	1,034	35	—	1,090
Total assets	\$ 1,302	\$ 2,331	\$ 174	\$ (1,469)	\$ 2,338
Accounts payable	\$ 1	\$ 111	\$ 7	\$ —	\$ 119
Advances payable to parent	—	127	126	(197)	56
Wages, vacations and employees' benefits	1	182	3	—	186
Other current and accrued liabilities	(31)	118	2	—	89
Total current liabilities	(29)	538	138	(197)	450
Intercompany debt	—	650	—	(650)	—
Long-term debt, less current portion	249	—	—	—	249
Deferred income taxes, net	(11)	218	7	—	214
Claims and other liabilities	1	333	—	—	334
Parent company investment	1,092	592	29	(622)	1,091
Total liabilities and parent company investment	\$ 1,302	\$ 2,331	\$ 174	\$ (1,469)	\$ 2,338

Condensed Consolidating Statements of Operations

For the year ended December 31, 2004 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ —	\$ 3,236	\$ 145	\$ (1)	\$ 3,380
Operating expenses:					
Salaries, wages and employees' benefits	—	2,045	46	—	2,091
Operating expenses and supplies	—	481	27	(1)	507
Operating taxes and licenses	—	80	2	—	82
Claims and insurance	—	61	—	—	61
Depreciation and amortization	—	79	3	—	82
Purchased transportation	—	310	48	—	358
Gains on property disposals, net	—	(1)	—	—	(1)
Total operating expenses	—	3,055	126	(1)	3,180
Operating income	—	181	19	—	200
Nonoperating (income) expenses:					
Interest expense	14	53	1	(54)	14
Other, net	(53)	32	3	54	36
Nonoperating (income) expenses, net	(39)	85	4	—	50
Income (loss) before income taxes	39	96	15	—	150
Income tax provision	15	33	4	—	52
Subsidiary earnings	72	9	—	(81)	—
Net income (loss)	\$ 96	\$ 72	\$ 11	\$ (81)	\$ 98

Condensed Consolidating Statements of Operations

For the period December 12 to
December 31, 2003
(in millions)

	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	\$ —	\$ 135	\$ 6	\$ —	\$ 141
Operating expenses:					
Salaries, wages and employees' benefits	—	91	3	—	94
Operating expenses and supplies	—	21	1	—	22
Operating taxes and licenses	—	4	—	—	4
Claims and insurance	—	4	—	—	4
Depreciation and amortization	—	4	—	—	4
Purchased transportation	—	17	2	—	19
Gains on property disposals, net	—	—	—	—	—
Total operating expenses	—	141	6	—	147
Operating income (loss)	—	(6)	—	—	(6)
Nonoperating (income) expenses:					
Interest expense	1	3	—	(3)	1
Other, net	(3)	—	—	3	—
Nonoperating (income) expenses, net	(2)	3	—	—	1
Income (loss) before income taxes	2	(9)	—	—	(7)
Income tax provision (benefit)	1	(3)	—	—	(2)
Subsidiary earnings	(6)	—	—	6	—
Net income (loss)	\$ (5)	\$ (6)	\$ —	\$ 6	\$ (5)

Condensed Consolidating Statements of Cash Flows

For the year ended December 31, 2004
(in millions)

	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from operating activities	\$ 34	\$ 135	\$ 11	\$ —	\$ 180
Investing activities:					
Acquisition of property and equipment	—	(91)	(3)	—	(94)
Proceeds from disposal of property and equipment	—	28	—	—	28
Other, net	4	—	—	—	4
Net cash from (used in) investing activities	4	(63)	(3)	—	(62)
Financing activities:					
Advances from parent, net	(38)	(109)	(2)	—	(149)
Net cash used in financing activities	(38)	(109)	(2)	—	(149)
Net increase (decrease) in cash and cash equivalents	—	(37)	6	—	(31)
Cash and cash equivalents, beginning of period	—	44	6	—	50
Cash and cash equivalents, end of year	\$ —	\$ 7	\$ 12	\$ —	\$ 19

For the period December 12 to
December 31, 2003
(in millions)

	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	\$ (24)	\$ 22	\$ (1)	\$ —	\$ (3)
Investing activities:					
Acquisition of property and equipment	—	(3)	—	—	(3)
Proceeds from disposal of property and equipment	—	2	—	—	2
Net cash from (used in) investing activities	—	(1)	—	—	(1)
Financing activities:					
Advances from parent, net	—	(52)	—	—	(52)
Net cash provided by (used in) financing activities	—	(52)	—	—	(52)
Net increase (decrease) in cash and cash equivalents	(24)	(31)	(1)	—	(56)
Cash and cash equivalents, beginning of period	24	75	7	—	106
Cash and cash equivalents, end of year	\$ —	\$ 44	\$ 6	\$ —	\$ 50

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway Corporation and Subsidiaries

The period January 1, 2003 to December 11, 2003 and the
Years ended December 31, 2002 and 2001
with Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Shareholder of
Roadway Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of Roadway Corporation and subsidiaries as of December 11, 2003 and December 31, 2002, and the related statements of consolidated operations, parent company investment, and cash flows for the period January 1, 2003 to December 11, 2003 and each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Roadway Corporation and subsidiaries at December 11, 2003 and December 31, 2002, and the consolidated results of their operations and their cash flows for the period January 1, 2003 to December 11, 2003 and each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Akron, Ohio
January 22, 2004

Roadway Corporation and Subsidiaries
Consolidated Balance Sheets

	December 11, 2003	December 31, 2002
<i>(In Thousands, except share data)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 106,307	\$ 106,929
Accounts receivable, (including retained interest in securitized receivables in 2002), net	356,519	230,216
Prepaid expenses and supplies	19,838	16,683
Deferred income taxes	20,360	21,813
Assets of discontinued operations	—	87,431
Total current assets	503,024	463,072
Carrier operating property, at cost	1,486,064	1,515,648
Less allowance for depreciation	995,439	1,006,465
Net carrier operating property	490,625	509,183
Goodwill, net	286,693	283,910
Deferred income taxes	38,353	39,941
Other assets	46,494	39,767
Total assets	\$ 1,365,189	\$ 1,335,873
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 303,741	\$ 193,501
Salaries and wages	139,572	151,464
Current portion of long-term debt	—	33,703
Freight and casualty claims payable	57,962	49,815
Liabilities of discontinued operations	—	32,407
Total current liabilities	501,275	460,890
Long-term liabilities:		
Casualty claims and other	63,833	67,882
Deferred income taxes	6,894	10,666
Accrued pension and postretirement health care	149,771	135,053
Long-term debt	225,000	273,513
Total long-term liabilities	445,498	487,114
Shareholders' equity:		
Preferred stock:		
Authorized—20,000,000 shares; issued—none	—	—
Common stock—\$.01 par value:		
Authorized—100,000,000 shares; issued—20,556,714 shares	206	206
Additional paid-in capital	56,560	35,559
Retained earnings	364,431	397,173
Accumulated other comprehensive loss	(2,781)	(10,090)
Unearned portion of restricted stock awards	—	(12,896)
Treasury shares (0 shares in 2003 and 1,188,124 shares in 2002)	—	(22,083)
Total shareholders' equity	418,416	387,869
Total liabilities and shareholders' equity	\$ 1,365,189	\$ 1,335,873

See accompanying notes.

Roadway Corporation and Subsidiaries
Consolidated Statements of Operations

	January 1 to December 11, 2003	Years ended December 31	
		2002	2001
<i>(In Thousands, except per share data)</i>			
Revenue	\$3,052,119	\$3,010,776	\$2,778,891
Operating expenses:			
Salaries, wages and benefits	1,946,709	1,934,482	1,781,243
Operating supplies and expenses	514,050	479,415	477,981
Purchased transportation	314,435	289,612	271,964
Operating taxes and licenses	77,057	76,662	71,360
Insurance and claims	60,080	63,621	47,028
Provision for depreciation	69,782	75,786	70,186
Net (gain) loss on sale of carrier operating property	(2,572)	(650)	434
Compensation and other expense related to the Yellow transactions	53,734	—	—
Total operating expenses	3,033,275	2,918,928	2,720,196
Operating income from continuing operations	18,844	91,848	58,695
Other (expense) income:			
Interest expense	(19,327)	(23,268)	(2,751)
Other, net	(15,481)	(6,543)	(3,067)
	(34,808)	(29,811)	(5,818)
Income (Loss) from continuing operations before income taxes	(15,964)	62,037	52,877
Provision for income taxes	12,626	26,895	22,214
Income (Loss) from continuing operations	(28,590)	35,142	30,663
Income (Loss) from discontinued operations	(155)	3,782	174
Net income (loss)	\$ (28,745)	\$ 38,924	\$ 30,837
Basic earnings per share from:			
Continuing operations		\$ 1.90	\$ 1.66
Discontinued operations		0.20	0.01
Basic earnings per share		\$ 2.10	\$ 1.67
Diluted earnings per share from:			
Continuing operations		\$ 1.85	\$ 1.63
Discontinued operations		0.20	0.01
Diluted earnings per share		\$ 2.05	\$ 1.64
Dividends declared per share	\$ 0.20	\$ 0.20	\$ 0.20

See accompanying notes.

Roadway Corporation and Subsidiaries
Consolidated Statements of Shareholders' Equity

	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unearned Portion of Restricted Stock Awards	Treasury Shares
<i>(In Thousands)</i>							
Year ended December 31, 2001							
Balance at January 1, 2001	\$ 339,871	\$ 206	\$ 40,430	\$ 335,157	\$ (6,725)	\$ (8,990)	\$ (20,207)
Net income	30,837	—	—	30,837	—	—	—
Foreign currency translation adjustments	(2,424)	—	—	—	(2,424)	—	—
Derivative fair value adjustments	(592)	—	—	—	(592)	—	—
Total comprehensive income	27,821	—	—	—	—	—	—
Dividends declared	(3,871)	—	—	(3,871)	—	—	—
Treasury stock activity—net	(624)	—	—	—	—	—	(624)
Restricted stock award activity	(3,302)	—	(1,875)	—	—	(1,427)	—
Balance at December 31, 2001	359,895	206	38,555	362,123	(9,741)	(10,417)	(20,831)
Year ended December 31, 2002							
Net income	38,924	—	—	38,924	—	—	—
Foreign currency translation adjustments	(615)	—	—	—	(615)	—	—
Derivative fair value adjustments	266	—	—	—	266	—	—
Total comprehensive income	38,575	—	—	—	—	—	—
Dividends declared	(3,874)	—	—	(3,874)	—	—	—
Treasury stock activity—net	(1,252)	—	—	—	—	—	(1,252)
Restricted stock award activity	(5,475)	—	(2,996)	—	—	(2,479)	—
Balance at December 31, 2002	387,869	206	35,559	397,173	(10,090)	(12,896)	(22,083)
January 1 to December 11, 2003							
Net loss	(28,745)	—	—	(28,745)	—	—	—
Foreign currency translation adjustments	7,047	—	—	—	7,047	—	—
Derivative fair value adjustments	262	—	—	—	262	—	—
Total comprehensive loss	(21,436)	—	—	—	—	—	—
Dividends declared	(3,997)	—	—	(3,997)	—	—	—
Treasury stock activity—net	22,083	—	—	—	—	—	22,083
Restricted stock award activity	33,897	—	21,001	—	—	12,896	—
Balance at December 11, 2003	\$ 418,416	\$ 206	\$ 56,560	\$ 364,431	\$ (2,781)	\$ —	\$ —

See accompanying notes.

Roadway Corporation and Subsidiaries
Consolidated Statements of Cash Flows

	January 1, to December 11, 2003	Years ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Cash flows from operating activities			
Net (loss) income	\$ (28,745)	\$ 38,924	\$ 30,837
Less: (loss) income from discontinued operations	(155)	3,782	174
(Loss) income from continuing operations	(28,590)	35,142	30,663
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	83,348	80,090	71,810
(Gain) loss on sale of carrier operating property	(2,572)	(650)	434
Stock award amortization	20,500	6,890	4,307
Changes in assets and liabilities from continuing operations:			
Accounts receivable	(26,302)	(46,767)	42,559
Other assets	(6,259)	(7,176)	(7,952)
Accounts payable and accrued items	30,748	39,460	(23,830)
Long-term liabilities	6,815	9,930	2,515
Net cash provided by continuing operations	77,688	116,919	120,506
Cash flows from investing activities			
Business acquisitions, net of cash acquired	—	(24,092)	(413,222)
Issuance of long-term note receivable	(8,000)	—	—
Purchases of carrier operating property	(58,051)	(73,427)	(70,540)
Proceeds from sales of carrier operating property	10,663	6,765	4,481
Proceeds from business disposal	55,430	—	—
Net cash provided (used) by investing activities	42	(90,754)	(479,281)
Cash flows from financing activities			
Sale of accounts receivable	—	—	100,000
Long-term debt (payments) proceeds	(82,216)	(17,784)	325,000
Debt issuance costs	—	—	(10,826)
Net dividends paid	(3,964)	(3,863)	(3,871)
Transfers from discontinued operation	—	18,000	—
Treasury stock activity—net	7,508	(14,922)	(8,375)
Net cash (used) provided by financing activities	(78,672)	(18,569)	401,928
Effect of exchange rate changes on cash	358	(227)	54
Net (decrease) increase in cash and cash equivalents from continuing operations	(584)	7,369	43,207
Net (decrease) increase in cash and cash equivalents from discontinued operations	(38)	(10,872)	2,286
Cash and cash equivalents at beginning of year	106,929	110,432	64,939
Cash and cash equivalents at end of year	\$ 106,307	\$ 106,929	\$ 110,432

See accompanying notes.

1. Nature of Operations and Basis of Presentation

Roadway Corporation (the Company) is a holding company with two primary operating entities, Roadway Express, Inc. and Roadway Next Day Corporation. The Company announced on July 8, 2003 that a definitive agreement had been signed under which Yellow Corporation would acquire Roadway Corporation. On December 12, 2003, the transaction was completed for approximately \$1.1 billion, based on a fixed exchange ratio of 1.752 and a 20-day average price per share of \$31.51 for Yellow common stock in a half cash, half stock transaction. As a result, effective end of day December 11, 2003 the Company ceased being a separate Registrant with the Securities and Exchange Corporation. Approximately 75% of the Company's employees are represented by various labor unions, primarily the International Brotherhood of Teamsters (IBT). The current agreement with the IBT expires on March 31, 2008.

Effective May 30, 2001, holders of common stock of Roadway Express, Inc. became holders of an identical number of shares of common stock of Roadway Corporation, and Roadway Express, Inc. became a wholly owned subsidiary of Roadway Corporation (the Reorganization). The Reorganization was effected by a merger pursuant to Section 251(g) of the Delaware General Corporation Law, which provides for the formation of a holding company structure without a vote of the shareholders of the Company. The assets and liabilities of Roadway Corporation and its subsidiaries were the same on a consolidated basis after the merger as the assets and the liabilities of Roadway Express, Inc. immediately before the merger.

Roadway Express, Inc. and subsidiaries (Roadway Express) provides long-haul, less-than-truckload (LTL) freight services in North America and offers services to more than 100 countries worldwide in a single business segment.

Roadway Next Day Corporation (Roadway Next Day), formerly known as Arnold Industries, Inc. (Arnold), was acquired on November 30, 2001 and provides regional next-day LTL, and truckload (TL) freight services in two business segments, New Penn Motor Express, Inc. (New Penn) and Arnold Transportation Services (ATS), respectively. On December 26, 2002, the Company entered into an agreement to sell ATS, the TL subsidiary of Roadway Next Day. The transaction was completed on January 23, 2003. No significant gain or loss occurred as a result of this transaction. The Company has reported ATS as a discontinued operation for all periods presented and Roadway Next Day now operates in one business segment, regional next-day LTL (see Notes 3 and 4).

2. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents

The Company considers highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Depreciation

Depreciation of carrier operating property is computed by the straight-line method based on the useful lives of the assets. The useful life of structures ranges from 15 to 33 years, and equipment from 3 to 10 years. Major maintenance expenditures that extend the useful life of carrier operating equipment are capitalized and depreciated over 2 to 5 years.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate their fair value due to the short-term nature of these instruments.

The carrying value of the Company's senior term loan approximates fair value as these financial instruments bear interest at variable rates based on LIBOR or the prime rate. The \$225,000,000 in senior notes had an approximate fair value of \$249,165,000 at December 11, 2003, based on quoted market prices.

2. Accounting Policies (continued)

The Company recognizes all derivative financial instruments as either assets or liabilities at fair value in the balance sheet. The Company's use of derivative financial instruments is limited principally to interest rate swaps on certain trailer leases as part of its overall risk management policy. The interest rate swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Under the provisions of SFAS No. 133, changes in the fair value of interest rate swaps are recognized in other comprehensive income in the statement of shareholders' equity until such time as the hedged items are recognized in net income. Due to the Company's limited use of derivatives, the fair value of these financial instruments, a liability of \$64,000 net of tax, has not been separately disclosed on the balance sheet (see Note 10).

Receivable Sales

Prior to December 11, 2003, the Company sold receivables in securitization transactions, and retained an equity interest in the receivables pool, servicing rights, and a cash reserve account. These constituted the retained interests in the securitized receivables. The estimated fair value was based on the present value of the expected cash flows, which approximated face value adjusted for allowances for anticipated losses. The Company terminated the agreement on December 11, 2003 (see Note 11).

Concentration of Credit Risks

The Company sells services and extends credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

Goodwill

Goodwill represents costs in excess of net assets of acquired businesses, which prior to January 1, 2002, was amortized using the straight-line method primarily over a period of 20 years.

2. Accounting Policies (continued)

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the purchase method for all business combinations initiated after June 30, 2001. SFAS No. 141 also clarifies the criteria for recognition of intangible assets separately from goodwill. Under SFAS No. 142, separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. SFAS No. 142 also eliminates the amortization of goodwill and indefinite-lived intangible assets for assets acquired after June 30, 2001, and all other goodwill on January 1, 2002.

As of December 11, 2003, the Company had net unamortized goodwill of \$286,693,000, including \$269,093,000 of goodwill recorded in connection with the Company's acquisition of Roadway Next Day on November 30, 2001 (see Note 3). Amortization of previously existing goodwill resulting from the Company's earlier acquisitions was ended effective January 1, 2002. Goodwill amortization was zero in 2003 and 2002, and \$967,000 in 2001. If the provisions of SFAS No. 142 were effective January 1, 2001, the elimination of goodwill amortization would have resulted in an increase to net income of \$560,000 (\$0.03 per share-diluted) in 2001. The Company completed the required annual goodwill impairment test under SFAS No. 142 for all reporting units effective June 15, 2003 which did not indicate any impairment.

Casualty Claims Payable

Casualty claims payable represent management's estimates of claims for property damage and public liability and workers' compensation. The Company manages casualty claims with assistance of a third party administrator (TPA) along with oversight by a major risk management provider. The Company is self-insured for these claims with retention generally limited to \$3,000,000. The liability balances are closely monitored by the Company and its TPA using adjuster evaluations of each claim and a statistical benchmarking database for analysis of reserve accuracy. Expenses resulting from workers' compensation claims are included in salaries, wages, and benefits in the accompanying statements of consolidated income.

2. Accounting Policies (continued)

Revenue Recognition

Roadway recognizes revenue on the date that freight is delivered to the consignee at which time all services have been rendered. In addition, all related expenses are recognized as incurred. Roadway recognizes revenue on a gross basis since the Company is the primary obligor in the arrangement, even if the Company uses other transportation service providers who act on their behalf, because the Company is responsible to the customer for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. In addition, Roadway retains all credit risk.

Foreign Currency Translation

Income statement items are translated at average currency exchange rates. Transaction gains and losses are included in determining net income. All balance sheet accounts of foreign operations are translated at the current exchange rate as of the end of the period. The resulting translation adjustment is recorded as a separate component of shareholders' equity.

Use of Estimates in the Financial Statements

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

Impairment of Long-Lived Assets

In the event that facts and circumstances indicate that the carrying value of intangibles and long-lived assets or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flow associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. No impairment charge was required for any period presented.

Reclassifications

Certain items in the 2003 financial statements have been reclassified to conform to the 2002 presentation.

2. Accounting Policies (continued)

Discontinued Operations

In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes a single accounting model to be used for the impairment or disposal of long-lived assets. Effective January 1, 2002, the Company adopted SFAS No. 144. The Company has reported the operations of ATS as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all years presented exclude the amounts related to this discontinued operation.

3. Business Acquisition

On November 30, 2001, the Company acquired Arnold Industries, Inc. (Arnold), subsequently named Roadway Next Day Corporation, for cash consideration of \$559,839,000, including direct acquisition costs. Included in the acquired assets of Arnold was \$50,763,000 in cash, which was used to partially finance the acquisition. Also on November 30, 2001, concurrent with the acquisition of Arnold, the Company sold Arnold's logistics business (ARLO) to members of the ARLO management team for \$105,010,000 in cash. The net acquisition consideration of \$427,160,000, which included \$23,094,000 in income taxes paid by the Company primarily as a result of the sale of ARLO, was financed with borrowings under a new credit facility, proceeds from an accounts receivable securitization, the issuance of \$225,000,000 in senior notes, and available cash.

Roadway Next Day operates in the motor carrier industry, principally in the eastern United States, and provides next-day LTL and TL services. Roadway Next Day's trucking activities are conducted by its subsidiaries, New Penn and ATS. New Penn is a leading regional next-day ground LTL carrier operating primarily in New England and the Middle Atlantic states. ATS operates as an inter-regional irregular route and dedicated TL carrier, conducting operations east of the Mississippi and in the southwestern United States.

The acquisition of Roadway Next Day was accounted for as a purchase business combination and accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. The excess of the purchase price paid over the fair value of the net assets acquired, totaling approximately \$269,093,000, has been recorded as goodwill. The purchase price allocation reflected in these financial statements for the acquisition has been finalized and is based in part on the results of an independent appraisal of the assets acquired and liabilities assumed. Upon the finalization of the valuation process, \$5,630,000 of the amount initially classified as goodwill in the financial statements was reclassified to other tangible and identifiable intangible assets acquired, based on their estimated fair values at the date of the acquisition.

4. Discontinued Operations

On December 26, 2002, the Company entered into an agreement to sell ATS to a management group led by the unit's president and a private equity firm, for approximately \$55,000,000, consisting of \$47,000,000 in cash and an \$8,000,000 note. The ATS business segment was acquired as part of the Company's purchase of Roadway Next Day in November 2001, but did not fit the Company's strategic focus of being a LTL carrier. The transaction was completed on January 23, 2003. The Company did not recognize a significant gain or loss as a result of this transaction. The Company has reported the operations of ATS as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all years presented exclude the amounts related to this discontinued operation.

The following table presents revenue and income from the discontinued operation for the period January 1, 2003 to December 11, 2003 and the year ended December 31, 2002. The 2003 amounts include the results of operations only through the disposal date, January 23, 2003.

	January 1 to December 11 2003	Years ended	
		2002	2001
		<i>(In Thousands)</i>	
Revenue	\$ 9,267	\$ 171,133	\$ 12,857
Pre-tax income from discontinued operations	\$ 198	\$ 6,251	\$ 290
Income tax expense	51	2,469	116
Income from discontinued operations	\$ 147	\$ 3,782	\$ 174

Assets and liabilities of the discontinued operation were as follows:

	December 31 2002
	<i>(In Thousands)</i>
Assets:	
Current assets	\$ 22,025
Net carrier operating property	64,065
Other assets	1,341
Total assets	\$ 87,431
Liabilities:	
Current liabilities	\$ 8,104
Long-term liabilities	24,303
Total liabilities	32,407
Net assets of discontinued operations	\$ 55,024

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

5. Segment Information

The Company provides freight services primarily in two business segments: Roadway Express and New Penn. Prior to the acquisition of Roadway Next Day in November 2001, the Company operated only in the Roadway Express segment. The Roadway Express segment provides long-haul LTL freight services in North America and offers services to more than 100 countries worldwide. The New Penn segment provides regional, next-day ground LTL freight service operating primarily in New England and the Middle Atlantic states.

The Company's reportable segments are identified based on differences in products, services, and management structure. Operating income is the primary measure used by our chief operating decision-maker in evaluating segment profit and loss and in allocating resources and evaluating segment performance. Business segment assets consist primarily of customer receivables, net carrier operating property, and goodwill.

The following tables present information about reported segments for the period January 1, 2003 to December 11, 2003 and the year ended December 31, 2002.

	January 1 to December 11, 2003		
	Roadway Express	New Penn	Total
	<i>(In Thousands)</i>		
Revenue	\$2,845,457	\$206,708	\$3,052,165
Operating expenses:			
Salaries, wages and benefits	1,801,170	136,861	1,938,031
Operating supplies	494,459	30,103	524,562
Purchased transportation	312,340	2,095	314,435
Operating taxes and licenses	70,785	5,815	76,600
Insurance and claims	57,032	2,399	59,431
Depreciation	59,993	9,107	69,100
Net (gain) loss on sale of operating property	(2,533)	(39)	(2,572)
Compensation and other expense related to the Yellow acquisition	50,393	3,341	53,734
Total operating expenses	2,843,639	189,682	3,033,321
Operating income	\$ 1,818	\$ 17,026	\$ 18,844
Total assets	\$ 891,392	\$406,190	\$1,297,582
Goodwill	\$ 17,599	\$268,894	\$ 286,493

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

5. Segment Information (continued)

	Year ended December 31, 2002		
	Roadway Express	New Penn	Total
		<i>(In Thousands)</i>	
Revenue	\$2,797,582	\$213,194	\$3,010,776
Operating expenses:			
Salaries, wages and benefits	1,783,872	140,248	1,924,120
Operating supplies	462,838	28,415	491,253
Purchased transportation	287,614	1,998	289,612
Operating taxes and licenses	70,451	6,061	76,512
Insurance and claims	59,286	3,470	62,756
Depreciation	66,510	8,815	75,325
Net (gain) loss on sale of operating property	(654)	4	(650)
	2,729,917	189,011	2,918,928
Total operating expenses			
Operating income	\$ 67,665	\$ 24,183	\$ 91,848
	\$ 803,563	\$408,021	\$1,211,584
Total assets			
Goodwill	\$ 14,817	\$269,093	\$ 283,910

Reconciliation of segment operating income from continuing operations to consolidated income from continuing operations before taxes:

	January 1 to December 11 2003	Year ended December 31 2002
		<i>(In Thousands)</i>
Segment operating income from continuing operations	\$ 18,844	\$ 91,848
Interest (expense)	(19,327)	(23,268)
Other (expense), net	(15,481)	(6,543)
	\$ (15,964)	\$ 62,037
Consolidated (loss) income from continuing operations before income taxes		

5. Segment Information (continued)

Reconciliation of total segment assets to total consolidated assets:

	Dec. 11, 2003	Dec. 31, 2002
	<i>(In Thousands)</i>	
Total segment assets	\$1,297,582	\$ 1,211,584
Assets of discontinued operations	—	87,431
Unallocated corporate assets	77,399	41,351
Elimination of intercompany balances	(9,792)	(4,493)
	\$1,365,189	\$1,335,873
	\$1,365,189	\$1,335,873

6. Carrier Operating Property

Carrier operating properties consist of the following:

	Dec. 11, 2003	Dec. 31, 2002
	<i>(In Thousands)</i>	
Land	\$ 110,997	\$ 109,564
Structures	462,399	459,594
Revenue equipment	633,783	687,467
Other operating property	278,885	259,023
	1,486,064	1,515,648
Carrier operating property, at cost	1,486,064	1,515,648
Less allowance for depreciation	995,439	1,006,465
	\$ 490,625	\$ 509,183
	\$ 490,625	\$ 509,183

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

7. Accounts Payable

Items classified as accounts payable consist of the following:

	<u>Dec. 11, 2003</u>	<u>Dec. 31, 2002</u>
	<i>(In Thousands)</i>	
Trade and other payables	\$ 192,300	\$ 76,063
Drafts outstanding	41,378	18,456
Income taxes payable	—	36,925
Taxes, other than income	30,497	29,688
Multi-employer health, welfare, and pension plans	39,567	32,369
	<u> </u>	<u> </u>
Accounts payable	\$ 303,742	\$ 193,501
	<u> </u>	<u> </u>

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

8. Income Taxes

The provision (benefit) for income taxes consists of the following:

	January 1 to December 11 2003	Years ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Current taxes:			
Federal	\$ 7,917	\$ 29,557	\$ 19,655
State	3,147	7,349	3,029
Foreign	4,751	4,776	(766)
	<u>15,815</u>	<u>41,682</u>	<u>21,918</u>
Deferred taxes:			
Federal	(2,753)	(13,205)	(1,012)
State	(435)	(1,517)	(56)
Foreign	(1)	(65)	1,364
	<u>(3,189)</u>	<u>(14,787)</u>	<u>296</u>
Provision for income taxes	<u>\$ 12,626</u>	<u>\$ 26,895</u>	<u>\$ 22,214</u>

In addition to the 2003 provision for income taxes of \$12,626,000, income tax benefits of \$7,701,000 were allocated directly to shareholders' equity related to the Company's restricted stock awards. Income tax payments were \$45,431,000 in 2003, \$38,631,000 in 2002, and \$25,341,000 in 2001.

Income (loss) before income taxes consists of the following:

	January 1 to December 11 2003	Years ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Domestic	\$ (28,810)	\$ 50,279	\$ 50,445
Foreign	12,846	11,758	2,432
Income before income taxes	<u>\$ (15,964)</u>	<u>\$ 62,037</u>	<u>\$ 52,877</u>

8. Income Taxes (continued)

Significant components of the Company's deferred taxes are as follows:

	Dec. 11, 2003	Dec. 31, 2002
	<i>(In Thousands)</i>	
Deferred tax assets:		
Freight and casualty claims	\$ 40,190	\$ 40,934
Retirement benefit liabilities	51,964	51,897
Accrued employee benefits	28,808	38,813
Other	10,207	10,274
Valuation allowance	(1,930)	(2,229)
	129,239	139,689
Deferred tax liabilities:		
Depreciation	48,418	53,029
Multi-employer pension plans	28,653	33,420
Other	349	2,152
	77,420	88,601
Net deferred tax assets	\$ 51,819	\$ 51,088

At December 11, 2003, the Company had approximately \$5,563,000 of foreign operating loss carry forwards, which have expiration dates ranging from 2009 to 2011. For financial reporting purposes, a valuation allowance of \$1,930,000 has been recognized to offset the deferred tax asset relating to certain foreign operating loss carry forwards.

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

8. Income Taxes (continued)

The income tax resulting from the effective tax rate differs from the income tax calculated using the federal statutory rate as set forth in the following reconciliation:

	January 1 to December 31 2003	Years ended Dec. 31	
		2002	2001
Federal statutory tax	\$ (5,587)	\$21,713	\$18,507
State income taxes, net of federal tax benefit	1,763	3,790	1,932
Non-deductible operating costs	2,375	2,198	1,738
Excise Taxes	3,150	—	—
Yellow Transaction cost	4,590	—	—
Section 280G Limitations	5,386	—	—
Impact of foreign operations	(7)	325	193
Other, net	956	(1,131)	(156)
Effective tax	\$ 12,626	\$26,895	\$22,214

9. Employee Benefit Plans

Multi-employer Plans

The Company charged to operations \$175,349,000 in 2003, \$174,007,000 in 2002, and \$165,331,000 in 2001 for contributions to multi-employer pension plans for employees subject to labor contracts. The Company also charged to operations \$198,978,000 in 2003, \$178,955,000 in 2002, and \$163,775,000 in 2001 for contributions to multi-employer plans that provide health and welfare benefits to employees and certain retirees who are or were subject to labor contracts. These amounts were determined in accordance with provisions of industry labor contracts. Under provisions of the Multi-employer Pension Plan Amendment Act of 1980, total or partial withdrawal from a plan would result in an obligation to fund a portion of the plan's unfunded vested liability. Management has no intention of changing operations so as to subject the Company to any material obligation.

9. Employee Benefit Plans (continued)

Retirement Plans

The following tables set forth the change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets for the defined benefit pension and postretirement health care benefit plans as of December 31, 2003 and December 31, 2002:

	Pension Benefits		Health Care Benefits	
	2003	2002	2003	2002
<i>(In Thousands)</i>				
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 386,564	\$ 330,790	\$ 49,160	\$ 41,721
Service cost	17,621	17,520	1,752	1,741
Interest cost	23,680	24,183	2,983	3,156
Actuarial losses	56,824	32,295	1,351	5,024
Benefits paid	(27,508)	(18,224)	(2,312)	(2,482)
Benefit obligation at end of year	457,181	386,564	52,934	49,160
Change in plan assets				
Fair value of plan assets at beginning of year	241,324	308,229	—	—
Actual return on plan assets	66,785	(48,681)	—	—
Benefits paid	(27,508)	(18,224)	—	—
Fair value of plan assets at end of year	280,601	241,324	—	—
Funded status				
Plan assets less than projected benefit obligation	176,580	145,240	52,934	49,160
Unamortized:				
Net actuarial (loss)	(45,250)	(26,968)	(15,042)	(10,281)
Net asset at transition	7,053	8,372	—	—
Prior service (cost) benefit	(41,926)	(43,725)	15,422	13,255
Accrued benefit cost	\$ 96,457	\$ 82,919	\$ 53,314	\$ 52,134

Plan assets are primarily invested in listed stocks, bonds, and cash equivalents.

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

9. Employee Benefit Plans (continued)

The following table summarizes the assumptions used and the related benefit cost information:

	Pension Benefits			Health Care Benefits		
	2003	2002	2001	2003	2002	2001
<i>(Dollars In Thousands)</i>						
Weighted-average assumptions						
Discount rate	6.25%	6.75%	7.50%	6.25%	6.75%	7.50%
Future compensation	3.25%	3.25%	3.25%	—	—	—
Expected long-term return on plan assets	8.50%	9.50%	9.50%	—	—	—
Components of net periodic benefit cost						
Service cost	\$ 17,621	\$ 17,520	\$ 17,496	\$ 1,752	\$ 1,741	\$ 1,665
Interest cost	23,680	24,183	22,568	2,983	3,156	2,881
Expected return on plan assets	(18,968)	(28,574)	(33,841)	—	—	—
Amortization of:						
Prior service cost (benefit)	5,191	5,245	5,230	(1,779)	(1,477)	(305)
Net asset gain at transition	(1,319)	(1,395)	(1,396)	—	—	—
Unrecognized gain	128	(3,940)	(8,893)	537	184	(177)
Net periodic benefit cost	\$ 26,333	\$ 13,039	\$ 1,164	\$ 3,493	\$ 3,604	\$ 4,064

For measurement purposes, the Company assumed a weighted-average annual rate of increase in the per capita cost of health care benefits (health care cost trend rate) of 10.5% for 2004 declining gradually to 5.0% in 2010 and thereafter.

9. Employee Benefit Plans (continued)

A decrease in the assumed health care cost trend rate has a significant effect on the amounts reported. For example, a one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation by \$5,938,000 and the service and interest cost components by \$618,000 as of December 11, 2003. A one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and interest cost components. The Company's policy regarding the management of health care costs passes increases beyond a fixed threshold to the plan participants.

The Company charged to operations \$10,811,000 in 2003, \$10,321,000 in 2002, and \$10,964,000 in 2001 relating to its defined contribution 401(k) plans. These plans cover employees not subject to labor contracts. Annual contributions are related to the level of voluntary employee participation.

10. Leases

The Company leases certain terminals and revenue equipment under noncancellable operating leases requiring minimum future rentals aggregating \$104,331,000 payable as follows: 2004—\$37,850,000; 2005—\$25,296,000; 2006—\$15,760,000; 2007—\$10,602,000; 2008—\$6,839,000 and thereafter \$7,984,000. Rental expense for operating leases was \$51,770,000, \$55,199,000, and \$50,761,000, in 2003, 2002, and 2001, respectively.

The Company has an interest rate swap agreement with major commercial banks to fix the interest rate of its trailer leases from variable interest rates principally based on LIBOR. The value of the leases upon which the payments are based was not changed. The agreement, which expires in 2004, fixes the Company's interest costs at 5.62% on leases with a notional amount of \$5,912,000.

The fair value of the Company's interest rate swaps at December 11, 2003 is a liability of approximately \$64,000, net of income taxes, and has been determined using proprietary financial models developed by the lending institutions which are counterparties to the swap arrangements. As a result of declining interest rates throughout 2003 the Company recognized incremental interest expense of approximately \$425,000, which is included in interest expense in the accompanying financial statements. The ineffective portions of the Company's interest rate swap agreements were not material.

11. Sale of Accounts Receivable

Accounts receivable consist of the following:

	<u>December 11 2003</u>	<u>December 31 2002</u>
	<i>(In Thousands)</i>	
Accounts receivable	\$ 362,634	\$ 21,031
Retained interest in securitized accounts receivable	—	217,617
Allowance for doubtful accounts	(6,115)	(8,432)
	<u>\$ 356,519</u>	<u>\$ 230,216</u>

On November 21, 2001, Roadway Express entered into an accounts receivable securitization agreement which matures in 2004, to finance up to \$200,000,000 (total commitment) of its domestic accounts receivable. Under this arrangement, undivided interests in Roadway Express' domestic accounts receivable are sold through a special purpose entity (SPE), a wholly owned subsidiary of the Company, without recourse, to a financial conduit. The proceeds were used to partially fund the acquisition of Roadway Next Day and are reported as financing cash flows in the Statement of Consolidated Cash Flows.

The accounts receivable are sold at a discount from the face amount to pay investor yield (LIBOR) on the undivided interests sold to the conduit, for utilization fees (0.25% of the undivided interest sold), and for program fees (0.50% of the total commitment). The discount from the face amount for accounts receivable sold by Roadway Express in 2003 and 2002 aggregated \$5,156,000 and \$6,384,000 respectively and was directly offset by a gain on allowance for accounts receivable discounts upon the consolidation of the SPE. The financing fees recognized in conjunction with the sale of accounts receivable was \$2,372,000 in 2003 and \$3,088,000 in 2002.

The arrangement provides that new Roadway Express accounts receivable are immediately sold to the SPE. The Company, through its SPE, retains the risk of credit loss on the receivables and, accordingly the full amount of the allowance for doubtful accounts has been retained on the Consolidated Balance Sheet. The conduit has collection rights to recover payments from the receivables in the designated pool and Roadway Express retains collection and administrative responsibilities for the undivided interests in the pool.

11. Sale of Accounts Receivable (continued)

This agreement was terminated on December 11, 2003 immediately prior to Yellow's acquisition of the company. Yellow satisfied our liability to the financial conduit, and we have recorded the resultant obligation to Yellow as a current liability.

The following transactions occurred between Roadway Express and the SPE in 2003 and 2002, respectively: proceeds from the accounts receivable sales, \$2,727,878,000, and \$2,650,810,000; servicing fees received, \$1,863,000, and \$1,529,000; payments received on investment in accounts receivable, \$2,720,975,000, and \$2,598,576,000.

12. Financing Arrangements

At December 11, 2003 and December 31, 2002, the Company's consolidated debt consists of the following:

	December 11 2003	December 31 2002
<i>(In Thousands)</i>		
Revolving credit facilities	\$ —	\$ —
Senior term loan	—	82,216
8.25% senior notes due 2008	225,000	225,000
	225,000	307,216
Sub-total	225,000	307,216
Less current portion	—	(33,703)
	\$ 225,000	\$ 273,513
Long-term debt	\$ 225,000	\$ 273,513

At December 31, 2002, the Company had in place a senior revolving credit facility with a sublimit for letters of credit that expired November 30, 2006. The credit facility was terminated effective December 11, 2003 upon consummation of the Yellow transaction. The original amount of the senior revolving credit facility was \$150,000,000 with a \$100,000,000 sublimit for letters of credit, which was amended on August 6, 2002. The result of the amendment increased the senior revolving credit facility to \$215,000,000 and increased the sublimit for letters of credit to \$165,000,000. Pricing under the revolving credit facility is at a fluctuating rate based on the alternate base rate as determined by Credit Suisse First Boston (CSFB) or LIBOR, plus an additional margin of 0.50% and 1.50%, respectively. In addition, there is a commitment fee of 0.40% on undrawn amounts. As of December 31, 2002, there were no amounts outstanding under the revolving credit facility, but availability had been reduced by \$112,162,000 as a result of the issuance of letters of credit, primarily related to casualty claims.

12. Financing Arrangements (continued)

The credit facility also included a \$175,000,000 Senior term loan, which was drawn in full to partially fund the acquisition of Arnold. After-tax proceeds of \$75,000,000 from the sale of ARLO were used to pay down borrowings on this facility in 2001. Pricing under the term loan was at a fluctuating rate based on the alternate base rate as determined by CSFB or LIBOR, plus an additional margin of 0.50% and 1.50%, respectively. Prior to the acquisition by Yellow, the Company paid the Senior term loan in full.

Also in connection with the acquisition of Roadway Next Day on November 30, 2001, the Company issued \$225,000,000 of 8.25% senior notes due December 1, 2008. Interest is due semi-annually on June 1st and December 1st.

In addition, the Company's Canadian subsidiary has \$10,000,000 available for borrowing under a secured revolving line of credit and bankers' acceptances. Borrowings are payable upon demand and bear interest at either the bank's prime lending rate, U.S. dollar base rate in Canada, or LIBOR plus 1.50% for periods up to 180 days. At December 11, 2003, no amounts were outstanding on this facility.

The financing arrangements include covenants that require the Company to comply with certain financial ratios, including leverage and fixed-charge coverage ratios, and maintenance of a minimum level of tangible net worth. As of December 11, 2003, the Company was in compliance. Interest expense, which approximates interest paid, amounted to \$19,327,000 in 2003, \$23,268,000 in 2002, and \$2,751,000 in 2001.

13. Contingencies

The Company has received notices from the Environmental Protection Agency (EPA) that it has been identified as a potentially responsible party (PRP) under the Comprehensive Environmental Response Compensation and Liability Act (Superfund) at certain hazardous waste sites. Such designations are made regardless of the Company's limited involvement at each site. The claims for remediation have been asserted against numerous other entities, which are believed to be financially solvent and are expected to fulfill their proportionate share. The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Based on its investigations, the Company believes that its obligation with regard to these sites is not significant, although there can be no assurances in this regard.

13. Contingencies (continued)

The Company's former parent, Caliber System, Inc., formerly known as Roadway Services, Inc (which was subsequently acquired by FDX Corporation, a wholly owned subsidiary of FedEx Corporation), is currently under examination by the Internal Revenue Service for tax years 1994 and 1995 (years prior to the spin-off of the Company). The IRS has proposed substantial adjustments for these tax years for multi-employer pension plan deductions. The IRS is challenging the timing, not the validity of these deductions. The Company is unable to predict the ultimate outcome of this matter; however, its former parent intends to vigorously contest these proposed adjustments.

Under a tax sharing agreement entered into by the Company and its former parent on January 2, 1996 (the date of the spin-off), the Company is obligated to reimburse the former parent for any additional taxes and interest that relate to the Company's business prior to the spin-off. The amount and timing of such payments is dependent on the ultimate resolution of the former parent's disputes with the IRS and the determination of the nature and extent of the obligations under the tax sharing agreement. On January 16, 2003, the Company made a \$14,000,000 payment to its former parent under the tax sharing agreement for taxes and interest related to certain of the proposed adjustments for tax years 1994 and 1995.

We estimate the possible range of the remaining payments that may be due to the former parent to be approximately \$0 to \$16,000,000 in additional taxes and \$0 to \$11,000,000 in related interest, net of tax benefit. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

Various legal proceedings arising from the normal conduct of business are pending but, in the opinion of management, the ultimate disposition of these matters will have no material adverse effect on the financial position or results of operations of the Company.

14. Guarantees of the Roadway Corporation Senior Notes

The following condensed consolidating financial statements set forth the Company's balance sheets as of December 11, 2003 and December 31, 2002 and the statements of operation and statements of cash flows for the period January 1, 2003 to December 11, 2003, and each of the two years in the period ended December 31, 2002. In the following schedules "Parent Company" refers to Roadway Corporation, "Guarantor Subsidiaries" refers to non-minor domestic subsidiaries, and "Non-guarantor subsidiaries" refers to foreign and minor domestic subsidiaries and "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in the Company's subsidiaries.

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

**Condensed Consolidating Balance Sheets
December 11, 2003**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			<i>(In Thousands)</i>		
Cash and cash equivalents	\$ 23,816	\$ 74,969	\$ 7,522	\$ —	\$ 106,307
Accounts receivable, including retained interest in securitized receivables, net	16,298	335,231	121,794	(116,804)	356,519
Due from affiliates	—	20,662	—	(20,662)	—
Prepaid expenses and supplies	—	19,562	276	—	19,838
Deferred income taxes	242	20,118	—	—	20,360
Assets of discontinued operations	—	—	—	—	—
Total current assets	40,356	470,542	129,592	(137,466)	503,024
Carrier operating property, at cost	—	1,453,341	32,723	—	1,486,064
Less allowance for depreciation	—	976,047	19,392	—	995,439
Net carrier operating property	—	477,294	13,331	—	490,625
Goodwill, net	—	269,094	17,599	—	286,693
Investment in subsidiaries	(103,951)	19,903	—	84,048	—
Deferred income taxes	1,034	36,708	611	—	38,353
Long-term assets	681,589	14,905	—	(650,000)	46,494
Total assets	\$ 619,028	\$1,288,446	\$ 161,133	\$ (703,418)	\$1,365,189
Accounts payable	\$ (34,721)	\$ 210,734	\$ 9,159	\$ 10,662	\$ 195,834
Due to affiliates	7,842	121,684	126,509	(148,128)	107,907
Salaries and wages	999	135,345	3,228	—	139,572
Current portion of long-term debt	—	—	—	—	—
Freight and casualty claims payable	—	55,628	2,334	—	57,962
Liabilities of discontinued operations	—	—	—	—	—
Total current liabilities	(25,880)	523,391	141,230	(137,466)	501,275
Casualty claims and other	1,492	62,341	—	—	63,833
Deferred income taxes	—	6,894	—	—	6,894
Long-term debt	225,000	650,000	—	(650,000)	225,000
Accrued pension and retiree medical	—	149,771	—	—	149,771
Total shareholders' equity	418,416	(103,951)	19,903	84,048	418,416
Total liabilities and shareholders' equity	\$ 619,028	\$1,288,446	\$ 161,133	\$ (703,418)	\$1,365,189

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			<i>(In Thousands)</i>		
Cash and cash equivalents	\$ 11,921	\$ 88,272	\$ 6,736	\$ —	\$ 106,929
Accounts receivable, including retained interest in securitized receivables, net	4	215,459	14,753	—	230,216
Due from affiliates	1,570	32,516	1,538	(35,624)	—
Prepaid expenses and supplies	217	16,289	177	—	16,683
Deferred income taxes	(1)	21,814	—	—	21,813
Assets of discontinued operations	—	87,431	—	—	87,431
Total current assets	13,711	461,781	23,204	(35,624)	463,072
Carrier operating property, at cost	—	1,487,807	27,841	—	1,515,648
Less allowance for depreciation	—	991,429	15,036	—	1,006,465
Net carrier operating property	—	496,378	12,805	—	509,183
Goodwill, net	—	269,093	14,817	—	283,910
Investment in subsidiaries	656,038	3,763	—	(659,801)	—
Deferred income taxes	3,417	35,913	611	—	39,941
Long-term assets	19,799	19,968	—	—	39,767
Total assets	\$692,965	\$1,286,896	\$ 51,437	\$(695,425)	\$1,335,873
Accounts payable	\$ (10,628)	\$ 192,514	\$ 11,722	\$ —	\$ 193,608
Due to affiliates	1,354	3,361	30,802	(35,624)	(107)
Salaries and wages	1,700	146,023	3,741	—	151,464
Current portion of long-term debt	33,703	—	—	—	33,703
Freight and casualty claims payable	—	48,406	1,409	—	49,815
Liabilities of discontinued operations	—	32,407	—	—	32,407
Total current liabilities	26,129	422,711	47,674	(35,624)	460,890
Casualty claims and other	5,454	62,428	—	—	67,882
Deferred income taxes	—	10,666	—	—	10,666
Long-term debt	273,513	—	—	—	273,513
Accrued pension and retiree medical	—	135,053	—	—	135,053
Total shareholders' equity	387,869	656,038	3,763	(659,801)	387,869
Total liabilities and shareholders' equity	\$692,965	\$1,286,896	\$ 51,437	\$(695,425)	\$1,335,873

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

**Condensed Consolidating Statements of Income
Period January 1, 2003 to December 11, 2003**

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			<i>(In Thousands)</i>		
Revenue	\$ —	\$2,927,375	\$ 125,688	\$ (944)	\$3,052,119
Operating expenses:					
Salaries, wages and benefits	6,397	1,900,058	40,254	—	1,946,709
Operating supplies and expenses	(6,972)	494,206	27,760	(944)	514,050
Purchased transportation	—	276,384	38,051	—	314,435
Operating taxes and licenses	382	74,515	2,160	—	77,057
Insurance and claims expenses	193	58,095	1,792	—	60,080
Provision for depreciation	—	66,444	3,338	—	69,782
Net loss (gain) on disposal of operating property	—	(2,150)	(422)	—	(2,572)
Compensation and other expense related to the Yellow acquisition	—	53,734	—	—	53,734
Results of affiliates	10,975	(8,932)	—	(2,043)	—
Total operating expenses	10,975	2,912,354	112,933	(2,987)	3,033,275
Operating income from continuing operations	(10,975)	15,021	12,755	2,043	18,844
Other (expenses), net	(27,225)	(8,962)	1,379	—	(34,808)
Income from continuing operations before income taxes	(38,200)	6,059	14,134	2,043	(15,964)
Provision for income taxes	(9,610)	17,035	5,201	—	12,626
Income from continuing operations	(28,590)	(10,976)	8,933	2,043	(28,590)
Income from discontinued operations	(155)	—	—	—	(155)
Net income	\$ (28,745)	\$ (10,976)	\$ 8,933	\$ 2,043	\$ (28,745)

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

Year ended December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			<i>(In Thousands)</i>		
Revenue	\$ —	\$2,886,025	\$ 125,743	\$ (992)	\$3,010,776
Operating expenses:					
Salaries, wages and benefits	7,711	1,887,537	39,234	—	1,934,482
Operating supplies and expenses	(7,783)	460,395	27,795	(992)	479,415
Purchased transportation	—	249,541	40,071	—	289,612
Operating taxes and licenses	71	74,424	2,167	—	76,662
Insurance and claims expenses	1	62,473	1,147	—	63,621
Provision for depreciation	—	72,113	3,673	—	75,786
Net loss (gain) on disposal of operating property	—	(396)	(254)	—	(650)
Results of affiliates	(56,290)	(8,079)	—	64,369	—
Total operating expenses	(56,290)	2,798,008	113,833	63,377	2,918,928
Operating income from continuing operations	56,290	88,017	11,910	(64,369)	91,848
Other (expenses), net	(26,351)	(4,896)	1,436	—	(29,811)
Income from continuing operations before income taxes	29,939	83,121	13,346	(64,369)	62,037
Provision for income taxes	(8,985)	30,613	5,267	—	26,895
Income from continuing operations	38,924	52,508	8,079	(64,369)	35,142
Income from discontinued operations	—	3,782	—	—	3,782
Net income	\$ 38,924	\$ 56,290	\$ 8,079	\$ (64,369)	\$ 38,924

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

Year ended December 31, 2001

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
			<i>(In Thousands)</i>		
Revenue	\$ —	\$2,658,095	\$ 121,701	\$ (905)	\$2,778,891
Operating expenses:					
Salaries, wages and benefits	2,639	1,738,683	39,921	—	1,781,243
Operating supplies and expenses	1,066	448,196	29,624	(905)	477,981
Purchased transportation	—	231,242	40,722	—	271,964
Operating taxes and licenses	—	69,504	1,856	—	71,360
Insurance and claims expenses	—	45,503	1,525	—	47,028
Provision for depreciation	—	66,617	3,569	—	70,186
Net loss (gain) on disposal of operating property	—	730	(296)	—	434
Results of affiliates	(34,276)	(2,154)	—	36,430	—
Total operating expenses	(30,571)	2,598,321	116,921	35,525	2,720,196
Operating income from continuing operations	30,571	59,774	4,780	(36,430)	58,695
Other (expenses), net	(2,095)	(1,695)	(2,028)	—	(5,818)
Income from continuing operations before income taxes	28,476	58,079	2,752	(36,430)	52,877
Provision for income taxes	(2,361)	23,977	598	—	22,214
Income from continuing operations	30,837	34,102	2,154	(36,430)	30,663
Income from discontinued operations	—	174	—	—	174
Net income	\$ 30,837	\$ 34,276	\$ 2,154	\$ (36,430)	\$ 30,837

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

Condensed Consolidating Statement of Cash Flows
Period January 1, 2003 to December 11, 2003

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			<i>(In Thousands)</i>		
Net cash (used) provided by continuing operating activities	\$ (15,813)	\$ 89,632	\$ 3,869	—	\$ 77,688
Cash flows from investing activities					
Purchases of carrier operating property, net	—	(43,945)	(3,443)	—	(47,388)
Business disposal	47,430	—	—	—	47,430
Net cash (used) by investing activities	47,430	(43,945)	(3,443)	—	42
Cash flows from financing activities					
Dividends paid	(3,964)	—	—	—	(3,964)
Transfers to (from) discontinued operations	58,950	(58,950)	—	—	—
Accounts receivable securitization	—	—	—	—	—
Treasury stock activity—net	7,508	—	—	—	7,508
Debt issuance costs	—	—	—	—	—
Long-term debt (payments)	(82,216)	—	—	—	(82,216)
Net cash provided (used) by financing activities	(19,722)	(58,950)	—	—	(78,672)
Effect of exchange rates on cash	—	—	358	—	358
Net (decrease) increase in cash and cash equivalents from continuing operations	11,895	(13,263)	784	—	(584)
Net (decrease) in cash and cash equivalents from discontinued operations—	—	(38)	—	—	(38)
Cash and cash equivalents at beginning of year	11,921	88,272	6,736	—	106,929
Cash and cash equivalents at end of year	\$ 23,816	\$ 74,971	\$ 7,520	\$ —	\$ 106,307

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

Year ended December 31, 2002

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
			<i>(In Thousands)</i>		
Net cash (used) provided by continuing operating activities	\$ (54,532)	\$ 162,551	\$ 8,900	\$ —	\$ 116,919
Cash flows from investing activities:					
Purchases of carrier operating property, net	—	(63,538)	(3,124)	—	(66,662)
Business acquisitions	(24,092)	—	—	—	(24,092)
Net cash (used) by investing activities	(24,092)	(63,538)	(3,124)	—	(90,754)
Cash flows from financing activities					
Dividends paid	(3,863)	—	—	—	(3,863)
Transfers to (from) parent	84,586	(66,586)	—	—	18,000
Accounts receivable securitization	—	—	—	—	—
Treasury stock activity—net	(14,922)	—	—	—	(14,922)
Debt issuance costs	—	—	—	—	—
Long-term debt payments	(17,784)	—	—	—	(17,784)
Net cash provided (used) by financing activities	48,017	(66,586)	—	—	(18,569)
Effect of exchange rates on cash	—	—	(227)	—	(227)
Net (decrease) increase in cash and cash equivalents from continuing operations	(30,607)	32,427	5,549	—	7,369
Net (decrease) in cash and cash equivalents from discontinued operations	—	(10,872)	—	—	(10,872)
Cash and cash equivalents at beginning of year	34,876	74,369	1,187	—	110,432
Cash and cash equivalents at end of year	\$ 4,269	\$ 95,924	\$ 6,736	\$ —	\$ 106,929

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

14. Guarantees of the Roadway Corporation Senior Notes (continued)

Year ended December 31, 2001

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non-Guarantor Subsidiaries</u>	<u>Eliminations</u>	<u>Consolidated</u>
			<i>(In Thousands)</i>		
Net cash provided by continuing operating activities	\$ 21,449	\$ 98,486	\$ 571	\$ —	\$ 120,506
Cash flows from investing activities					
Purchases of carrier operating property, net	—	(63,484)	(2,575)	—	(66,059)
Business acquisitions	(453,300)	40,078	—	—	(413,222)
Net cash (used) by investing activities	(453,300)	(23,406)	(2,575)	—	(479,281)
Cash flows from financing activities					
Dividends paid	160,616	(164,487)	—	—	(3,871)
Accounts receivable securitization	—	100,000	—	—	100,000
Treasury stock activity—net	(8,207)	(168)	—	—	(8,375)
Debt issuance costs	(10,826)	—	—	—	(10,826)
Long-term debt	325,000	—	—	—	325,000
Net cash provided (used) by financing activities	466,583	(64,655)	—	—	401,928
Effect of exchange rates on cash	—	—	54	—	54
Net increase (decrease) in cash and cash equivalents from continuing operations	34,732	10,425	(1,950)	—	43,207
Net increase in cash and cash equivalents from discontinued operations	—	2,286	—	—	2,286
Cash and cash equivalents at beginning of year	—	61,244	3,695	—	64,939
Cash and cash equivalents at end of year	\$ 34,732	\$ 73,955	\$ 1,745	\$ —	\$ 110,432

15. Guarantees of the Yellow Roadway Contingent Convertible Senior Notes

The following condensed consolidating financial statements set forth the Company's balance sheet as of December 11, 2003 and the statement of operation and statement of cash flows for the period January 1, 2003 to December 11, 2003. In the following schedules "Guarantor Subsidiaries" refers to Roadway Corporation, Roadway Next Day Corporation (excludes New Penn Motor Express, Inc.), and Roadway Express, Inc. and all remaining subsidiaries are defined as "Non-guarantor subsidiaries" and "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in the Company's subsidiaries.

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

15. Guarantees of the Yellow Roadway Contingent Convertible Senior Notes (continued)

Condensed Consolidating Balance Sheets

December 11, 2003

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
				<i>(In Thousands)</i>
Cash and cash equivalents	\$ 76,035	\$ 30,272	\$ —	\$ 106,307
Accounts receivable, including retained interest in securitized receivables, net	307,443	38,415	10,661	356,519
Due from affiliates	48,640	106,969	(155,609)	—
Prepaid expenses and supplies	17,310	2,528	—	19,838
Deferred income taxes	16,730	3,630	—	20,360
Assets of discontinued operations	—	—	—	—
Total current assets	466,158	181,814	(144,948)	503,024
Carrier operating property, at cost	1,352,073	133,991	—	1,486,064
Less allowance for depreciation	956,606	38,833	—	995,439
Net carrier operating property	395,467	95,158	—	490,625
Goodwill, net	200	286,493	—	286,693
Investment in subsidiaries	227,427	—	(227,427)	—
Deferred income taxes	37,739	614	—	38,353
Long-term assets	690,931	5,563	(650,000)	46,494
Total assets	\$1,817,922	\$ 569,642	\$(1,022,375)	\$1,365,189
Accounts payable	\$ 161,567	\$ 23,606	\$ 10,661	\$ 195,834
Due to affiliates	129,058	134,458	(155,609)	107,907
Salaries and wages	127,854	11,718	—	139,572
Current portion of long-term debt	—	—	—	—
Freight and casualty claims payable	52,624	5,338	—	57,962
Liabilities of discontinued operations	—	—	—	—
Total current liabilities	471,103	175,120	(144,948)	501,275
Casualty claims and other	56,191	7,642	—	63,833
Deferred income taxes	(533)	7,427	—	6,894
Long-term debt	725,000	150,000	(650,000)	225,000
Accrued pension and retiree medical	147,745	2,026	—	149,771
Total shareholders' equity	418,416	227,427	(227,427)	418,416
Total liabilities and shareholders' equity	\$1,817,922	\$ 569,642	\$(1,022,375)	\$1,365,189

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

15. Guarantees of the Yellow Roadway Contingent Convertible Senior Notes (continued)

**Condensed Consolidating Statements of Income
Period January 1, 2003 to December 11, 2003**

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
		<i>(In Thousands)</i>		
Revenue	\$2,718,839	\$ 334,224	\$ (944)	\$3,052,119
Operating expenses:				
Salaries, wages and benefits	1,767,479	179,230	—	1,946,709
Operating supplies and expenses	457,521	57,473	(944)	514,050
Purchased transportation	274,129	40,306	—	314,435
Operating taxes and licenses	69,081	7,976	—	77,057
Insurance and claims expenses	55,888	4,192	—	60,080
Provision for depreciation	57,288	12,494	—	69,782
Net loss (gain) on disposal of operating property	(2,111)	(461)	—	(2,572)
Compensation and other expense related to the Yellow acquisition	50,393	3,341	—	53,734
Results of affiliates	(15,634)	—	15,634	—
Total operating expenses	2,714,034	304,551	14,690	3,033,275
Operating income from continuing operations	4,805	29,673	(15,634)	18,844
Other (expenses), net	(30,897)	(3,911)	—	(34,808)
Income from continuing operations before income taxes	(26,092)	25,762	(15,634)	(15,964)
Provision for income taxes	2,498	10,128	—	12,626
Income from continuing operations	(28,590)	15,634	(15,634)	(28,590)
Income from discontinued operations	(155)	—	—	(155)
Net income	\$ (28,745)	\$ 15,634	\$ (15,634)	\$ (28,745)

Roadway Corporation and Subsidiaries
Notes to Consolidated Financial Statements (continued)

15. Guarantees of the Yellow Roadway Contingent Convertible Senior Notes (continued)

Condensed Consolidating Statement of Cash Flows
Period January 1, 2003 to December 11, 2003

	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
		<i>(In Thousands)</i>		
Net cash (used) provided by continuing operating activities	\$ 49,002	\$ 28,686	\$ —	\$ 77,688
Cash flows from investing activities				
Purchases of carrier operating property, net	(43,146)	(4,242)	—	(47,388)
Business disposal	47,430	—	—	47,430
Net cash (used) by investing activities	4,284	(4,242)	—	42
Cash flows from financing activities				
Dividends received (paid)	159,236	(163,200)	—	(3,964)
Transfers to (from) parent	—	—	—	—
Accounts receivable securitization	—	—	—	—
Treasury stock activity—net	7,508	—	—	7,508
Debt issuance costs	—	—	—	—
Long-term debt (payments) borrowings	(232,216)	150,000	—	(82,216)
Net cash provided (used) by financing activities	(65,472)	(13,200)	—	(78,672)
Effect of exchange rates on cash	—	358	—	358
Net (decrease) increase in cash and cash equivalents from continuing operations	(12,186)	11,602	—	(584)
Net (decrease) in cash and cash equivalents from discontinued operations	(18,705)	18,667	—	(38)
Cash and cash equivalents at beginning of year	18,670	88,259	—	106,929
Cash and cash equivalents at end of year	\$ (12,221)	\$ 118,528	\$ —	\$ 106,307

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Roadway LLC

Consolidated Balance Sheets as of December 31, 2004 and 2003;

Statements of Consolidated Operations for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Statements of Consolidated Cash Flows for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Statements of Parent Company Investment and Comprehensive Income for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

with Report of Independent Auditors

Independent Auditors' Report

The Board of Directors
Yellow Roadway Corporation:

We have audited the accompanying consolidated balance sheets of Roadway Express, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, and parent company investment and comprehensive income for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Roadway Express, Inc. and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

CONSOLIDATED BALANCE SHEETS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Roadway LLC

(in thousands)	December 31, 2004	December 31, 2003
Assets		
CURRENT ASSETS		
Cash and cash equivalents	\$ 18,933	\$ 24,552
Accounts receivable, less allowances of \$0 and \$4,793	—	349,016
Accounts receivable parent and affiliates, net	315,107	—
Fuel and operating supplies	6,994	3,785
Deferred income taxes, net	43,443	12,199
Prepaid expenses	7,987	11,333
Total current assets	392,464	400,885
PROPERTY AND EQUIPMENT		
Land	228,836	239,344
Structures	335,851	344,330
Revenue equipment	144,855	97,273
Technology equipment and software	38,506	20,572
Other	52,817	48,745
	800,865	750,264
Less – accumulated depreciation	(64,739)	(2,763)
Net property and equipment	736,126	747,501
Goodwill	545,246	474,513
Intangibles	395,704	371,081
Other assets	4,421	8,441
Total assets	\$2,073,961	\$2,002,421
Liabilities and Parent Company Investment		
CURRENT LIABILITIES		
Checks outstanding in excess of bank balances	\$ 27,459	\$ 30,992
Accounts payable	105,566	77,433
Advances payable to parent and affiliates	—	115,202
Wages, vacations and employees' benefits	210,208	173,298
Claims and insurance accruals	54,311	49,090
Other current and accrued liabilities	49,984	61,476
Total current liabilities	447,528	507,491
OTHER LIABILITIES		
Note payable to affiliate	500,000	500,000
Deferred income taxes, net	192,339	186,280
Claims and other liabilities	301,327	318,958
Commitments and contingencies		
PARENT COMPANY INVESTMENT		
Capital surplus	574,175	496,044
Retained earnings (deficit)	53,912	(5,454)
Accumulated other comprehensive income (loss)	4,680	(898)
Total parent company investment	632,767	489,692
Total liabilities and parent company investment	\$2,073,961	\$2,002,421

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Roadway LLC

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Revenue	\$3,119,927	\$ 131,249
Operating Expenses:		
Salaries, wages and employees' benefits	1,922,732	86,192
Operating expenses and supplies	473,754	21,315
Operating taxes and licenses	75,726	4,068
Claims and insurance	57,081	3,573
Depreciation and amortization	70,491	3,454
Purchased transportation	355,406	18,730
Gains on property disposals, net	(1,466)	(8)
Total operating expenses	2,953,724	137,324
Operating income (loss)	166,203	(6,075)
Nonoperating (Income) Expenses:		
Related party interest expense	40,500	2,188
Related party financing charges, net	35,614	—
Interest income	(774)	(16)
Other	1,017	187
Nonoperating expenses, net	76,357	2,359
Income (Loss) Before Income Taxes	89,846	(8,434)
Income Tax Provision (Benefit)	30,480	(2,980)
Net Income (Loss)	\$ 59,366	\$ (5,454)

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Roadway LLC

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Activities:		
Net income (loss)	\$ 59,366	\$ (5,454)
Noncash items included in net income (loss):		
Depreciation and amortization	70,491	3,454
Deferred income tax, net	(1,019)	—
Gain on property disposals, net	(1,466)	(8)
Changes in assets and liabilities, net:		
Accounts receivable	34,371	19,467
Accounts payable	20,724	(11,371)
Other working capital items	(18,442)	(14,939)
Claims and other	(2,687)	(1,910)
Other	(3,476)	(804)
Net cash provided by (used in) operating activities	157,862	(11,565)
Investing Activities:		
Acquisition of property and equipment	(73,305)	(2,399)
Proceeds from disposal of property and equipment	25,489	1,183
Net cash used in investing activities	(47,816)	(1,216)
Financing Activities:		
Intercompany activity, net	(115,665)	(22,943)
Net cash used in financing activities	(115,665)	(22,943)
Net Decrease In Cash and Cash Equivalents	(5,619)	(35,724)
Cash and Cash Equivalents, Beginning of Period	24,552	60,276
Cash and Cash Equivalents, End of Year	\$ 18,933	\$ 24,552
Supplemental Cash Flow Information:		
Income taxes paid (received)	\$ 46,915	\$ (28)
Interest paid	188	—

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF PARENT COMPANY INVESTMENT AND COMPREHENSIVE INCOME
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Roadway LLC

<u>(in thousands)</u>	<u>Capital Surplus</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
Balances at December 12, 2003	\$496,044	\$ —	\$ —	\$496,044
Net loss		(5,454)	—	(5,454)
Change in foreign currency translation adjustment	—	—	(898)	(898)
Total comprehensive loss				(6,352)
Balances at December 31, 2003	496,044	(5,454)	(898)	489,692
Net income	—	59,366	—	59,366
Change in foreign currency translation adjustment	—	—	5,578	5,578
Total comprehensive income				64,944
Purchase price adjustments	78,131	—	—	78,131
Balances at December 31, 2004	\$574,175	\$53,912	\$ 4,680	\$632,767

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Roadway Express, Inc. and Subsidiaries

A wholly owned subsidiary of Roadway LLC

Description of Business

Roadway Express, Inc. and subsidiaries (also referred to as “Roadway Express” “the Company,” “we” or “our”), a wholly owned subsidiary of Roadway LLC, which is wholly owned by Yellow Roadway Corporation (“Yellow Roadway”), is a leading transportation services provider that offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods, primarily through decentralized management and customer facing organizations. Approximately 30 percent of Roadway Express shipments are completed in two days or less. Roadway Express owns 100 percent of Reimer Express Lines Ltd. located in Canada that specializes in shipments into, across and out of Canada. Roadway Express has no reportable operating segments as management evaluates operating performance and allocates resources based on Roadway Express consolidated results.

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation. The combined company was renamed Yellow Roadway Corporation. Roadway Corporation was merged with and into a newly formed limited liability company and a wholly owned subsidiary of Yellow Roadway and the limited liability company changed its name to Roadway LLC after the merger. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock. Roadway LLC principal subsidiaries include Roadway Express and Roadway Next Day Corporation.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, Business Combinations (“SFAS No. 141”), the acquisition was accounted for under purchase accounting. As a result, the accompanying 2003 Statements of Consolidated Operations and Statements of Consolidated Cash Flows present the results from the date of acquisition.

Principles of Consolidation and Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of Roadway Express, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements and are not discussed in a separate note.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2004, approximately 81 percent of our labor force is subject to collective bargaining agreements that expire in 2008.

Revenue Recognition

For shipments in transit, Roadway Express records revenue based on the percentage of service completed as of the period end and accrues delivery costs as incurred. In addition, Roadway Express recognizes revenue on a gross basis since the Company is the primary obligor even when the Company uses other transportation service providers who act on their behalf, because the Company is responsible to the customer for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. In addition, Roadway Express retains all credit risk. Roadway Express assigns pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. Roadway Express accrues a reserve for rerating based on historical trends. Management believes these policies most accurately reflect revenue as earned.

Foreign Currency

Our functional currency is the U.S. dollar, whereas, our foreign operations utilize the local currency as their functional currency. Accordingly, for purposes of translating foreign subsidiary financial statements to the U.S. dollar reporting currency, assets and liabilities of our foreign operations are translated at the fiscal year end exchange rates and income and expenses are translated at the weighted-average exchange rates for the fiscal year. Foreign currency gains and losses resulting from foreign currency transactions are included in consolidated operations in the year of occurrence.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximates their fair value due to the short-term nature of these instruments.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, property damage and liability that insurance does not cover. We include these costs in claims and insurance expense except for workers' compensation, which is included in salaries, wages, and employees' benefits.

We base reserves for workers' compensation and property damage and liability claims primarily upon actuarial analyses prepared by independent actuaries. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the United States (U.S.) Treasury rate for maturities that match the expected payout of such claims. The process of determining reserve

requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs, and certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results. At December 31, 2004 and 2003, estimated future payments related to these claims aggregated \$176.0 million and \$175.5 million, respectively. The present value of these estimated future payments was \$153.1 million and \$149.2 million at December 31, 2004 and 2003, respectively.

Property and equipment

Roadway Express carries property and equipment at cost less accumulated depreciation. The values assigned to property and equipment at the date of the acquisition were principally determined by independent, third party appraisers. We compute depreciation using the straight-line method based on the following service lives:

	<u>Years</u>
Structures	10 – 40
Revenue equipment	5 – 14
Technology equipment and software	3 – 5
Other	3 – 10

We charge maintenance and repairs to expense as incurred, and capitalize replacements and improvements when these costs extend the useful life of the asset.

Our investment in technology equipment and software consists primarily of advanced customer service and freight management equipment and related software. We capitalize certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll, and payroll-related costs for employees directly associated with the project. For the year ended December 31, 2004, we capitalized \$1.6 million for software costs. For the period ended December 31, 2003, the amount capitalized was immaterial to the Company's financial statements.

For the year ended December 31 2004, we recorded \$62.4 million in depreciation expense. For the period December 12 through December 31, 2003, depreciation expense was \$3.0 million.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of identifiable amortizable intangibles and property, plant and equipment may be impaired, we would perform an evaluation of recoverability in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If an evaluation were required, we would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required.

Acquisition

In accordance with SFAS No. 141, Yellow Roadway allocates the purchase price of its acquisitions to the tangible and intangible assets and liabilities of the acquired entity based on their fair values. Yellow Roadway records the excess purchase price over the fair values as goodwill. The fair value assigned to intangible assets acquired is based on valuations prepared by independent third party appraisal firms using estimates and assumptions provided by management. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets

("SFAS No. 142"), we do not amortize goodwill and intangible assets with indefinite useful lives but review these assets at least annually for impairment. An impairment loss would be recognized to the extent that the carrying amount exceeds the assets' fair value. Intangible assets with estimatable useful lives are amortized on a straight-line basis over their respective useful lives.

Roadway Corporation

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation and all of its outstanding stock in approximately a half cash, half stock transaction. As part of the transaction, Yellow Corporation changed its name to Yellow Roadway Corporation. In addition, Roadway Corporation became Roadway LLC ("Roadway") and a wholly owned subsidiary of Yellow Roadway. Principal operating subsidiaries of Roadway include Roadway Express and New Penn. Roadway Express is a leading transporter of industrial, commercial and retail goods in the two- to five-day regional and long-haul markets. New Penn is a next-day, ground, less-than-truckload, carrier of general commodities.

Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock, based on an exchange ratio of 1.752 and an average price per share of \$31.51 (subject to proration and allocation provisions), for a total purchase price of approximately \$1.1 billion. The purchase price also included approximately \$19 million for investment banking, legal and accounting fees that Yellow Roadway incurred to consummate the acquisition, resulting in total cash consideration of \$513 million. We recorded the net assets at their estimated fair values and included operating results in our financial statements from the date of acquisition. We allocated the purchase price at December 31, 2003, on a preliminary basis using information then available. The allocation of the purchase price to the assets and liabilities acquired was finalized in the fourth quarter of 2004 including receipt of an independent valuation. The total purchase price increased by \$78.1 million, as reflected in the change in capital surplus, primarily due to a change in the purchase price allocation between Roadway Express and New Penn. The final purchase price allocation is shown below and resulted in a \$69.6 million increase to goodwill, \$31.0 million increase to intangible assets and a \$22.2 million decrease to property, plant and equipment from our preliminary allocation.

In connection with the acquisition, we incurred \$12.0 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and contract terminations. We have recognized such costs as a liability assumed as of the acquisition date, resulting in additional goodwill. These restructuring costs consisted of \$10.5 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and \$1.5 million for contract terminations. All of these restructuring items were effectuated within one year of the acquisition in accordance with purchase accounting requirements. During the year ended December 31, 2004, we paid \$7.7 million of restructuring costs resulting in a \$4.3 million accrued liability at December 31, 2004.

Based on an independent valuation prepared using estimates and assumptions provided by management, Yellow Roadway allocated approximately \$574.2 million of the total purchase price of approximately \$1.1 billion to Roadway Express as follows:

<u>(in thousands)</u>	
Cash and cash equivalents	\$ 60,276
Accounts receivable	342,816
Other current assets	16,922
Property, plant and equipment	727,237
Other long-term assets	8,204
Intangible assets	402,800
Goodwill	544,355
Accounts payable and other current liabilities	(539,149)
Note payable to affiliate	(500,000)
Deferred income taxes, net	(186,861)
Other long-term liabilities	(302,425)
Total purchase price	\$ 574,175

Intangible Assets

Of the \$402.8 million allocated to intangibles assets, \$324.0 million was assigned to the Roadway trade name and is not subject to amortization. Of the remaining value, \$63.8 million and \$15.0 million were assigned to customer relationships and software related assets, respectively. Yellow Roadway assigned the customer relationships and software assets a weighted average life of 20 years and 3 years, respectively.

Goodwill

Yellow Roadway recorded \$602.9 million in goodwill as part of the acquisition, allocating \$544.3 million to Roadway Express and \$58.6 million to Roadway Next Day. Of the total goodwill recorded, the amount that may be deductible for tax purposes is not material to the results of operations of Yellow Roadway.

Goodwill and Intangibles

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. In accordance with SFAS No. 142, we review goodwill at least annually for impairment based on a fair value approach. During the fourth quarter of 2004, we completed our annual impairment testing of goodwill and tradenames, which are deemed to have indefinite lives, and determined there was no impairment.

The following table shows the changes in the carrying amount of goodwill:

<u>(in thousands)</u>	
Balance at December 31, 2002	\$ —
Goodwill resulting from acquisition	474,738
Changes in foreign currency exchange rates	(225)
Balance at December 31, 2003	474,513
Final purchase price allocation adjustment	69,618
Changes in foreign currency exchange rates	1,115
Balance at December 31, 2004	\$ 545,246

The components of amortizable intangible assets as of December 31 are as follows:

<u>(in thousands)</u>	Weighted Average Life (years)	2004		2003	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	20	\$63,800	\$ 3,317	\$48,900	\$ 164
Technology based	3	15,000	5,160	15,000	256
Intangible assets		\$78,800	\$ 8,477	\$63,900	\$ 420

Total marketing related intangible assets with indefinite lives, primarily trade names, were \$324.0 million and \$307.6 million as of December 31, 2004 and 2003, respectively. During 2004 these amounts were impacted by additional purchase price adjustments of \$16.1 million and changes in foreign currency exchange rates of \$0.3 million. These intangible assets are not subject to amortization, but are subjected to the annual impairment test previously discussed.

During the year ended December 31, 2004 and for the period December 12 to December 31, 2003, amortization expense was \$8.1 million and \$420 thousand, respectively. Estimated amortization expense for the next five years is as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Estimated amortization expense	\$8,213	\$7,958	\$3,214	\$3,214	\$3,214

Employee Benefits

Pension and Other Postretirement Benefit Plans

Qualified and Nonqualified Defined Benefit Pension Plans

Roadway Express participates in qualified and nonqualified defined benefit pension plans for most employees not covered by collective bargaining agreements (approximately 5,000 employees). Qualified and nonqualified pension benefits are based on years of service and the employees' covered earnings. Employees covered by collective bargaining agreements participate in various multi-employer pension plans to which Roadway Express contributes, as discussed later in this section. Additionally, on January 1, 2004, all new U.S.-salaried, nonunion employees (except those currently participating in other profit sharing plans) participate in a defined contribution retirement plan. With the implementation of the defined contribution retirement plan, the existing Roadway LLC defined benefit pension plan was closed to new participants.

Our funding policy is to target contributions at the minimum required tax-deductible contribution for the year while taking into consideration each plan's funded status, any variable Pension Benefit Guarantee Corporation premiums and the outlooks for required funding. Our actuarial valuation measurement date for our principal pension plans and post retirement benefits plan is December 31.

Other Postretirement Benefit Plan

Roadway Express sponsors a postretirement healthcare benefit plan that covers non-union employees of Roadway Express hired before February 1, 1997. Health care benefits under this plan end when the participant attains age 65.

Definitions

We have defined the following terms to provide a better understanding of our pension and other postretirement benefits:

Projected benefit obligation: The projected benefit obligation is the present value of future benefits to employees attributed to service as of the measurement date, including assumed future salary increases through retirement.

Plan assets: Represents the assets currently invested in the plans. Assets used in calculating the funded status are measured at the current market value at December 31.

Funded status: The funded status represents the difference between the projected benefit obligation and plan assets.

Net amount recognized: The net amount recognized represents the amount accrued by Roadway Express for pension costs.

Unfunded accumulated benefit obligation: The accumulated benefit obligation is the present value of future benefits attributed to service as of the measurement date, assuming no future salary growth. The unfunded accumulated benefit obligation represents the difference between the accumulated benefit obligation and the plan assets.

Accumulated postretirement benefit obligation: The accumulated postretirement benefit obligation is the present value of other postretirement benefits to employees attributed to service as of the measurement date.

Funded Status

The following table sets forth the plans' funded status:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	For the year ended December 31, 2004	For the period December 12 to December 31, 2003	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Change in benefit obligation:				
Benefit obligation at beginning of period	\$ 452,814	\$ 455,289	\$ 53,076	\$ 52,934
Service cost	21,604	1,190	767	109
Interest cost	29,325	1,454	2,188	169
Plan amendment	—	—	(14,944)	—
Participant contributions	—	—	720	—
Benefits paid	(30,987)	(5,119)	(3,032)	(136)
Actuarial (gain) loss	56,747	—	(930)	—
Benefit obligation at year end	\$ 529,503	\$ 452,814	\$ 37,845	\$ 53,076
Change in plan assets:				
Fair value of plan assets at beginning of period	\$ 283,056	\$ 280,601	\$ —	\$ —
Actual return on plan assets	26,403	7,574	—	—
Employer contributions	20,063	—	2,312	134
Participant contributions	—	—	720	—
Benefits paid	(30,986)	(5,119)	(3,032)	(134)
Fair value of plan assets at year end	\$ 298,536	\$ 283,056	\$ —	\$ —
Funded status:				
Funded status	\$ (230,966)	\$ (169,757)	\$ (37,845)	\$ (53,076)
Unrecognized prior service cost	—	—	—	—
Unrecognized net actuarial (gain) loss	48,752	(6,309)	(932)	(2)
Net amount recognized	\$ (182,214)	\$ (176,066)	\$ (38,777)	\$ (53,078)

During the year ended December 31, 2004, certain changes were made to the postretirement benefit plan. These plan changes revised the cost sharing structure between the employer and the different employee groups. The reduction of the liability of \$14.9 million was recognized in purchase accounting.

Benefit Plan Obligations

Amounts recognized for the benefit plan liabilities in the Consolidated Balance Sheet at December 31 are as follows:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Accrued benefit costs	\$ (182,214)	\$ (176,066)	\$ (38,777)	\$ (53,078)

Weighted average actuarial assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Discount rate	5.75%	6.25%	5.75%	6.25%
Rate of increase in compensation levels	3.25%	3.25%	—	—

Information for pension plans with an accumulated benefit obligation in excess of plan assets at December 31:

(in thousands)	2004	2003
Projected benefit obligation	\$529,503	\$452,814
Accumulated benefit obligation	427,518	376,584
Fair value of plan assets	298,536	283,056

The total accumulated benefit obligation for all plans was \$427.5 million and \$376.6 million at December 31, 2004 and 2003, respectively.

Future Contributions and Benefit Payments

We expect to contribute approximately \$30.5 million to our pension plans in 2005.

Expected benefit payments for each of the next five years ended December 31 are as follows:

(in thousands)	2005	2006	2007	2008	2009	2010-2014
Expected benefit payments	\$20,123	\$22,283	\$25,810	\$30,870	\$32,964	\$227,865

Pension and Other Postretirement Costs

The components of our net periodic pension and other postretirement costs were as follows:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	For the year ended December 31, 2004	For the period December 12 to December 31, 2003	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Service cost	\$ 21,603	\$ 1,190	\$ 767	\$ 109
Interest cost	29,325	1,454	2,188	169
Expected return on plan assets	(24,781)	(1,266)	—	—
Amortization of unrecognized net actuarial loss	64	—	—	—
Net periodic pension cost	\$ 26,211	\$ 1,378	\$ 2,955	\$ 278

Weighted average assumptions as of December 31:

Discount rate	6.25%	6.75%	6.25%	6.25%
Rate of increase in compensation levels	3.25%	3.25%	—	—
Expected rate of return on assets	8.75%	8.50%	—	—

We believe our 2004 expected rate of return of 8.75 percent is appropriate based on our historical experience in this investment portfolio as well as a review of other objective indices. Although plan investments are subject to short-term market volatility, we believe they are well diversified and closely managed. Our asset allocation as of December 31, 2004 consisted of 68 percent in equities and 32 percent in fixed-income securities. This allocation is consistent with the long-term asset allocation for the plans. We will continue to review our expected long-term rate of return on an annual basis and revise appropriately.

Target asset allocations are as follows:

Small-cap U.S. equities	10.0%
Large-cap U.S. equities	37.0%
International equities	22.0%
Fixed-income securities	31.0%
Total	100.0%

Other Postretirement Benefit Plans

Assumed health care cost trend rates at December 31 are as follows:

	<u>2004</u>	<u>2003</u>
Health care cost trend used in the current period	10.5%	11.5%
Health care cost trend rate assumed for next year	10.0%	10.5%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2010	2010

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. The policy of Roadway Express regarding the management of health care costs passes the increase beyond a fixed threshold to the plan participants. As a result, a one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and the interest cost components. A one-percentage-point decrease in assumed health care cost trend rates would have the following effects:

<u>(in thousands)</u>	<u>2004</u>
Effect on total of service and interest cost	\$2,746
Effect on postretirement benefit obligation	2,543

The estimated employer contributions during the year ended December 31, 2005 are approximately \$3.2 million.

Expected benefit payments for each of the next five years ended December 31 are as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>
Expected benefit payments	\$3,248	\$3,543	\$3,780	\$3,862	\$4,190	\$23,162

Multi-Employer Plans

Roadway Express contributes to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 81 percent of total employees). The largest of these plans, the Central States Southeast and Southwest Areas Pension Plan (the "Central States Plan") provides retirement benefits to approximately 53 percent of our total employees. The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the required contribution for the period and recognize as a liability any contributions due and unpaid. Roadway Express contributed and charged to expense the following amounts to these plans for the period ended December 31:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Health and welfare	\$ 199,139	\$ 8,124
Pension	172,240	9,757
Total	\$ 371,379	\$ 17,881

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan in an underfunded status would render us liable for a proportionate share of such multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability also applies to our unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which we cannot independently validate, we believe that our portion of the contingent liability in the case of a full withdrawal or termination would be material to our financial position and results of operations. Roadway Express has no current intention of taking any action that would subject it to obligations under the legislation.

Roadway Express has collective bargaining agreements with its unions that stipulate the amount of contributions it must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code and related regulations establish minimum funding requirements for these plans. Under recent legislation, qualified multi-employer plans are permitted to exclude certain recent investment losses from the minimum funding formula through 2005. The Central States Plan, in particular, has informed us that its recent investment performance has adversely affected its funding levels and that the fund is seeking corrective measures to address its funding. During the benefit period of the recent legislation, the Central States Plan is expected to meet the minimum funding requirements. If any of these plans, including (without limitation) the Central States Plan, fail to meet minimum funding requirements and the trustees of such a plan are unable to obtain waivers of the requirements or certain changes in how the applicable plan calculates its funding level from the Internal Revenue Service ("IRS") or reduce pension benefits to a level where the requirements are met, the IRS could impose an excise tax on all employers participating in these plans and require contributions in excess of our contractually agreed upon rates to correct the funding deficiency. If an excise tax were imposed on the participating employers and additional contributions required, it could have a material adverse impact on the financial results of Roadway Express.

401(k) Savings Plans

In 2004, Roadway Express employees not covered by collective bargaining agreements participated in the Roadway 401(k) Savings Plan, a defined contribution plan, which provided for both nondiscretionary and discretionary employer contributions and provided a maximum matching percentage of 100 percent of the first four and a half percent of an eligible employee's contributions, including before-tax and after-tax contributions. The entire matching component of the Roadway plan was provided with Yellow Roadway common stock. Effective December 31, 2004, the Roadway LLC 401(k) savings plan was merged into the Yellow Roadway contributory 401(k) savings plan. The Yellow Roadway 401(k) savings plan is a contributory plan and provides for both a nondiscretionary matching contribution and a discretionary contribution. The maximum nondiscretionary company match for the Yellow Roadway 401(k) plan is equal to 25 percent of the first six percent in cash and 25 percent of the first six percent in Yellow Roadway common stock, for a total match of 50 percent of the first six percent of a participant's before-tax contributions. Any discretionary contribution for the Yellow Roadway 401(k) savings plan is determined annually by the Board of Directors. Employer contributions for the year ended December 31, 2004 were \$7.3 million. Employer contributions for the period ended December 31, 2003 were not material to our operations.

Our employees covered under collective bargaining agreements may also participate in a contributory 401(k) plan. We do not make employer contributions to the plan on their behalf.

Performance Incentive Awards

Roadway Express provides quarterly performance incentive awards to nonunion employees, which are based primarily on actual operating results achieved compared to targeted operating results, and are paid in cash. Income from continuing operations in 2004 included performance incentive expense for nonunion employees of \$56.1 million. Performance incentive awards expense for nonunion employees for the period ended December 31, 2003 were not material to our operations.

Related Party Transactions

Yellow Roadway maintains an asset backed securitization ("ABS") facility that involves receivables of Yellow Transportation, Inc. and Roadway Express. The ABS facility is operated by Yellow Roadway Receivables Funding Corporation ("YRRFC"), a special purpose entity wholly owned by Yellow Roadway. As the receivables of Roadway Express are sold to YRRFC, the accompanying balance sheet at December 31, 2004 reflects these amounts of \$334.5 million as accounts receivable from affiliate, net of certain financing costs. These financing charges were \$35.6 million during the year ended December 31, 2004.

We paid management fees to Roadway LLC ("our parent") of \$22.3 million in 2004 that we include in "operating expenses and supplies." The management fees were paid for various corporate and administrative services. Management fees are charged based on the direct benefits received or as a percentage of revenue. We were also charged \$2.2 million by our parent for fees related to letters of credit issued to serve as collateral for our self-insurance programs, primarily in the areas of workers' compensation, property damage and liability claims. At December 31, 2004, we had a net short-term advances payable of \$19.4 million due to our parent. For the year ended December 31, 2004, we earned interest income of \$0.4 million their short-term advances receivable under borrowing arrangements with our parent. The interest rate was based on the London inter-bank offer rate plus a fixed increment and was 2.56 percent at December 31, 2004. Related party transactions relating to 2003 results referred to herein were immaterial to our operations.

On December 10, 2003, Roadway Express executed a \$500 million ten-year Promissory Note to Roadway Corporation (subsequently renamed Roadway LLC), accruing interest at the rate of 8.25 percent. Interest is due and payable quarterly, and the principal is due at maturity. All amounts were outstanding at December 31, 2004 and 2003. The fair value of this debt approximates its carrying value at December 31, 2004.

Debt and Financing

At December 31, 2003, Reimer had a \$10.0 million secured revolving line of credit available with no outstanding borrowings. In the first quarter of 2004, we closed the facility.

Income Taxes

We use the liability method to reflect income taxes on our financial statements. We recognize deferred tax assets and liabilities by applying enacted tax rates and regulations to the differences between the carrying value of existing assets and liabilities and their respective tax basis and capital loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. We assess the realizability of deferred tax assets for capital and operating loss carryforwards and provide valuation allowances when we determine it is more likely than not that such losses will not be realized within the applicable carryforward period. We have not recognized deferred taxes for U.S. federal income taxes on foreign subsidiaries' earnings that are deemed to be permanently reinvested and any related taxes associated with such earnings are not material. Deferred tax liabilities (assets) were comprised of the following at December 31:

(in thousands)	2004	2003
Depreciation	\$ 169,716	\$ 170,159
Employee benefits	2,715	28,654
Intangibles	144,330	144,436
Revenue	8,449	6,687
Other	183	—
Gross tax liabilities	\$ 325,393	\$ 349,936
Claims and insurance	\$ (62,540)	\$ (60,427)
Employee benefits	(106,265)	(109,053)
Other	(7,692)	(6,375)
Gross tax assets	\$(176,497)	\$(175,855)
Net tax liability	\$ 148,896	\$ 174,081

We have a tax sharing policy with Yellow Roadway Corporation that requires us to share in its consolidated tax burden based on our respective share of taxable income or losses relative to Yellow Roadway Corporation's other subsidiaries. In addition, we retain any respective tax credits related to our operations.

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate for the year ended December 31 is as follows:

	2004	2003
Federal statutory rate	35.0%	35.0%
State income taxes, net	2.8	3.0
Nondeductible business expenses	2.2	(1.6)
Foreign tax credit and rate differential	(0.4)	(1.0)
Other, net	(5.7)	(0.1)
Effective tax rate	33.9%	35.3%

For 2004, "other, net" is primarily composed of intercompany charges not included in the accompanying statements of operations.

The income tax provision (benefit) consisted of the following:

(in thousands)	2004	2003
Current:		
U.S federal	\$22,270	\$(1,856)
State	5,134	(338)
Foreign	4,095	16
Current income tax provision	\$31,499	\$(2,178)
Deferred:		
U.S federal	\$ (947)	\$ (537)
State	(153)	(53)
Foreign	81	(212)
Deferred income tax provision	\$ (1,019)	\$ (802)
Income tax	\$30,480	\$(2,980)
Based on the income before income taxes:		
Domestic	\$76,951	\$(7,604)
Foreign	12,895	(830)
Income (loss) before income taxes	\$89,846	\$(8,434)

Previously, the Internal Revenue Service (“IRS”) challenged the timing of a deduction by Roadway Express related to prior years’ contributions to certain union pension plans. During the year ended December 31, 2004 we reached an agreement with the IRS and paid \$41.4 million (\$32.3 million net of tax benefit) to resolve this matter. Additional state tax and interest payments of approximately \$9.0 million (\$7.4 million net of tax benefit) resulting from the federal adjustments were made in January of 2005. We had specifically established reserves related to these payments in purchase accounting.

Commitments, Contingencies, and Uncertainties

Roadway Express incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to operating expense and supplies on the Statement of Consolidated Operations. Actual rental expense was \$51.4 million and \$2.9 million for the year ended December 31, 2004 and for the period December 12 through December 31, 2003, respectively.

We utilize certain terminals and equipment under operating leases. At December 31, 2004, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
Minimum annual rentals	\$41,697	\$30,053	\$22,349	\$14,564	\$5,619	\$ 6,644

We expect in the ordinary course of business that leases will be renewed or replaced as they expire. Projected 2005 net capital expenditures are expected to be \$50.0 to \$60.0 million, of which \$17.4 million was committed at December 31, 2004.

Roadway Express is involved in litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and 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 with regard to the litigation and proceedings to which we are a party.

Environmental Matters

Remediation costs are accrued based on estimates of known environmental remediation exposure using currently available facts, existing environmental permits and technology and presently enacted laws and regulations. Our estimates of costs are developed based on internal

evaluations and, when necessary, recommendations from external environmental consultants. These accruals are recorded when it is probable that we will be obligated to pay amounts for environmental site evaluation, remediation or related costs, and the amounts can be reasonably estimated. If the obligation can only be estimated within a range, we accrue the minimum amount in the range. These accruals are recorded even if significant uncertainties exist over the ultimate cost of the remediation. Where we have been identified as a potentially responsible party in a U.S. federal "Superfund" site, we accrue our share of the estimated remediation costs of the site based on the ratio of the estimated volume of waste contributed to the site by us to the total volume of waste at the site. As of December 31, 2004, recorded balances related to these matters were not material.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway Express, Inc. and Subsidiaries

The Period January 1, 2003 to December 11, 2003 and the
Years ended December 31, 2002 and 2001

With Report of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Shareholder
Roadway Express, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Roadway Express, Inc. and subsidiaries as of December 11, 2003 and December 31, 2002, and the related statements of consolidated operations, parent company investment, and cash flows for the period January 1, 2003 to December 11, 2003 and each of the two years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Roadway Express, Inc. and subsidiaries at December 11, 2003 and December 31, 2002, and the consolidated results of their operations and their cash flows for the period January 1, 2003 to December 11, 2003, and each of the two years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Akron, Ohio
January 22, 2004

Roadway Express, Inc. and Subsidiaries
Consolidated Balance Sheets

	<u>December 11, 2003</u>	<u>December 31 2002</u>
<i>(In Thousands)</i>		
Assets		
Current assets		
Cash and cash equivalents	\$ 60,276	\$ 82,016
Accounts receivable, (including retained interest in securitized receivables in 2002), net	326,845	212,834
Prepaid expenses and supplies	16,922	13,936
Deferred income taxes	16,322	17,726
Total current assets	420,365	326,512
Carrier operating property, at cost	1,383,218	1,414,794
Less allowance for depreciation	975,550	996,224
Net carrier operating property	407,668	418,570
Goodwill, net	17,599	14,816
Deferred income taxes	37,320	36,525
Other assets	8,440	7,141
Total assets	\$ 891,392	\$ 803,564
Liabilities and parent company investment		
Current liabilities:		
Accounts payable	\$ 317,142	\$ 190,457
Salaries and wages	130,084	141,242
Freight and casualty claims payable	54,570	45,606
Total current liabilities	501,796	377,305
Long-term liabilities:		
Casualty claims and other	53,011	55,953
Long-term debt	500,000	—
Accrued pension and postretirement health care	147,745	133,072
Total long-term liabilities	700,756	189,025
Parent company investment	(311,160)	237,234
Total liabilities and parent company investment	\$ 891,392	\$ 803,564

See accompanying notes.

Roadway Express, Inc. and Subsidiaries
Statements of Consolidated Operations

	January 1 to December 11, 2003	Year ended December 31	
		2002	2001
		<i>(In Thousands)</i>	
Revenue	\$2,845,457	\$2,797,582	\$2,764,766
Operating expenses:			
Salaries, wages and benefits	1,801,170	1,783,872	1,768,744
Operating supplies and expenses	494,459	462,838	475,313
Purchased transportation	312,340	287,614	271,847
Operating taxes and licenses	70,786	70,451	70,955
Insurance and claims	57,032	59,286	46,804
Depreciation and amortization	59,993	66,510	69,178
Net (gain) loss on sale of carrier operating property	(2,533)	(654)	460
Compensation and other expense related to the Yellow transaction	50,392	—	—
Total operating expenses	2,843,639	2,729,917	2,703,301
Operating income	1,818	67,665	61,465
Other expense:			
Interest expense	(634)	(942)	(732)
Other, net	(1,652)	(2,957)	(3,267)
	(2,286)	(3,899)	(3,999)
(Loss) income before income taxes	(468)	63,766	57,466
Provision for income taxes	17,275	26,927	24,231
Net (loss) income	\$ (17,743)	\$ 36,839	\$ 33,235

See accompanying notes.

Roadway Express, Inc. and Subsidiaries
Statements of Consolidated Parent Company Investment

	Parent Company Investment
	<i>(In Thousands)</i>
Balance at January 1, 2001	\$ 339,871
Net income	33,235
Foreign currency translation adjustments	(2,424)
Derivative fair value adjustments	(592)
	30,219
Total comprehensive income	30,219
Dividends declared	(1,937)
Net transfers to Parent	(167,235)
	200,918
Balance at December 31, 2001	200,918
Net income	36,839
Foreign currency translation adjustments	(615)
Derivative fair value adjustments	266
	36,490
Total comprehensive income	36,490
Non-cash transfers to parent	17,326
Cash transfers to Parent	(17,500)
	237,234
Balance at December 31, 2002	237,234
Net loss	(17,743)
Foreign currency translation adjustments	7,047
Derivative fair value adjustments	262
	(10,434)
Total comprehensive loss	(10,434)
Non-cash transfers to parent	(492,210)
Cash transfers to Parent	(45,750)
	(311,160)
Balance at December 11, 2003	\$ (311,160)

See accompanying notes.

Roadway Express, Inc. and Subsidiaries
Statements of Consolidated Cash Flows

	January 1 to December 11, 2003	Year ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Cash flows from operating activities			
Net (loss) income	\$ (17,743)	\$ 36,839	\$ 33,235
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	59,993	66,510	70,543
Loss (gain) on sale of carrier operating property	(2,533)	(654)	460
Changes in assets and liabilities:			
Accounts receivable	(114,011)	(28,406)	30,668
Other assets	7,760	(16,628)	4,058
Payables and accrued items	123,750	49,426	(28,328)
Long-term liabilities	11,730	6,343	5,193
Net cash provided by operating activities	<u>68,946</u>	<u>113,430</u>	<u>115,829</u>
Cash flows from investing activities			
Purchases of carrier operating property	(54,916)	(66,132)	(69,116)
Proceeds from sale of carrier operating property	9,622	6,358	3,553
Net cash (used) in investing activities	<u>(45,294)</u>	<u>(59,774)</u>	<u>(65,563)</u>
Cash flows from financing activities			
Sale of accounts receivable	—	—	100,000
Dividends paid	—	—	(1,937)
Long-term borrowings	500,000	—	—
Transfer to Parent	(545,750)	(17,500)	(167,235)
Net cash (used) in financing activities	<u>(45,750)</u>	<u>(17,500)</u>	<u>(69,172)</u>
Effect of exchange rate changes on cash	358	(227)	54
Net (decrease) increase in cash and cash equivalents	<u>(21,740)</u>	<u>35,929</u>	<u>(18,852)</u>
Cash and cash equivalents at beginning of year	<u>82,016</u>	<u>46,087</u>	<u>64,939</u>
Cash and cash equivalents at end of year	<u>\$ 60,276</u>	<u>\$ 82,016</u>	<u>\$ 46,087</u>

See accompanying notes.

1. Nature of Operations and Basis of Presentation

Roadway Express, Inc. and subsidiaries (the Company) provides long haul, less-than-truckload (LTL) freight services in North America and offers services to more than 100 countries worldwide in a single business segment. Approximately 75% of the Company's employees are represented by various labor unions, primarily the International Brotherhood of Teamsters (IBT). The current agreement with the IBT expires on March 31, 2008.

Effective May 30, 2001, holders of common stock of Roadway Express, Inc. became holders of an identical number of shares of common stock of Roadway Corporation, and Roadway Express, Inc. became a wholly owned direct subsidiary of Roadway Corporation (the Reorganization). The Reorganization was effected by a merger pursuant to Section 251(g) of the Delaware General Corporation law, which provides for the formation of a holding company structure without a vote of the shareholders of the Company. The assets and liabilities of Roadway Corporation (the Parent or Roadway) and its subsidiaries were the same on a consolidated basis after the merger as the assets and liabilities of Roadway Express, Inc. immediately before the merger.

The accompanying consolidated financial statements are presented as if the Company had existed as an entity separate from the Parent during all periods presented and include the assets, liabilities, revenues and expenses that are directly related to the Company's operations.

On July 8, 2003, Roadway Corporation announced that a definitive agreement had been signed under which Yellow Corporation would acquire Roadway Corporation. On December 11, 2003, the transaction was completed for approximately \$1.1 billion, based on a fixed exchange ratio of 1.752 Yellow shares per Roadway share, in a half-cash, half-stock transaction.

Parent Company Investment and Allocations

Parent company investment represents the Parent's equity investment in Roadway Express Inc. and subsidiaries. The Company receives support for its operations from the Parent as deemed necessary. All transfers and allocations to and from the Parent have been reported in the parent company investment account.

2. Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts and operations of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Depreciation

Depreciation of carrier operating property is computed by the straight-line method based on the useful lives of the assets. The useful life of structures ranges from 15 to 33 years, and equipment from 3 to 10 years. Major maintenance expenditures that extend the useful life of carrier operating equipment are capitalized and depreciated over 2 to 5 years.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximate their fair value due to the short-term nature of these instruments.

The Company recognizes all derivative financial instruments as either assets or liabilities at fair value in the balance sheet. The Company's use of derivative financial instruments is limited principally to interest rate swaps on certain trailer leases as part of its overall risk management policy. The interest rate swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*. Under the provisions of SFAS No. 133, changes in the fair value of interest rate swaps are recognized in other comprehensive income in the statement of shareholders' equity until such time as the hedged items are recognized in net income. The fair value of these financial instruments is a liability of \$64,000 net of tax at December 11, 2003.

2. Accounting Policies (continued)

Receivables Sales

Prior to December 11, 2003, the Company sold receivables in securitization transactions, and retained an equity interest in the receivables pool, servicing rights, and a cash reserve account. These constituted the retained interests in the securitized receivables. The estimated fair value was based on the present value of the expected cash flows, which approximated face value adjusted for allowances for anticipated losses. The Company terminated the agreement on December 11, 2003 (see Note 8).

Concentration of Credit Risks

The Company sells services and extends credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

Goodwill

Goodwill represents costs in excess of net assets of acquired businesses, which prior to January 1, 2002, was amortized using the straight-line method primarily over a period of 20 years.

In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the purchase method for all business combinations initiated after June 30, 2001. SFAS No. 141 also clarifies the criteria for recognition of intangible assets separately from goodwill. Under SFAS No. 142, separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. SFAS No. 142 also eliminates the amortization of goodwill and indefinite-lived intangible assets for assets acquired after June 30, 2001, and all other goodwill on January 1, 2002.

As of December 11, 2003, the Company had net unamortized goodwill of \$17,599,000 related to its Canadian subsidiaries. Goodwill amortization was zero in 2003 and 2002, and \$967,000 in 2001. The Company completed the required annual goodwill impairment test under SFAS No. 142 for all reporting units effective June 21, 2003 which did not indicate any impairment.

2. Accounting Policies (continued)

Casualty Claims Payable

Casualty claims payable represent management's estimates of claims for property damage and public liability and workers' compensation. The Company manages casualty claims with assistance of a third party administrator (TPA) along with oversight by a major risk management provider. The Company is self-insured for these claims with retention generally limited to \$3,000,000. The liability balances are closely monitored by the Company and its TPAs using actual adjuster evaluations of each claim and a statistical benchmarking database for analysis of reserve accuracy. Expenses resulting from workers' compensation claims are included in salaries, wages, and benefits in the accompanying statements of consolidated income.

Revenue Recognition

Roadway recognizes revenue on the date that freight is delivered to the consignee at which time all services have been rendered. In addition, all related expenses are recognized as incurred. Roadway recognizes revenue on a gross basis since the Company is the primary obligor in the arrangement, even if the Company uses other transportation service providers who act on their behalf, because the Company is responsible to the customer for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. In addition, Roadway retains all credit risk.

Foreign Currency Translation

Income statement items are translated at average currency exchange rates. Transaction gains and losses are included in determining net income. All balance sheet accounts of foreign operations are translated at the current exchange rate as of the end of the period. The resulting translation adjustment is recorded as a component of parent company investment.

2. Accounting Policies (continued)

Use of Estimates in the Financial Statements

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amount of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

Impairment of Long-lived Assets

In the event that facts and circumstances indicate that the carrying value of intangibles and long-lived assets or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if further impairment testing is required.

Income Taxes

The Company is included in a consolidated income tax filing group with Roadway for federal income tax purposes. The federal and state income tax provision and related obligation and deferred taxes included in the statements of consolidated income and consolidated balance sheets of the Company is calculated on a separate return basis as if the Company were a separate tax payer. The Company and its subsidiaries file tax returns and pay taxes due on a stand-alone basis in state and foreign jurisdictions where such filings are required.

3. Carrier Operating Property

Carrier operating properties consist of the following:

	Dec. 11, 2003	Dec. 31, 2002
	<i>(In Thousands)</i>	
Land	\$ 96,739	\$ 92,734
Structures	426,676	420,245
Revenue equipment	600,744	654,320
Other operating property	259,059	247,495
	1,383,218	1,414,794
Carrier operating property, at cost		
Less allowance for depreciation	975,550	996,224
	\$ 407,668	\$ 418,570
Net carrier operating property	\$ 407,668	\$ 418,570

4. Accounts Payable

Items classified as accounts payables consist of the following:

	Dec. 11, 2003	Dec. 31, 2002
	<i>(In Thousands)</i>	
Trade and other payables	\$ 191,601	\$ 68,543
Drafts outstanding	41,378	18,456
Income taxes payable	19,285	45,962
Taxes, other than income	28,738	28,942
Multi-employer health, welfare, and pension plans	36,140	28,554
	\$ 317,142	\$ 190,457
Payables	\$ 317,142	\$ 190,457

5. Income Taxes

The provision (benefit) for income taxes consists of the following:

	January 1 to December 11 2003	Years ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Current taxes:			
Federal	\$ 12,664	\$ 27,290	\$ 21,438
State	1,709	4,420	3,495
Foreign	4,666	4,776	(766)
	<u>19,039</u>	<u>36,486</u>	<u>24,167</u>
Deferred taxes:			
Federal	(1,526)	(8,504)	(1,221)
State	(322)	(990)	(79)
Foreign	84	(65)	1,364
	<u>(1,764)</u>	<u>(9,559)</u>	<u>64</u>
Provision for income taxes	<u>\$ 17,275</u>	<u>\$ 26,927</u>	<u>\$ 24,231</u>

In addition to the 2003 provision for income taxes of \$17,275,000, income tax benefits of \$6,002,000 were allocated directly to parent company investment related to the restricted stock awards from the Company's parent. Income tax payments amounted to \$21,678,000 for the period January 1 to December 11, 2003, \$5,443,000 in 2002, and \$24,039,000 in 2001.

Income (loss) before income taxes consists of the following:

	January 1 to December 11 2003	Years ended December 31	
		2002	2001
<i>(In Thousands)</i>			
Domestic	\$ (13,314)	\$ 52,008	\$ 55,034
Foreign	12,846	11,758	2,432
	<u>\$ (468)</u>	<u>\$ 63,766</u>	<u>\$ 57,466</u>

5. Income Taxes (continued)

Significant components of the Company's deferred taxes are as follows:

	<u>Dec. 11, 2003</u>	<u>Dec. 31, 2002</u>
	<i>(in Thousands)</i>	
Deferred tax assets:		
Freight and casualty claims	\$ 36,456	\$ 36,618
Retirement benefit liabilities	51,966	51,897
Accrued employee benefits	24,495	32,055
Other	8,274	10,058
Valuation allowance	(1,930)	(2,229)
	<u>119,261</u>	<u>128,399</u>
Total deferred tax assets		
Deferred tax liabilities:		
Depreciation	37,057	40,729
Multi-employer pension plans	28,654	33,420
Other	(92)	—
	<u>65,619</u>	<u>74,149</u>
Total deferred tax liabilities		
Net deferred tax assets	<u>\$ 53,642</u>	<u>\$ 54,250</u>

At December 11, 2003, the Company had approximately \$5,563,000 of foreign operating loss carryforwards, which have expiration dates ranging from 2009 to 2011. For financial reporting purposes, a valuation allowance of \$1,930,000 has been recognized to offset the deferred tax asset relating to certain foreign operating loss carry forwards.

5. Income Taxes (continued)

The income tax resulting from the effective tax rate differs from the income tax calculated using the federal statutory rate as set forth in the following reconciliation:

	January 1 to December 11 2003	Years ended Dec. 31	
		2002	2001
Federal statutory tax	\$ (164)	\$22,318	\$20,113
State income taxes, net of federal tax benefit	902	2,229	2,220
Non-deductible operating costs	2,191	2,030	1,745
Excise taxes	2,997	—	—
Yellow transaction costs	4,269	—	—
Section 280G Limitations	5,123	—	—
Impact of foreign operations	(7)	325	193
Other, net	1,964	25	(40)
Effective tax	\$ 17,275	\$26,927	\$24,231

6. Employee Benefit Plans

Multi-employer Plans

The Company charged to operations \$163,148,000 in 2003, \$161,696,000 in 2002, and \$164,358,000 in 2001 for contributions to multi-employer pension plans for employees subject to labor contracts. The Company also charged to operations \$186,704,000 in 2003, \$167,032,000 in 2002, and \$162,917,000 in 2001 for contributions to multi-employer plans that provide health and welfare benefits to employees and certain retirees who are or were subject to labor contracts. These amounts were determined in accordance with provisions of industry labor contracts. Under provisions of the Multi-employer Pension Plan Act of 1980, total or partial withdrawal from a plan would result in an obligation to fund a portion of the plan's unfunded vested liability. Management has no intention of changing operations so as to subject the Company to any material obligation.

6. Employee Benefit Plans (continued)

Retirement Plans

The following tables set forth the change in benefit obligation, change in plan assets, funded status and amounts recognized in the consolidated balance sheets of the defined benefit pension and postretirement health care benefit plans as of December 31, 2003 and December 31, 2002:

	Pension Benefits		Health Care Benefits	
	2003	2002	2003	2002
<i>(In Thousands)</i>				
Change in benefit obligation				
Benefit obligation at beginning of year	\$384,546	\$328,915	\$ 49,160	\$ 41,721
Service cost	17,581	17,467	1,752	1,741
Interest cost	23,572	24,056	2,983	3,156
Actuarial losses	56,995	32,262	1,351	5,024
Benefits paid	(27,405)	(18,154)	(2,312)	(2,482)
Benefit obligation at end of year	455,289	384,546	52,934	49,160
Change in plan assets				
Fair value of plan assets at beginning of year	241,324	308,229	—	—
Actual return on plan assets	53,990	(48,751)	—	—
Benefits paid	(14,713)	(18,154)	—	—
Fair value of plan assets at end of year	280,601	241,324	—	—
Funded status				
Plan assets less than projected benefit obligation	174,688	143,222	52,934	49,160
Unamortized:				
Net actuarial (loss) gain	(45,384)	(26,917)	(15,042)	(10,281)
Net asset at transition	7,053	8,372	—	—
Prior service (cost) benefit	(41,926)	(43,739)	15,422	13,255
Accrued benefit cost	\$ 94,431	\$ 80,938	\$ 53,314	\$ 52,134

Plan assets are primarily invested in listed stocks, bonds, and cash equivalents.

6. Employee Benefit Plans (continued)

The following table summarizes the assumptions used and the related benefit cost information:

	Pension Benefits			Health Care Benefits		
	2003	2002	2001	2003	2002	2001
	<i>(In Thousands)</i>					
Weighted-average Assumptions						
Discount rate	6.25%	6.75%	7.50%	6.25%	6.75%	7.50%
Future compensation	3.25%	3.25%	3.25%	—	—	—
Expected long-term return on plan assets	8.50%	9.50%	9.50%	—	—	—
Components of net periodic benefit cost						
Service cost	\$ 17,582	\$ 17,467	\$ 17,492	\$ 1,752	\$ 1,741	\$ 1,665
Interest cost	23,572	24,056	22,558	2,983	3,156	2,881
Expected return on plan assets	(18,968)	(28,574)	(33,841)	—	—	—
Amortization of:						
Prior service cost (benefit)	5,191	5,249	5,230	(1,779)	(1,477)	(305)
Net asset gain at transition	(1,319)	(1,395)	(1,396)	—	—	—
Unrecognized gain	128	(3,940)	(8,893)	537	184	(177)
Net periodic benefit cost (income)	\$ 26,186	\$ 12,863	\$ 1,150	\$ 3,493	\$ 3,604	\$ 4,064

For measurement purposes, the Company assumed a weighted-average annual rate of increase in the per capita cost of health care benefits (health care cost trend rate) of 10.5% for 2004 declining gradually to 5.0% in 2010 and thereafter.

6. Employee Benefit Plans (continued)

A decrease in the assumed health care cost trend rate has a significant effect on the amounts reported. For example, a one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation by \$5,938,000 and the service and interest cost components by \$618,000 as of December 11, 2003. A one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and interest cost components. The Company's policy regarding the management of health care costs passes increases beyond a fixed threshold to the plan participants.

The Company charged to operations \$10,725,000 in 2003, \$10,250,000 in 2002 and \$10,788,000 in 2001 relating to its defined contribution 401(k) plan. This plan covers employees not subject to labor contracts. Annual contributions are related to the level of voluntary employee participation.

7. Leases

The Company leases certain terminals and revenue equipment under noncancellable operating leases requiring minimum future rentals aggregating \$103,149,000 payable as follows: 2004—\$37,411,000; 2005—\$24,949,000; 2006—\$15,544,000; 2007—\$10,540,000; 2008—\$6,787,000; and thereafter \$7,918,000. Rental expense for operating leases was \$51,444,000, \$50,718,000, and \$45,445,000 in 2003, 2002, and 2001, respectively.

The Company has an interest rate swap agreement with a major commercial bank to fix the interest rate of its trailer leases from previous variable interest rates principally based on LIBOR. The value of the leases upon which the payments are based was not changed. The agreement, which expires in 2004, fixes the Company's interest costs at 5.62% on leases with a notional amount of \$5,912,000.

The fair value of the Company's interest rate swap at December 31, 2003 is a liability of approximately \$64,000, net of income taxes, and has been determined using proprietary financial models developed by the lending institutions which are counterparties to the swap arrangements. As a result of declining interest rates throughout 2003, the Company recognized incremental interest expense of approximately \$425,000, which is included in interest expense in the accompanying financial statements. The ineffective portions of the Company's interest rate swap agreements was not material.

8. Sale of Accounts Receivable

Accounts receivable consist of the following:

	December 11 2003	December 31 2002
	<i>(In Thousands)</i>	
Accounts receivable	\$ 332,041	\$ 3,259
Retained interest in securitized accounts receivable	—	217,617
Allowance for doubtful accounts	(5,196)	(8,042)
	\$ 326,845	\$ 212,834

On November 21, 2001, the Company entered into an accounts receivable securitization agreement, which matures in 2004, to finance up to \$200,000,000 (total commitment) of its domestic accounts receivable. Under this arrangement, undivided interests in the Company's domestic accounts receivable are sold through a special purpose entity (SPE), a wholly owned subsidiary of the Company, without recourse, to a financial conduit. The proceeds constituted a portion of the funds used by the Parent for acquisition purposes, and are reported under the caption Transfer to Parent in the financing section of the statements of consolidated cash flow.

The accounts receivable are sold at a discount from the face amount to pay investor yield (LIBOR) on the undivided interests sold to the conduit, for utilization fees (0.25% of the undivided interest sold), and for program fees (0.50% of the total commitment). The discount from the face amount for accounts receivable sold in 2003 and 2002 aggregated \$5,156,000 and \$6,384,000, respectively and was directly offset by a gain on allowance for accounts receivable discounts upon the consolidation of the SPE. The financing expense recognized in conjunction with the sale of accounts receivable was \$2,372,000 in 2003 and \$3,088,000 in 2002.

The arrangement provides that the Company's new accounts receivable are immediately sold to the SPE. The Company, through its SPE, retains the risk of credit loss on the receivables and, accordingly, the full amount of the allowance for doubtful accounts has been retained on the Consolidated Balance Sheet. The conduit has collection rights to recover payments from the receivables in the designated pool and the Company retains collection and administrative responsibilities for the undivided interests in the pool.

This agreement was terminated on December 11, 2003 immediately prior to Yellow's acquisition of the company. Yellow satisfied our liability to the financial conduit, and we have recorded the resultant obligation to Yellow as a current liability.

8. Sale of Accounts Receivable (continued)

The following transactions occurred between Roadway Express and the SPE: in the years 2003 and 2002, respectively: proceeds from the accounts receivable sales, \$2,727,878,000 and \$2,650,810,000, servicing fees received, \$1,863,000 and \$1,529,000, payments received on investment in accounts receivable, \$2,720,975,000 and \$2,589,576,000.

9. Financing Arrangements

The Company's Canadian subsidiary has \$10,000,000 available for borrowing under a secured revolving line of credit and bankers' acceptances. Borrowings are payable upon demand and bear interest at either the bank's prime lending rate, U.S. dollar base rate in Canada, or LIBOR plus 1.50% for periods up to 180 days. At December 11, 2003, no amounts were outstanding on this facility.

At December 31, 2002, the Parent had in place a senior revolving credit facility with a sublimit for letters of credit that expires November 30, 2006. The credit facility was terminated effective December 11, 2003 upon consummation of the Yellow transaction. The original amount of the senior revolving credit facility was \$150,000,000 with a \$100,000,000 sublimit for letters of credit, which was amended on August 6, 2002. The result of the amendment increased the senior revolving credit facility to \$215,000,000 and increased the sublimit for letters of credit to \$165,000,000. As of December 31, 2002, there were no amounts outstanding under the revolving credit facility, but availability had been reduced by \$112,162,000 as a result of the issuance of letters of credit, primarily related to casualty claims.

In addition, the Parent also paid in full the five-year senior term loan prior to the acquisition by Yellow. The Parent also issued \$225,000,000 of 8.25% senior notes due December 1, 2008.

10. Contingencies

The Company has received notices from the Environmental Protection Agency (EPA) that it has been identified as a potentially responsible party (PRP) under the Comprehensive Environmental Response Compensation and Liability Act (Superfund) at certain hazardous waste sites. Such designations are made regardless of the Company's limited involvement at each site. The claims for remediation have been asserted against numerous other entities which are believed to be financially solvent and are expected to fulfill their proportionate share. The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Based on its investigations, the Company believes that its obligation with regard to these sites is not significant, although there can be no assurances in this regard.

The Company's former parent, Caliber System, Inc., formerly known as Roadway Services, Inc (which was subsequently acquired by FDX Corporation, a wholly owned subsidiary of FedEx Corporation), is currently under examination by the Internal Revenue Service for tax years 1994 and 1995 (years prior to the spin-off of the Company). The IRS has proposed substantial adjustments for these tax years for multi-employer pension plan deductions. The IRS is challenging the timing, not the validity of these deductions. The Company is unable to predict the ultimate outcome of this matter; however, its former parent intends to vigorously contest these proposed adjustments.

Under a tax sharing agreement entered into by the Company and its former parent at the time of the spin-off, the Company is obligated to reimburse the former parent for any additional taxes and interest that relate to the Company's business prior to the spin-off. The amount and timing of such payments is dependent on the ultimate resolution of the former parent's disputes with the IRS and the determination of the nature and extent of the obligations under the tax sharing agreement. On January 16, 2003, the Company made a \$14,000,000 payment to its former parent under the tax sharing agreement for taxes and interest related to certain of the proposed adjustments for tax years 1994 and 1995.

We estimate the range of the remaining payments that may be due to the former parent to be approximately \$0 to \$16,000,000 in additional taxes and \$0 to \$11,000,000 in related interest, net of tax benefit. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

Various other legal proceedings arising from the normal conduct of business are pending but, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the financial condition or operations of the Company.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Roadway LLC

Consolidated Balance Sheets as of December 31, 2004 and 2003;

Statements of Consolidated Operations for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Statements of Consolidated Cash Flows for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

Statements of Parent Company Investment and Comprehensive Income for the year ended December 31, 2004 and for the period December 12 to December 31, 2003;

with Report of Independent Auditors

Independent Auditors' Report

The Board of Directors
Yellow Roadway Corporation:

We have audited the accompanying consolidated balance sheets of Roadway Next Day Corporation and subsidiary as of December 31, 2004 and 2003, and the related consolidated statements of operations, cash flows, and parent company investment and comprehensive income for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Roadway Next Day Corporation and subsidiary as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the year ended December 31, 2004 and for the period December 12, 2003 to December 31, 2003, in conformity with accounting principles generally accepted in the United States of America.

/s/ KPMG LLP

Kansas City, Missouri
March 4, 2005

CONSOLIDATED BALANCE SHEETS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Roadway LLC

(in thousands)	December 31, 2004	December 31, 2003
Assets		
CURRENT ASSETS		
Cash and cash equivalents	\$ 373	\$ 25,328
Accounts receivable, less allowances of \$453 and \$412	28,022	19,877
Advances receivable from parent	16,411	—
Fuel and operating supplies	2,092	1,555
Deferred income taxes, net	3,497	3,674
Prepaid expenses	1,297	1,601
Total current assets	51,692	52,035
PROPERTY AND EQUIPMENT		
Land	13,038	15,363
Structures	47,187	33,757
Revenue equipment	24,880	17,243
Technology equipment and software	3,111	1,653
Other	9,323	6,466
	97,539	74,482
Less – accumulated depreciation	(8,329)	(521)
Net property and equipment	89,210	73,961
Goodwill	58,605	122,332
Intangibles	64,038	89,291
Other assets	1,788	3,094
Total assets	\$ 265,333	\$ 340,713
Liabilities and Parent Company Investment		
CURRENT LIABILITIES		
Checks outstanding in excess of bank balances	\$ 829	\$ 6,223
Accounts payable	2,616	2,682
Advances payable to parent	—	4,568
Wages, vacations and employees' benefits	14,487	12,102
Claims and insurance accruals	5,564	4,370
Other current and accrued liabilities	6,187	5,180
Total current liabilities	29,683	35,125
OTHER LIABILITIES		
Note payable to affiliate	150,000	150,000
Deferred income taxes, net	31,901	38,999
Claims and other liabilities	15,184	13,868
Commitments and contingencies		
PARENT COMPANY INVESTMENT		
Capital surplus	26,199	103,259
Retained earnings	12,432	(538)
Accumulated other comprehensive loss	(66)	—
Total parent company investment	38,565	102,721
Total liabilities and parent company investment	\$ 265,333	\$ 340,713

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Roadway LLC

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Revenue	\$ 260,572	\$ 9,770
Operating Expenses:		
Salaries, wages and employees' benefits	168,328	7,529
Operating expenses and supplies	33,118	1,061
Operating taxes and licenses	6,831	341
Claims and insurance	3,576	176
Depreciation and amortization	11,667	745
Purchased transportation	3,123	136
Losses on property disposals, net	32	3
Total operating expenses	226,675	9,991
Operating income (loss)	33,897	(221)
Nonoperating Expenses:		
Related party interest expense	12,443	687
Other	1,345	70
Nonoperating expenses, net	13,788	757
Income (Loss) Before Income Taxes	20,109	(978)
Income Tax Provision (Benefit)	7,139	(440)
Net Income (Loss)	\$ 12,970	\$ (538)

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Roadway LLC

(in thousands)	For the year ended December 31, 2004	For the period December 12 to December 31, 2003
Operating Activities:		
Net income (loss)	\$ 12,970	\$ (538)
Noncash items included in net income (loss):		
Depreciation and amortization	11,667	745
Deferred income tax, net	179	—
Losses on property disposals, net	32	3
Changes in assets and liabilities, net:		
Accounts receivable	(8,145)	1,076
Accounts payable	(5,459)	2,929
Other working capital items	949	(2,986)
Claims and other	1,112	262
Other	1,306	155
Net cash provided by operating activities	14,611	1,646
Investing Activities:		
Acquisition of property and equipment	(20,663)	(554)
Proceeds from disposal of property and equipment	2,076	20
Net cash used in investing activities	(18,587)	(534)
Financing Activities:		
Intercompany activity, net	(20,979)	—
Net cash used in financing activities	(20,979)	—
Net Increase (Decrease) In Cash and Cash Equivalents	(24,955)	1,112
Cash and Cash Equivalents, Beginning of Period	25,328	24,216
Cash and Cash Equivalents, End of Year	\$ 373	\$ 25,328
Supplemental Cash Flow Information:		
Income taxes paid (received)	\$ 10,323	\$ —
Interest paid	—	—

The notes to consolidated financial statements are an integral part of these statements.

STATEMENTS OF PARENT COMPANY INVESTMENT AND COMPREHENSIVE INCOME
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Roadway LLC

(in thousands)	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 12, 2003	\$ 103,259	\$ —	\$ —	\$ 103,259
Net loss	—	(538)	—	(538)
Total comprehensive loss				(538)
Balances at December 31, 2003	103,259	(538)	—	102,721
Net income	—	12,970	—	12,970
Minimum pension liability, net of deferred tax benefit of \$41	—	—	(66)	(66)
Total comprehensive income				12,904
Purchase price adjustments	(77,060)	—	—	(77,060)
Balances at December 31, 2004	\$ 26,199	\$ 12,432	\$ (66)	\$ 38,565

The notes to consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Roadway Next Day Corporation and Subsidiary

A wholly owned subsidiary of Roadway LLC

Description of Business

Roadway Next Day Corporation (also referred to as “Roadway Next Day,” “the Company,” “we” or “our”) is a non-operating holding company focused on business opportunities in regional and next-day lanes. Roadway Next Day Corporation owns 100 percent of New Penn Motor Express, Inc. (“New Penn”), which provides regional, next-day ground services through a network of facilities located in the Northeastern United States, Quebec, Canada and Puerto Rico.

In accordance with Rule 3-16 of Regulation S-X and due to Roadway Next Day and New Penn pledging their stock for debt purposes, we are presenting these consolidated financial statements of Roadway Next Day Corporation. We are not presenting the separate financial statements of New Penn because:

- The separate financial statements of New Penn are substantially identical to those of Roadway Next Day Consolidated;
- The separate financial statements of the parent Roadway Next Day, when excluding New Penn, are not material to an investor, and;
- The Company would provide separate financial statements of New Penn should Roadway Next Day commence its own operations or acquire additional subsidiaries.

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation. The combined company was renamed Yellow Roadway Corporation. Roadway Corporation was merged with and into a newly formed limited liability company and a wholly owned subsidiary of Yellow Roadway and the limited liability company changed its name to Roadway LLC after the merger. Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock. Roadway LLC principal subsidiaries include Roadway Express and Roadway Next Day Corporation.

In accordance with Statement of Financial Accounting Standards (“SFAS”) No. 141, Business Combinations (“SFAS No. 141”), the acquisition was accounted for under purchase accounting. As a result, the accompanying 2003 Statements of Consolidated Operations and Statements of Consolidated Cash Flows present the results from the date of acquisition.

Principles of Consolidation and Summary of Accounting Policies

The accompanying consolidated financial statements include the accounts of Roadway Next Day Corporation and its wholly owned subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation. Management makes estimates and assumptions that affect the amounts reported in the financial statements and notes. Actual results could differ from those estimates.

Accounting policies refer to specific accounting principles and the methods of applying those principles to fairly present our financial position and results of operations in accordance with generally accepted accounting principles. The policies discussed below include those that management has determined to be the most appropriate in preparing our financial statements and are not discussed in a separate note.

Cash and Cash Equivalents

Cash and cash equivalents include demand deposits and highly liquid investments purchased with maturities of three months or less.

Concentration of Credit Risks and Other

We sell services and extend credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. We monitor our exposure for credit losses and maintain allowances for anticipated losses.

At December 31, 2004, approximately 72 percent of our labor force is subject to collective bargaining agreements that expire in 2008.

Revenue Recognition

For shipments in transit, Roadway Next Day records revenue based on the percentage of service completed as of the period end and accrues delivery costs as incurred. In addition, Roadway Next Day recognizes revenue on a gross basis since the Company is the primary obligor even when the Company uses other transportation service providers who act on their behalf, because the Company is responsible to the customer for complete and proper shipment, including the risk of physical loss or damage of the goods and cargo claims issues. In addition, Roadway Next Day retains all credit risk. Roadway Next Day assigns pricing to bills of lading at the time of shipment based primarily on the weight, general classification of the product, the shipping destination and individual customer discounts. This process is referred to as rating. At various points throughout our process, incorrect ratings could be identified based on many factors, including weight verifications or updated customer discounts. Although the majority of rerating occurs in the same month as the original rating, a portion occurs during the following periods. Roadway Next Day accrues a reserve for rerating based on historical trends. Management believes these policies most accurately reflect revenue as earned.

Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and short-term borrowings approximates their fair value due to the short-term nature of these instruments.

Claims and Insurance Accruals

Claims and insurance accruals, both current and long-term, reflect the estimated cost of claims for workers' compensation, cargo loss and damage, and property damage and liability that insurance does not cover. We include these costs in claims and insurance expense except for workers' compensation, which is included in salaries, wages, and employees' benefits.

We base reserves for workers' compensation and property damage and liability claims primarily upon actuarial analyses prepared by independent actuaries. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of such claims. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, changes in health care costs, and certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results. At December 31, 2004 and 2003, estimated future payments related to these claims aggregated \$16.0 million and \$14.2 million, respectively. The present value of these estimated future payments was \$13.6 million and \$12.5 million at December 31, 2004 and 2003, respectively.

Property and equipment

Roadway Next Day carries property and equipment at cost less accumulated depreciation. The values assigned to property and equipment at the date of acquisition were principally determined by independent, third party appraisal. We compute depreciation using the straight-line method based on the following service lives:

	<u>Years</u>
Structures	10 – 40
Revenue equipment	5 – 14
Technology equipment and software	3 – 5
Other	3 – 10

We charge maintenance and repairs to expense as incurred, and capitalize replacements and improvements when these costs extend the useful life of the asset.

Our investment in technology equipment and software consists primarily of advanced customer service and freight management equipment and related software. We capitalize certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll, and payroll-related costs for employees directly associated with the project. For the year ended December 31, 2004, we capitalized \$0.1 million for software costs. For the period ended December 31, 2003, the amount capitalized was immaterial to the Company's financial statements.

For the year ended 2004, we recorded \$7.9 million in depreciation expense. For the period December 12 through December 31, 2003, depreciation expense was \$0.5 million.

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of identifiable amortizable intangibles and property, plant and equipment may be impaired, we would perform an evaluation of recoverability in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. If an evaluation were required, we would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required.

Acquisition

In accordance with SFAS No. 141, Yellow Roadway allocates the purchase price of its acquisitions to the tangible and intangible assets and liabilities of the acquired entity based on their fair values. Yellow Roadway records the excess purchase price over the fair values as goodwill. The fair value assigned to intangible assets acquired is based on valuations prepared by independent third party appraisal firms using estimates and assumptions provided by management. In accordance with SFAS No. 142, Goodwill and Other Intangible Assets ("SFAS No. 142"), we do not amortize goodwill and intangible assets with indefinite useful lives but review these assets at least annually for impairment. An impairment loss would be recognized to the extent that the carrying amount exceeds the assets' fair value. Intangible assets with estimatable useful lives are amortized on a straight-line basis over their respective useful lives.

Roadway Corporation

On December 11, 2003, Yellow Corporation completed the acquisition of Roadway Corporation and all of its outstanding stock in approximately a half cash, half stock transaction. As part of the transaction, Yellow Corporation changed its name to Yellow Roadway Corporation. In addition, Roadway Corporation became Roadway LLC ("Roadway") and a wholly owned subsidiary of Yellow Roadway.

Principal operating subsidiaries of Roadway include Roadway Express and New Penn. Roadway Express is a leading transporter of industrial, commercial and retail goods in the two- to five-day regional and long-haul markets. New Penn is a next-day, ground, less-than-truckload, carrier of general commodities.

Consideration for the acquisition included approximately \$494 million in cash and approximately 18.0 million shares of Yellow Roadway common stock, based on an exchange ratio of 1.752 and an average price per share of \$31.51 (subject to proration and allocation provisions), for a total purchase price of approximately \$1.1 billion. The purchase price also included approximately \$19 million for investment banking, legal and accounting fees that Yellow Roadway incurred to consummate the acquisition, resulting in total cash consideration of \$513 million. We recorded the net assets at their estimated fair values and included operating results in our financial statements from the date of acquisition. We allocated the purchase price at December 31, 2003, on a preliminary basis using information then available. The allocation of the purchase price to the assets and liabilities acquired was finalized in the fourth quarter of 2004 including receipt of an independent valuation. The total purchase price decreased by \$77.1 million, as reflected in the change in capital surplus, primarily due to changes in the allocation between Roadway Express and New Penn. The final purchase price allocation is shown below and resulted in a \$63.7 million decrease to goodwill and a \$21.6 million decrease to intangible assets from our preliminary allocation

Based on an independent valuation prepared using estimates and assumptions provided by management, Yellow Roadway allocated approximately \$26.2 million of the total purchase price of approximately \$1.1 billion to Roadway Next Day as follows:

<u>(in thousands)</u>	
Cash and cash equivalents	\$ 22,216
Accounts receivable	20,218
Other current assets	6,677
Property, plant and equipment	78,577
Other long-term assets	3,244
Intangible assets	67,900
Goodwill	58,605
Accounts payable	(35,668)
Note payable to affiliate	(150,000)
Deferred income taxes, net	(31,935)
Other long-term liabilities	(13,635)
Total purchase price	\$ 26,199

Intangible Assets

Of the \$67.9 million allocated to intangible assets, \$20.7 million was assigned to the New Penn trade name which is not subject to amortization. Of the remaining value, \$46.2 million and \$1.0 million were assigned to customer relationships and software related assets, respectively. Yellow Roadway assigned the customer relationships and software assets a weighted average life of 14 years and 4 years, respectively.

Goodwill

Yellow Roadway recorded \$602.9 million in goodwill as part of the acquisition, allocating \$544.3 million to Roadway Express and \$58.6 million to Roadway Next Day. Of the total goodwill recorded, the amount that may be deductible for tax purposes is not material to the results of operations of Yellow Roadway.

Goodwill and Intangibles

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. In accordance with SFAS No. 142, we review goodwill at least annually for impairment based on a fair value approach. During the fourth quarter of 2004, we completed our annual impairment testing of goodwill and tradenames, which are deemed to have indefinite lives, and determined there was no impairment.

The following table shows the changes in the carrying amount of goodwill:

<u>(in thousands)</u>	
Balance at December 31, 2002	\$ —
Goodwill resulting from acquisition	122,332
Balance at December 31, 2003	122,332
Final purchase price allocation adjustment	(63,727)
Balance at December 31, 2004	<u>\$ 58,605</u>

The components of amortizable intangible assets at December 31 are as follows:

<u>(in thousands)</u>	Weighted Average Life (years)	2004		2003	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	14	\$46,200	\$ 3,690	\$62,900	\$ 192
Technology based	4	1,000	270	1,000	17
Intangible assets		<u>\$47,200</u>	<u>\$ 3,960</u>	<u>\$63,900</u>	<u>\$ 209</u>

Total marketing related intangible assets with indefinite lives were \$20.7 million and \$25.6 million as of December 31, 2004 and 2003, respectively. During 2004 these amounts were impacted by additional purchase price adjustments of \$4.9 million. These intangible assets are not subject to amortization, but are subjected to the impairment test previously discussed.

Amortization expense for intangible assets was \$3.8 million and \$0.2 million for the year ended December 31, 2004 and for the period December 12 through December 31, 2003, respectively. Estimated amortization expense for the next five years is as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Estimated amortization expense	\$3,539	\$3,539	\$3,520	\$3,289	\$3,289

Employee Benefits

Pension and Other Postretirement Benefit Plans

Non-Qualified Defined Benefit Pension Plans

Roadway Next Day provides a non-qualified defined benefit pension plan for certain employees not covered by collective bargaining agreements (approximately 60 employees). Pension benefits are specified by the Board of Directors. This plan has no assets. Benefits are paid from corporate funds.

Employees covered by collective bargaining agreements participate in various multi-employer pension plans to which Roadway Next Day contributes, as discussed later in this section.

Definitions

We have defined the following terms to provide a better understanding of our pension and other postretirement benefits:

Projected benefit obligation: The projected benefit obligation is the present value of future benefits to employees attributed to service as of the measurement date, including assumed future salary increases through retirement.

Funded status: The funded status represents the difference between the projected benefit obligation and plan assets.

Net amount recognized: The net amount recognized represents the amount accrued by Roadway Next Day for pension costs.

Unfunded accumulated benefit obligation: The accumulated benefit obligation is the present value of future benefits attributed to service as of the measurement date, assuming no future salary growth. The unfunded accumulated benefit obligation represents the difference between the accumulated benefit obligation and plan assets.

Accumulated postretirement benefit obligation: The accumulated postretirement benefit obligation is the present value of other postretirement benefits to employees attributed to service as of the measurement date.

Funded Status

The following table sets forth the plan's funded status for the following:

<u>(in thousands)</u>	<u>For the year ended December 31, 2004</u>	<u>For the period December 12 to December 31, 2003</u>
Change in benefit obligation:		
Beginning benefit obligation	\$ 1,901	\$ 1,893
Service cost	45	2
Interest cost	115	6
Plan amendment	97	—
Benefits paid	(177)	—
Actuarial loss	107	—
	<u> </u>	<u> </u>
Benefit obligation at year end	\$ 2,088	\$ 1,901
	<u> </u>	<u> </u>
Funded status:		
Funded status	\$ (2,088)	\$ (1,901)
Unrecognized prior service cost	97	—
Unrecognized net actuarial loss	107	—
	<u> </u>	<u> </u>
Net amount recognized	\$ (1,884)	\$ (1,901)
	<u> </u>	<u> </u>

Benefit Plan Obligations

Amounts recognized for the benefit plan liabilities in the Consolidated Balance Sheets at December 31, 2004 and 2003 were \$1.9 million and \$1.9 million, respectively. The discount rates of 5.75% and 6.25% were used to determine benefit obligations at December 31, 2004 and 2003, respectively.

Information for the plan which has an accumulated benefit obligation in excess of plan assets at December 31:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Projected benefit obligation	\$2,088	\$1,901
Accumulated benefit obligation	2,088	1,901

The total accumulated benefit obligation was \$2.1 million and \$1.9 million at December 31, 2004 and 2003, respectively.

Future Contributions and Benefit Payments

We expect to contribute approximately \$0.1 million to our pension plan in 2005.

Expected benefit payments for each of the next five years ended December 31 are as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010-2014</u>
Expected benefit payments	\$137	\$152	\$142	\$140	\$157	\$ 829

Pension Costs

The components of our net periodic pension cost were as follows:

<u>(in thousands)</u>	<u>For the year ended December 31, 2004</u>	<u>For the period ended December 31, 2003</u>
Service cost	\$ 45	\$ 2
Interest cost	115	6
Net periodic pension cost	<u>\$ 160</u>	<u>\$ 8</u>
Weighted average assumptions for the period ended December 31:		
Discount rate	6.25%	6.75%

Multi-Employer Plans

Roadway Next Day contributes to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 72 percent of total employees). The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. We recognize as net pension cost the required contribution for the period and recognize as a liability any contributions due and unpaid. We contributed and charged to expense the following amounts:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Health and welfare	\$15,243	\$ 727
Pension	15,150	721
Total	<u>\$30,393</u>	<u>\$1,448</u>

Under current legislation regarding multi-employer pension plans, a termination, withdrawal or partial withdrawal from any multi-employer plan in an underfunded status would render us liable for a proportionate share of such multi-employer plans' unfunded vested liabilities. This potential unfunded pension liability also applies to our unionized competitors who contribute to multi-employer plans. Based on the limited information available from plan administrators, which we cannot independently validate, we believe that our portion of the contingent liability in the case of a full withdrawal or termination would be material to our financial position and results of operations. Roadway Next Day has no current intention of taking any action that would subject us to obligations under the legislation.

Roadway Next Day has collective bargaining agreements with its unions that stipulate the amount of contributions it must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code and related regulations establish minimum funding requirements for these plans. Under recent legislation, qualified multi-employer plans are permitted to exclude certain recent investment losses from the minimum funding formula through 2005. The Central States Plan, in particular, has informed us that its recent investment performance has adversely affected its funding levels and that the fund is seeking corrective measures to address its funding. During the benefit period of the recent legislation, the Central States Plan is expected to meet the minimum funding requirements. If any of these plans, including (without limitation) the Central States Plan, fail to meet minimum funding requirements and the trustees of such a plan are unable to obtain waivers of the requirements or certain changes in how the applicable plan calculates its funding level from the Internal Revenue Service ("IRS") or reduce pension benefits to a level where the requirements are met, the IRS could impose an excise tax on all employers participating in these plans and require contributions in excess of our contractually agreed upon rates to correct the funding deficiency. If an excise tax were imposed on the participating employers and additional contributions required, it could have a material adverse impact on the financial results of Roadway Next Day.

401(k) Savings Plan

Roadway Next Day provides a voluntary 401(k) savings plan for its employees not covered by collective bargaining agreements. We do not make employer contributions to the 401(k) plan on their behalf.

Profit Sharing Plan

Roadway Next Day provides a noncontributory profit sharing plan for employees not covered by collective bargaining agreements. Any contributions are discretionary employer contributions. Employer contributions for the profit sharing plan were \$1.8 million for the year ended December 31, 2004. There were no employer contributions for the profit sharing plan for the period December 12 through December 31, 2003.

Related Party Transactions

On December 10, 2003, Roadway Next Day executed a \$150 million ten-year Promissory Note to Roadway LLC, accruing interest at the rate of 8.25 percent. Interest is due and payable quarterly, and the principal is due at maturity. This amount remains outstanding at December 31, 2004. The fair value of this note approximates its carrying value at December 31, 2004. For the year ended December 31, 2004, we paid interest expense of approximately \$12.4 million related to this borrowing arrangement.

We paid management fees to Roadway LLC (“our parent”) of \$1.7 million in 2004 that we include in “operating expenses and supplies.” The management fees were paid for various corporate and administrative services. Management fees are charged based on the direct benefits received or as a percentage of revenue. At December 31, 2004, we had net short-term advances receivable of \$16.4 million from our parent primarily related to a corporate cash management program. The interest rate was based on the London inter-bank offer rate plus a fixed increment and was 2.56 percent at December 31, 2004. Related party transactions relating to 2003 results were immaterial to our operations.

Income Taxes

We use the liability method to reflect income taxes on our financial statements. We recognize deferred tax assets and liabilities by applying enacted tax rates and regulations to the differences between the carrying value of existing assets and liabilities and their respective tax basis and capital loss and tax credit carryforwards. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that the change is enacted. We assess the realizability of deferred tax assets for capital and operating loss carryforwards and provide valuation allowances when we determine it is more likely than not that such losses will not be realized within the applicable carryforward period. Deferred tax liabilities (assets) were comprised of the following at December 31:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Depreciation	\$ 10,706	\$ 7,766
Employee benefits	105	—
Intangibles	28,148	36,635
Prepaid	120	—
Revenue	218	—
Other	536	398
	<u>\$ 39,833</u>	<u>\$44,799</u>
Gross tax liabilities		
Bad debt	\$ (475)	\$ —
Claims and insurance	(5,936)	(4,897)
Employee benefits	(3,139)	(3,019)
Other	(1,879)	(1,558)
	<u>\$(11,429)</u>	<u>\$ (9,474)</u>
Gross tax assets		
Net tax liability	<u>\$ 28,404</u>	<u>\$35,325</u>

We have a tax sharing policy with Yellow Roadway Corporation that requires us to share in its consolidated tax burden based on our respective share of taxable income or losses relative to Yellow Roadway Corporation’s other subsidiaries. In addition, we retain any respective tax credits related to our operations.

A reconciliation between income taxes at the federal statutory rate and the consolidated effective tax rate follows:

	<u>2004</u>	<u>2003</u>
Federal statutory rate	35.0%	35.0%
State income taxes, net	5.8	5.8
Nondeductible business expenses	0.8	(1.1)
Other, net	(6.1)	5.3
	<u>35.5%</u>	<u>45.0%</u>
Effective tax rate		

For 2004, "Other, net" is primarily composed of intercompany charges not included in the accompanying statements of operations.

The income tax expense (benefit) consisted of the following:

<u>(in thousands)</u>	<u>2004</u>	<u>2003</u>
Current:		
U.S federal	\$5,190	\$(527)
State	1,770	(106)
Current income tax provision	<u>\$6,960</u>	<u>\$(633)</u>
Deferred:		
U.S federal	\$ 141	\$ 174
State	38	19
Deferred income tax provision	<u>\$ 179</u>	<u>\$ 193</u>
Income tax provision	<u>\$7,139</u>	<u>\$(440)</u>

Commitments, Contingencies, and Uncertainties

Roadway Next Day incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to operating expense and supplies on the Statement of Consolidated Operations. Actual rental expense for the year ended December 31, 2004 and the period December 12 through December 31, 2003 was \$0.9 million and \$17 thousand, respectively.

We utilize certain terminals and equipment under operating leases. At December 31, 2004, we were committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

<u>(in thousands)</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Thereafter</u>
Minimum annual rentals	\$413	\$219	\$62	\$53	\$53	\$ 13

We expect in the ordinary course of business that leases will be renewed or replaced as they expire. Projected 2005 net capital expenditures are expected to be \$10.0 million to 15.0 million.

Roadway Next Day is involved in litigation or proceedings that arise in ordinary business activities. We insure against these risks to the extent deemed prudent by our management, but no assurance can be given that the nature and 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 with regard to the litigation and proceedings to which we are a party.

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Roadway Next Day Corporation

The period January 1 to December 11, 2003; Year ended December 31, 2002; One-Month Period ended December 31, 2001 (Successor Periods) and Eleven-Month Period ended November 30, 2001 (Predecessor Periods) with Reports of Independent Auditors

Report of Independent Auditors

To the Board of Directors and Shareholder
Roadway Next Day Corporation

We have audited the accompanying consolidated balance sheets of Roadway Next Day Corporation formerly Arnold Industries, Inc. as of December 11, 2003, December 31, 2002, and the related statements of consolidated operations, shareholders' equity, parent company investment and cash flows for the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month period ended December 31, 2001, and the eleven-month period ended November 30, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Roadway Next Day Corporation as of December 11, 2003, and December 31, 2002, and the consolidated results of its operations and its cash flows for the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month period ended December 31, 2001 and the eleven-month period ended November 30, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Ernst & Young LLP

Akron, Ohio
January 22, 2004

Roadway Next Day Corporation

Consolidated Balance Sheets

	December 11, 2003	December 31, 2002
<i>(In Thousands)</i>		
Assets		
Current assets		
Cash and cash equivalents	\$ 22,211	\$ 12,988
Marketable securities	4	4
Accounts receivable, net	19,681	24,785
Prepaid expenses and supplies	2,917	2,530
Assets of discontinued operations	—	87,431
Deferred income taxes	3,796	4,088
Total current assets	48,609	131,826
Carrier operating property, at cost	102,846	100,854
Less allowance for depreciation	19,889	10,240
Net carrier operating property	82,957	90,614
Goodwill, net	269,093	269,093
Other long-term assets	6,466	22,511
Total assets	\$ 407,125	\$ 514,044
Liabilities, and parent company investment		
Current liabilities:		
Accounts payable	\$ 12,961	\$ 14,209
Income taxes payable	6,822	—
Salaries and wages	8,489	8,522
Freight and casualty claims payable	3,392	4,209
Liabilities of discontinued operations	—	32,407
Current portion of long-term debt	—	33,703
Total current liabilities	31,664	93,050
Long-term liabilities:		
Casualty claims and other	9,331	6,539
Deferred income taxes	6,894	10,666
Accrued pension benefits	2,026	1,917
Long-term debt	150,000	273,513
Total long-term liabilities	168,251	292,635
Parent company investment	207,210	128,359
Total liabilities, and parent company investment	\$ 407,125	\$ 514,044

See accompanying notes.

Roadway Next Day Corporation
Statements of Consolidated Operations

	Successor Company			Predecessor Company
	January 1 to December 11, 2003	Year ended December 31, 2002	One Month ended December 31, 2001	Eleven Months ended November 30, 2001
	<i>(In Thousands)</i>			
Revenue	\$ 206,708	\$ 213,194	\$ 14,124	\$ 410,942
Operating expenses:				
Salaries, wages and benefits	139,143	142,899	9,860	202,939
Operating supplies and expenses	26,609	24,361	1,602	68,929
Purchased transportation	2,095	1,997	117	48,421
Operating taxes and licenses	5,889	6,139	405	9,886
Insurance and claims	2,855	4,334	224	10,219
Provision for depreciation	9,789	9,277	1,007	30,489
Loss (gain) on sale of property	(39)	4	(26)	(195)
Compensation and other expense related to the Yellow acquisition	3,341	—	—	—
Total operating expenses	189,682	189,011	13,189	370,688
Operating income from continuing operations	17,026	24,183	935	40,254
Other income (expense)				
Interest expense	—	(22,325)	(2,018)	(216)
Other, net	(5,298)	(3,390)	120	(6,806)
	(5,298)	(25,715)	(1,898)	(7,022)
Income (loss) from continuing operations before income taxes	11,728	(1,532)	(963)	33,232
Provision (benefit) for income taxes	4,961	(593)	(524)	10,861
Income (loss) from continuing operations	6,767	(939)	(439)	22,371
(Loss) income from discontinued operations	(155)	3,782	174	—
Net income (loss)	\$ 6,612	\$ 2,843	\$ (265)	\$ 22,371

See accompanying notes.

Roadway Next Day Corporation
Statements of Consolidated Shareholders' Equity
and Parent Company Investment

	<u>Total</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>
<i>(In Thousands)</i>					
Predecessor Company					
Balance—January 1, 2001	\$ 276,158	\$29,942	\$ 2,017	\$284,862	\$(40,663)
Net income	22,371	—	—	22,371	—
Distribution of treasury stock due to exercise of stock options	—	—	1,667	—	(1,667)
Cash dividends paid	(10,902)	—	—	(10,902)	—
Sales of treasury stock	2,084	—	—	—	2,084
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance—November 30, 2001	\$ 289,711	\$29,942	\$ 3,684	\$296,331	\$(40,246)
Successor Company					
Acquisition of Arnold Industries Inc. by Roadway Corporation	\$ 453,831				
Push down of Roadway Corporation long-term debt	(325,000)				
Push down of Roadway Corporation long-term debt related costs	10,826				
Net loss	(265)				
Transfer to parent	(12,526)				
	<u> </u>				
Parent company investment December 31, 2001	\$ 126,866				
Year ended December 31, 2002					
Net income	2,843				
Cash transfer to parent—continuing operations	(49,086)				
Cash transfer to parent—discontinued operations	(18,000)				
Additional parent company investment	65,736				
	<u> </u>				
Parent company investment December 31, 2002	\$ 128,359				
January 1 to December 11, 2003					
Net income	6,612				
Cash transfer to parent—continuing operations	(13,200)				
Non-cash transfer to parent	(150,000)				
Sale of ATS	(55,162)				
Additional parent company investment	290,601				
	<u> </u>				
Parent company investment December 11, 2003	\$ 207,210				

See accompanying notes.

Roadway Next Day Corporation
Statements of Consolidated Cash Flows

	Successor Company			Predecessor Company
	January 1 to December 11, 2003	Year ended December 31, 2002	One Month ended December 31, 2001	Eleven Months ended November 30, 2001
<i>(In Thousands)</i>				
Cash flows from operating activities				
Net income (loss)	\$ 6,612	\$ 2,843	\$ (265)	\$ 22,371
Less: (loss) income from discontinued operations	(155)	3,782	174	—
Income (loss) from continuing operations	6,767	(939)	(439)	22,371
Adjustments to reconcile net (loss) income to net cash provided by operating activities:				
Depreciation and amortization	16,184	11,431	1,007	30,489
Loss (gain) on sale of carrier operating property	(39)	5	(26)	(195)
Changes in assets and liabilities:				
Accounts receivable	(933)	(2,069)	11,098	(5,569)
Other assets	2,313	8,399	(1,771)	1,100
Accounts payable and accrued items	1,216	28,140	(9,253)	6,012
Long-term liabilities	(953)	5,400	(65)	(2,180)
Net cash provided by operating activities	24,555	50,367	551	52,028
Cash flows from investing activities				
Sales (purchases) of marketable securities, net	—	7,854	1,410	(3,146)
Business acquisition, net of cash acquired	—	—	—	—
Purchases of carrier operating property	(3,135)	(7,294)	(1,455)	(27,593)
Sales of carrier operating property	1,041	407	—	—
Net cash provided by (used in) investing activities	(2,094)	967	(45)	(30,739)
Cash flows from financing activities				
Long-term debt proceeds (repayments)	—	—	—	(2,184)
Dividends paid	—	—	—	(10,902)
Treasury stock activity, net	—	—	—	2,084
Transfer to parent	(13,200)	(49,086)	(12,526)	—
Net cash used in financing activities	(13,200)	(49,086)	(12,526)	(11,002)
Increase (decrease) in cash and cash equivalents from continuing operations	9,261	2,248	(12,020)	10,287
(Decrease) increase in cash and cash equivalents from discontinued operations	(38)	(10,872)	2,286	—
Cash and cash equivalents at beginning of period	12,988	21,612	31,346	31,213
Cash and cash equivalents at end of period	\$ 22,211	\$ 12,988	\$ 21,612	\$ 41,500

See accompanying notes.

Roadway Next Day Corporation
Notes to Consolidated Financial Statements
December 11, 2003

1. Basis of Presentation

On November 30, 2001, Roadway Corporation (Roadway) acquired Arnold Industries, Inc. (Arnold), subsequently named Roadway Next Day Corporation (the Company), for cash consideration of \$559,839,000, including direct acquisition costs. Included in the acquired assets of Arnold was \$50,763,000 in cash, which was used to partially finance the acquisition. Also on November 30, 2001, concurrent with the acquisition of Arnold, the Company sold Arnold's logistics business (ARLO) to members of the ARLO management team for \$105,010,000 in cash. The net acquisition consideration of \$427,160,000, which included \$23,094,000 in income taxes paid by the Company primarily as a result of the sale of ARLO, was financed with borrowings under a new credit facility, proceeds from an accounts receivable securitization, the issuance of \$225,000,000 in senior notes, and available cash.

The Company operates in the motor carrier industry, principally in the eastern United States, and provides next-day LTL and TL services. The Company's trucking activities are conducted by its subsidiaries, New Penn Motor Express, Inc. (New Penn) and Arnold Transportation Services, Inc. (ATS). New Penn is a leading regional next-day ground LTL carrier operating primarily in New England and the Middle Atlantic States. ATS operates as an inter-regional irregular route and dedicated TL carrier, conducting operations east of the Mississippi and in the southwestern United States.

The acquisition of the Company was accounted for as a purchase business combination and, accordingly, the assets acquired and liabilities assumed were recorded at their estimated fair values on the acquisition date. The excess of the purchase price paid over the fair value of the net assets acquired, totaling approximately \$269,093,000, was recorded as goodwill.

1. Basis of Presentation (continued)

The financial statements for the periods subsequent to November 30, 2001 have been presented on the Company's new basis of accounting ("Successor Company" or "Successor Periods"), while the results of operations for the eleven-month period ended November 30, 2001 reflects the historical results of the predecessor company ("Predecessor Company" or "Predecessor Periods").

In accordance with Rule 3-16 of Regulation S-X, we are presenting these consolidated financial statements of Roadway Next Day Corporation. We are not presenting the separate financial statements of New Penn Motor Express because:

- Roadway Next Day is a non-operating holding company;
- The separate financial statements of New Penn Motor Express are substantially identical to those of Roadway Next Day Consolidated;
- The separate financial statements of the parent Roadway Next Day are not material to an investor, and;
- The Company would provide separate financial statements of New Penn Motor Express should Roadway Next Day commence its own operations or acquire additional subsidiaries.

Notes to Consolidated Financial Statements (continued)

1. Basis of Presentation (continued)

On December 26, 2002, Roadway and the Company entered into an agreement to sell ATS to a management group led by the unit's president and a private equity firm, for \$55,430,000. The ATS business segment did not fit Roadway's strategic focus of being a LTL carrier. The transaction was completed on January 23, 2003, and resulted in a gain of \$150,000 net of tax.

The Company has reported the operations of ATS as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all successor periods presented exclude the amounts related to this discontinued operation.

As a result of the sale of ATS, the Company now operates in one business segment, New Penn, which provides next-day ground LTL freight services, primarily in New England and the Middle Atlantic States.

The following table presents revenue and income from the discontinued operation for the period January 1, 2003 to January 23, 2003, and the year ended December 31, 2002:

	January 1 to January 23, 2003	Year Ended December 31, 2002
	<i>(In Thousands)</i>	
Revenue	\$ 9,267	\$ 171,133
Pre-tax income from discontinued operations	\$ (263)	\$ 6,251
Income tax expense	(108)	2,469
Income from discontinued operations	\$ (155)	\$ 3,782

1. Basis of Presentation (continued)

Assets and liabilities of the discontinued operation were as follows:

	January 23, 2003	December 31, 2002
<i>(In Thousands)</i>		
Assets:		
Current assets	\$ 23,811	\$ 22,025
Net carrier operating property	63,494	64,065
Other assets	1,339	1,341
Total assets	\$ 88,644	\$ 87,431
Liabilities:		
Current liabilities	\$ 9,811	\$ 8,104
Long-term liabilities	24,304	24,303
Total liabilities	\$ 34,115	\$ 32,407

On July 8, 2003, Roadway Corporation announced that a definitive agreement had been signed under which Yellow Corporation would acquire Roadway Corporation. On December 11, 2003, the transaction was completed for approximately \$1.1 billion, based on a fixed exchange ratio of 1.752 Yellow shares per Roadway share, in a half-cash, half-stock transaction.

2. Accounting Policies**Principles of Consolidation**

The consolidated financial statements include the amounts and operations of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Accounting Policies (continued)

Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Property and Equipment

Depreciation of carrier operating property is computed by the straight-line method based on the useful lives of the assets. The useful life of structures ranges from 15-31 years and equipment from 3-10 years.

Financial Instruments

The carrying value of the Company's financial instruments, consisting primarily of cash equivalents, marketable securities, accounts receivable, accounts payable, investments in limited partnerships, and long-term borrowings, approximates the fair value of these instruments at December 11, 2003 and December 31, 2002.

Effective January 1, 2001, the Company adopted the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended. The Company does not use derivative financial instruments; therefore, the adoption of this Statement had no effect on its financial position or results of operations.

Concentrations of Credit Risk

The Company sells services and extends credit based on an evaluation of the customer's financial condition, without requiring collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses.

2. Accounting Policies (continued)**Marketable Securities**

At December 11, 2003 and December 31, 2002, the Company's marketable securities consist principally of U.S. Government securities, municipal bonds, and equity securities, and have been classified as "available for sale" in accordance with the provisions of SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Realized gains and losses on the sale of securities are recognized using the specific identification method and are included in other income in the statements of consolidated income. Interest and dividends are included in investment income.

The fair value of the Company's marketable equity securities traded on a national securities exchange is determined by the last reported sales price on the last business day of the year. U.S. Government securities are valued based on quoted market prices using yields currently available on comparable securities of issuers with similar credit ratings.

Goodwill

Goodwill represents costs in excess of net assets of acquired businesses, which for the predecessor periods, was amortized using the straight-line method primarily over a period of 40 years.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires the purchase method for all business combinations initiated after June 30, 2001. SFAS No. 141 also clarifies the criteria for recognition of intangible assets separately from goodwill. Under SFAS No. 142, separable intangible assets that are not deemed to have an indefinite life will continue to be amortized over their useful lives. SFAS No. 142 also eliminates the amortization of goodwill and indefinite-lived intangible assets for assets acquired after June 30, 2001, and all other goodwill on January 1, 2002.

As of December 31, 2002, the Company had net unamortized goodwill of \$269,093,000 recorded in connection with the acquisition by Roadway on November 30, 2001. Amortization of previously existing goodwill resulting from the Company's earlier acquisitions was ended effective January 1, 2002. Goodwill amortization was \$0 in 2003, \$0 in 2002, and \$221,000 in the 2001 predecessor period. The Company's goodwill amortization was not deductible for tax purposes in the predecessor periods.

2. Accounting Policies (continued)

The Company completed the required transitional goodwill impairment test under SFAS No. 142 effective June 15, 2003 which did not indicate any impairment. As a result of finalizing the purchase price allocation during the fourth quarter of 2002, goodwill reflected in the ATS segment preliminary purchase price allocation was reallocated to the New Penn segment. Accordingly, all goodwill resulting from the acquisition by Roadway has been recorded in the New Penn business segment at December 11, 2003. The Company updated its goodwill impairment test at December 31, 2002 due to the reallocation of goodwill previously recorded in the ATS business segment. The performance of the updated impairment test did not indicate any impairment of goodwill.

Casualty Claims Payable

Casualty claims payable accruals represent management's estimates of claims for property damage and public liability and workers' compensation. The Company manages casualty claims with assistance of a third party administrator (TPA), along with oversight by a major risk management provider. The Company is self-insured for these claims with retention generally limited to \$3,000,000. The Company and its TPA closely monitor the liability balances by using actual adjuster evaluations of each claim. Expenses resulting from workers' compensation claims are included in salaries, wages, and benefits in the accompanying statements of consolidated income.

Revenue Recognition

For the Predecessor periods, revenues are allocated between reporting periods based on relative transit time in each reporting period with related operating expenses recognized as incurred. In the Successor periods, revenues are recognized as earned on the date of freight delivery to the consignee. Related operating expenses are recognized as incurred.

Stock-Based Compensation

In the Predecessor periods, the Company accounted for stock-based compensation in accordance with Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*. The Company does not have any stock-based compensation plans in the Successor periods.

2. Accounting Policies (continued)

Use of Estimates in the Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the period, the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

Impairment of Long-lived Assets

In the event that facts and circumstances indicate that the carrying value of intangibles and long-lived assets or other assets may be impaired, an evaluation of recoverability would be performed. If an evaluation were required, the estimated future undiscounted cash flows associated with the asset would be compared to the asset's carrying amount to determine if a write-down is required. No impairment charge was required for any period presented.

Investments in Limited Partnerships

The Company's investments in low-income housing limited partnerships reflect their cash investment plus the present value of required future contributions net of amortization of any excess of cost over the estimated residual value.

Income Taxes

The Company is included in a consolidated tax-filing group with Roadway for federal income tax purposes. The Successor Period federal and state income tax provision and related obligation is calculated on a separate return basis as if the Company was a separate taxpayer. The Company files tax returns and pays taxes due on a stand-alone basis for state income tax purposes in jurisdictions where such filings are required.

2. Accounting Policies (continued)

In accordance with SFAS No. 109, *Accounting for Income Taxes*, deferred income taxes are accounted for by the liability method, wherein deferred tax assets or liabilities are calculated on the differences between the bases of assets and liabilities for financial statement purposes versus tax purposes (temporary differences) using enacted tax rates in effect for the year in which the differences are expected to reverse. Tax expense in the consolidated statements of income is equal to the sum of taxes currently payable plus an amount necessary to adjust deferred tax assets and liabilities to an amount equal to period-end temporary differences at prevailing tax rates.

Reclassifications

Certain amounts in the 2002 financial statements have been reclassified to conform to the 2003 financial statement presentation.

3. Marketable Securities

At December 31, 2003 and 2002, the Company's available-for-sale securities consist primarily of municipal bonds and fixed income equity securities. Due to the nature of the instruments, their carrying values and fair market values are equal and no unrealized gains and losses exist at the balance sheet dates. The net realized gains and losses on sales of marketable securities recorded were not significant for all periods presented.

4. Carrier Operating Property

Carrier operating properties consist of the following:

	December 11, 2003	December 31, 2002
	<i>(in thousands)</i>	
Land	\$ 14,258	\$ 16,830
Structures	35,723	33,465
Revenue equipment	33,039	33,147
Other operating property	14,487	11,529
Construction in progress	5,339	5,883
	<u>102,846</u>	<u>100,854</u>
Carrier operating property, at cost	102,846	100,854
Less allowance for depreciation	19,889	10,240
	<u>82,957</u>	<u>90,614</u>
Net carrier operating property	\$ 82,957	\$ 90,614

5. Financing Arrangements

Long-term obligations consist of the following:

	December 11, 2003	December 31, 2002
	<i>(in thousands)</i>	
Payable to Roadway Corporation	\$ 150,000	\$ 307,216
Less current portion	—	(33,703)
	<u>150,000</u>	<u>273,513</u>
Long-term payable to Roadway Corporation	\$ 150,000	\$ 273,513

Amounts payable to Roadway represents a long-term note payable to Roadway Corporation at December 11, 2003, and long-term debt pushed down to the Company in connection with the acquisition of Arnold at December 31, 2002. On December 10, 2003, Roadway Next Day executed a \$150 million ten-year 8.25% Promissory Note to Roadway Corporation. Interest is due and payable quarterly, and the principal is due at maturity.

5. Financing Arrangements (continued)

At December 31, 2002, Roadway Corporation had in place a senior revolving credit facility with a sublimit for letters of credit that expired November 30, 2006. The credit facility was terminated effective December 11, 2003 upon consummation of the Yellow transaction. The original amount of the senior revolving credit facility was \$150,000,000 with a \$100,000,000 sublimit for letters of credit, which was amended on August 6, 2002. The result of the amendment increased the senior revolving credit facility to \$215,000,000 and increased the sublimit for letters of credit to \$165,000,000. Pricing under the revolving credit facility was at a fluctuating rate based on the alternate base rate as determined by Credit Suisse First Boston (CSFB) or LIBOR, plus an additional margin of 0.50% and 1.50%, respectively. In addition, there is a commitment fee of 0.40% on undrawn amounts. As of December 31, 2002, there were no amounts outstanding under the revolving credit facility, but availability had been reduced by \$112,162,000 as a result of the issuance of letters of credit, primarily related to casualty claims.

The credit facility also included a \$175,000,000 senior term loan, which was drawn in full to partially fund the acquisition of Arnold. After-tax proceeds of \$75,000,000 from the sale of ARLO were used to pay down borrowings on this facility in 2001. Pricing under the term loan is at a fluctuating rate based on the alternate base rate as determined by CSFB or LIBOR, plus an additional margin of 0.50% and 1.50%, respectively. Prior to the acquisition by Yellow, Roadway Corporation paid the Senior term loan in full.

Also in connection with the acquisition of Arnold on November 30, 2001, Roadway Corporation issued \$225,000,000 of 8.25% senior notes due December 1, 2008. Interest is due semi-annually on June 1st and December 1st.

Roadway's financial liquidity and consolidated results of operations, including the ability to make required payments with respect to its indebtedness and other obligations, are dependent on the financial condition and results of operations of its subsidiaries. There are no restrictions on the ability of the Company to transfer funds to Roadway.

The financing arrangements include covenants that require Roadway to comply with certain financial ratios, including leverage and fixed-charge coverage ratios, and maintenance of a minimum level of tangible net worth.

Interest paid under these arrangements amounted to \$19,327,000 in 2003 and \$22,325,000 in 2002.

6. Income Taxes

Consolidated income tax (benefit) expense consists of the following:

	January 1 to December 11, 2003	Successor Company		Predecessor Company
		Year Ended December 31, 2002	One Month Ended December 31, 2001	Eleven Months Ended November 30, 2001
<i>(In Thousands)</i>				
Currently payable:				
Federal	\$ 6,767	\$ 1,141	\$ (620)	\$ 10,666
State	1,674	79	(136)	2,467
	<u>8,441</u>	<u>1,220</u>	<u>(756)</u>	<u>13,133</u>
Deferred:				
Federal	(3,131)	(1,636)	209	(1,967)
State	(349)	(177)	23	(305)
	<u>(3,480)</u>	<u>(1,813)</u>	<u>232</u>	<u>(2,272)</u>
Total income tax (benefit) expense	<u>\$ 4,961</u>	<u>\$ (593)</u>	<u>\$ (524)</u>	<u>\$ 10,861</u>

The income tax resulting from the effective tax rate differs from the income tax calculated using the federal statutory rates as set forth in the following reconciliation:

	January 1 to December 11, 2003	Successor Company		Predecessor Company
		Year Ended December 31, 2002	One Month Ended December 31, 2001	Eleven Months Ended November 30, 2001
Statutory federal income tax	\$ 4,105	\$ (536)	\$ (337)	\$ 12,518
State income taxes, net of federal income tax benefit	861	(64)	(73)	1,506
Non-deductible operating costs	146	146	(5)	(22)
Excise taxes	154			
Acquisition costs	321			
Section 280G limitations	263			
Other, net	(889)	(139)	(109)	(3,141)
Effective tax	<u>\$ 4,961</u>	<u>\$ (593)</u>	<u>\$ (524)</u>	<u>\$ 10,861</u>

Income tax payments amounted to \$1,354,000 in 2003 and \$1,788,000 in 2002.

6. Income Taxes (continued)

Significant components of the Company's deferred taxes at December 11, 2003 and December 31, 2002 respectively, are as follows:

	December 11, 2003	December 31 2002
<i>(In Thousands)</i>		
Deferred tax assets:		
Freight and casualty claims	\$ 3,735	\$ 4,316
Accrued employee benefits	3,194	3,342
Other	1,774	311
Total deferred tax assets	8,703	7,969
Deferred tax liabilities:		
Depreciation	11,360	12,300
Other	441	2,247
Total deferred tax liabilities	11,801	14,547
Net deferred tax liabilities	\$ 3,098	\$ 6,578

7. Leases

The Company leases certain property under noncancellable operating leases requiring minimum future rentals aggregating approximately \$1,182,000 payable as follows: 2004—\$439,000; 2005—\$347,000; 2006—\$216,000; 2007—\$62,000; 2008 and thereafter \$118,000. Rental expense for operating leases was \$327,000 in 2003 and \$283,000 in 2002.

8. Employee Benefit Plans

The Company charged to operations \$12,201,000, \$12,311,000, \$972,000, and \$11,070,000, during the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month ended December 31, 2001, and the eleven-months ended November 30, 2001, respectively, for contributions to multi-employer pension plans for employees subject to labor contracts. The Company also charged to operations \$12,275,000, \$11,923,000, \$858,000, and \$10,214,000 during the same periods for contributions to multi-employer plans that provide health and welfare benefits to employees and certain retirees who are or were subject to labor contracts. These amounts were determined in accordance with provisions of industry labor contracts. Under provisions of the Multi-employer Pension Plan Act of 1980, total or partial withdrawal from a plan would result in an obligation to fund a portion of the plan's unfunded vested liability.

Management has no intention of changing operations so as to subject the Company to any material obligation.

The Company also has a trustee profit sharing plan and two 401(k) plans for employees meeting certain eligibility requirements. The Company contributed approximately \$448,000, \$1,608,000, \$140,000, and \$1,575,000 to the profit sharing plan during the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month ended December 31, 2001, and the eleven-months ended November 30, 2001, respectively, and \$0, \$0, \$0, and \$448,000 to the 401(k) plan during the same periods.

The Company also provides an unfunded, supplemental defined benefit pension plan for certain key officers and employees. The actuarially determined benefit obligation recorded by the Company was \$2,026,000 and \$1,917,000 at December 11, 2003 and December 31, 2002, respectively. Net periodic benefit expense during the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month period ended December 31, 2001, and the eleven-month period ended November 30, 2001 amounted to \$148,000, \$165,000, \$14,000, and \$154,000, respectively. Total benefits paid to plan participants in 2003, 2002, and 2001 were \$103,000, \$70,000, and \$70,000, respectively. The discount rates utilized in 2003, 2002, and 2001 were 6.25%, 6.75%, and 7.0%, respectively.

9. Segment Information

The Company currently provides freight services in one business segment, New Penn. The New Penn segment provides next day service in the Northeast region of the United States. A second segment, ATS, provided irregular route and dedicated truckload services throughout the eastern, midwestern, and southwestern regions of the United States. On December 26, 2002, Roadway and the Company entered into an agreement to sell ATS. The sale was completed on January 23, 2003. The Company has reported the operations of ATS as a discontinued operation for all successor periods presented. A third segment, ARLO, specialized in integrated distribution services, order fulfillment, and contract packaging services primarily in Pennsylvania and Texas. On November 30, 2001, concurrent with the acquisition of Arnold, the Company sold Arnold's logistics business (ARLO) to members of the ARLO management team.

The reportable segments are identified based on differences in products, services, and management structure. The accounting policies of each business segment are consistent with those described in Note 2, *Accounting Policies*. The measurement basis of segment profit or loss is operating income. Business segment assets consist primarily of customer receivables, net carrier operating property and goodwill. No single customer represented 10% or more of the Company's sales during any period presented.

9. Segment Information (continued)

The following table presents information about reported segments for the period ended December 11, 2003, the year ended December 31, 2002, the one-month period ended December 31, 2001, and the eleven-month period ended November 30, 2001:

	New Penn	ATS	ARLO	Total
	<i>(In Thousands)</i>			
2003 Successor Period:				
Operating revenues	\$206,708	\$	\$	\$206,708
Operating income	17,026			17,026
Total assets	406,190			406,190
Depreciation and amortization	9,107			9,107
Purchase of property and equipment	3,392			3,392
2002 Successor Period:				
Operating revenues	\$213,194	\$	\$	\$213,194
Operating income	24,183			24,183
Total assets	408,021			408,021
Depreciation and amortization	10,969			10,969
Purchase of property and equipment	6,853			6,853
2001 Successor Period:				
Operating revenues	\$ 14,124	\$ —	\$ —	\$ 14,124
Operating income	936	—	—	936
Total assets	399,189	—	—	399,189
Depreciation and amortization	967	—	—	967
Purchase of property and equipment	819	—	—	819
2001 Predecessor Period:				
Operating revenues	\$199,683	\$158,676	\$52,583	\$410,942
Operating income	29,797	3,864	6,256	39,917
Total assets	174,852	131,558	59,682	366,092
Depreciation and amortization	10,971	14,991	3,988	29,950
Purchase of property and equipment	16,588	4,155	6,263	27,006

Notes to Consolidated Financial Statements (continued)

9. Segment Information (continued)

A reconciliation of total segment operating income to consolidated net income before taxes for the period January 1, 2003 to December 11, 2003, the year ended December 31, 2002, the one-month period ended December 31, 2001, and the eleven-month period ended November 30, 2001, and for total segment assets to consolidated assets at December 11, 2003 and December 31, 2002 are as follows:

	Successor Company			Predecessor Company
	January 1 to December 11, 2003	Year Ended December 31, 2002	One Month Ended December 31, 2001	Eleven Months Ended November 30, 2001
	<i>(In Thousands)</i>			
Total segment operating income	\$ 17,026	\$ 24,183	\$ 936	\$ 39,917
Unallocated corporate operating income (loss)	—	—	(1)	337
Interest (expense)	—	(22,325)	(2,018)	(216)
Other (expense) income, net	(5,298)	(3,390)	120	(6,806)
Consolidated (loss) income from continuing operations before income taxes	\$ 11,728	\$ (1,532)	\$ (963)	\$ 33,232
Total segment assets	\$ 406,190	\$ 408,021	\$ 399,189	\$ 366,092
Assets of discontinued operation	—	87,431	134,936	—
Unallocated corporate assets	4,422	25,010	32,338	29,813
Elimination of intercompany balances	(3,487)	(6,418)	(366)	(22,597)
Consolidated assets	\$ 407,125	\$ 514,044	\$ 566,097	\$ 373,308

10. Commitments and Contingencies

Various legal proceedings arising from the normal conduct of business are pending but, in the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

11. Related Party Transactions

Accounting and legal fees totaling approximately \$1,070,000 in the eleven months ended November 30, 2001 were paid or accrued to firms in which certain directors had financial interests in Arnold prior to the acquisition.