UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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

For the transition period from ______ to ______

Commission file number 0-12255

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

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

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

No Changes
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Class	Outstanding at October 29, 2004
Common Stock, $1 Par Value Per Share	48,581,524 shares

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS
Yellow Roadway Corporation and Subsidiaries
(Amounts in thousands except per share data)

	September 30, 2004	December 31, 2003
	(Unaudited)	
Assets		
Current Assets:		
Cash and cash equivalents	$ 26,002	$ 75,166
Accounts receivable, net	832,151	699,142
Prepaid expenses and other	123,859	110,128
Total current assets	982,012	884,436
Property and Equipment:		
Cost	2,660,750	2,538,614
Less – accumulated depreciation	1,224,867	1,135,346
Net property and equipment	1,435,883	1,403,268
Goodwill	631,395	617,313
Intangibles, net	470,436	467,114
Other assets	66,915	91,098
Total assets	$ 3,586,641	$3,463,229
Liabilities and Shareholders’ Equity		
Current Liabilities:		
Accounts payable	$ 267,890	$ 260,175
Wages, vacations and employees’ benefits	457,382	351,287
Other current and accrued liabilities	231,265	178,478
Asset backed securitization (“ABS”) borrowings	69,000	71,500
Current maturities of long-term debt	—	1,757
Total current liabilities	1,025,537	863,197
Other Liabilities:		
Long-term debt, less current portion	659,151	836,082
Deferred income taxes, net	296,966	298,256
Accrued pension and postretirement	235,694	256,187
Claims and other liabilities	223,601	207,422
Total other liabilities	1,415,412	1,597,947
Shareholders’ Equity:		
Common stock, $1 par value per share	50,946	50,146
Capital surplus	679,869	653,739
Retained earnings	487,139	366,157
Accumulated other comprehensive loss	(21,680)	(23,167)
Unamortized restricted stock awards	(10,645)	(567)
Treasury stock, at cost (2,144 and 2,359 shares)	(39,937)	(44,223)
Total shareholders’ equity	1,145,692	1,002,085
Total liabilities and shareholders’ equity	$ 3,586,641	$3,463,229

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED OPERATIONS
Yellow Roadway Corporation and Subsidiaries
For the Three and Nine Months Ended September 30
(Amounts in thousands except per share data)
(Unaudited)

	Three Months		Nine Months	
	2004	2003	2004	2003
Operating Revenue	$1,767,082	$770,705	$4,993,348	$2,165,251
Operating Expenses:				
Salaries, wages and employees' benefits	1,083,027	489,277	3,107,697	1,386,061
Operating expenses and supplies	251,261	106,490	738,746	320,341
Operating taxes and licenses	41,683	20,251	125,435	59,510
Claims and insurance	32,150	16,518	98,445	39,972
Depreciation and amortization	43,158	21,120	126,746	62,206
Purchased transportation	196,070	77,992	546,718	213,971
(Gains) losses on property disposals, net	(859)	381	(590)	422
Acquisition, spin-off and reorganization charges	—	864	—	864
Total operating expenses	1,646,490	732,893	4,743,197	2,083,347
Operating Income	120,592	37,812	250,151	81,904
Nonoperating (Income) Expenses:				
Interest expense	11,041	6,525	34,448	11,796
Write off of deferred debt issuance costs	18,279	—	18,279	—
Other, net	364	2,414	706	1,978
Nonoperating expenses, net	29,684	8,939	53,433	13,774
Income Before Income Taxes	90,908	28,873	196,718	68,130
Income tax provision	34,999	11,504	75,736	26,775
Net Income	$ 55,909	$ 17,369	$ 120,982	$ 41,355
Average Common Shares Outstanding – Basic	48,204	29,565	47,993	29,578
Average Common Shares Outstanding – Diluted	48,778	29,843	48,492	29,832
Basic Earnings Per Share	$ 1.16	$ 0.59	$ 2.52	$ 1.40
Diluted Earnings Per Share	$ 1.15	$ 0.58	$ 2.50	$ 1.39

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS
Yellow Roadway Corporation and Subsidiaries
For the Nine Months Ended September 30
(Amounts in thousands)
(Unaudited)

	2004	2003
Operating Activities:		
Net income	$ 120,982	$ 41,355
Noncash items included in net income:		
Depreciation and amortization	126,746	62,206
Deferred debt issuance cost write off	18,279	—
(Gains) losses on property disposals, net	(590)	422
Deferred income tax provision (benefit), net	(11,161)	15,758
Changes in assets and liabilities, net:		
Accounts receivable	(123,958)	(44,848)
Accounts payable	(31,401)	(18,236)
Other working capital items	161,840	22,351
Claims and other	6,300	11,606
Other, net	7,626	(3,144)
Net cash from operating activities	274,663	87,470
Investing Activities:		
Acquisition of property and equipment	(155,165)	(77,172)
Proceeds from disposal of property and equipment	12,867	1,468
Acquisition of companies, net of cash acquired	(10,463)	—
Net cash used in investing activities	(152,761)	(75,704)
Financing Activities:		
Increase in (repayment of) long-term debt, net	(175,044)	194,687
ABS borrowings, net	(2,500)	—
Debt issuance cost	(2,843)	(7,500)
Treasury stock purchases	—	(2,921)
Proceeds from exercise of stock options	9,321	1,768
Net cash provided by (used in) financing activities	(171,066)	186,034
Net Increase (Decrease) In Cash and Cash Equivalents	(49,164)	197,800
Cash and Cash Equivalents, Beginning of Period	75,166	28,714
Cash and Cash Equivalents, End of Period	$ 26,002	$226,514
Supplemental Cash Flow Information:		
Income taxes paid, net	$ 57,869	$ 13,115
Interest paid	$ 46,558	$ 7,434

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Yellow Roadway Corporation and Subsidiaries
(Unaudited)

1. **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 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 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 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 quick 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 $494 million in cash and 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.

2. **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of Yellow Roadway Corporation and its wholly owned subsidiaries. We have prepared the consolidated financial statements, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In management’s opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2003.

3. **Stock-Based Compensation**

Yellow Roadway has various stock-based employee compensation plans, which are described more fully in our Annual Report on Form 10-K for the year ended December 31, 2003. Yellow Roadway accounts for stock options issued under those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. 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.

We estimated the fair value per option for each option granted in the periods presented using the Black-Scholes option pricing model with the following weighted average assumptions for the three and nine months ended September 30:

	Three Months		Nine Months	
	2004	2003	2004	2003
Actual options granted	0	0	28,000	54,700
Dividend yield	n/a	n/a	— %	— %
Expected volatility	n/a	n/a	45.2 %	46.9 %
Risk-free interest rate	n/a	n/a	2.6 %	2.1 %
Expected option life (years)	n/a	n/a	3.6	3.0
Fair value per option	n/a	n/a	$ 12.61	$ 8.90

The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions except per share data)	2004	2003	2004	2003
Net income, as reported	$55.9	$17.4	$121.0	$41.4
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	0.4	0.5	1.3	1.6
Pro forma net income	$55.5	$16.9	$119.7	$39.8
Basic earnings per share:				
Net income – as reported	$1.16	$0.59	$ 2.52	$1.40
Net income – pro forma	1.15	0.57	2.49	1.35
Diluted earnings per share:				
Net income – as reported	1.15	0.58	2.50	1.39
Net income – pro forma	1.14	0.56	2.47	1.34

During the nine months ended September 30, 2004, we issued 136,155 share units to certain executive officers under the Long-Term Incentive and Equity Award Plan, adopted in February 2004. 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. Fifty percent of the awarded share units vest three years from the date of grant and the remaining fifty percent vest six years from the date of grant. In July, 2004, we also issued 133,309 share units to certain key employees that vest 100% on the third anniversary of the date of grant and 13,500 share units to our board of directors that vest ratably over three years. Additionally, on February 27, 2004, we issued 27,647 shares of restricted stock from the 2002 stock option plan at $31.59 per share. These shares will vest ratably over three years.

The related compensation expense for the share units and restricted stock is included in the consolidated statements of operations ratably over the service period, defined as the performance period and vesting period combined. The performance share units and restricted stock are not reflected in the fair value or pro forma results above.

4. **Acquisitions**

In accordance with SFAS No. 141, Business Combinations ("SFAS No. 141"), we allocate the purchase price of our 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 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"), goodwill and intangible assets with indefinite useful lives are not amortized but are reviewed 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 definite 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 $494.0 million in cash and 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately $1.1 billion. We initially allocated $597.0 million of the purchase price to goodwill and $461.3 million to intangible assets. Refer to our goodwill and intangibles note for further details. In connection with the acquisition, we incurred $13.4 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and relocation of workforce 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 $12.2 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and related relocation costs and $1.2 million for contract terminations. All of these restructuring items will have been effectuated within one year of the acquisition in accordance with purchase accounting requirements. During the nine months ended September 30, 2004, we paid $5.6 million of restructuring costs resulting in a $7.8 million accrued liability at September 30, 2004.

In accordance with SFAS No. 141, we accounted for the acquisition under purchase accounting. As a result, our Statements of Consolidated Operations and Statements of Consolidated Cash Flows include results of Roadway Express and New Penn from the date of acquisition. Our results for the three and nine months ended September 30, 2003 do not reflect the operations of the Roadway Group.

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 on January 1, 2003. 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 date 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 three and nine months ended September 30, 2003:

(in millions except per share data)	Three Months	Nine Months
Operating revenue	$ 1,521.9	$ 4,419.3
Operating income	63.8	145.1
Income from continuing operations	27.0	61.5
Net income	27.0	61.4
Diluted earnings per share:		
Income from continuing operations	0.56	1.28
Net income	0.56	1.28

GPS Logistics

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) Ltd. 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) Ltd. 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) Ltd. 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) Ltd., 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.

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.

5. **Goodwill and Intangibles**

The following table shows the amount of goodwill attributable to our operating segments with goodwill balances and changes therein:

(in millions)	December 31, 2003	Acquisitions	Purchase Accounting Reclasses / Other	September 30, 2004
Roadway Express	$ 474.5	$ —	$ 70.1	$ 544.6
New Penn	122.3	—	(63.3)	59.0
Meridian IQ	20.5	7.4	(0.1)	27.8
Goodwill	$ 617.3	$ 7.4	$ 6.7	$ 631.4

As the Roadway acquisition occurred in December 2003, the allocation of the purchase price included in the December 31, 2003 Consolidated Balance Sheets was preliminary and subject to refinement. During the nine months ended September 30, 2004, an independent asset valuation was received and certain reallocations were made related to tangible and intangible assets. In addition, the fair value of certain post-employment benefit obligations was determined by an actuary and certain tax and other obligations were determined. The purchase price allocation has been modified to reflect the results of these analyses. These changes did not have an impact on our consolidated results of operations.

As of September 30, 2004, refinements to the purchase price allocation are substantially complete. Additional changes during the fourth quarter of 2004, if any, are not expected to have an impact on our consolidated results of operations.

The components of amortizable intangible assets are as follows:

		September 30, 2004		December 31, 2003	
(in millions)	Weighted Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	17	$ 118.2	$ 7.0	$ 117.4	$ 1.3
Marketing related	6	1.0	0.4	0.7	0.2
Technology based	3	17.5	4.7	17.1	0.6
Intangible assets		$ 136.7	$ 12.1	$ 135.2	$ 2.1

Total marketing related intangible assets with indefinite lives were $345.8 million at September 30, 2004 and $334.1 million at December 31, 2003. These intangible assets are not subject to amortization. The change between periods related to a reclassification arising from modifications to the purchase price allocation, as discussed above, and foreign currency translation adjustments.

6. **Employee Benefits**

Components of Net Periodic Pension Cost

In December 2003, the Financial Accounting Standards Board revised SFAS No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("Statement No. 132R"). Statement No. 132R requires the disclosure of the components of the net periodic pension cost recognized during interim periods. The following table sets forth the components of our pension costs for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions)	2004	2003(a)	2004	2003(a)
Service cost	$ 9.7	$ 4.1	$ 29.6	$ 12.1
Interest cost	14.2	6.6	42.9	19.8
Expected return on plan assets	(13.2)	(6.7)	(39.7)	(20.1)
Amortization of net transition asset	—	(0.4)	—	(1.0)
Amortization of prior service cost	0.4	0.2	1.0	1.0
Amortization of net loss	1.2	0.6	4.2	1.6
Net periodic pension cost	$ 12.3	$ 4.4	$ 38.0	$ 13.4

(a) Data for the three and nine months ended September 30, 2003 does not include Roadway Group.

For the three and nine months ended September 30, 2004, our other postretirement costs were $0.4 million and $2.3 million, respectively. Prior to the acquisition of Roadway, we did not provide postretirement benefits to Roadway; therefore, there are no such amounts for the three and nine months ended September 30, 2003.

Employer Contributions

On July 1, 2004, we contributed $22.3 million to our company-sponsored pension plans. Additionally, on September 15, 2004 we contributed $20.0 million to these plans.

7. **Business Segments**

We report financial and descriptive information about our 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.

We have 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 transportation management services, domestic and international freight forwarding and multi-modal brokerage services.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note in our Annual Report on Form 10-K for the year ended December 31, 2003. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate losses represent operating expenses of the holding company, including salaries, wages and benefits, along with incentive compensation and professional services, that have not been allocated to the operating segments. Corporate identifiable assets primarily refer to cash, cash equivalents and deferred debt issuance costs. Intersegment revenue relates to transportation services provided by Yellow Transportation to Meridian IQ and Roadway Express as well as charges to Yellow Transportation for use of various Meridian IQ service names.

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The following table summarizes our operations by business segment:

(in millions)	Yellow Transportation	Roadway Express	New Penn	Meridian IQ	Corporate/ Eliminations	Consolidated
As of September 30, 2004 Identifiable assets	$ 1,022.1	$2,137.2	$247.8	$ 122.3	$ 57.2	$ 3,586.6
As of December 31, 2003 Identifiable assets	986.5	2,002.4	340.7	79.9	53.7	3,463.2
Three months ended September 30, 2004						
External revenue	828.3	811.6	70.7	56.4	—	1,767.0
Intersegment revenue	0.7	0.8	—	0.6	(2.1)	—
Operating income (loss)	63.7	52.1	10.2	1.1	(6.5)	120.6
Adjustments to operating income[(a)]	(1.3)	0.3	0.1	0.1	—	(0.8)
Adjusted operating income (loss)	62.4	52.4	10.3	1.2	(6.5)	119.8
Three months ended September 30, 2003[(b)]						
External revenue	737.8	—	—	32.9	—	770.7
Intersegment revenue	0.5	—	—	0.6	(1.1)	—
Operating income (loss)	42.8	—	—	0.2	(5.2)	37.8
Adjustments to operating income[(a)]	0.4	—	—	0.4	0.4	1.2
Adjusted operating income (loss)	43.2	—	—	0.6	(4.8)	39.0
Nine months ended September 30, 2004						
External revenue	2,354.0	2,296.6	191.1	151.6	—	4,993.3
Intersegment revenue	2.1	1.1	—	1.7	(4.9)	—
Operating income (loss)	135.8	103.5	25.2	2.3	(16.6)	250.2
Adjustments to operating income[(a)]	(0.8)	0.2	—	—	—	(0.6)
Adjusted operating income (loss)	135.0	103.7	25.2	2.3	(16.6)	249.6
Nine months ended September 30, 2003[(b)]						
External revenue	2,088.2	—	—	77.1	—	2,165.3
Intersegment revenue	1.7	—	—	1.6	(3.3)	—
Operating income (loss)	98.7	—	—	(0.7)	(16.1)	81.9
Adjustments to operating income[(a)]	0.4	—	—	0.4	0.5	1.3
Adjusted operating income (loss)	99.1	—	—	(0.3)	(15.6)	83.2

(a) Management excludes these items when evaluating operating income and segment performance to better evaluate the results of our core operations. In the periods presented, adjustments consisted of losses (gains) on property disposals.

(b) As of September 30, 2003, Roadway Express and New Penn had not been acquired; therefore, segment information is not reported for the three and nine months ended September 30, 2003.

8. Comprehensive Income

Our comprehensive income for the periods presented includes net income and foreign currency translation adjustments. The three and nine months ended September 30, 2003 also included changes in the fair value of an interest rate swap. Comprehensive income for the three and nine months ended September 30 follows:

	Three Months		Nine Months	
(in millions)	2004	2003	2004	2003
Net income	$55.9	$17.4	$121.0	$41.4
Changes in foreign currency translation adjustments	2.9	(0.1)	1.5	1.3
Changes in the fair value of an interest rate swap	—	0.4	—	1.1
Comprehensive income	$58.8	$17.7	$122.5	$43.8

9. **Rental Expenses**

We incur rental expenses under non-cancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to "operating expenses and supplies" on the Statements of Consolidated Operations. The following table represents the actual rental expense, as reflected in operating income, incurred for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions)	**2004**	**2003**	**2004**	**2003**
Rental expense	$23.6	$10.1	$71.5	$29.9

10. **Multi-Employer Pension 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 77 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 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 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 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 and 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 and additional contributions required, it could have a material adverse impact on the financial results of Yellow Roadway.

11. **Pending Accounting Pronouncement**

At its September 2004 meeting, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a conclusion on EITF Issue No. 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings Per Share", that would require the contingent shares issuable under our existing notes to be included in our diluted earnings per share calculation retroactive to the date of issuance by applying the "if converted" method under FASB Statement No. 128, "Earnings per Share" (SFAS No. 128). We have followed the existing interpretation of SFAS No. 128, which requires inclusion of the impact of the conversion of our existing notes only when and if the conversion thresholds are reached. As the conversion thresholds have not been reached, we have not included the impact of the conversion of our existing notes in our computation for diluted earnings per share through the periods ended September 30, 2004.

The new rule, which has been approved by the FASB and is awaiting resolution of another exposure draft which will determine its effective date, will require us to restate previously reported diluted earnings per share and will result in lower diluted earnings per share than previously reported for periods subsequent to the issuance of the existing notes. We are currently pursuing an exchange (an "Exchange Offer") of our existing notes for new notes that have identical terms to the existing notes but also include the addition of a net share settlement provision and a modification to the options available to the note holders upon a change in control. If the Exchange Offer is completed prior to the effective date of the new rule, the restated diluted earnings per share will be calculated under the terms of the new notes and will result in lower diluted earnings per share once our stock price meets the conversion price. For the periods June 30, 2003 through June 30, 2004, assuming exchange of substantially all of the existing notes, our diluted earnings per share would not be materially different than the reported amount. For the period ended September 30, 2004 our diluted earnings per share will be lower by approximately 2%. If the Exchange Offer is not completed prior to the effective date of the new rule, the restated diluted earnings per share will be calculated under the terms of the existing notes and will result in lower diluted earnings per share of approximately 12% at September 30, 2004.

We expect to incur approximately $2.5 million of professional fees in conjunction with the exchange offer. Theses fees will be expensed as incurred.

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12. **Guarantees of the Contingent Convertible Senior Notes**

In August 2003, Yellow Roadway issued 5.0 percent contingent convertible senior notes due 2023. In November 2003, we issued 3.375 percent contingent convertible senior notes due 2023 (the August and November issuances, collectively, may also be known as the “contingent convertible senior notes”). 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, Inc., 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 September 30, 2004 and December 31, 2003 with respect to the financial position, for the three and nine months ended September 30, 2004 and 2003 for results of operations and for the nine months ended September 30, 2004 and 2003 for the statements of cash flows of Yellow Roadway and its subsidiaries. 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 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 asset backed securitization (“ABS”) agreements.

Condensed Consolidating Balance Sheets

September 30, 2004 (in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ 9	$ 7	$ 10	$ —	$ 26
Intercompany advances receivable	—	(38)	48	(10)	—
Accounts receivable, net	2	25	805	—	832
Prepaid expenses and other	5	101	18	—	124
Total current assets	16	95	881	(10)	982
Property and equipment at cost	—	2,541	120	—	2,661
Less – accumulated depreciation	—	(1,210)	(15)	—	(1,225)
Net property and equipment	—	1,331	105	—	1,436
Investment in subsidiaries	1,182	95	(4)	(1,273)	—
Receivable from affiliate	67	142	13	(222)	—
Goodwill, intangibles and other assets	219	770	180	—	1,169
Total assets	$1,484	$ 2,433	$ 1,175	$ (1,505)	$ 3,587
Intercompany advances payable	$ 69	$ (743)	$ 684	$ (10)	$ —
Accounts payable	4	239	25	—	268
Wages, vacations and employees’ benefits	11	428	18	—	457
Other current and accrued liabilities	(6)	217	20	—	231
ABS borrowings	—	—	69	—	69
Total current liabilities	78	141	816	(10)	1,025
Payable to affiliate	(28)	93	157	(222)	—
Long-term debt, less current portion	400	259	—	—	659
Deferred income taxes, net	(11)	270	38	—	297
Claims and other liabilities	22	422	16	—	460
Shareholders’ equity	1,023	1,248	148	(1,273)	1,146
Total liabilities and shareholders’ equity	$1,484	$ 2,433	$ 1,175	$ (1,505)	$ 3,587

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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 at cost	—	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, intangibles 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
Payable to affiliate	—	—	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
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 three months ended September 30, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 11	$ 1,642	$ 128	$ (14)	$ 1,767
Operating expenses:					
Salaries, wages and employees' benefits	9	1,012	62	—	1,083
Operating expenses and supplies	8	232	23	(12)	251
Operating taxes and licenses	—	39	3	—	42
Claims and insurance	—	31	1	—	32
Depreciation and amortization	—	39	4	—	43
Purchased transportation	—	174	23	(1)	196
Operating (gains) and losses	—	(1)	—	—	(1)
Total operating expenses	17	1,526	116	(13)	1,646
Operating income (loss)	(6)	116	12	(1)	121
Nonoperating (income) expenses:					
Interest expense	6	19	10	(24)	11
Other	64	11	(28)	(28)	19
Nonoperating (income) expenses, net	70	30	(18)	(52)	30
Income (loss) before income taxes	(76)	86	30	51	91
Income tax provision (benefit)	(9)	34	11	(1)	35
Subsidiary earnings	71	19	—	(90)	—
Net income (loss)	$ 4	$ 71	$ 19	$ (38)	$ 56

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For the three months ended September 30, 2003 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 3	$ 764	$ 7	$ (3)	$ 771
Operating expenses:					
Salaries, wages and employees’ benefits	4	483	2	—	489
Operating expenses and supplies	3	101	6	(3)	107
Operating taxes and licenses	—	20	—	—	20
Claims and insurance	—	17	—	—	17
Depreciation and amortization	—	21	—	—	21
Purchased transportation	—	76	2	—	78
Losses (gains) on property disposals, net	—	—	—	—	—
Acquisition, spin-off and reorganization charges	1	—	—	—	1
Total operating expenses	8	718	10	(3)	733
Operating income (loss)	(5)	46	(3)	—	38
Nonoperating (income) expenses:					
Interest expense	6	1	1	(1)	7
Other	1	15	(15)	1	2
Nonoperating (income) expenses, net	7	16	(14)	—	9
Income (loss) before income taxes	(12)	30	11	—	29
Income tax provision (benefit)	(4)	12	4	—	12
Net income (loss)	$ (8)	$ 18	$ 7	—	$ 17

For the nine months ended September 30, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 34	$ 4,646	$ 353	$ (40)	$ 4,993
Operating expenses:					
Salaries, wages and employees’ benefits	28	2,907	173	—	3,108
Operating expenses and supplies	19	671	84	(35)	739
Operating taxes and licenses	—	118	7	—	125
Claims and insurance	3	93	2	—	98
Depreciation and amortization	—	115	12	—	127
Purchased transportation	—	484	66	(3)	547
Operating (gains) and losses	—	(1)	—	—	(1)
Total operating expenses	50	4,387	344	(38)	4,743
Operating income (loss)	(16)	259	9	(2)	250
Nonoperating (income) expenses:					
Interest expense	22	54	21	(63)	34
Other	4	49	(95)	61	19
Nonoperating (income) expenses, net	26	103	(74)	(2)	53
Income (loss) before income taxes	(42)	156	83	—	197
Income tax provision (benefit)	(16)	62	29	1	76
Subsidiary earnings	147	53	—	(200)	—
Net income (loss)	$ 121	$ 147	$ 54	$ (201)	$ 121

For the nine months ended September 30, 2003 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 10	$ 2,146	$ 19	$ (10)	$ 2,165
Operating expenses:					
Salaries, wages and employees' benefits	10	1,369	7	—	1,386
Operating expenses and supplies	13	297	20	(10)	320
Operating taxes and licenses	—	59	1	—	60
Claims and insurance	1	40	(1)	—	40
Depreciation and amortization	—	62	—	—	62
Purchased transportation	—	207	7	—	214
Losses on property disposals, net	—	—	—	—	—
Acquisition, spin-off, and reorganization charges	1	—	—	—	1
Total operating expenses	25	2,034	34	(10)	2,083
Operating income (loss)	(15)	112	(15)	—	82
Nonoperating (income) expenses:					
Interest expense	10	3	4	(5)	12
Other	—	42	(45)	5	2
Nonoperating (income) expenses, net	10	45	(41)	—	14
Income (loss) before income taxes	(25)	67	26	—	68
Income tax provision (benefit)	(9)	26	10	—	27
Net income (loss)	$ (16)	$ 41	$ 16	$ —	$ 41

Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2004 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	$ (2)	$ 567	$ (290)	$ —	$ 275
Investing activities:					
Acquisition of property and equipment	—	(139)	(16)	—	(155)
Proceeds from disposal of property and equipment	—	11	1	—	12
Investment in subsidiary	—	(17)	17	—	—
Acquisition of companies	(11)	1	—	—	(10)
Net cash used in investing activities	(11)	(144)	2	—	(153)
Financing activities:					
ABS borrowings, net	69	—	(71)	—	(2)
Increase in (repayment of) long-term debt	(175)	—	—	—	(175)
Debt issuance cost	(3)	—	—	—	(3)
Proceeds from exercise of stock options	9	—	—	—	9
Intercompany advances / repayments	103	(436)	333	—	—
Net cash provided by (used in) financing activities	3	(436)	262	—	(171)
Net decrease in cash and cash equivalents	(10)	(13)	(26)	—	(49)
Cash and cash equivalents, beginning of period	19	20	36	—	75
Cash and cash equivalents, end of period	$ 9	$ 7	$ 10	$ —	$ 26

For the nine months ended September 30, 2003 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	$ (18)	$ 126	$ (20)	$ —	$ 88
Investing activities:					
Acquisition of property and equipment	—	(77)	—	—	(77)
Proceeds from disposal of property and equipment	—	1	—	—	1
Net cash used in investing activities	—	(76)	—	—	(76)
Financing activities:					
Proceeds from long-term debt	195	—	—	—	195
Repayment of long-term debt	—	—	—	—	—
Debt issuance cost	(8)				(8)
Treasury stock purchases	(3)	—	—	—	(3)
Proceeds from stock options	2	—	—	—	2
Intercompany advances / repayments	30	(51)	21	—	—
Net cash provided by (used in) financing activities	216	(51)	21	—	186
Net increase (decrease) in cash and cash equivalents	198	(1)	1	—	198
Cash and cash equivalents, beginning of period	22	3	4	—	29
Cash and cash equivalents, end of period	$ 220	$ 2	$ 5	$ —	$ 227

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13. **Guarantees of the Senior Notes Due 2008**

In connection with the senior notes due 2008 that Yellow Roadway assumed by virtue of its merger with Roadway, 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 subsidiary 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 September 30, 2004 and December 31, 2003 with respect to the financial position, for the three and nine months ended September 30, 2004, for results of operations and for the nine months ended September 30, 2004 for statements of cash flows. 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 including 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 and 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.

Condensed Consolidating Balance Sheets

September 30, 2004 (in millions)	**Primary Obligor**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ —	$ 16	$ 10	$ —	$ 26
Intercompany advances receivable	—	10	—	(10)	—
Accounts receivable, net	—	4	828	—	832
Prepaid expenses and other	—	70	54	—	124
Total current assets	—	100	892	(10)	982
Property and equipment at cost	—	864	1,797	—	2,661
Less – accumulated depreciation	—	(52)	(1,173)	—	(1,225)
Net property and equipment	—	812	624	—	1,436
Investment in subsidiaries	639	1,230	8	(1,877)	—
Receivable from affiliate	729	80	(90)	(719)	—
Goodwill, intangibles and other assets	21	1,056	92	—	1,169
Total assets	$1,389	$ 3,278	$ 1,526	$ (2,606)	$ 3,587
Intercompany advances payable	$ —	$ (499)	$ 509	$ (10)	$ —
Accounts payable	—	116	152	—	268
Wages, vacations and employees’ benefits	—	259	198	—	457
Other current and accrued liabilities	(11)	122	120	—	231
ABS borrowings	—	—	69	—	69
Total current liabilities	(11)	(2)	1,048	(10)	1,025
Payable to affiliate	8	682	29	(719)	—
Long-term debt, less current portion	245	400	14	—	659
Deferred income taxes, net	(10)	197	110	—	297
Claims and other liabilities	—	342	118	—	460
Shareholders’ equity	1,157	1,659	207	(1,877)	1,146
Total liabilities and shareholders’ equity	$1,389	$ 3,278	$ 1,526	$ (2,606)	$ 3,587

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December 31, 2003 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	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 at cost	—	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, intangibles 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
Payable 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
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 Consolidating Statements of Operations

For the three months ended September 30, 2004 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 845	$ 923	$ (1)	$ 1,767
Operating expenses:					
Salaries, wages and employees' benefits	—	547	536	—	1,083
Operating expenses and supplies	—	112	140	(1)	251
Operating taxes and licenses	—	19	23	—	42
Claims and insurance	—	15	17	—	32
Depreciation and amortization	—	20	23	—	43
Purchased transportation	—	79	117	—	196
Operating (gains) and losses	—	—	(1)	—	(1)
Total operating expenses	—	792	855	(1)	1,646
Operating income (loss)	—	53	68	—	121
Nonoperating (income) expenses:					
Interest expense	3	8	13	(13)	11
Other	(13)	34	(15)	13	19
Nonoperating (income) expenses, net	(10)	42	(2)	—	30
Income (loss) before income taxes	10	11	70	—	91
Income tax provision	4	5	26	—	35
Subsidiary earnings	50	44	—	(94)	—
Net income (loss)	$ 56	$ 50	$ 44	$ (94)	$ 56

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For the nine months ended September 30, 2004 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 2,378	$ 2,616	$ (1)	$ 4,993
Operating expenses:					
Salaries, wages and employees' benefits	—	1,547	1,561	—	3,108
Operating expenses and supplies	—	341	399	(1)	739
Operating taxes and licenses	—	59	66	—	125
Claims and insurance	—	46	52	—	98
Depreciation and amortization	—	58	69	—	127
Purchased transportation	—	223	324	—	547
Operating (gains) and losses	—	—	(1)	—	(1)
Total operating expenses	—	2,274	2,470	(1)	4,743
Operating income (loss)	—	104	146	—	250
Nonoperating (income) expenses:					
Interest expense	10	39	25	(40)	34
Other	(40)	44	(25)	40	19
Nonoperating (income) expenses, net	(30)	83	—	—	53
Income (loss) before income taxes	30	21	146	—	197
Income tax provision	11	11	54	—	76
Subsidiary earnings	102	92	—	(194)	—
Net income (loss)	$ 121	$ 102	$ 92	$ (194)	$ 121

Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2004 (in millions)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	$ 48	$ 276	$ (49)	$ —	$ 275
Investing activities:					
Acquisition of property and equipment	—	(62)	(93)	—	(155)
Proceeds from disposal of property and equipment	—	9	3	—	12
Acquisition of companies	—	—	(10)	—	(10)
Net cash used in investing activities	—	(53)	(100)	—	(153)
Financing activities:					
ABS borrowings, net	—	—	(2)	—	(2)
Repayment of long-term debt	—	(4)	(171)	—	(175)
Debt issuance cost	—	(3)	—	—	(3)
Proceeds from exercise of stock options	—	—	9	—	9
Intercompany advances / repayments	(48)	(208)	256	—	—
Net cash provided by (used in) financing activities	(48)	(215)	92	—	(171)
Net increase (decrease) in cash and cash equivalents	—	8	(57)	—	(49)
Cash and cash equivalents, beginning of period	—	8	67	—	75
Cash and cash equivalents, end of period	$ —	$ 16	$ 10	$ —	$ 26

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements of Yellow Roadway Corporation (also referred to as "Yellow Roadway," "we" or "our"). MD&A and certain statements in the Notes to Consolidated Financial Statements include 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.

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 $494 million in cash and 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, Inc. ("Roadway Express") and New Penn Motor Express, Inc. ("New Penn").

In accordance with SFAS No. 141, Business Combinations, we accounted for the acquisition under purchase accounting. As a result, our Statements of Consolidated Operations and Statements of Consolidated Cash Flows include results for Roadway Express and New Penn from the date of acquisition. Our third quarter 2003 results and our results for the nine months ended September 30, 2003 do not reflect the operations of the Roadway Group; however, our Notes to Consolidated Financial Statements do include limited pro forma information that presents the combined results of operations of Yellow Roadway as if the Roadway acquisition had occurred at the beginning of the period presented. Management has provided the pro forma information to facilitate comparison of results among periods. 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 date presented and should not be taken as representative of the future consolidated results of operations of Yellow Roadway.

Results of Operations

Our Results of Operations section focuses on the highlights and significant items that impacted our operating results during the third quarter as well as the year to date. Our discussion will also explain the adjustments to operating income that management excludes when internally evaluating segment performance since 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

As one of our largest operating units, Yellow Transportation represented approximately 47 percent and 96 percent of our consolidated revenue in the third quarter of 2004 and 2003, respectively, and in the nine months ended September 30, 2004 and 2003, respectively. On an adjusted basis, assuming the acquisition of Roadway had occurred on January 1, 2003, Yellow Transportation revenue would have represented approximately 46 percent of our consolidated revenue in the third quarter of 2003 and in the nine months ended September 30, 2003. The table below provides summary financial information for Yellow Transportation for the three and nine months ended September 30:

	Three months			Nine months		
(in millions)	**2004**	**2003**	**Percent Change**	**2004**	**2003**	**Percent Change**
Operating revenue	$829.0	$738.3	12.3%	$2,356.1	$2,089.9	12.7%
Operating income	63.7	42.8	48.7%	135.8	98.7	37.6%
Adjustments to operating income[(a)]	(1.3)	0.4	n/m	(0.8)	0.4	n/m[(b)]
Adjusted operating income	62.4	43.2	44.6%	135.0	99.1	36.3%
Operating ratio	92.3%	94.2%	1.9pp	94.2%	95.3%	1.1pp[(c)]
Adjusted operating ratio	92.5%	94.2%	1.7pp	94.3%	95.3%	1.0pp

(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.

Three months ended September 30, 2004 compared to three months ended September 30, 2003

Yellow Transportation reported record third quarter revenue in 2004 of $829.0 million, representing an increase of $90.7 million or 12.3 percent from the third quarter of 2003. The revenue increase resulted from a combination of continued improvement in economic conditions which contributed to increases in the number of shipments and yield, increased revenue from fuel surcharge, and continued emphasis on premium services. 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 less-than-truckload ("LTL") revenue are tonnage, comprised of the number of shipments and the weight per shipment, and price, usually evaluated on a per hundred weight basis. In the third quarter of 2004, Yellow Transportation LTL tonnage increased by 4.8 percent per day, and LTL revenue per hundred weight improved by 5.7 percent from the third quarter of 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 deliver significant revenue growth. 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 the third quarter of 2004, total Exact Express revenue increased by 41 percent and Definite Delivery revenue was consistent with the third quarter of 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 approximately 25 percent of total Yellow Transportation revenue in the third quarter of 2004 and increased 15 percent from the third quarter of 2003. This service provides higher utilization of assets by use of more direct loading and bypassing intermediate handling at distribution centers.

Yellow Transportation operating income improved by $20.9 million or 48.7 percent in the third quarter of 2004 compared to the third quarter of 2003. Operating income increased due to higher revenue and our continued ability to effectively balance volume and price. Increased wage and benefit rates, primarily contractual, and increased purchased transportation partially offset the operating income improvement. Variation in the labor mix slightly offset the increased wages. Operating expenses as a percentage of revenue decreased in the third quarter of 2004 by 1.9 percentage points compared to the third quarter of 2003, resulting in an operating ratio of 92.3 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 divided by the change in revenue. The incremental margin at Yellow Transportation from the third quarter of 2003 to the third quarter of 2004 was 23 percent which is slightly above our 15 to 20 percent long-term goal. In any given quarter, our incremental margin may be above or below our targeted level of 15 to 20 percent. However, over the longer-term, our expectation is to average a 15 to 20 percent incremental margin.

Adjustments to operating income represent charges that management excludes when evaluating segment performance to better understand the results of our core operations. 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. For the three months ended September 30, 2004 and 2003, adjustments to operating income were insignificant to our results of operations.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

Yellow Transportation revenue increased $266.2 million or 12.7 percent in the nine months ended September 30, 2004 versus the year ago period. In the nine months ended September 30, 2004, Yellow Transportation LTL tonnage increased 6.8 percent per day compared to the year ago period primarily due to improved economic conditions, and increased penetration in premium services. In addition, LTL revenue per hundred weight increased during the nine months ended September 30, 2004 by 4.1 percent compared to the nine months ended September 30, 2003.

Despite increases in contractual wages and benefits and purchase transportation rates, operating income for Yellow Transportation increased $37.1 million or 37.6 percent in the nine months ended September 30, 2004 as compared to the nine months ended September 30, 2003. As discussed above, the increase in operating income is related to the increased revenue and our continued success in negotiating appropriate prices for the related business volumes. Our operating income was adversely impacted by wage and benefit increases. Despite the cost increases, operating expenses as a percentage of revenue decreased for the first nine months of 2004 by 1.1 percentage points compared to the first nine months of 2003, resulting in an operating ratio of 94.2 percent for year-to-date 2004. During the nine months ended September 30, 2003, Yellow Transportation recognized a benefit in operating income of $5.0 million related to an insurance recovery.

Roadway Express Results

Three months ended September 30, 2004 compared to three months ended September 30, 2003

Due to the acquisition date of December 11, 2003, Roadway Express results were not included in our third quarter 2003 results of operations, which make 2004 results more difficult to evaluate against prior periods without conforming adjustments. In the third quarter of 2003, Roadway Express results reflected different accounting policies, and the effect of asset and liability valuations prior to adjusting them to their fair value, as required by purchase accounting. In addition, the entity reported results based on a twelve-week period instead of a calendar quarter resulting in six fewer business days than the third quarter of 2004. For these reasons, management evaluates the segment's results primarily based on a combination of sequential growth month over month, attainment of plan performance and comparison to adjusted third quarter 2003 results.

Roadway Express reported revenue of $812.4 million in the third quarter of 2004 compared to adjusted revenue of $770.3 million in the third quarter of 2003, an increase of 5.5 percent. Prior year third quarter revenue was adjusted to reflect the current revenue recognition policy and the conversion to a calendar quarter. The revenue increase resulted from a 4.1 percent improvement in tonnage per day (of which 1.4 percent is LTL tonnage), a 3.8 percent increase in LTL revenue per hundred weight, and increased revenue from fuel surcharge compared to the third quarter of 2003. Roadway Express represented approximately 46 percent of our consolidated revenue in the third quarter of 2004. On an adjusted basis, assuming the acquisition of Roadway had occurred on January 1, 2003, Roadway Express revenue would have represented approximately 48 percent of our consolidated revenue in the third quarter of 2003.

Roadway Express reported operating income of $52.1 million in the third quarter of 2004, which included approximately $0.3 million of losses on property disposals. Operating income results continued to exceed management's expectations, as the segment lowered operating costs despite the increase in volume. Reduced salaries, wages and employees' benefits contributed significantly to the favorable operating results. Efficiency improvements more than offset the increased contractual wage and benefit rates. In the third quarter of 2004, Roadway Express recognized $2.2 million of amortization related to intangible assets identified in the purchase price allocation. Roadway Express reported a third quarter 2004 operating ratio of 93.6 percent compared to 96.5 percent for the third quarter of 2003 as adjusted for certain acquisition charges.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

Roadway Express reported revenue of $2,297.7 million for the nine months ended September 30, 2004 as compared to $2,222.9 million, as adjusted, for the nine months ended September 30, 2003, an increase of $74.8 million or 3.4 percent. The prior period revenue was adjusted to reflect the current revenue recognition policy and the conversion into a nine-month period versus a thirty-six week period. The increased revenue, including higher fuel surcharge revenue, is primarily attributed to a 3.6 percent increase in LTL revenue per hundred weight. Roadway Express represented approximately 46 percent of our consolidated revenue for the nine months ended September 30, 2004.

Roadway Express reported operating income of $103.5 million for the nine months ended September 30, 2004 as compared to $60.2 million, as adjusted, for the nine months ended September 30, 2003. The current period operating income significantly benefited from various cost savings initiatives. These initiatives, primarily centered on reduced salaries, wages and employees' benefits, more than compensated for increased contractual wage and benefit rates and higher fuel costs. During the nine months ended September 30, 2004, Roadway Express recognized $6.0 million of amortization of intangible assets. There was no such amount in the comparable prior year period.

New Penn Results

Three months ended September 30, 2004 compared to three months ended September 30, 2003

Similar to Roadway Express, New Penn results for the third quarter of 2004 include purchase accounting valuations and reflect different accounting policies than the third quarter of 2003. In addition, the entity reported prior year results based on a twelve-week period instead of a calendar quarter resulting in six fewer business days than the third quarter of 2004.

New Penn reported revenue of $70.7 million in the third quarter of 2004 compared to adjusted revenue of $56.2 million in the third quarter of 2003. Prior year third quarter revenue was adjusted to reflect the conversion to a calendar quarter. Due to the focus on next-day services, New Penn did not record a significant revenue recognition adjustment in the third quarter of 2004 or the third quarter of 2003. Please refer to Management's Discussion and Analysis in our Annual Report on Form 10-K for a detailed discussion of our revenue recognition policies.

New Penn represented approximately 4 percent of our consolidated revenue in the third quarter of 2004. On an adjusted basis, assuming the acquisition of Roadway had occurred on January 1, 2003, New Penn revenue would have represented approximately 4 percent of our consolidated revenue in the third quarter of 2003. The 25.8 percent revenue improvement from the third quarter of 2003 to the third quarter of 2004 resulted primarily from a 21.3 percent increase in LTL tonnage per day, and a 3.0 percent increase in LTL revenue per hundred weight. New Penn effectively gained profitable new customers upon the closure of a competitor, USF Red Star, on May 24, 2004. Strong sales initiatives, coupled with the new USF Red Star business, and continued improvement in the economy in the third quarter of 2004 contributed to the tonnage growth.

Operating income at New Penn was $10.2 million in the third quarter of 2004, including approximately $39 thousand of losses on property disposals. Operating income results continued to exceed management's expectations and significantly increased from the entity's reported results in the third quarter of 2003. In the third quarter of 2004, New Penn recognized $0.8 million of amortization related to intangible assets identified in the purchase price allocation. Increased revenue combined with improved cost management significantly contributed to an operating ratio improvement of 6.4 percentage points from the prior year period resulting in a third quarter 2004 operating ratio of 85.4 percent.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

New Penn reported revenue of $191.1 million and operating income of $25.2 million for the nine months ended September 30, 2004. The revenue growth at New Penn is directly attributed to the increase in LTL tonnage per day in addition to the benefit of new customers gained from the closure of USF Red Star in the Northeast. The improved economy also contributed to the strong revenue results at New Penn. The segment's operating income also benefited from the strong revenue improvements as well as continued emphasis on cost containment and profitable growth strategies. During the nine months ended September 30, 2004, New Penn recognized $2.9 million of amortization of intangible assets. There was no such amount in the comparable prior year period.

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 3 percent of our consolidated revenue in the third quarter of 2004 and 2003 and approximately 3 percent in the nine months ended September 30, 2004 and 2003. On a pro forma basis, assuming the acquisition of Roadway had occurred on January 1, 2003, Meridian IQ revenue would have represented approximately 2 percent of our consolidated revenue in the third quarter of 2003 and approximately 2 percent in the nine months ended September 30, 2003. The table below provides summary financial information for Meridian IQ for the three and nine months ended September 30:

	Three months			Nine months		
(in millions)	2004	2003	Percent Change	2004	2003	Percent Change
Operating revenue	$57.0	$33.5	70.4%	$153.3	$78.7	94.7%
Operating income	1.1	0.2	n/m	2.3	(0.7)	n/m

Three months ended September 30, 2004 compared to three months ended September 30, 2003

In the third quarter of 2004, Meridian IQ revenue increased by $23.5 million or 70.4 percent from the third quarter of 2003. The significant increase in revenue resulted from a combination of strong organic growth within Meridian IQ existing services and recent acquisitions. Operating income also increased from $0.2 million in the third quarter of 2003 to $1.1 million in the third quarter of 2004. Increased revenue partially offset by higher marketing costs produced the improved operating results.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

For the nine months ended September 30, 2004, Meridian IQ revenue increased by $74.6 million or 94.7 percent from the nine months ended September 30, 2003. Meridian IQ had an operating loss of $0.7 million for the nine months ended September 30, 2003 compared to an operating profit of $2.3 million for the nine months ended September 30, 2004. Organic growth within Meridian IQ and the positive results from recent acquisitions contributed to the overall improved operating results for the nine months ended September 30, 2004 compared to the nine months ended September 30, 2003.

Consolidated Results

Our consolidated results for the three and nine months ended September 30, 2004 include the results of each of the operating segments previously discussed, including Roadway Express and New Penn. The reported results for the three and nine months ended September 30, 2003 include the former Yellow Corporation entities only, consisting of Yellow Transportation and Meridian IQ. A comparison to pro forma information that presents the combined results of operations of Yellow Roadway as if the Roadway acquisition had occurred at the beginning of the period presented is not included as such comparison is not considered meaningful for the nine months ended September 30. The proforma information included in the footnotes reflects the results of the former Roadway Corporation on a period basis which concluded September 13, 2003 which hinders comparability. The following discussion focuses on items that management evaluates on a consolidated basis, as segment results have been discussed previously.

Three months ended September 30, 2004 compared to three months ended September 30, 2003

The table below provides summary consolidated financial information for the three months ended September 30:

(in millions)	2004	2003	Percent Change
Operating revenue	$1,767.0	$770.7	129.3%
Operating income	120.6	37.8	219.0%
Nonoperating expenses, net	29.7	8.9	233.7%
Net income	$ 55.9	$ 17.4	221.3%

Each of our operating segments contributed to the revenue growth, which resulted from a combination of improving economic conditions, increased fuel surcharge revenue, increased premium services and non-asset-based acquisitions. Operating revenue increased by $996.3 million from third quarter 2003 to the third quarter of 2004, primarily due to the acquisition of Roadway Express and New Penn in addition to the improved results at Yellow Transportation and Meridian IQ. Our revenue was favorably impacted by the improved economic conditions which resulted in increased tonnage through our combined business which in turn increased revenue.

Operating income increased $82.8 million for the three months ended September 30, 2004 versus the comparable year ago period, mostly due to the acquisition of Roadway Express and New Penn, and increased revenue and the corresponding incremental margins at Yellow Transportation and Meridian IQ. Corporate expenses in the third quarter of 2004 increased by $1.3 million from the third quarter of 2003 due to increased professional services costs associated with the Sarbanes-Oxley Act of 2002 and increased incentive accruals related to our improved operating results, offset by corporate-allocated management fees.

Included in nonoperating expenses for the three months ended September 30, 2004 is 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 that resulted from higher average debt balances in the third quarter of 2004 compared to those included in third quarter of 2003 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 the third quarter of 2004 was 38.5 percent compared to 38.9 percent in the third quarter of 2003. As we record our tax provision based on our full year forecasted results, we expect this rate to approximate 38.5 percent for the remainder of the year. Variations in the rate could result from our income allocation among subsidiaries and their relative state tax rates, in addition to tax planning strategies that may be implemented throughout the year.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

The table below provides summary consolidated financial information for the nine months ended September 30:

(in millions)	2004	2003	Percent Change
Operating revenue	$4,993.3	$2,165.3	130.6%
Operating income	250.2	81.9	205.4%
Nonoperating expenses, net	53.4	13.8	287.0%
Net income	$ 121.0	$ 41.4	192.3%

Consolidated operating revenue increased by $2.8 billion from the revenue for the nine months ended September 30, 2003 to the current comparable period primarily due to the acquisition of the Roadway Group in addition to the improved results at Yellow Transportation, as previously discussed. Each of our operating segments, especially Yellow Transportation, contributed to revenue growth, which resulted from both improved economic conditions and increased premium services.

Consolidated operating income for the nine months ended September 30, 2003 increased by $168.3 million when compared to the comparable current year period due to the acquisition of the Roadway Group, as well as the previously mentioned successes within Yellow Transportation. Corporate expenses for the nine months ended September 30, 2004 increased $0.5 million versus the nine months ended September 30, 2003 primarily due to increased incentive accruals related to our improved operating results and increased professional services costs as mentioned above which were more than offset by the higher corporate-allocated management fees and the absence of costs associated with sponsoring a trade conference that generally occurs every other year.

During the nine months ended September 30, 2004, we were able to capture approximately $27.0 million of cost synergies through our cost reduction programs. We expect further cost synergies to be realized during the balance of the year.

Consolidated nonoperating expenses for the nine months ended September 30, 2004 were greater than the nonoperating expenses for the nine months ended September 30, 2003 by $39.6 million due to the $18.3 million write off of deferred debt issuance costs previously mentioned and $22.7 million higher interest expense that resulted from the additional debt we either assumed or issued to consummate the Roadway acquisition.

Our effective tax rate for the nine months ended September 30, 2004 was 38.5 percent compared to 38.9 percent for the nine months ended September 30, 2003. As discussed above, we expect this rate to approximate 38.5 percent for the remainder of the year.

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 credit agreement and a $450 million asset backed securitization (“ABS”) agreement involving Yellow Transportation and Roadway Express accounts receivable. We believe these facilities provide adequate capacity to fund our current working capital and capital expenditure requirements. It is not unusual for us to have a deficit working capital position, as we can operate in this position due to rapid turnover of accounts receivable, effective cash management and ready access to funding.

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

(in millions)	September 30, 2004	December 31, 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	(290.5)	(250.0)
Letters of credit under revolver loan	—	(24.4)
ABS facility	(69.0)	(71.5)
Total outstanding	(359.5)	(520.9)
Available unused capacity	$ 590.5	$ 354.1

Unsecured Credit Agreement

In September 2004 we modified our debt structure, eliminating the secured facility and entering in to a new $500 million unsecured facility. 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.

Our interest rate on the unsecured credit agreement is based on the London inter-bank offer rate (“LIBOR”) plus a fixed increment. We are also required to pay certain commitment fees on the total capacity and 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 charges and minimum net worth. As of September 30, 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.

At the time of our refinancing, we had $75 million outstanding under our previous secured credit facility. We borrowed under our ABS facility (discussed below) to repay the term loan amount. As of September 30, 2004, we have not drawn on the new revolving loan but have secured 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 availability of 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 term loan. We incurred approximately $2.0 million of costs associated with the new agreement which have been capitalized and will be recognized over the debt term. The facility matures in September 2009.

Asset Backed Securitization Facility

Our ABS facility 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 and administration fees.

On May 21, 2004, we replaced our 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. On September 10, 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. Accordingly, the outstanding borrowings of $69 million as of September 30, 2004 have been classified as a current liability in the accompanying consolidated balance sheets.

The ABS facility is operated by Yellow Roadway Receivables Funding Corporation ("YRRFC"), a special purpose entity and wholly owned subsidiary of Yellow Roadway. 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.

Cash Flow Measurements

We use free cash flow as a measurement to manage working capital and capital expenditures. Free cash flow indicates cash available after normal capital expenditures have been funded. Free cash flow may be used to fund additional capital expenditures, to reduce outstanding debt (including current maturities), to invest in our growth strategies or other prudent uses of cash. 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 nine months ended September 30:

(in millions)	2004	2003
Net cash from operating activities	$ 274.7	$ 87.5
Net property and equipment acquisitions	(142.3)	(75.7)
Proceeds from exercise of stock options	9.3	1.8
Free cash flow	$ 141.7	$ 13.6

The $128.1 million increase in free cash flow from the third quarter of 2003 to the third quarter of 2004 resulted from increased operating cash flow of $187.2 million partially offset by increased net property and equipment acquisitions of $66.6 million. Operating cash flows increased from the third quarter of 2003 to the third quarter of 2004 primarily due to improved operating results of $79.6 million and other working capital fluctuations of $139.5 million, of which $61 million is attributable to Roadway Express and New Penn, entities that were not included in our reported results for the third quarter of 2003, offset by an increase in the change in accounts receivable of $79.1 million due to increased revenue. Other working capital fluctuations mostly related to timing differences in employee wage and benefit accruals, increased performance incentive accruals, and accrued interest and taxes.

Other items considered in evaluating free cash flow include net property and equipment acquisitions and proceeds from the exercise of stock options. In the first nine months of 2004, net property and equipment acquisitions increased by $66.6 million compared to the first nine months of 2003, due to a combination of increased investments in revenue equipment at Yellow Transportation and the impact of capital expenditures for Roadway Express and New Penn. Our proceeds received from the exercise of stock options increased by $7.6 million in the first nine months of 2004 compared to the first nine months of 2003 primarily due to the increase in the exercise of stock options, primarily attributable to the increase in our average common stock price during 2004.

Contractual Obligations and Other Commercial Commitments

The following tables provide aggregated information regarding our contractual obligations and commercial commitments as of September 30, 2004.

Contractual Cash Obligations

	Payments Due by Period				
(in millions)	Less than 1 year	2-3 years	4-5 years	After 5 years	Total
Balance sheet obligations:					
ABS borrowings	$ 69.0	$ —	$ —	$ —	$ 69.0
Long-term debt	—	4.4	228.5	406.0	638.9
Off balance sheet obligations:					
Operating leases	70.1	60.4	19.4	6.6	156.5(a)
Capital expenditures	46.1	—	—	—	46.1
Total contractual obligations	$ 185.2	$ 64.8	$ 247.9	$ 412.6	$910.5

(a) The net present value of operating leases, using a discount rate of 10 percent, was $133.2 million at September 30, 2004.

On April 30, 2004, we notified Bandag, Inc. of our intention to terminate the tire lease agreement between Roadway Express and Bandag effective August 1, 2004. The agreement contained a provision for us to buy the remaining tire inventory. At

September 30, 2004, we have a liability of $27.0 million classified as accounts payable in the consolidated balance sheets with the related asset included in property and equipment. We believe termination of this agreement supports both our near and long-term economic objectives and is consistent with our business policies. We do not expect the lease termination to have a material impact on our results of operations.

In June 2004, we deposited with the Internal Revenue Service (“IRS”) $41.4 million ($32.3 million net of tax benefit) to stop the accrual of additional interest related to a preliminary tax settlement. The IRS challenged the timing of a deduction by Roadway Express related to prior years’ contributions to certain union pension plans. Additional state tax and interest payments of approximately $9.0 million ($7.4 million net of tax benefit) resulting from the federal adjustments are expected to be made during the fourth quarter of 2004. We had specifically established reserves related to these payments in purchase accounting and do not expect this matter to have a material impact on our results of operations.

On July 1, 2004, we contributed $22.3 million to our company-sponsored pension plans in accordance with our funding requirements. We made additional contributions to these plans of $20.0 million on September 15, 2004. We do not plan to make additional contributions during the fourth quarter of 2004.

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.

	Amount of Commitment Expiration Per Period				
(in millions)	**Less than 1 year**	**2-3 years**	**4-5 years**	**After 5 years**	**Total**
Available line of credit	$ —	$ —	$209.5	$ —	$209.5
Letters of credit	290.5	—	—	—	290.5
Lease guarantees for SCST	0.4	2.9	1.3	—	4.6
Surety bonds	60.7	1.3	0.4	—	62.4
Total commercial commitments	$ 351.6	$ 4.2	$211.2	$ —	$567.0

On September 30, 2002, we completed the 100 percent distribution (the “spin-off”) of all of the shares of SCS Transportation, Inc. (“SCST”) to our shareholders. As part of the spin-off, 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. Our outstanding letters of credit at September 30, 2004 included $2.5 million for workers’ compensation, property damage and liability claims against SCST. We also provided a guarantee regarding certain lease obligations of SCST at the spin-off date. The remaining lease obligations are $4.6 million at September 30, 2004.

Nonunion Pension Obligations

As discussed in more detail in our Annual Report on Form 10-K for the year ended December 31, 2003, we provide defined benefit pension plans for most employees not covered by collective bargaining agreements with hire dates prior to December 31, 2003, or approximately 10,000 employees. As of December 31, 2003 we had a net reduction to our shareholders’ equity of $20.3 million (net of tax of $12.5 million), which represented an additional pension liability primarily due to increases in our benefit obligations combined with market losses in the underlying pension assets. During the nine months ended September 30, 2004, the performance of the pension assets is again below our assumed rate of return. In addition, based on the current interest rate environment we will likely be reducing our discount rate at December 31, 2004 assuming investment returns are consistent for the remainder of the year. Without a significant improvement in the market, we will be required to further reduce our shareholders’ equity by approximately $12.0 million to $20.7 million (net of tax) to record additional pension liability at December 31, 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Risk from Interest Rates and Equity Prices

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. Given the favorable interest rate markets in 2003, we issued and entered into a significant amount of fixed-rate debt for the acquisition of Roadway. At September 30, 2004, we had approximately 90 percent of our outstanding debt at fixed rates with the balance at variable rates.

The table below provides information regarding our interest rate risk related to fixed-rate debt as of September 30, 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 September 30, 2004. The market price for the contingent convertible senior notes reflects the combination of debt and equity 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, and therefore, we exclude it from the table below.

	2004	2005	2006	2007	2008	Thereafter	Total	Fair Value
Fixed-rate debt (in millions)	$—	$ 4.4	$—	$—	$227.5	$ 407.0	$638.9	$853.1
Average interest Rate	—	5.25%	—	—	8.22%	4.42%		

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. On June 30, 2004, we entered into a foreign currency hedge with a notional amount of $5 million and a maturity of December 31, 2004. Further, on September 17, 2004 we entered into a second foreign currency hedge with a notional amount of $2.2 million and a maturity of December 31, 2004. These instruments are to effectively hedge our exposure to foreign currency fluctuations on certain intercompany debt with GPS Logistics (EU) Ltd., a wholly owned subsidiary.

Fuel Price Volatility

Yellow Transportation, Roadway Express and New Penn currently have effective fuel surcharge programs in place. As discussed under “Results of Operations – Yellow Transportation,” these programs are well established within the industry and customer acceptance of fuel surcharges remains high. Because 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 4. 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 such disclosure controls and procedures are effective.

Subsequent to the evaluation by our principal executive and financial officers, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II - OTHER INFORMATION

Item 6. Exhibits

10.1	Yellow Roadway Corporation 2004 Long-term Incentive and Equity Award Plan.
10.2	Yellow Roadway Corporation Director Compensation Plan (October 19, 2004).
10.3	Form of Yellow Roadway Corporation Share Unit Agreement (revised October 2004).
31.1	Certification of William D. Zollars pursuant to Exchange Act Rules 13a-14 and 15d-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Donald G. Barger, Jr. pursuant to Exchange Act Rules 13a-14 and 15d-14, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of William D. Zollars pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Donald G. Barger, Jr. 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 Consolidated Financial Statements; Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, Statements of Consolidated Operations for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003 and Statements of Cash Flows for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003.
99.2	Roadway Express, Inc. and Subsidiaries Consolidated Financial Statements; Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, Statements of Consolidated Operations for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003 and Statements of Cash Flows for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003.
99.3	Roadway Next Day Corporation and Subsidiary Consolidated Financial Statements; Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, Statements of Consolidated Operations for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003 and Statements of Cash Flows for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003.

SIGNATURES

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

	YELLOW ROADWAY CORPORATION Registrant
Date: November 9, 2004	/s/ William D. Zollars
	William D. Zollars Chairman of the Board of Directors, President & Chief Executive Officer
Date: November 9, 2004	/s/ Donald G. Barger, Jr.
	Donald G. Barger, Jr. Senior Vice President & Chief Financial Officer

YELLOW ROADWAY CORPORATION
2004 LONG-TERM INCENTIVE AND EQUITY AWARD PLAN

1. *Definitions*. In this Plan, except where the context otherwise indicates, the following definitions shall apply:

1.1 **"Affiliate"** means a corporation, partnership, business trust, limited liability company, or other form of business organization at least a majority of the total combined voting power of all classes of stock or other equity interests of which is owned by the Company, either directly or indirectly.

1.2 **"Agreement"** means a written agreement or other document evidencing an Award that shall be in such form as the Committee may specify. The Committee in its discretion may, but need not, require a Participant to sign an Agreement.

1.3 **"Automatic Adjustment Event"** means a change in the outstanding Common Stock by reason of a stock dividend, stock split, or reverse stock split.

1.4 **"Award"** means a grant of:

(a) an Option;

(b) a SAR;

(c) Restricted Stock;

(d) a Restricted Stock Unit;

(e) a Performance Award; or

(f) an Other Stock-Based Award.

1.5 **"Board"** means the Board of Directors of the Company.

1.6 **"Code"** means the Internal Revenue Code of 1986, as amended.

1.7 **"Committee"** means the committee(s), subcommittee(s), or person(s) the Board appoints to administer this Plan or to make or administer specific Awards hereunder. If no appointment is in effect at any time, "Committee" means the Compensation Committee of the Board. Notwithstanding the foregoing, "Committee" means the Board for purposes of granting Awards to Non-Employee Directors and administering this Plan with respect to those Awards, unless the Board determines otherwise.

1.8 **"Common Stock"** means the Company's common stock, par value $1.00 per share.

1.9 **"Company"** means Yellow Roadway Corporation and any successor thereto.

1.10 **"Date of Exercise"** means the date on which the Company receives notice of the exercise of an Option or SAR in accordance with the terms of Section 8.

1.11 **"Date of Grant"** means the date on which an Award is granted under this Plan.

1.12 **"Eligible Person"** means any person who is:

(a) an Employee;

(b) hired to be an Employee;

(c) a Non-Employee Director; or

(d) a consultant or independent contractor to the Company or an Affiliate.

1.13 **"Employee"** means any person that the Committee determines to be an employee of the Company or an Affiliate.

1.14 **"Exercise Price"** means the price per Share at which an Option may be exercised.

1.15 **“Fair Market Value”** means an amount equal to the then fair market value of a Share as determined by the Committee pursuant to a reasonable method adopted in good faith for such purpose. Unless the Committee determines otherwise, if the Common Stock is traded on a securities exchange or automated dealer quotation system, fair market value shall be the last sale price for a Share, as of the relevant date, on such securities exchange or automated dealer quotation system as reported by such source as the Committee may select.

1.16 **“Incentive Stock Option”** means an Option granted under this Plan that the Committee designates as an incentive stock option under Section 422 of the Code.

1.17 **“Non-Employee Director”** means any member of the Company’s or an Affiliate’s Board of Directors who is not an Employee.

1.18 **“Nonqualified Stock Option”** means an Option granted under this Plan that is not an Incentive Stock Option.

1.19 **“Option”** means an option to purchase Shares granted under this Plan in accordance with the terms of Section 6.

1.20 **“Option Period”** means the period during which an Option may be exercised.

1.21 **“Other Stock-Based Award”** means an Other Stock Based Award as defined in Section 13.

1.22 **“Participant”** means an Eligible Person who has been granted an Award hereunder.

1.23 **“Performance Award”** means a performance award granted under this Plan in accordance with the terms of Section 11.

1.24 **“Performance Goals”** means performance goals that the Committee establishes, which may be based on:

(a) accounts receivable targets;

(b) satisfactory internal or external audits;

(c) achievement of balance sheet or income statement objectives;

(d) cash flow (including operating cash flow and free cash flow);

(e) customer satisfaction metrics and achievement of customer satisfaction goals;

(f) dividend payments;

(g) earnings (including before or after taxes, interest, depreciation, and amortization);

(h) earnings growth;

(i) earnings per share;

(j) economic value added;

(k) expenses;

(l) improvement of financial ratings;

(m) internal rate of return;

(n) market share;

(o) net asset value;

(p) net income;

(q) net operating gross margin;

(r) net operating profit after taxes (“NOPAT”);

(s) net sales growth;

(t) NOPAT growth;

(u) operating income;

(v) operating margin;

(w) comparisons to the performance of other companies;

(x) pro forma income;

(y) regulatory compliance;

(z) return measures (including return on assets, designated assets, capital, committed capital, net capital employed, equity, sales, or stockholder equity, and return versus the Company's cost of capital);

(aa) revenues;

(bb) sales;

(cc) stock price (including growth measures and total stockholder return);

(dd) comparison to stock market indices;

(ee) implementation or completion of one or more projects or transactions;

(ff) working capital; or

(gg) any other objective goals that the Committee establishes.

Performance Goals may be absolute in their terms or measured against or in relationship to other companies comparably, similarly or otherwise situated. Performance Goals may be particular to an Eligible Person or the department, branch, Affiliate, or division in which the Eligible Person works, or may be based on the performance of the Company, one or more Affiliates, or the Company and one or more Affiliates, and may cover such period as the Committee may specify.

1.25 **"Plan"** means this Yellow Roadway Corporation 2004 Long-Term Incentive and Equity Award Plan, as amended from time to time.

1.26 **"Related Option"** means an Option in connection with which, or by amendment to which, a SAR is granted.

1.27 **"Related SAR"** means a SAR granted in connection with, or by amendment to, an Option.

1.28 **"Restricted Stock"** means Shares granted under this Plan pursuant to the provisions of Section 9.

1.29 **"Restricted Stock Units"** means an award providing for the contingent grant of Shares (or the cash equivalent thereof) pursuant to the provisions of Section 10.

1.30 **"SAR"** means a stock appreciation right granted under this Plan in accordance with the terms of Section 7.

1.31 **"Section 422 Employee"** means an Employee who is employed by the Company or a "parent corporation" or "subsidiary corporation" (both as defined in Sections 424(e) and (f) of the Code) with respect to the Company.

1.32 **"Share"** means a share of Common Stock.

1.33 **"Ten-Percent Stockholder"** means a Section 422 Employee who (applying the rules of Section 424(d) of the Code) owns stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or a "parent corporation" or "subsidiary corporation" (both as defined in Sections 424(e) and (f) of the Code) with respect to the Company.

1.34 *Construction*. Unless the context expressly requires the contrary, references in this Plan to (a) the term "Section" refers to the sections of this Plan, and (b) the word "including" means "including (without limitation)."

2. *Purpose.* This Plan is intended to assist the Company and its Affiliates in attracting and retaining Eligible Persons of outstanding ability and to promote the identification of their interests with those of the stockholders of the Company and its Affiliates.

3. *Administration*. The Committee shall administer this Plan and shall have plenary authority, in its discretion, to grant Awards to Eligible Persons, subject to the provisions of this Plan. The Committee shall have plenary authority and discretion, subject to the provisions of this Plan, to determine the Eligible Persons to whom it grants Awards, the terms (which terms need not be identical) of all Awards, including the Exercise Price of Options, the time or times at which Awards are granted, the number of Shares covered by Awards, whether an Option shall be an Incentive Stock Option or a Nonqualified Stock Option, any exceptions to nontransferability, and any Performance Goals applicable to Awards. In making these determinations, the Committee may take into account the nature of the services rendered or to be rendered by Award recipients, their present and potential contributions to the success of the Company and its Affiliates, and such other factors as the Committee in its discretion shall deem relevant. Subject to the provisions of this Plan, the Committee shall have plenary authority to interpret this Plan and Agreements, prescribe, amend and rescind rules and regulations relating to them, and make all other determinations deemed necessary or advisable for the administration of this Plan and Awards granted hereunder. The determinations of the Committee on the matters referred to in this Section 3 shall be binding and final. The Committee may delegate its authority under this Section 3 and the terms of this Plan to such extent it deems desirable and is consistent with the requirements of applicable law.

4. *Eligibility.* Awards may be granted only to Eligible Persons.

5. *Stock Subject to Plan.*

5.1 *Number of Shares*. Subject to adjustment as provided in Section 14, the maximum number of Shares that may be issued under this Plan is 3.0 million Shares, plus (a) the number of Shares (not to exceed 0.43 million shares) authorized but not issued under the Yellow Corporation Directors' Stock Compensation Plan, the Yellow Corporation 2002 Stock Option and Share Award Plan, or the Yellow Corporation 1999 Stock Option Plan and (b) the number of Shares, if any, delivered to the Company as payment of the Exercise Price of Options. Shares issued under this Plan may, in whole or in part, be authorized but unissued Shares or Shares that shall have been, or may be, reacquired by the Company in the open market, in private transactions or otherwise. The number of Shares authorized for issuance under this Plan shall be decreased by two Shares for each Share issued pursuant to Awards that are Restricted Stock, Restricted Stock Units, Performance Awards or Other Stock-Based Awards (any of the foregoing Awards are "Full Value Awards").

5.2 *Maximum Grant*. Subject to adjustment as provided in Section 14, the maximum number of Shares with respect to which an Employee may be granted Awards under this Plan during any calendar year is 1.0 million Shares. The maximum number of Shares with respect to which an Employee has been granted Awards shall be determined in accordance with Section 162(m) of the Code.

5.3 *Adjustments to Number of Shares*. If shares of Restricted Stock are forfeited or if an Award (including a Full Value Award) otherwise terminates, expires, or is settled without all or a portion of the Shares covered by the Award being issued (including Shares not issued in order to satisfy withholding taxes), the forfeited or unissued Shares under the terminated, expired, or settled Award shall again be available for the grant of Awards under this Plan. In the case of Full Value Awards, the number of Shares that again become available for the grant of Awards under this Plan shall reflect the last sentence of Section 5.1, so that, by way of example, if ten shares of Restricted Stock are forfeited, twenty Shares shall again be available for the grant of Awards, subject to the last sentence of Section 5.1.

6. *Options*.

6.1 *Types of Option Grants*. Options granted under this Plan shall be either Incentive Stock Options or Nonqualified Stock Options, as the Committee designates; provided, that Incentive Stock Options may only be granted to Eligible Persons who are Section 422 Employees on the Date of Grant. Each Option granted under this Plan shall be identified either as a Nonqualified Stock Option or an Incentive Stock Option, and each Option shall be evidenced by an Agreement that specifies the terms and conditions of the Option. Options shall be subject to the terms and conditions set forth in this Section 6 and such other terms and conditions not inconsistent with this Plan as the Committee may specify. The Committee may, in its discretion, condition the grant or vesting of an Option upon the achievement of one or more specified Performance Goals.

6.2 *Exercise Price*. The Exercise Price of an Option granted under this Plan shall not be less than 100% of the Fair Market Value of the Common Stock on the Date of Grant. Notwithstanding the foregoing, in the case of an Incentive Stock Option granted to an Employee who, on the Date of Grant is a Ten-Percent Shareholder, the Exercise Price shall not be less than
110% of the Fair Market Value of a Share on the Date of Grant.

6.3 *Option Exercise Period*. The Committee shall determine the Option Period for an Option, which shall be specifically set forth in the Agreement; provided, that an Option shall not be exercisable after ten years (five years in the case of an Incentive Stock Option granted to a Ten-Percent Stockholder) from its Date of Grant.

6.4 *Surrender of Option*. The Participant shall have the right to surrender to the Company an Option (or a portion thereof) that has become exercisable and to receive upon the surrender, without any payment to the Company (other than required tax withholding amounts paid in accordance with Section 20) that number of Shares (equal to the highest whole number of Shares) having an aggregate Fair Market Value as of the date of surrender equal to that number of Shares subject to the Option (or portion thereof) being surrendered multiplied by an amount equal to the excess of (a) the Fair Market Value on the date of surrender, over (b) the Exercise Price, plus an amount of cash equal to the fair market value of any fractional Share to which the Participant would be entitled but for the parenthetical above relating to whole number of Shares.

7. *SARs*.

7.1 *Terms and Conditions of SAR*. A SAR granted under this Plan shall be evidenced by an Agreement specifying the terms and conditions of the Award.

7.2 *Grant of SAR*. A SAR may be granted under this Plan:

(a) in connection with, and at the same time as, the grant of an Option under this Plan;

(b) by amendment of an outstanding Option granted under this Plan; or

(c) independently of any Option granted under this Plan.

A SAR described in clause (a) or (b) of the preceding sentence is a Related SAR. A Related SAR may, in the Committee's discretion, apply to all or any portion of the Shares subject to the Related Option.

7.3 *Exercise of SAR*. A SAR may be exercised in whole or in part as provided in the applicable Agreement. Subject to the terms of the Agreement, a SAR entitles a Participant to receive, upon exercise and without payment to the Company (but subject to required tax withholding), either cash or that number of Shares (equal to the highest whole number of Shares), or a combination thereof, in an amount or having an aggregate Fair Market Value as of the Date of Exercise not to exceed the number of Shares subject to the portion of the SAR exercised multiplied by an amount equal to the excess of:

(a) the Fair Market Value on the Date of Exercise of the SAR; over

(b) either (i) the Fair Market Value on the Date of Grant (or such amount in excess of the Fair Market Value as the Committee may specify) of the SAR if it is not a Related SAR, or (ii) the Exercise Price as provided in the Related Option if the SAR is a Related SAR.

7.4 *SAR Exercise Period*. The Committee shall determine the period during which a SAR may be exercised, which period shall be specifically set forth in the Agreement; provided, that:

(a) a SAR will expire no later than the earlier of (i) ten years from the Date of Grant, or (ii) in the case of a Related SAR, the expiration of the Related Option; and

(b) a Related SAR that is related to an Incentive Stock Option may be exercised only when and to the extent the Related Option is exercisable.

7.5 *Share Adjustment with Related SAR or Related Option*. The exercise, in whole or in part, of a Related SAR shall cause a reduction in the number of Shares subject to the Related Option equal to the number of Shares with respect to which the Related SAR is exercised. The exercise, in whole or in part, of a Related Option shall cause a reduction in the number of Shares subject to the Related SAR equal to the number of Shares with respect to which the Related Option is exercised.

8. ***Exercise of Options and SARs*.**

8.1 *Methods of Exercise*. An Option or SAR may be exercised, in whole or in part and subject to the terms of the applicable Agreement evidencing the Award, by the Participant's delivering to the Company a notice of the exercise, in such form as the Committee may prescribe, accompanied, in the case of an Option, by:

(a) the Participant's full payment for the Shares with respect to which the Option is exercised; or

(b) to the extent provided in the applicable Agreement or otherwise authorized by the Committee,

(i) for Participants other than the Company's designated executive officers and directors, payment may be effected by irrevocable instructions to a broker to deliver promptly to the Company cash equal to the exercise price of the Option (a broker-assisted cashless exercise); or

(ii) payment may be made by delivery (including constructive delivery) of unencumbered Shares (provided that if the Shares were acquired pursuant to another option or other award granted under this Plan or under any other compensation plan maintained by the Company or any Affiliate, the Shares shall have been held for such period, if any, as the Committee may specify) valued at Fair Market Value on the Date of Exercise.

9. ***Restricted Stock Awards*.** Each grant of Restricted Stock under this Plan shall be subject to an Agreement, stock certificate transfer legend, or stop transfer instructions to the Company's stock transfer agent, specifying the terms and conditions of the Award. Restricted Stock granted under this Plan shall consist of Shares that are restricted as to transfer, subject to forfeiture, and subject to such other terms and conditions as the Committee may specify. The terms and conditions may provide, in the discretion of the Committee, for the lapse of transfer restrictions or forfeiture provisions to be accelerated or contingent upon the achievement of one or more specified Performance Goals.

10. ***Restricted Stock Unit Awards*.** Each grant of Restricted Stock Units under this Plan shall be evidenced by an Agreement that (a) provides for the issuance of Shares to a Participant at such time(s) as the Committee may specify, and (b) contains such other terms and conditions as the Committee may specify, including terms that condition the issuance of Shares upon the achievement of one or more specified Performance Goals.

11. ***Performance Awards*.** Each Performance Award granted under this Plan shall be evidenced by an Agreement that (a) provides for the payment of cash or issuance of Shares, Options, or SARs contingent upon the attainment of one or more specified Performance Goals over such period as the Committee may specify, and (b) contains such other terms and conditions as the Committee may specify. For purposes of Section 5.2, a Performance Award shall be deemed to cover a number of Shares equal to the maximum number of Shares that may be issued upon payment of the Award. The maximum cash amount payable to any Employee pursuant to all Performance Awards granted to an Employee during a calendar year shall not exceed $5 million.

12. ***Dividends and Dividend Equivalents*.** The terms of an Award may, subject to such terms and conditions as the Committee may specify, provide a Participant with the right to receive dividend payments or dividend equivalent payments with respect to Shares covered by the Award, which payments may be either made currently or credited to an account established for the Participant, and may be settled in cash or Shares, as determined by the Committee.

13. *Other Stock-Based Awards*. The Committee may in its discretion grant stock-based awards of a type other than those otherwise provided for in this Plan, including the issuance or offer for sale of unrestricted Shares ("Other Stock-Based Awards"). Other Stock-Based Awards shall cover such number of Shares and have such terms and conditions as the Committee shall determine, including terms that condition the payment or vesting the Other Stock-Based Award upon the achievement of one or more Performance Goals.

14. *Capital Events and Adjustments*.

14.1 *Automatic Adjustments*. Unless otherwise determined by the Committee on or prior to the date of an Automatic Adjustment Event, upon the occurrence of an Automatic Adjustment Event, each of the following shall, automatically and without need for Committee action, be proportionately adjusted:

(a) the number of Shares subject to outstanding Awards;

(b) the per Share Exercise Price of Options and the per Share base price upon which payments under SARs that are not Related SARs are determined;

(c) the aggregate number Shares as to which Awards thereafter may be granted under this Plan; and

(d) the maximum number of Shares with respect to which an Employee may be granted Awards during any calendar year.

14.2 *Discretionary Adjustments*. Subject to Section 14.1, in the event of any change in the outstanding Common Stock by reason of a stock dividend, stock split, reverse stock split, spin-off, recapitalization, reclassification, combination or exchange of shares, merger, consolidation, liquidation or the like, the Committee may, as it deems equitable in its discretion, provide for a substitution for or adjustment in:

(a) the number and class of securities subject to outstanding Awards or the type of consideration to be received upon the exercise or vesting of outstanding Awards;

(b) the Exercise Price of Options and the base price upon which payments under SARs that are not Related SARs are determined;

(c) the aggregate number and class of securities for which Awards thereafter may be granted under this Plan; and

(d) the maximum number of securities with respect to which an Employee may be granted Awards during any calendar year.

Any provision of this Plan or any Agreement to the contrary notwithstanding, in the event of a merger or consolidation to which the Company is a party, the Committee shall take such actions, if any, as it deems necessary or appropriate to prevent the enlargement or diminishment of Participants' rights under this Plan and Awards granted hereunder, and may, in its discretion, cause any Award granted hereunder to be canceled in consideration of a cash payment equal to the fair value of the canceled Award, as the Committee determines in its discretion.

15. *Deferrals*. The Committee may permit or require a Participant to defer the Participant's receipt of Shares or cash that would otherwise be due to the Participant pursuant to the terms of an Award upon such terms and conditions as the Committee may establish.

16. *Termination or Amendment*. The Board may amend or terminate this Plan in any respect at any time; provided, that after the stockholders of the Company have approved this Plan, the Board shall not amend or terminate this Plan without approval of (a) the Company's stockholders to the extent applicable law or regulations or the requirements of the principal exchange or interdealer quotation system on which the Common Stock is listed or quoted, if any, requires stockholder approval of the amendment, and (b) each affected Participant if the amendment or termination would adversely affect the Participant's rights or obligations under any Award granted prior to the date of the amendment or termination.

17. *Modification, Substitution of Awards*.

17.1 *Modification of Awards; No Reduction in Exercise Price*. Subject to the terms and conditions of this Plan, the Committee may modify the terms of any outstanding Awards; provided, that (a) no modification of an Award shall, without the consent of the Participant, alter or impair any of the Participant's rights or obligations under the Award, and (b) subject to Section 14, in no event may (i) an Option be modified to reduce the Exercise Price of the Option, (ii) a SAR be modified to reduce the applicable Exercise Price (in the case of a Related SAR) or base price (in the case of other SARs), or (iii) an Option or SAR be cancelled or surrendered in consideration for the grant of a new Option or SAR with a lower Exercise Price or base price.

17.2 *Substitution of Awards*. Anything contained herein to the contrary notwithstanding, Awards may, in the Committee's discretion, be granted under this Plan in substitution for stock options and other awards covering capital stock of another corporation which is merged into, consolidated with, or all or a substantial portion of the property or stock of which is acquired by, the Company or one of its Affiliates. The terms and conditions of the substitute Awards so granted may vary from the terms and conditions set forth in this Plan to such extent as the Committee may deem appropriate to conform, in whole or part, to the provisions of the awards in substitution for which they are granted. Substitute Awards granted hereunder shall not be counted toward the Share limit imposed by Section 5.2, except to the extent the Committee determines that counting those Awards is required for Awards granted hereunder to be eligible to qualify as "performance-based compensation" within the meaning of Section 162(m) of the Code.

18. *Foreign Employees*. Without amendment of this Plan, the Committee may grant Awards to Eligible Persons who are subject to the laws of foreign countries or jurisdictions on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of this Plan. The Committee may make such modifications, amendments, procedures, sub-plans and the like as may be necessary or advisable to comply with provisions of laws of other countries or jurisdictions in which the Company or any of its Affiliates operates or has employees.

19. *Stockholder Approval*. This Plan and any amendments to the Plan requiring stockholder approval pursuant to Section 16 are subject to approval by vote of the stockholders of the Company at the next annual or special meeting of stockholders following adoption by the Board.

20. *Withholding*. The Company's obligation to issue or deliver Shares or pay any amount pursuant to the terms of any Award granted hereunder shall be subject to satisfaction of applicable federal, state, local and foreign tax withholding requirements. In accordance with such rules as the Committee may prescribe, a Participant may satisfy any withholding tax requirements by one or any combination of the following means:

(a) tendering a cash payment;

(b) authorizing the Company to withhold Shares otherwise issuable to the Participant; or

(c) delivering to the Company already-owned and unencumbered Shares.

21. *No Loans*. Notwithstanding any other provision of this Plan to the contrary, no loans will be permitted by the Company to the Company's designated executive officers and directors, including without limitation a loan in conjunction with the exercise of an Option or SAR and a transaction structured as a broker-assisted cashless exercise.

22. *Term of Plan*. Unless the Board terminates this Plan pursuant to Section 16 on an earlier date, this Plan shall terminate on the date that is ten years after the earlier of that date that the Board adopts this Plan or the Company's stockholders approve this Plan, and no Awards may be granted after that date. The termination of this Plan shall not affect the validity of any Award outstanding on the date of termination.

23. *Indemnification of Committee*. In addition to such other rights of indemnification as they may have as members of the Board or Committee, the Company shall indemnify members of the Committee against all reasonable expenses, including attorneys' fees, actually and reasonably incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with this Plan or any Award granted hereunder, and against all amounts reasonably paid by them in settlement thereof or paid by them in satisfaction of a judgment in any such action, suit or proceeding, if those members acted in good faith and in a manner which they believed to be in, and not opposed to, the best interests of the Company.

24. *General Provisions*.

24.1 *No Legal or Equitable Rights Conferred*. The establishment of this Plan shall not confer upon any Eligible Person any legal or equitable right against the Company, any Affiliate or the Committee, except as expressly provided in this Plan. Participation in this Plan shall not give an Eligible Person any right to be retained in the service of the Company or any Affiliate.

24.2 *Power of Company to Issue Awards or Adopt Other Plans*. Neither the adoption of this Plan nor its submission to the Company's stockholders shall be taken to impose any limitations on the powers of the Company or its Affiliates to issue, grant, or assume options, warrants, rights, or restricted stock, or other awards otherwise than under this Plan, or to adopt other stock option, restricted stock, or other plans, or to impose any requirement of stockholder approval upon the same.

24.3 *Non-Transferability of Awards*. The interests of any Eligible Person under this Plan or Awards granted hereunder are not subject to the claims of creditors and may not, in any way, be transferred, assigned, alienated or encumbered, except to the extent provided in an Agreement.

24.4 *Governing Law*. This Plan shall be governed, construed and administered in accordance with the laws of the State of Delaware without giving effect to the conflict of laws principles.

24.5 *Award Restrictions*. The Committee may require each person acquiring Shares pursuant to Awards granted hereunder to represent to and agree with the Company in writing that the person is acquiring the Shares without a view to distribution thereof. The certificates for the Shares may include any legend which the Committee deems appropriate to reflect any restrictions on transfer. All certificates for Shares issued pursuant to this Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations, and other requirements of the Securities and Exchange Commission, any stock exchange upon which the Common Stock is then listed or interdealer quotation system upon which the Common Stock is then quoted, and any applicable federal or state securities laws. The Committee may place a legend or legends on certificates for Shares to make appropriate reference to the restrictions.

24.6 *Regulatory Approvals and Compliance with Securities Laws*. The Company shall not be required to issue any certificate or certificates for Shares with respect to Awards granted under this Plan, or record any person as a holder of record of Shares, without obtaining, to the complete satisfaction of the Committee, the approval of all regulatory bodies the Committee deems necessary, and without complying to the Board's or Committee's complete satisfaction, with all rules and regulations, under federal, state or local law the Committee deems applicable.

24.7 *Non-certificated Awards; No Fractional Shares*. To the extent that this Plan provides for issuance of stock certificates to reflect the issuance of Shares, the issuance may be effected on a non-certificated basis, to the extent not prohibited by applicable law or the rules of any stock exchange or automated dealer quotation system on which the Shares are traded. No fractional Shares shall be issued or delivered pursuant to this Plan or any award. The Committee shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of any fractional Shares or whether any fractional Shares or any rights thereto shall be forfeited or otherwise eliminated.

YELLOW ROADWAY CORPORATION
DIRECTOR COMPENSATION PLAN

October 19, 2004

This Director Compensation Plan (this "Plan") of Yellow Roadway Corporation, a Delaware corporation (the "Company"), amends, restates and replaces the director retainer stock election and deferral policies of the Company, including those previously contained in the Yellow Corporation Amended Directors Stock Compensation Plan, in their entirety, and summarizes the director compensation of the Company.

1. **DEFINITIONS, ADMINISTRATION AND CONSTRUCTION.**

(a) The following capitalized terms used in this Plan shall have the following meanings given to each of them in this Section 1(a):

"Annual Governance Cycle" means the period from the Board meeting immediately following the Company's Annual Meeting of Stockholders until the next such meeting the following year;

"Board" means the Board of Directors of the Company;

"Committee" means a committee of the Board;

"Common Stock" means Company Common Stock, $1.00 par value per share;

"Compensation Committee" means the Compensation Committee of the Board;

"Equity Plan" means the Company's 2004 Long-Term Incentive and Equity Award Plan or any other equity plan of the Company that permits the award of Common Stock or Common Stock derivatives to Participants pursuant to this Plan; and

"Participant" means a director of the Company who is not an employee of the Company.

"Secretary" means the Secretary of the Company.

(b) The Compensation Committee shall administer this Plan. The Compensation Committee may adopt rules for the administration of this Plan as it may deem necessary or advisable. The Compensation Committee's decisions regarding this Plan shall be final and binding on all persons who have an interest in this Plan.

(c) Except as expressly stated to the contrary, references in this plan to "including" mean "including, without limitation" and to "persons" mean natural persons and legal entities.

2. **RETAINERS.**

(a) From time to time, the Board (or at its direction, the Compensation Committee) may set retainers for Participants for their service as a member of the Board or one or more of its Committees. Retainers for a Participant, including those for Committee chairs, may vary from those of other Participants. The current retainers for Participants are listed on Exhibit A.

(b) Pursuant to this Plan and the Equity plan, at the beginning of each Annual Governance Cycle, each Participant shall be granted an award of shares of Common Stock equal in value to 50% of the then applicable level of annual Board and Committee retainers. For each Annual Governance Cycle, a Participant may elect to receive more than 50% and up to 100% of the then applicable level of annual Board and Board Committee retainers in Common Stock. If the Participant so elects, the elected additional percentage of annual Board and Committee retainers shall be issued pursuant to this Plan and the Equity Plan to the Participant at the beginning of the Annual Governance Cycle for which the election is made. A form of the annual election is included in Exhibit B.

(c) For the purposes of determining the number of shares to issue pursuant to this Section 2 and any election pursuant to Section 3, the value of the Company's Common Stock shall be determined in accordance with the Equity Plan. If the Equity Plan does not specify a method to determine the value, the number of shares to be issued pursuant to this Section 2 shall be determined by reference to the closing price of the Common Stock on the date of issuance.

(d) Annual retainers are intended to compensate Participants for each Annual Governance Cycle. A Participant who joins the Board during an Annual Governance Cycle shall receive annual retainers that are pro-rated based on the number of whole or partial months of an Annual Governance Cycle in which the Participant first serves. The Company shall pay the joining Participant these retainers in cash in quarterly installments until the beginning of the next Annual Governance Cycle in accordance with Section 2(d).

(e) The Company shall pay to each Participant in cash any amount of retainers that are not paid to the Participant in Common Stock pursuant to this Section 2. The Company shall pay the cash portion of the retainers to each Participant in four quarterly installments. The Company shall pay each installment to the Participant on the date of the first regular meeting of the Board for that quarter. If no such regular meeting is held during a quarter, the Company shall pay the Participant the installment on the last day of the calendar quarter.

3. **Meeting Fees.**

(a) From time to time, the Board (or at its direction, the Compensation Committee) may set meeting fees for Participants for their attendance at meetings of the Board or one or more of its Committees. The amount of the meeting fees for a Participant, including those for Committee chairs, may vary from those of other Participants. The current meeting fees for Participants are listed on Exhibit A.

(b) Unless a valid deferral election is made pursuant to Section 4, meetings fees shall be due and payable to each Participant upon the Participant's attendance at the applicable meeting.

(c) Meeting fees shall be paid in cash.

4. **Equity Grants.**

From time to time, the Board (or at its direction, the Compensation Committee) may make grants of Common Stock or Common Stock derivatives (such as stock options or restricted unit awards) to Participants as compensation for their service on the Board with such terms and conditions as are stated in the grant. The grant shall be made pursuant to this Plan and the terms of the Equity Plan. The current equity grants are summarized on Exhibit A.

5. **Compensation Deferral.**

(a) Pursuant to an election, a Participant may defer receipt of all of the Participant's retainer fees that the Participant elects to receive in stock (under Section 2) or all of the meeting fees (under Section 3), in each case, with respect to a year, until the Participant provides a deferral termination notice or until the Participant's death. The Company shall maintain an account for each Participant to record the amount of compensation so deferred and shall provide the Participant with an account statement at least annually.

(b) A Participant must make a written deferral election for the following year prior to the beginning of each calendar year. Participants who have become a director during a calendar year must make an election for the remaining portion of that year within 30 days of their election or appointment as a director. Initial elections with respect to this Plan must be made within 30 days of its adoption. A form of the annual election is included in Exhibit 4B. This election should be delivered to the Secretary.

(c) A Participant may irrevocably elect to terminate the Participant's deferral of all amounts deferred pursuant to this Plan by the Participant providing the Secretary a written deferral termination notice prior to the beginning of the following calendar year. Upon a Participant's resignation, removal or retirement from the

Board, upon a Participant becoming a full time employee of the Company or upon a Participant's death, the Participant shall be deemed to have made such an election. After an election, the deferral shall then be terminated effective as of January 1 of that year, and the Company shall issue and pay to the Participant the deferred shares, deferred dividends and additions on dividends and deferred cash meeting fees in the Participant's deferred account within a reasonable time.

(d) If the Company declares a dividend on its stock, the Company shall create an account on the books of the Company reflecting the cash value of the dividend based upon the number of shares reflected in Participant's stock account. On December 31 of each year, an annual addition shall be made to the Participant's dividend account (for the purpose of simulating an investment return) in accordance with the formula as follows:

X = A x B

Where

X is the amount of the annual addition

A is the discount interest rate on the first new 12 month U.S. Treasury Bills auctioned in such year.

B is the sum of the balances in the account on the last day of each month of such year divided by 12.

If payment is made by reason of death and the payment is made in a month other than January, a pro rata addition to the account shall be made immediately prior to payment in accordance with the formula as follows:

Y = C x D

Where

Y is the amount of the pro rata addition.

C is the discount interest rate on the first new 12 month U.S. Treasury Bills auctioned in such year.

D is the sum of the balances in the account on the last day of each month preceding payment in such year divided by 12.

(e) The Company shall not pay any interest or any other addition on cash meeting fees deferred under the terms of this Plan.

(f) If a Participant dies, the Company shall pay any amounts deferred under this Plan to the beneficiary or beneficiaries, if any, that the Participant designates to the Secretary in writing during the Participant's lifetime. During his/her lifetime, the Participant may revoke or change any designation of beneficiary by delivering the revocation or designation in writing to the Secretary. If no beneficiary is designated or survives the Participant, then the accounts shall be issued and paid to the Participant's personal representative.

(g) The Participant understands that all stock and cash deferred hereunder (*i.e.*, the balance of his/her accounts) are unfunded, will be represented by appropriate bookkeeping entries and will be paid from the general assets of the Company when due pursuant to the terms of this Plan. Any such amounts due the Participant shall be unsecured, general obligations of the Company.

(h) Stock and cash deferred under this Plan, and any and all rights thereto, shall not be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution, or levy of any kind, either voluntary or involuntary. Any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any rights to amounts deferred or payable hereunder shall be void.

6. **GENERAL.**

(a) None of this Plan, the Equity Plan, the grant of any award under this Plan or the Equity Plan or any other action taken pursuant to this Plan or the Equity Plan shall constitute or be evidence of any agreement or understanding, express or implied, that the Company will retain a Participant for any period of time or at any particular rate or amount of compensation.

(b) Except by the laws of decent and distribution in the event of a Participant's death, the rights and benefits of this Plan may not be assigned or otherwise transferred. A Participant shall cease to be a Participant under this Plan upon the Participant's termination of his or her directorship with the Company whether by death, disability, retirement, resignation or removal.

(c) Any notice to the Company that this Plan requires shall be in writing, addressed to the Secretary and be effective when the Secretary receives the notice.

(d) This Plan and any determination or action taken respecting this Plan shall be governed by and construed in accordance with the laws of the State of Delaware, without reference to its law of conflicts of law.

Exhibit A

Board Retainers as of July 15, 2004

Annual retainer = $30,000

Annual retainer for Committee Chairs = $5,000

Annual retainer for Committee members = $0

Meeting fees as of July 15, 2004

$1,500 for each Board meeting attended

$1,500 for each Committee meeting attended

Equity grants as of July 15, 2004

1,500 Restricted stock units vesting 500 units on each of the 1^{st}, 2^{nd} and 3^{rd} anniversaries of the date of grant, which grant is to be made on the first meeting of the Board following the annual meeting of stockholders of the Company

<u>Exhibit B</u>

ANNUAL DIRECTOR COMPENSATION ELECTION FORM

To the Secretary of Yellow Roadway Corporation:

I wish to receive ______% of Board and Committee chair retainers in the form of Yellow Roadway Corporation stock for the period of ______ to ______ (the Annual Governance Cycle). (**Must select at least 50%, if left blank or less than 50% selected, we will assume 50% is your selection).**

☐ I hereby elect to defer all of my board and chairperson retainer fees for the period of ____ to ____ (the Annual Governance Cycle). **(If you do not mark the box, we will assume that you do not wish to defer your retainer fees. If you mark the box but have not elected above to receive 100% of your retainers in stock, we will assume that you intended to mark 100% of your retainers to be received in stock even if you indicated to the contrary.)**

☐ I hereby elect to defer all of my attendance fees for the period of ____ to ____ (the Annual Governance Cycle). **(If you do not mark the box, we will assume that you do not wish to defer your attendance fees. Please remember that deferred attendance fees will not earn interest or other returns during the deferral.)**

______________________________ ______________________________

(Print name) *(signature)*

Exhibit 10.3

YELLOW ROADWAY CORPORATION
SHARE UNIT AGREEMENT

[NAME OF GRANTEE]
GRANTEE

DATE OF GRANT:

TOTAL NUMBER OF UNITS GRANTED:

VESTING SCHEDULE: **[LTIP: 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 shares 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)]

[ESP: 100% of the Units vest on the third 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's 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 full vested and convert to shares of Yellow Roadway Common stock; *provided*, that the Grantee does not breach the following covenant in Section 1.4.

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.

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.

EXHIBIT 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

I, William D. Zollars, certify that:

(1) I have reviewed this report on Form 10-Q of Yellow Roadway Corporation;

(2) Based on my knowledge, this 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 report;

(3) Based on my knowledge, the financial statements, and other financial information included in this 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 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)) for the registrant and 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 report is being prepared;

b. 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

c. 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(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 the registrant's board of directors:

a. All significant deficiencies and material weaknesses in the design or operation of internal control 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 control over financial reporting.

Date: November 9, 2004

/s/ William D. Zollars

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

EXHIBIT 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

I, Donald G. Barger, Jr., certify that:

(1) I have reviewed this report on Form 10-Q of Yellow Roadway Corporation;

(2) Based on my knowledge, this 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 report;

(3) Based on my knowledge, the financial statements, and other financial information included in this 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 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)) for the registrant and 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 report is being prepared;

   b. 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

   c. 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 (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(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 the registrant's board of directors:

   a. All significant deficiencies and material weaknesses in the design or operation of internal control 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 control over financial reporting.

Date: November 9, 2004

/s/ Donald G. Barger, Jr.

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

EXHIBIT 32.1

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 quarterly report of Yellow Roadway Corporation on Form 10-Q for the period ended September 30, 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: November 9, 2004

/s/ William D. Zollars

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

Exhibit 32.2

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 quarterly report of Yellow Roadway Corporation on Form 10-Q for the period ended September 30, 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: November 9, 2004

/s/ Donald G. Barger, Jr.

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

Exhibit 99.1

CONSOLIDATED FINANCIAL STATEMENTS

Roadway LLC and Subsidiaries

A wholly owned subsidiary of Yellow Roadway Corporation
Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003;
Statements of Consolidated Operations for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003;
Statements of Consolidated Cash Flows for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003.

CONSOLIDATED BALANCE SHEETS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	September 30, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 11,275	$ 49,879
Accounts receivable, net	23,023	343,231
Accounts receivable from parent and affiliate	396,744	—
Prepaid expenses and other	65,761	34,388
Total current assets	496,803	427,498
Property and Equipment:		
Cost	885,355	824,747
Less – accumulated depreciation	54,499	3,285
Net property and equipment	830,856	821,462
Goodwill	603,553	596,845
Intangibles, net	461,645	460,372
Other assets	26,917	32,314
Total assets	$ 2,419,774	$2,338,491
Liabilities and Parent Company Investment		
Current Liabilities:		
Accounts payable	$ 122,058	$ 118,701
Advances payable to parent	—	56,067
Wages, vacations and employees' benefits	251,784	186,400
Other current and accrued liabilities	119,737	88,653
Total current liabilities	493,579	449,821
Other Liabilities:		
Long-term debt	245,250	248,895
Deferred income taxes, net	204,370	213,689
Accrued pension and postretirement	193,668	210,596
Claims and other liabilities	125,872	123,725
Total other liabilities	769,160	796,905
Parent Company Investment:		
Capital surplus	1,098,292	1,097,221
Retained earnings	58,301	(4,558)
Accumulated other comprehensive loss	442	(898)
Total parent company investment	1,157,035	1,091,765
Total liabilities and parent company investment	$ 2,419,774	$2,338,491

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30, 2004	Twelve Weeks Ended September 13, 2003
Operating Revenue	$ 883,040	$ 751,594
Operating Expenses:		
Salaries, wages and employees' benefits	548,746	477,174
Operating expenses and supplies	122,912	122,412
Operating taxes and licenses	19,676	18,515
Claims and insurance	15,430	15,133
Depreciation and amortization	20,488	16,658
Purchased transportation	90,704	77,246
Losses (gains) on property disposals, net	380	(5,068)
Acquisition expenses	—	24,337
Total operating expenses	818,336	746,407
Operating Income	64,704	5,187
Nonoperating (Income) Expenses:		
Interest expense	3,522	4,735
Other	11,173	1,544
Nonoperating expenses, net	14,695	6,279
Income (Loss) From Continuing Operations Before Income Taxes	50,009	(1,092)
Income tax provision	19,489	2,309
Income (Loss) From Continuing Operations	30,520	(3,401)
Loss from discontinued operations	—	—
Net Income (Loss)	$ 30,520	$ (3,401)

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Revenue	$ 2,488,797	$ 2,247,192
Operating Expenses:		
Salaries, wages and employees' benefits	1,552,820	1,420,832
Operating expenses and supplies	376,162	382,846
Operating taxes and licenses	60,691	57,069
Claims and insurance	44,552	44,774
Depreciation and amortization	59,926	50,827
Purchased transportation	259,562	227,755
Losses (gains) on property disposals, net	194	(4,227)
Acquisition expenses	—	24,337
Total operating expenses	2,353,907	2,204,213
Operating Income	134,890	42,979
Nonoperating (Income) Expenses:		
Interest expense	10,523	14,616
Other	21,368	4,501
Nonoperating expenses, net	31,891	19,117
Income From Continuing Operations Before Income Taxes	102,999	23,862
Income tax provision	40,139	12,790
Income From Continuing Operations	62,860	11,072
Loss from discontinued operations	—	(155)
Net Income	$ 62,860	$ 10,917

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway LLC and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Activities:		
Net income	$ 62,860	$ 11,072
Noncash items included in net income:		
Depreciation and amortization	59,926	53,226
Losses (gains) on property disposals, net	194	(4,227)
Deferred income tax provision, net	(6,482)	(2,692)
Changes in assets and liabilities, net:		
Accounts receivable	320,208	(11,462)
Accounts payable	(26,492)	27,417
Other working capital items	55,188	(59,933)
Claims and other	2,064	4,838
Other, net	1,516	36,314
Net cash from operating activities	468,982	54,553
Investing Activities:		
Acquisition of property and equipment	(64,644)	(37,427)
Proceeds from disposal of property and equipment	9,868	9,516
Business disposal	—	47,430
Net cash provided by (used in) investing activities	(54,776)	19,519
Financing Activities:		
Treasury stock activity, net	—	6,724
Dividends paid	—	(2,941)
Repayment of long-term debt	—	(51,851)
Advances payable to parent, net	(452,810)	—
Net cash used in financing activities	(452,810)	(48,068)
Net Increase (Decrease) In Cash and Cash Equivalents From Continuing Operations	(38,604)	26,004
Net Decrease In Cash and Cash Equivalents From Discontinued Operations	—	(39)
Cash and Cash Equivalents, Beginning of Period	49,879	106,929
Cash and Cash Equivalents, End of Period	$ 11,275	$ 132,894

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

1. **Description of Business**

Roadway LLC (also referred to as “Roadway,” the “Company,” “we” or “our”) is a holding company with two primary segments, Roadway Express, Inc. and Roadway Next Day Corporation. The segments 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. Roadway Express owns 100 percent of Reimer Express Lines Ltd. 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, 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. Consideration for the acquisition included $494 million in cash and 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately $1.1 billion.

2. **Principles of Consolidation and Summary of Accounting Policies**

The accompanying consolidated financial statements include the accounts of Roadway LLC and its wholly owned subsidiaries. We have prepared the consolidated financial statements, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In management’s opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included as Exhibit 99.2 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

Prior to the acquisition of Roadway Corporation by Yellow Corporation on December 11, 2003, Roadway Corporation and all of its wholly owned subsidiaries operated on thirteen four-week accounting periods with twelve weeks in each of the first three quarters and sixteen weeks in the fourth quarter. As part of the acquisition, Roadway LLC adopted a calendar-quarter reporting basis as well as the significant accounting policies of Yellow Roadway Corporation. In addition, we utilized independent third party appraisers to revalue significant assets and liabilities to fair market value, therefore these financial statements are not comparable to prior periods. For accounting policies related to the Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, for the Statements of Consolidated Operations for the three and nine months ended September 30, 2004, and for the Statement of Consolidated Cash Flows for the nine months ended September 30, 2004 and the related notes to financial statements, please refer to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003. For accounting policies related to the Statements of Consolidated Operations for the twelve and thirty-six weeks ended September 13, 2003 and the Statement of Consolidated Cash Flows for the thirty-six weeks ended September 13, 2003 and related notes to financial statements, please refer to the Roadway Corporation financial statements and related notes at December 11, 2003, filed as Exhibit 99.1 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

3. **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. The following table shows the amount of goodwill attributable to our operating segments with goodwill balances and changes therein:

(in thousands)	December 31, 2003	Purchase Accounting Reclasses/Other	September 30, 2004
Roadway Express	$ 474,513	$ 70,085	$ 544,598
New Penn	122,332	(63,377)	58,955
Goodwill	$ 596,845	$ 6,708	$ 603,553

As the acquisition of Roadway Corporation by Yellow Corporation occurred in December 2003, the allocation of the purchase price included in the December 31, 2003 Consolidated Balance Sheets was preliminary and subject to refinement. During the nine months ended September 30, 2004, an independent asset valuation was received and certain reallocations were made related to tangible and intangible assets. In addition, the fair value of certain post-employment benefit obligations was determined by an actuary. The purchase price allocation has been modified to reflect the results of these analyses. These changes did not have an impact on our consolidated results of operations.

As of September 30, 2004, refinements to the purchase price allocation are substantially complete. Additional changes during the fourth quarter of 2004, if any, are not expected to have an impact on our consolidated results of operations.

The components of amortizable intangible assets are as follows:

		September 30, 2004		December 31, 2003	
(in thousands)	Weighted Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	17	$110,000	$ 5,329	$111,800	$ 356
Technology based	3	16,000	4,116	16,000	273
Intangible assets		$126,000	$ 9,445	$127,800	$ 629

Total marketing related intangible assets with indefinite lives were $345.1 million at September 30, 2004 and $333.2 million at December 31, 2003. These intangible assets are not subject to amortization. The change between periods related to a reclassification arising from modifications to the purchase price allocation, as discussed above, and foreign currency translation adjustments.

4. **Restructuring Costs**

In connection with the acquisition of Roadway Corporation by Yellow Corporation, we incurred $13.4 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and relocation of workforce 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 $12.2 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and related relocation costs and $1.2 million for contract terminations. All of these restructuring items will have been effectuated within one year of the acquisition date in accordance with purchase accounting requirements. During the nine months ended September 30, 2004, we paid $5.6 million of restructuring costs resulting in an $7.8 million accrued liability at September 30, 2004.

5. **Employee Benefits**

Components of Net Periodic Pension Cost

In December 2003, the Financial Accounting Standards Board revised Statement of Financial Accounting Standards ("SFAS") No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS No. 132R"). SFAS No. 132R requires the disclosure of the components of the net periodic pension cost recognized during interim periods. The following table sets forth the components of our net periodic pension cost for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Service cost	$ 5,412	$ 4,704	$ 16,236	$ 14,112
Interest cost	7,360	6,285	22,080	18,855
Expected return on plan assets	(6,195)	(5,059)	(18,585)	(15,177)
Amortization of net transition obligation	—	(330)	—	(990)
Amortization of prior service cost	—	1,298	—	3,894
Amortization of net loss	16	32	48	96
Net periodic pension cost	$ 6,593	$ 6,930	$ 19,779	$ 20,790

The following table sets forth the components of our other postretirement costs for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Service cost	$ 141	$ 466	$ 856	$ 1,398
Interest cost	234	788	1,469	2,364
Amortization of prior service cost	—	(445)	—	(1,335)
Amortization of net loss	—	134	—	402
Total other postretirement cost	$ 375	$ 943	$ 2,325	$ 2,829

Employer Contributions

We made a $20 million contribution to our defined benefit pension plan on September 15, 2004.

6. **Related Party Transactions**

Yellow Roadway maintains an asset backed securitization ("ABS") facility that involves receivables of Yellow Transportation 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 transferred to YRRFC, the accompanying balance sheet at September 30, 2004 reflects these amounts as accounts receivable from affiliate, net of certain financing costs.

7. **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 delivery lanes.

The accounting policies of the segments are the same as those described in Exhibit 99.2 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003. Yellow Roadway charges management fees and other corporate services to its segments based on the direct benefits received or as a percentage of revenue. Roadway LLC identifiable assets primarily refer to cash, cash equivalents and miscellaneous investments.

The following table summarizes our operations by business segment:

(in thousands)	Roadway Express	New Penn	Roadway LLC/ Eliminations	Consolidated
As of September 30, 2004				
Identifiable assets	$ 2,137,195	$ 247,818	$ 34,761	$ 2,419,774
As of December 31, 2003				
Identifiable assets	2,002,421	340,713	(4,643)	2,338,491
Three months ended September 30, 2004				
External revenue	812,360	70,680	—	883,040
Operating income	52,097	10,284	2,323	64,704
Adjustments to operating income(a)	341	39	—	380
Adjusted operating income	52,438	10,323	2,323	65,084
Nine months ended September 30, 2004				
External revenue	2,297,700	191,102	(5)	2,488,797
Operating income	103,494	25,229	6,167	134,890
Adjustments to operating income(a)	202	(8)	—	194
Adjusted operating income	103,696	25,221	6,167	135,084
Twelve weeks ended September 13, 2003				
External revenue	700,668	50,926	—	751,594
Operating income	557	4,630	—	5,187
Adjustments to operating income(a)	18,305	964	—	19,269
Adjusted operating income	18,862	5,594	—	24,456
Thirty-six weeks ended September 13, 2003				
External revenue	2,097,068	150,124	—	2,247,192
Operating income	30,108	12,871	—	42,979
Adjustments to operating income(a)	19,086	1,024	—	20,110
Adjusted operating income	49,194	13,895	—	63,089

(a) Management excludes these items when evaluating operating income and segment performance to better evaluate the results of our core operations. In the periods presented, adjustments consisted of property gains and losses and compensation and other expenses related to the acquisition.

8. **Comprehensive Income**

Our comprehensive income for the periods presented includes net income and foreign currency translation adjustments. Comprehensive income for the three months ended September 30, 2004 and twelve weeks ended September 13, 2003 follows:

(in thousands)	September 30, 2004	September 13, 2003
Net income (loss)	$ 30,520	$ (3,401)
Changes in foreign currency translation adjustments	(2,169)	(707)
Comprehensive income	$ 28,351	$ (4,108)

Comprehensive income for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003 follows:

(in thousands)	September 30, 2004	September 13, 2003
Net income	$ 62,860	$ 10,917
Changes in foreign currency translation adjustments	(1,340)	5,195
Comprehensive income	$ 61,520	$ 16,112

9. **Rental Expenses**

Roadway incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to “operating expenses and supplies” on the Statements of Consolidated Operations. The following table represents the actual rental expense, as reflected in operating income, incurred for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2004
Rental expense	$ 13,805	$ 12,539	$ 40,536	$ 37,823

10. **Multi-Employer Pension Plans**

Roadway Express and New Penn contribute to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 77 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 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 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 and 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 and additional contributions required, it could have a material adverse impact on the financial results of Roadway LLC.

11. **Guarantees of the Senior Notes Due 2008**

Roadway LLC, the primary obligor of the senior notes due 2008, and its following wholly 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, 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 September 30, 2004 and December 31, 2003 with respect to the financial position, for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003 for results of operations, and for the nine months ended September 30, 2004 and twenty-four weeks ended September 13, 2003 for the statements of cash flows. 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

September 30, 2004 (in thousands)	**Primary Obligor**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ —	$ 7	$ 4	$ —	$ 11
Accounts receivable, net	—	3	20	—	23
Accounts receivable (payable) from parent and affiliate	729	391	(4)	(719)	397
Prepaid expenses and other	—	65	1	—	66
Total current assets	729	466	21	(719)	497
Property and equipment	—	864	21	—	885
Less – accumulated depreciation	—	(52)	(2)	—	(54)
Net property and equipment	—	812	19	—	831
Investment in subsidiaries	639	52	—	(691)	—
Goodwill, intangibles and other assets	20	1,037	35	—	1,092
Total assets	$1,388	$ 2,367	$ 75	$ (1,410)	$ 2,420
Accounts payable	$ —	$ 112	$ 10	$ —	$ 122
Wages, vacations and employees' benefits	—	248	4	—	252
Other current and accrued liabilities	(11)	129	2	—	120
Total current liabilities	(11)	489	16	—	494
Due to affiliate	7	711	1	(719)	—
Long-term debt	245	—	—	—	245
Deferred income taxes, net	(10)	208	6	—	204
Claims and other liabilities	—	320	—	—	320
Parent company investment	1,157	639	52	(691)	1,157
Total liabilities and parent company investment	$1,388	$ 2,367	$ 75	$ (1,410)	$ 2,420

December 31, 2003 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ —	$ 44	$ 6	$ —	$ 50
Accounts receivable, net	—	326	17	—	343
Intercompany advances receivable	38	56	103	(197)	—
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 subsidiaries	593	29	—	(622)	—
Receivable from affiliate	650	—	—	(650)	—
Goodwill, intangibles 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
Intercompany advances payable	—	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
Due to affiliate	—	650	—	(650)	—
Long-term debt	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 three months ended September 30, 2004 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 848	$ 36	$ (1)	$ 883
Operating expenses:					
Salaries, wages and employees' benefits	—	538	11	—	549
Operating expenses and supplies	—	116	8	(1)	123
Operating taxes and licenses	—	19	1	—	20
Claims and insurance	—	15	—	—	15
Depreciation and amortization	—	20	—	—	20
Purchased transportation	—	79	12	—	91
Losses (gains) on property disposals, net	—	—	—	—	—
Total operating expenses	—	787	32	(1)	818
Operating income (loss)	—	61	4	—	65
Nonoperating (income) expenses:					
Interest expense	3	13	1	(13)	4
Other, net	(13)	10	1	13	11
Nonoperating (income) expenses, net	(10)	23	2	—	15
Income (loss) before income taxes	10	38	2	—	50
Income tax provision	4	15	—	—	19
Subsidiary earnings	31	2	—	(33)	—
Net income (loss)	$ 37	$ 25	$ 2	$ (33)	$ 31

For the twelve weeks ended September 13, 2003 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 722	$ 30	$ (1)	$ 751
Operating expenses:					
Salaries, wages and employees' benefits	2	465	10	—	477
Operating expenses and supplies	(2)	120	6	(1)	123
Operating taxes and licenses	—	17	1	—	18
Claims and insurance	—	15	—	—	15
Depreciation and amortization	—	15	1	—	16
Purchased transportation	—	69	9	—	78
Losses on property disposals, net	—	(5)	—	—	(5)
Acquisition expense	—	24	—	—	24
Total operating expenses	—	720	27	(1)	746
Operating income (loss)	—	2	3	—	5
Nonoperating (income) expenses:					
Interest expense	1	5	(1)	—	5
Other, net	—	—	1	—	1
Nonoperating (income) expenses, net	1	5	—	—	6
Income (loss) before income taxes	(1)	(3)	3	—	(1)
Income tax provision	—	1	1	—	2
Subsidiary earnings	(2)	2	—	—	—
Net income (loss)	$ (3)	$ (2)	$ 2	$ —	$ (3)

Condensed Consolidating Statements of Operations

For the nine months ended September 30, 2004 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 2,383	$ 107	$ (1)	$ 2,489
Operating expenses:					
Salaries, wages and employees' benefits	—	1,519	34	—	1,553
Operating expenses and supplies	—	357	20	(1)	376
Operating taxes and licenses	—	59	2	—	61
Claims and insurance	—	44	—	—	44
Depreciation and amortization	—	58	2	—	60
Purchased transportation	—	225	35	—	260
Losses (gains) on property disposals, net	—	—	—	—	—
Total operating expenses	—	2,262	93	(1)	2,354
Operating income (loss)	—	121	14	—	135
Nonoperating (income) expenses:					
Interest expense	10	40	1	(40)	11
Other, net	(40)	18	3	40	21
Nonoperating (income) expenses, net	(30)	58	4	—	32
Income (loss) before income taxes	30	63	10	—	103
Income tax provision	11	27	2	—	40
Subsidiary earnings	44	8	—	(52)	—
Net income (loss)	$ 63	$ 44	$ 8	$ (52)	$ 63

For the thirty-six weeks ended September 13, 2003 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ —	$ 2,157	$ 91	$ (1)	$ 2,247
Operating expenses:					
Salaries, wages and employees' benefits	6	1,385	30	—	1,421
Operating expenses and supplies	(6)	370	20	(1)	383
Operating taxes and licenses	—	55	2	—	57
Claims and insurance	—	44	1	—	45
Depreciation and amortization	—	48	2	—	50
Purchased transportation	—	201	27	—	228
Losses on property disposals, net	—	(4)	—	—	(4)
Acquisition expenses	—	24	—	—	24
Total operating expenses	—	2,123	82	(1)	2,204
Operating income (loss)	—	34	9	—	43
Nonoperating (income) expenses:					
Interest expense	1	15	(1)	—	15
Other, net	—	4	—	—	4
Nonoperating (income) expenses, net	1	19	(1)	—	19
Income (loss) before income taxes	(1)	15	10	—	24
Income tax provision	—	9	4	—	13
Subsidiary earnings	12	6	—	(18)	—
Net income (loss)	$ 11	$ 12	$ 6	$ (18)	$ 11

Condensed Consolidating Statements of Cash Flows

For the nine months ended September 30, 2004 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from operating activities	$ 34	$ 9	$ 426	$ —	$ 469
Investing activities:					
Acquisition of property and equipment	—	(2)	(63)	—	(65)
Proceeds from disposal of property and equipment	—	—	10	—	10
Net cash used in investing activities	—	(2)	(53)	—	(55)
Financing activities:					
Intercompany advances / repayments	(34)	(9)	(410)	—	(453)
Net cash used in financing activities	(34)	(9)	(410)	—	(453)
Net decrease in cash and cash equivalents	—	(2)	(37)	—	(39)
Cash and cash equivalents, beginning of period	—	6	44	—	50
Cash and cash equivalents, end of period	$ —	$ 4	$ 7	$ —	$ 11

For the thirty-six weeks ended September 13, 2003 (in thousands)	Primary Obligor	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating activities:					
Net cash from (used in) operating activities	$ (21)	$ 74	$ 1	$ —	$ 54
Investing activities:					
Acquisition of property and equipment	—	(35)	(2)	—	(37)
Proceeds from disposal of property and equipment	—	10	—	—	10
Business disposal	47	—	—	—	47
Net cash provided by (used in) investing activities	47	(25)	(2)	—	20
Financing activities:					
Repayment of long-term debt	(52)	—	—	—	(52)
Treasury stock purchases	7	—	—	—	7
Dividends paid	(3)	—	—	—	(3)
Intercompany advances / repayments	57	(57)	—	—	—
Net cash used in financing activities	9	(57)	—	—	(48)
Net increase (decrease) in cash and cash equivalents	35	(8)	(1)	—	26
Cash and cash equivalents, beginning of period	12	88	7	—	107
Cash and cash equivalents, end of period	$ 47	$ 80	$ 6	$ —	$ 133

Exhibit 99.2

CONSOLIDATED FINANCIAL STATEMENTS

Roadway Express, Inc. and Subsidiaries

A wholly owned subsidiary of Yellow Roadway Corporation
Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003;
Statements of Consolidated Operations for the three and nine months ended September 30, 2004
and twelve and thirty-six weeks ended September 13, 2003;
Statements of Consolidated Cash Flows for the nine months ended September 30, 2004
and thirty-six weeks ended September 13, 2003.

CONSOLIDATED BALANCE SHEETS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	September 30, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 9,626	$ 24,552
Accounts receivable, net	—	323,354
Accounts receivable from parent and affiliates, net	305,756	—
Prepaid expenses and other	58,477	27,317
Total current assets	373,859	375,223
Property and Equipment:		
Cost	796,686	750,264
Less – accumulated depreciation	48,365	2,763
Net property and equipment	748,321	747,501
Goodwill	544,598	474,513
Intangibles, net	396,806	371,081
Other assets	4,421	8,441
Total assets	$ 2,068,005	$1,976,759
Liabilities and Parent Company Investment		
Current Liabilities:		
Accounts payable	$ 124,624	$ 108,425
Advances payable to parent and affiliates, net	—	89,540
Wages, vacations and employees' benefits	237,066	173,298
Other current and accrued liabilities	116,008	110,566
Total current liabilities	477,698	481,829
Other Liabilities:		
Note payable to affiliate	500,000	500,000
Deferred income taxes, net	183,320	186,280
Accrued pension and postretirement	191,830	208,785
Claims and other liabilities	111,596	110,173
Total other liabilities	986,746	1,005,238
Parent Company Investment:		
Capital surplus	574,427	496,044
Retained earnings	28,692	(5,454)
Accumulated other comprehensive income (loss)	442	(898)
Total parent company investment	603,561	489,692
Total liabilities and parent company investment	$ 2,068,005	$1,976,759

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30, 2004	Twelve Weeks Ended September 21, 2003
Operating Revenue	$ 812,359	$ 700,668
Operating Expenses:		
Salaries, wages and employees' benefits	503,710	441,446
Operating expenses and supplies	113,816	117,826
Operating taxes and licenses	17,915	17,024
Claims and insurance	14,702	14,530
Depreciation and amortization	17,652	14,251
Purchased transportation	89,803	76,729
Losses (gains) on property disposals, net	340	(5,069)
Acquisition expenses	—	23,374
Total operating expenses	757,938	700,111
Operating income	54,421	557
Nonoperating (Income) Expenses:		
Interest expense	10,163	245
Other	10,755	623
Nonoperating expenses, net	20,918	868
Income Before Income Taxes	33,503	(311)
Income tax provision	13,433	2,327
Net Income	$ 20,070	$ (2,638)

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Revenue	$ 2,297,700	$ 2,097,068
Operating Expenses:		
Salaries, wages and employees' benefits	1,429,079	1,313,985
Operating expenses and supplies	351,959	369,386
Operating taxes and licenses	55,670	52,586
Claims and insurance	42,199	42,024
Depreciation and amortization	51,459	43,646
Purchased transportation	257,470	226,247
Losses (gains) on property disposals, net	202	(4,288)
Acquisition expense	—	23,374
Total operating expenses	2,188,038	2,066,960
Operating income	109,662	30,108
Nonoperating (Income) Expenses:		
Interest expense	30,518	529
Other	21,046	1,538
Nonoperating expenses, net	51,564	2,067
Income Before Income Taxes	58,098	28,041
Income tax provision	23,699	14,060
Net Income	$ 34,399	$ 13,981

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway Express, Inc. and Subsidiaries
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Activities:		
Net income	$ 34,399	$ 13,981
Noncash items included in net income:		
Depreciation and amortization	51,459	43,646
Losses (gains) on property disposals, net	202	(4,288)
Deferred income tax provision, net	(7,315)	(5,379)
Changes in assets and liabilities, net:		
Accounts receivable	323,354	(7,779)
Accounts payable	(13,650)	48,396
Other working capital items	32,030	(41,893)
Claims and other	1,313	7,846
Other, net	3,783	9,068
Net cash from operating activities	425,575	63,598
Investing Activities:		
Acquisition of property and equipment	(53,945)	(35,849)
Proceeds from disposal of property and equipment	8,738	8,997
Net cash used in investing activities	(45,207)	(26,852)
Financing Activities:		
Dividends paid	—	(45,750)
Advances payable to parent and affiliates, net	(395,295)	—
Net cash used in financing activities	(395,295)	(45,750)
Net Decrease In Cash and Cash Equivalents	(14,927)	(9,004)
Cash and Cash Equivalents, Beginning of Period	24,552	82,016
Cash and Cash Equivalents, End of Period	$ 9,625	$ 73,012

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

1. **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. 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 (“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. Consideration for the acquisition included $494 million in cash and 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately $1.1 billion. Roadway LLC principal segments include Roadway Express and Roadway Next Day Corporation.

2. **Principles of Consolidation and Summary of Accounting Policies**

The accompanying consolidated financial statements include the accounts of Roadway Express and its wholly owned subsidiaries. We have prepared the consolidated financial statements, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In management’s opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included as Exhibit 99.4 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

Prior to the acquisition of Roadway Corporation by Yellow Corporation on December 11, 2003, Roadway Corporation and all of its wholly owned subsidiaries, including Roadway Express, operated on thirteen four-week accounting periods with twelve weeks in each of the first three quarters and sixteen weeks in the fourth quarter. As part of the acquisition, Roadway Express adopted a calendar-quarter reporting basis as well as the significant accounting policies of Yellow Roadway Corporation. In addition, we utilized independent third party appraisers to revalue significant assets and liabilities to fair market value, therefore these financial statements are not comparable to prior periods. For accounting policies related to the Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, for the Statements of Consolidated Operations for the three and nine months ended September 30, 2004, and for the Statement of Consolidated Cash Flows for the nine months ended September 30, 2004 and the related notes to financial statements, please refer to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003. For accounting policies related to the Statements of Consolidated Operations for the twelve and thirty-six weeks ended September 13, 2003 and the Statement of Consolidated Cash Flows for the thirty-six weeks ended September 13, 2003 and related notes to financial statements, please refer to the Roadway Express financial statements and related notes at December 11, 2003, filed as Exhibit 99.3 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

3. 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. The following table shows the amount of goodwill and changes therein:

(in thousands)	December 31, 2003	Purchase Accounting Reclasses/Other	September 30, 2004
Goodwill	$ 474,513	$ 70,085	$ 544,598

As the acquisition of Roadway Corporation by Yellow Corporation occurred in December 2003, the allocation of the purchase price included in the December 31, 2003 Consolidated Balance Sheets was preliminary and subject to refinement. During the nine months ended September 30, 2004, an independent asset valuation was received and certain reallocations were made related to tangible and intangible assets. In addition, the fair value of certain post-employment benefit obligations was determined by an actuary. The purchase price allocation has been modified to reflect the results of these analyses. These changes did not have an impact on our consolidated results of operations.

As of September 30, 2004, refinements to the purchase price allocation are substantially complete. Additional changes during the fourth quarter of 2004, if any, are not expected to have an impact on our consolidated results of operations.

The components of amortizable intangible assets are as follows:

		September 30, 2004		December 31, 2003	
(in thousands)	Weighted Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	19	$63,800	$ 2,474	$48,900	$ 164
Technology based	3	15,000	3,910	15,000	256
Intangible assets		$78,800	$ 6,384	$63,900	$ 420

Total marketing related intangible assets with indefinite lives were $324.0 million at September 30, 2004 and $307.6 million at December 31, 2003. These intangible assets are not subject to amortization. The change between periods related to a reclassification arising from modifications to the purchase price allocation, as discussed above, and foreign currency translation adjustments.

4. Restructuring Costs

In connection with the acquisition of Roadway Corporation by Yellow Corporation, we incurred $13.4 million of restructuring costs as a result of severance (administrative, sales and operations personnel) and relocation of workforce 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 $12.2 million of employee termination (including wages, health benefits and outplacement services) for approximately 800 employees and related relocation costs and $1.2 million for contract terminations. All of these restructuring items will have been effectuated within one year of the acquisition date in accordance with purchase accounting requirements. During the nine months ended September 30, 2004, we paid $5.6 million of restructuring costs resulting in a $7.8 million accrued liability at September 30, 2004.

5. **Employee Benefits**

Components of Net Periodic Pension Cost

In December 2003, the Financial Accounting Standards Board revised Statement of Financial Accounting Standards ("SFAS") No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS No. 132R"). SFAS No. 132R requires the disclosure of the components of the net periodic pension cost recognized during interim periods. The following table sets forth the components of our net periodic pension cost for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Service cost	$ 5,401	$ 4,693	$ 16,203	$ 14,079
Interest cost	7,331	6,257	21,993	18,771
Expected return on plan assets	(6,195)	(5,059)	(18,585)	(15,177)
Amortization of net transition obligation	—	(330)	—	(990)
Amortization of prior service cost	—	1,298	—	3,894
Amortization of net loss	16	32	48	96
Net periodic pension cost	$ 6,553	$ 6,891	$ 19,659	$ 20,673

The following table sets forth the components of our other postretirement costs for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Service cost	$ 141	$ 466	$ 856	$ 1,398
Interest cost	234	788	1,469	2,364
Amortization of prior service cost	—	(445)	—	(1,335)
Amortization of net loss	—	134	—	402
Net periodic postretirement cost	$ 375	$ 943	$ 2,325	$ 2,829

Employer Contributions

We made a $20 million contribution to our defined benefit pension plan on September 15, 2004.

6. **Comprehensive Income**

Our comprehensive income for the periods presented includes net income and foreign currency translation adjustments. Comprehensive income for the three months ended September 30, 2004 and twelve weeks ended September 13, 2003 follows:

(in thousands)	September 30, 2004	September 13, 2003
Net income	$ 20,070	$ (2,638)
Changes in foreign currency translation adjustments	(2,169)	(707)
Comprehensive income	$ 17,901	$ (3,345)

Comprehensive income for the nine months ended September 30, 2004 and thirty-six weeks ended September 13, 2003 follows:

(in thousands)	September 30, 2004	September 13, 2003
Net income	$ 34,399	$ 13,981
Changes in foreign currency translation adjustments	(1,340)	5,195
Comprehensive income	$ 33,059	$ 19,176

7. **Rental Expense**

Roadway Express incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to "operating expenses and supplies" on the Statements of Consolidated Operations. The following table represents the actual rental expense, as reflected in operating income, incurred for the three and nine months ended September 30, 2004 and twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Rental expense	$ 13,540	$ 12,445	$ 40,097	$ 37,581

8. **Multi-Employer Pension Plans**

Roadway Express contributes to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 77 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 results of operations. Roadway Express has no current intention of taking any action that would subject us to obligations under the legislation.

Roadway Express has collective bargaining agreements with its 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 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 and 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 and additional contributions required, it could have a material adverse impact on the financial results of Roadway Express.

9. **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 transferred to YRRFC, the accompanying balance sheet at September 30, 2004 reflects these amounts as accounts receivable from affiliate, net of certain financing costs.

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 September 30, 2004 and at December 31, 2003.

10. **Reclassification**

Certain reclassifications have been made to the prior years' consolidated financial statements to conform to the 2004 presentation.

Exhibit 99.3

CONSOLIDATED FINANCIAL STATEMENTS

Roadway Next Day Corporation and Subsidiary

A wholly owned subsidiary of Yellow Roadway Corporation
Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003;
Statements of Consolidated Operations for the three and nine months ended September 30, 2004
and twelve and thirty-six weeks ended September 13, 2003;
Statements of Consolidated Cash Flows for the nine months ended September 30, 2004
and thirty-six weeks ended September 13, 2003.

CONSOLIDATED BALANCE SHEETS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	September 30, 2004	December 31, 2003
Assets		
Current Assets:		
Cash and cash equivalents	$ 1,650	$ 25,328
Accounts receivable, net	30,616	19,877
Advances receivable from parent and affiliates	22,576	—
Prepaid expenses and other	7,049	6,830
Total current assets	61,891	52,035
Property and Equipment:		
Cost	88,669	74,482
Less – accumulated depreciation	6,134	521
Net property and equipment	82,535	73,961
Goodwill	58,956	122,332
Intangibles, net	64,839	89,291
Other assets	2,174	3,094
Total assets	$ 270,395	$ 340,713
Liabilities and Parent Company Investment		
Current Liabilities:		
Accounts payable	$ 4,907	$ 8,905
Advances payable to parent and affiliates	—	4,568
Wages, vacations and employees' benefits	14,718	12,102
Other current and accrued liabilities	15,174	9,550
Total current liabilities	34,799	35,125
Other Liabilities:		
Note payable to affiliate	153,368	150,000
Deferred income taxes, net	31,113	38,999
Accrued pension and postretirement	1,838	1,811
Claims and other liabilities	14,276	12,057
Total other liabilities	200,595	202,867
Parent Company Investment:		
Capital surplus	26,199	103,259
Retained earnings	8,802	(538)
Total parent company investment	35,001	102,721
Total liabilities and parent company investment	$ 270,395	$ 340,713

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Three Months Ended September 30, 2004	Twelve Weeks Ended September 13, 2003
Operating Revenue	$ 70,680	$ 50,926
Operating Expenses:		
Salaries, wages and employees' benefits	45,038	33,412
Operating expenses and supplies	9,094	7,247
Operating taxes and licenses	1,760	1,390
Claims and insurance	728	527
Depreciation and amortization	2,836	2,239
Purchased transportation	901	517
Losses (gains) on property disposals, net	39	1
Acquisition expenses	—	963
Total operating expenses	60,396	46,296
Operating Income	10,284	4,630
Nonoperating (Income) Expenses:		
Interest expense	3,120	4,490
Other	559	1,142
Nonoperating expenses, net	3,679	5,632
Income (Loss) From Continuing Operations Before Income Taxes	6,605	(1,002)
Income tax provision (benefit)	2,472	(469)
Net Income (Loss) from Continuing Operations	4,133	(533)
Loss from discontinued operations	—	—
Net Income (Loss)	$ 4,133	$ (533)

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED OPERATIONS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Revenue	$ 191,102	$ 150,124
Operating Expenses:		
Salaries, wages and employees' benefits	123,739	99,512
Operating expenses and supplies	24,204	22,158
Operating taxes and licenses	5,020	4,206
Claims and insurance	2,353	2,165
Depreciation and amortization	8,467	6,680
Purchased transportation	2,098	1,508
Losses (gains) on property disposals, net	(8)	61
Acquisition expense	—	963
Total operating expenses	165,873	137,253
Operating Income	25,229	12,871
Nonoperating (Income) Expenses:		
Interest expense	9,358	14,087
Other	940	3,598
Nonoperating expenses, net	10,298	17,685
Income (Loss) From Continuing Operations Before Income Taxes	14,931	(4,814)
Income tax provision (benefit)	5,591	(1,796)
Net Income (Loss) from Continuing Operations	9,340	(3,018)
Loss from discontinued operations	—	(155)
Net Income	$ 9,340	$ (3,173)

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

STATEMENTS OF CONSOLIDATED CASH FLOWS
Roadway Next Day Corporation and Subsidiary
A wholly owned subsidiary of Yellow Roadway Corporation
(Amounts in thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Thirty-six Weeks Ended September 13, 2003
Operating Activities:		
Net income (loss) from continuing operations	$ 9,340	$ (3,018)
Noncash items included in net income (loss):		
Depreciation and amortization	8,467	9,580
Losses (gains) on property disposals, net	(8)	61
Deferred income tax	(699)	(431)
Changes in assets and liabilities, net:		
Accounts receivable	(10,739)	(2,568)
Accounts payable	(3,998)	(2,309)
Other working capital items	4,140	8,929
Claims and other	2,246	1,416
Other, net	920	—
Net cash from operating activities	9,669	11,660
Investing Activities:		
Acquisition of property and equipment	(10,700)	(1,578)
Proceeds from disposal of property and equipment	1,130	518
Net cash used in investing activities	(9,570)	(1,060)
Financing Activities:		
Advances to parent and affiliates, net	(23,777)	(10,300)
Net cash used in financing activities	(23,777)	(10,300)
Net Increase (Decrease) In Cash and Cash Equivalents From Continuing Operations	(23,678)	300
Net Decrease In Cash and Cash Equivalents From Discontinued Operations	—	(38)
Cash and Cash Equivalents, Beginning of Period	25,328	12,992
Cash and Cash Equivalents, End of Period	$ 1,650	$ 13,254

The accompanying notes are an integral part of these statements.
Refer to Note 2 for the difference in accounting policies between the periods presented.

1. **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 financial statements;
- 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 ("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. Consideration for the acquisition included $494.0 million in cash and 18.0 million shares of Yellow Roadway common stock for a total purchase price of approximately $1.1 billion. Roadway LLC principal segments include Roadway Express, Inc. and Roadway Next Day Corporation.

2. **Principles of Consolidation and Summary of Accounting Policies**

The accompanying consolidated financial statements include the accounts of Roadway Next Day and its wholly owned subsidiaries. We have prepared the consolidated financial statements, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). In management's opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with our consolidated financial statements included as Exhibit 99.6 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

Prior to the acquisition of Roadway Corporation by Yellow Corporation on December 11, 2003, Roadway Corporation and all of its wholly owned subsidiaries, including Roadway Next Day, operated on thirteen four-week accounting periods with twelve weeks in each of the first three quarters and sixteen weeks in the fourth quarter. As part of the acquisition, Roadway Next Day adopted a calendar-quarter reporting basis as well as the significant accounting policies of Yellow Roadway Corporation. In addition, we utilized independent third party appraisers to revalue significant assets and liabilities to fair market value, therefore these financial statements are not comparable to prior periods. For accounting policies related to the Consolidated Balance Sheets as of September 30, 2004 and December 31, 2003, and for the Statements of Consolidated Operations for the three and nine months ended September 30, 2004 and for the Statement of Consolidated Cash Flows for the nine months ended September 30, 2004 and the related notes to financial statements, please refer to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003. For accounting policies related to the Statements of Consolidated Operations for the twelve and thirty-six weeks ended September 13, 2003 and the Statement of Consolidated Cash Flows for the thirty-six weeks ended September 13, 2003 and related notes to financial statements, please refer to our financial statements and related notes at December 11, 2003, filed as Exhibit 99.5 to the Yellow Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2003.

3. **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. The following table shows the amount of goodwill attributable to Roadway Next Day with balances and changes therein:

(in thousands)	December 31, 2003	Purchase Accounting Reclasses/Other	September 30, 2004
Goodwill	$ 122,332	$ (63,376)	$ 58,956

As the acquisition of Roadway Corporation by Yellow Corporation occurred in December 2003, the allocation of the purchase price included in the December 31, 2003 Consolidated Balance Sheets was preliminary and subject to refinement. During the nine months ended September 30, 2004, an independent asset valuation was received and certain reallocations were made related to tangible and intangible assets. The purchase price allocation has been modified to reflect the results of this valuation. These changes did not have an impact on our consolidated results of operations.

As of September 30, 2004, refinements to the purchase price allocation are substantially complete. Additional changes during the fourth quarter of 2004, if any, are not expected to have an impact on our consolidated results of operations.

The components of amortizable intangible assets are as follows:

		September 30, 2004		December 31, 2003	
(in thousands)	Weighted Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	15	$46,200	$ 2,855	$62,900	$ 192
Technology based	3	1,000	206	1,000	17
Intangible assets		$47,200	$ 3,061	$63,900	$ 209

Total marketing related intangible assets with indefinite lives were $20.7 million at September 30, 2004 and $25.6 million at December 31, 2003. These intangible assets are not subject to amortization. The change between periods related to a reclassification arising from modifications to the purchase price allocation, as discussed above, and foreign currency translation adjustments.

4. **Employee Benefits**

Components of Net Periodic Pension Cost

In December 2003, the Financial Accounting Standards Board revised Statement of Financial Accounting Standards ("SFAS") No. 132, Employers' Disclosures about Pensions and Other Postretirement Benefits ("SFAS No. 132R"). SFAS No. 132R requires the disclosure of the components of the net periodic pension cost recognized during interim periods. The following table sets forth the components of our net periodic pension cost for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Service cost	$ 11	$ 10	$ 33	$ 31
Interest cost	29	28	87	83
Net periodic pension cost	$ 40	$ 38	$ 120	$ 114

5. **Rental Expenses**

Roadway Next Day incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to "operating expenses and supplies" on the Statements of Consolidated Operations. The following table represents the actual rental expense, as reflected in operating income, incurred for the three and nine months ended September 30, 2004 and the twelve and thirty-six weeks ended September 13, 2003:

(in thousands)	Three Months ended September 30, 2004	Twelve Weeks ended September 13, 2003	Nine Months ended September 30, 2004	Thirty-six Weeks ended September 13, 2003
Rental expense	$ 265	$ 94	$ 439	$ 242

6. **Multi-Employer Pension Plans**

Roadway Next Day contributes to various multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 73 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.

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. Roadway Next Day has no current intention of taking any action that would subject it to obligations under the legislation.

Roadway Next Day has collective bargaining agreements with its 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. If any of these plans fail 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 and 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 and additional contributions required, it could have a material adverse impact on the financial results of Roadway Next Day.

7. **Related Party Transactions**

On December 10, 2003, Roadway Next Day executed a $150 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 September 30, 2004 and at December 31, 2003.