ModusLink Global Solutions Inc
Form 8-K
December 19, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of Earliest Event Reported): December 15, 2017

ModusLink Global Solutions, Inc.
(Exact name of registrant as specified in its charter)

Delaware	001-35319	04-2921333
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1601 Trapelo Road, Suite 170 Waltham, Massachusetts	02451
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone Number, Including Area Code: (781) 663-5000

(Former Name or Former Address, If Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 1.01. Entry into a Material Definitive Agreement.

Acquisition of IWCO Direct

On December 15, 2017 (the "Effective Date"), ModusLink Global Solutions, Inc. (the "Company") entered into an Agreement and Plan of Merger (the "Merger Agreement") by and among the Company, MLGS Merger Company, Inc., a Delaware corporation and newly formed wholly-owned subsidiary of the Company ("MLGS"), IWCO Direct Holdings Inc. a Delaware corporation ("IWCO"), CSC Shareholder Services, LLC , a Delaware limited liability company (solely in its capacity as representative), and the stockholders of IWCO listed on the signature pages thereto. The stockholders of IWCO party to the Merger Agreement were Court Square Capital Partners II, L.P., Court Square Capital Partners II-A, L.P., Court Square Capital Partners (Executive) II, L.P., Court Square Capital Partners (Offshore) II, L.P., ACP/IWCO Holdings LLC, ACP/IWCO Splitter, L.P., WAM Holdings, INC., James N. Andersen, Joseph Morrison, THOMAS C. WICKA & ANGELA M. WICKA, TTEE, UA/DTD, FEB. 27, 2006, THOMAS C. WICKA, 2006 GRAT, and THOMAS C. WICKA, TRUSTEE UA/DTD, 10/3/05 TOM WICKA REVOCABLE TRUST.

On the Effective Date and pursuant to the Merger Agreement, MLGS was merged with and into IWCO, with IWCO surviving as a wholly-owned subsidiary of the Company (the "IWCO Acquisition").

The aggregate consideration paid to stockholders of IWCO by the Company in the IWCO Acquisition was $475,600,000 in cash, subject to certain adjustments (the "Purchase Price"), of which $2,500,000 is held in escrow pursuant to a separate escrow agreement. The Purchase Price was funded with a combination of cash on hand and financing available under the Senior Credit Facility described below. The Merger Agreement includes detailed representations, warranties, covenants and indemnification provisions that are customary for merger agreements of this type.

Financing

On December 15, 2017, MLGS entered into a Financing Agreement (the "Financing Agreement"), by and among MLGS (as the initial borrower), Instant Web, LLC, a Delaware corporation and wholly owned subsidiary of IWCO (as "Borrower"), IWCO, and certain of IWCO's subsidiaries identified on the signature pages thereto (together with IWCO, the "Guarantors"), the lenders from time to time party thereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders. MLGS was the initial borrower under the Financing Agreement, but immediately upon the consummation of the acquisition of IWCO, as described above, Borrower became the borrower under the Financing Agreement.

The Financing Agreement provides for $393.0 million term loan facility (the "Term Loan") and a $25.0 million revolving credit facility (collectively, the "Senior Credit Facility"). Proceeds of the Senior Credit Facility will be used (i) to finance a portion of the IWCO Acquisition, (ii) to repay certain existing indebtedness of the Borrower and its

subsidiaries, (iii) for working capital and general corporate purposes and (iv) to pay fees and expenses related to the Financing Agreement and the IWCO Acquisition.

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The Senior Credit Facility has a maturity of five years. Borrowings under the Senior Credit Facility bear interest, at the Borrower's option, at a Reference Rate plus 3.75% or a LIBOR Rate plus 6.5%, each as defined the Financing Agreement. The initial interest rate under the Senior Credit Facility will be at the LIBOR Rate option.

The Term Loan under the Senior Credit Facility is repayable in consecutive quarterly installments, each of which will be in an amount equal per quarter of $1,500,000 and each such installment to be due and payable, in arrears, on the last day of each quarter commencing on March 31, 2018 and ending on the earlier of (a) December 15, 2022 and (b) upon the payment in full of all obligations under the Financing Agreement and the termination of all commitments under the Financing Agreement. Further, the Term Loan would be permanently reduced pursuant to certain mandatory prepayment events including an annual "excess cash flow sweep" of 50% of the consolidated excess cash flow, with a step-down to 25% when the Leverage Ratio (as defined in the Financing Agreement) is below 3.50:1.00; provided that, in any fiscal year, any voluntary prepayments of the Term Loan shall be credited against the Borrower's "excess cash flow" prepayment obligations on a dollar-for-dollar basis for such fiscal year.

Borrowings under the Financing Agreement are fully guaranteed by the Guarantors and are collateralized by substantially all the assets of the Borrower and the Guarantors and a pledge of all of the issued and outstanding equity interests of each of IWCO's subsidiaries.

The Financing Agreement contains certain representations, warranties, events of default, mandatory prepayment requirements, as well as certain affirmative and negative covenants customary for financing agreements of this type. These covenants include restrictions on borrowings, investments and dispositions, as well as limitations on the ability of the Borrower and the Guarantors to make certain capital expenditures and pay dividends. Upon the occurrence and during the continuation of an event of default under the Financing Agreement, the lenders under the Financing Agreement may, among other things, terminate all commitments and declare all or a portion of the loans under the Financing Agreement immediately due and payable and increase the interest rate at which loans and obligations under the Financing Agreement bear interest.

Preferred Stock Purchase Agreement and Certificate of Designations

On December 15, 2017, the Company entered into a Preferred Stock Purchase Agreement (the "Purchase Agreement") with SPH Group Holdings LLC ("SPH Group"), pursuant to which the Company issued 35,000 shares of the Company's newly created Series C Convertible Preferred Stock, par value $0.01 per share (the "Preferred Stock"), to SPH Group at a price of $1,000 per share, for an aggregate purchase consideration of $35.0 million (the "Preferred Stock Transaction"). The terms, rights, obligations and preferences of the Preferred Stock are set forth in a Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of the Company (the "Certificate of Designations"), which has been filed with the Secretary of State of the State of Delaware.

Under the Certificate of Designations, each share of Preferred Stock can be converted into shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), at an initial conversion price equal to $1.96 per share,

subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction. Holders of the Preferred Stock will also receive dividends at 6% per annum payable in cash or Common Stock. If at any time the closing bid price of the Company's Common Stock exceeds 170% of the conversion price for at least five consecutive trading days (subject to appropriate adjustments for any stock dividend, stock split, stock combination, reclassification or similar transaction), the Company has the right to require each holder of Preferred Stock to convert all, or any whole number, of shares of the Preferred Stock into Common Stock.

Upon the occurrence of certain triggering events such as a liquidation, dissolution or winding up of the Company, either voluntary or involuntary, or the merger or consolidation of the Company or significant subsidiary, or the sale of substantially all of the assets or capital stock of the Company or a significant subsidiary, the holders of the Preferred Stock are entitled to receive, prior and in preference to any distribution of any of the assets or funds of the company to the holders of other equity or equity equivalent securities of the Company other than the Preferred Stock by reason of their ownership thereof, an amount per share in cash equal to the sum of (i) one hundred percent (100%) of the stated value per share of Preferred Stock (initially $1,000 per share) then held by them (as adjusted for any stock split, stock dividend, stock combination or other similar transactions with respect to the Preferred Stock), plus (ii) 100% of all declared but unpaid dividends, and all accrued but unpaid dividends on each such share of Preferred Stock, in each case as the date of the triggering event. On or after December 15, 2022, each holder of Preferred Stock can also require the Company to redeem its Preferred Stock in cash at a price equal to the Liquidation Preference (as defined in Certificate of Designations).

Each holder of Preferred Stock has a vote equal to the number of shares of Common Stock into which its Preferred Stock would be convertible as of the record date, provided that the number of shares voted is based upon a conversion price which is no less than the greater of the book or market value of the Common Stock on the closing date of the purchase of the Preferred Stock. In addition, for so long as the Preferred Stock remains outstanding, the Company will not, directly or indirectly, and including in each case with respect to any significant subsidiary, without the affirmative vote of the holders of a majority of the Preferred Stock (i) liquidate, dissolve or wind up the Company or any significant subsidiary; (ii) consummate any transaction that would constitute or result in a Liquidation Event (as defined in the Certificate of Designations); (iii) effect or consummate any Prohibited Issuance (as defined in the Certificate of Designations); or (iv) create, incur, assume or suffer to exist any Indebtedness (as defined in the Certificate of Designations) of any kind, other than certain existing Indebtedness of the Company and any replacement financing thereto, unless any such replacement financing be on substantially similar terms as such existing Indebtedness.

The Purchase Agreement provides that the Company will use its commercially reasonable efforts to effect the piggyback registration of the Common Stock issuable on the conversion of the Preferred Stock and any securities issued or issuable upon any stock split, dividend or other distribution, recapitalization or similar event with respect to the foregoing, with the Securities and Exchange Commission in all states reasonably requested by the holder in accordance with certain enumerated conditions. The Purchase Agreement also contains other representations, warranties and covenants, customary for an issuance of Preferred Stock in a private placement of this nature.

The Preferred Stock Transaction was approved and recommended to the Board by a special committee of the Board (the “Special Committee”) consisting of independent directors not affiliated with Steel Partners Holdings GP Inc. (“Steel Holdings GP”), which controls the power to vote and dispose of the securities held by SPH Group and its affiliates.

On December 15, 2017, contemporaneously with the closing of the Preferred Stock Transaction, the Company entered into a Warrant Repurchase Agreement (the “Warrant Repurchase”) with Steel Partners Holdings L.P. (“Steel Holdings”), an affiliate of SPH Group, pursuant to which the Company repurchased for $100 the warrant to acquire 2,000,000 shares of the Common Stock (the “Warrant”) that the Company had previously issued to Steel Holdings. The Warrant, which was to expire in 2018, was terminated by the Company upon repurchase.

As of December 14, 2017 (prior to the closing of the Preferred Stock Transaction), SPH Group and its affiliates beneficially owned approximately 35.62% of our outstanding shares of Common Stock. Upon closing of the Preferred Stock Transaction and the Warrant Repurchase and following the Equity Grants described in Item 5.02 below, SPH Group and its affiliates beneficially own approximately 52% of our outstanding shares of Common Stock, and the Company may be deemed to be a controlled company under Nasdaq rules.

Warren G. Lichtenstein, the Executive Chairman of our Board, is also the Executive Chairman of Steel Holdings GP. Glen Kassan, our Vice Chairman of the Board and former Chief Administrative Officer, is also affiliated with Steel Holdings GP. Jack L. Howard and William T. Fejes, Jr. who were elected to the Board upon the closing of the Preferred Stock Transaction, are, as more fully described below under Item 5.02, also affiliated with Steel Holdings GP.

The foregoing summaries of certain of the material terms of the Merger Agreement, the Financing Agreement, the Purchase Agreement and the Certificate of Designations do not purport to be complete and are subject to, are qualified in their entirety by, the full texts of the Merger Agreement, Financing Agreement, Purchase Agreement and Certificate of Designations attached hereto as Exhibits 2.1, 10.2, 10.1 and 4.1, respectively, and are incorporated into this Item 1.01 by reference.

Item 2.01. Completion of Acquisition or Disposition of Assets.

The description of the Merger Agreement provided under the heading “Acquisition of IWCO Direct” in Item 1.01 is incorporated into this Item 2.01 by reference.

Item 2.03. Creation of a Direct Financial Obligation or an Obligation under an Off-Balance Sheet Arrangement of a Registrant.

The description of the Financing Agreement provided under Item 1.01 are incorporated into this Item 2.03 by reference.

Item 3.02. Unregistered Sales of Equity Securities.

The description of the Purchase Agreement provided under Item 1.01 is incorporated into this Item 3.02 by reference.

The issuance of the securities pursuant to the Purchase Agreement were completed in accordance with the exemption provided by Section 4(2) of the Securities Act of 1933, as amended.

Item 5.02. Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

Election of Directors

The Board, upon the recommendation of the Nominating and Corporate Governance Committee of the Board (the "Nominating Committee"), increased the size of the Board from 6 members to 7 members, with such increase effective upon the closing of the Preferred Stock Transaction.

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The Board, upon the recommendation of the Nominating Committee, elected Jack L. Howard and William T. Fejes, Jr. to the Board as Class II directors, filling vacancies on the Board following the increase in the size of the Board; with such elections effective upon the closing of the Preferred Stock Transaction. In addition to participating in the Company's Fourth Amended and Restated Director Compensation Plan, Messrs. Howard and Fejes will receive the equity grants described below.

Messrs. Howard and Fejes are both affiliated with Steel Holdings GP, which is a wholly-owned subsidiary of Steel Holdings.

Mr. Howard has served as the President of Steel Holdings GP since July 2009 and has served as a director of Steel Holdings GP since October 2011. Mr. Howard is the President of Steel Holdings and has been associated with Steel Holdings and its predecessors and affiliates since 1993. Mr. Howard served as the Vice Chairman of the Board of the Handy & Harman Ltd. ("HNH"), a shareholder of the Company and affiliate of SPH Group, from March 2012 to October 2017 and Principal Executive Officer of HNH from January 2013 to October 2017, and has served as a director of HNH since July 2005. Mr. Fejes has served as the president of Steel Services, Ltd. ("Steel Services") an indirect wholly owned subsidiary of Steel Holdings, since October 2017. Mr. Fejes has also served as Senior Vice President of HNH and President and Chief Executive Officer of Handy & Harman Group Ltd. since June 2016.

The Company is party to a Management Services Agreement with Steel Services (the "Management Services Agreement") pursuant to which Steel Services provides the Company and its subsidiaries with the services of certain employees and performs additional services, which include, without limitation: (i) services related to corporate treasury functions and financing matters; (ii) services to support M&A functions and (iii) services related to advising the Company on risk management, governance and compliance generally, assisting with public company reporting requirements, advising on investigations and litigation, and advising on major business transactions.

During the year ended July 31, 2017, pursuant to the Management Services Agreement, the Company paid a fixed monthly fee of $175,000 in consideration for the services and incremental costs as incurred. Pursuant to a third amendment to the Management Services Agreement, effective September 1, 2017, the fixed monthly fee paid by the Company to Steel Services was reduced from $175,000 per month to $95,641 per month.

Equity Grants

The Board, upon the recommendation of the Special Committee and the Compensation Committee, approved the following equity grants to Messrs. Howard and Fejes and to Warren G. Lichtenstein, the Executive Chairman of the Board, in each case effective upon the closing of the IWCO Acquisition (the "Grant Date") and in consideration for

current and future services to the Company:

(1) Award of Company Common Stock as a Stock Payment, as defined in the ModusLink Global Solutions, Inc. 2010 Incentive Awards Plan ("2010 Plan"), in the amounts set forth below, which will vest in their entirety on the Grant Date;

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Recipient	Award
Warren G. Lichtenstein	2,400,000 shares
Jack Howard	1,200,000 shares
William T. Fejes	400,000 shares

(2) Award of Restricted Stock, as defined in the 2010 Plan, in the amounts set forth below, which will vest in their entirety on the day the price of the Company's Common Stock shall have closed at or above $2.00 per share for any five consecutive business days after the Grant Date, subject to the Recipient's continuous service with the Company from the Grant Date through the vesting date;

Recipient	Award
Warren G. Lichtenstein	270,000 shares
Jack Howard	135,000 shares
William T. Fejes	45,000 shares

(3) Award of Restricted Stock of the Company, in the amounts set forth below, which will vest in their entirety on the day the price of the Company's Common Stock shall have closed at or above $2.00 per share for any five consecutive business days after the Grant Date, subject to both (a) prior approval by the Company's shareholders of an amendment to the 2010 Plan to increase the shares available under the 2010 Plan in an amount sufficient to permit this award and (b) the Recipient's continuous service with the Company from the Grant Date through the vesting date;

Recipient	Award
Warren G. Lichtenstein	30,000 shares
Jack Howard	15,000 shares
William T. Fejes	5,000 shares

(4) Award of Restricted Stock of the Company, in the amounts set forth below, which shall vest in their entirety on the day the price of the Company's Common Stock shall have closed at or above $2.25 per share for any five consecutive business days after the Grant Date, subject to both (a) prior approval by the Company's shareholders of an amendment to the 2010 Plan to increase the shares available under the 2010 Plan in an amount sufficient to permit this award and (b) the Recipient's continuous service with the Company from the Grant Date through the vesting date; and

Recipient	Award
Warren G. Lichtenstein	300,000 shares
Jack Howard	150,000 shares
William T. Fejes	50,000 shares

(5) Award of Restricted Stock of the Company, in the amounts set forth below, which shall vest in their entirety on the day the price of the Company's Common Stock shall have closed at or above $2.50 per share for any five consecutive business days after the Grant Date, subject to both (a) prior approval by the Company's shareholders of an amendment to the 2010 Plan to increase the shares available under the 2010 Plan in an amount sufficient to permit this award and (b) the Recipient's continuous service with the Company from the Grant Date through the vesting date;

Recipient	**Award**
Warren G. Lichtenstein	300,000 shares
Jack Howard	150,000 shares
William T. Fejes	50,000 shares

Item 5.03. Amendments to Articles of Incorporation or Bylaws; Change in Fiscal Year.

The description of the Certificate of Designations provided under Item 1.01 is incorporated into this Item 5.03 by reference.

Item 9.01. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

Any financial statements required by Item 9.01(a) will be filed by amendment as soon as practicable, but no later than 71 calendar days after the date on which this initial Current Report on Form 8-K was required to be filed.

(b) Pro Forma Financial Information.

Any pro forma financial information required by Item 9.01(b) will be filed by amendment as soon as practicable, but no later than 71 calendar days after the date on which this initial Current Report on Form 8-K was required to be filed.

(d) Exhibits

<u>Exhibit No.</u> <u>Description</u>

2.1	Agreement and Plan of Merger, dated December 15, 2017, by and among ModusLink Global Solutions, Inc., MLGS Merger Company, Inc., IWCO Direct Holdings Inc., CSC Shareholder Services, LLC (solely in its capacity as representative), and the stockholders of IWCO Direct Holdings Inc.*
4.1	Certificate of Designations, Preferences and Rights of Series C Convertible Preferred Stock of ModusLink Global Solutions, Inc. filed with the Secretary of State of the State of Delaware on December 15, 2017.
10.1	Preferred Stock Purchase Agreement dated as of December 15, 2017, by and between ModusLink Global Solutions, Inc. and SPH Group Holdings LLC.
10.2	Financing Agreement dated as of December 15, 2017, by and among IWCO Direct Holdings Inc., MLGS Merger Company, Inc., Instant Web, LLC, certain subsidiaries of IWCO Direct Holdings Inc. identified on the signature pages thereto, the lenders from time to time party hereto, and Cerberus Business Finance, LLC, as collateral agent and administrative agent for the lenders.

* Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company hereby agrees to furnish supplementary copies of any of the omitted schedules or exhibits upon request by the Securities and Exchange Commission.

SIGNATURES

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

December 18, 2017 ModusLink Global Solutions, Inc.

By: /s/ Louis J. Belardi
Name: Louis J. Belardi
Title: Chief Financial Officer

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IZE="1"> 459,738 1,375,195 1,378,087

Purchased transportation

286,460 277,848 811,412 811,752

Depreciation and amortization

62,232 64,118 181,568 212,280

Other operating expenses

109,153 105,288 338,941 317,754

Losses on property disposals, net

1,400 2,427 1,561 83

Reorganization and settlements

(197) 5,455 13,654 12,936

Total operating expenses

2,370,080 2,393,496 7,056,105 7,073,327

Operating Income

87,651 177,591 216,473 437,700

Nonoperating (Income) Expenses:

Interest expense	22,715	23,025	64,519	66,684
Other, net	979	(677)	1,257	(2,036)
Nonoperating expenses, net	23,694	22,348	65,776	64,648
Income Before Income Taxes	63,957	155,243	150,697	373,052
Income tax provision	23,213	59,458	53,307	142,879
Net Income	$40,744	$95,785	$97,390	$230,173
Average Common Shares Outstanding Basic	57,116	57,464	57,322	57,434
Average Common Shares Outstanding Diluted	57,981	58,396	58,186	58,718
Basic Earnings Per Share	$0.71	$1.67	$1.70	$4.01
Diluted Earnings Per Share	$0.70	$1.64	$1.68	$3.92

The accompanying notes are an integral part of these statements.

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STATEMENTS OF CONSOLIDATED CASH FLOWS

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30

(Amounts in thousands)

(Unaudited)

	2007	2006
Operating Activities:		
Net income	$ 97,390	$ 230,173
Noncash items included in net income:		
Depreciation and amortization	181,568	212,280
Losses on property disposals, net	1,561	83
Loss on sale of Meridian IQ China		2,843
Deferred income tax benefit	(1,634)	(367)
Other noncash items	6,526	3,832
Changes in assets and liabilities, net:		
Accounts receivable	(70,957)	(162,940)
Accounts payable	(6,543)	(25,873)
Other operating assets	25,094	45,286
Other operating liabilities	(27,069)	(6,266)
Net cash provided by operating activities	205,936	299,051
Investing Activities:		
Acquisition of property and equipment	(313,474)	(319,743)
Proceeds from disposal of property and equipment	31,534	35,070
Acquisition of companies, net of cash acquired		(14,842)
Other	(1,419)	(2,548)
Net cash used in investing activities	(283,359)	(302,063)
Financing Activities:		
Asset-backed securitization borrowings, net	85,000	50,030
Issuance (repayment) of long-term debt, net	150,971	(43,712)
Debt issuance costs	(1,275)	
Proceeds from exercise of stock options	6,530	4,294
Treasury stock repurchase	(34,997)	(19,997)
Net cash provided by (used in) financing activities	206,229	(9,385)
Net Increase (Decrease) In Cash and Cash Equivalents	128,806	(12,397)
Cash and Cash Equivalents, Beginning of Period	76,391	82,361
Cash and Cash Equivalents, End of Period	$ 205,197	$ 69,964

The accompanying notes are an integral part of these statements.

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STATEMENT OF CONSOLIDATED SHAREHOLDERS EQUITY

YRC Worldwide Inc. and Subsidiaries

For the Nine Months Ended September 30

(Amounts in thousands except per share data)

(Unaudited)

	2007
Common Stock	
Beginning balance	$ 60,876
Exercise of stock options	221
Employer contribution to 401(k) plan	203
Issuance of equity awards, net	116
Ending balance	$ 61,416
Capital Surplus	
Beginning balance	$ 1,180,578
Exercise of stock options, including tax benefits	6,309
Employer contribution to 401(k) plan	7,388
Share-based compensation	10,054
Other, net	1,049
Ending balance	$ 1,205,378
Retained Earnings	
Beginning balance	$ 1,115,246
Cumulative effect adoption of FIN 48, Accounting for Uncertainty in Income Taxes	(5,746)
Net income	97,390
Ending balance	$ 1,206,890
Accumulated Other Comprehensive Loss	
Beginning balance	$ (54,534)
Amortization of pension costs	4,065
Foreign currency translation adjustment	14,421
Ending balance	$ (36,048)
Treasury Stock, At Cost	
Beginning balance	$ (109,617)
Treasury stock repurchase	(34,997)
Ending balance	$ (144,614)
Total Shareholders Equity	$ 2,293,022

The accompanying notes are an integral part of these statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YRC Worldwide Inc. and Subsidiaries

(Unaudited)

1. **Description of Business**

YRC Worldwide Inc. (also referred to as YRC Worldwide , the Company , 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 transportation services. These services include global, national and regional transportation as well as logistics. The YRC Worldwide portfolio of brands provides a comprehensive suite of services for the shipment of industrial, commercial and retail goods domestically and internationally. Our reportable segments, which are comprised of our various operating subsidiaries, include the following:

YRC National Transportation (National Transportation) is a holding company for our transportation service providers focused on business opportunities in regional, national and international services. National Transportation is comprised of Yellow Transportation and Roadway. These companies each provide for the movement of industrial, commercial and retail goods, primarily through regionalized and centralized management and customer facing organizations. National Transportation also includes Reimer Express Lines, located in Canada, that specializes in shipments into, across and out of Canada. Approximately 38% of National Transportation shipments are completed in two days or less. In addition to the United States and Canada, National Transportation also serves parts of Mexico and Puerto Rico.

YRC Regional Transportation (Regional Transportation) is a holding company for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of New Penn Motor Express, USF Holland and USF Reddaway. These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States; Quebec, Canada; Mexico; and Puerto Rico. USF Glen Moore, a provider of truckload services throughout the United States, is also a subsidiary of Regional Transportation. Approximately 90% of Regional Transportation less-than-truckload (LTL) shipments are completed in two days or less. In 2006, Regional Transportation also included USF Bestway. In February 2007, the majority of USF Bestway s operations were consolidated into USF Reddaway.

YRC Logistics (Logistics , formerly Meridian IQ) includes the family of companies that plan and coordinate the movement of goods worldwide to provide customers a single source for logistics management solutions. Logistics delivers a wide range of global logistics management services, with the ability to provide customers improved return-on-investment results through flexible, fast and easy-to-implement logistics services and technology management solutions.

At September 30, 2007, approximately 72% of our labor force is subject to various collective bargaining agreements, which predominantly expire in 2008.

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

The accompanying consolidated financial statements include the accounts of YRC Worldwide and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Investments in non-majority owned affiliates where the entity is either not a variable interest entity or YRC Worldwide is not the primary beneficiary are accounted for on the equity method. Management makes estimates and assumptions that affect the amounts reported in the consolidated financial statements and notes. Actual results could differ from those estimates. We have prepared the consolidated financial statements, without audit by an independent public accounting firm, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In management s opinion, all normal recurring adjustments except as otherwise noted, necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included in these financial statements herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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, 2006.

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Property and Equipment

Property and equipment are recorded at cost. In the third quarter of 2006, the Company revised the estimated useful lives and salvage values of certain classes of property and equipment to more appropriately reflect how the Company expects to use the assets over time. Effective July 1, 2006, the Company increased revenue equipment lives to ten to twenty years from three to fourteen years and modified certain salvage values. If the Company had not changed the estimated useful lives and salvage values of this property and equipment, additional depreciation expense of approximately $27.1 million would have been recorded during the nine months ended September 30, 2007. Accordingly, the changes in estimates resulted in an increase in income from continuing operations of approximately $27.1 million (a $17.5 million increase in net income) for the nine months ended September 30, 2007. The change in estimate also increased diluted earnings per share by $0.30 for the nine months ended September 30, 2007.

3. **Restructuring and Reorganization**

In June 2007, Logistics announced the closure of its Montgomery, Alabama flow-through and warehousing facility. Related to this action, we incurred certain restructuring charges.

In January 2007, we announced the consolidation of USF Reddaway and USF Bestway, two subsidiaries within our Regional Transportation segment. As part of the consolidation, effective February 12, 2007, we no longer market the USF Bestway brand. We incurred certain restructuring and other closure related charges in conjunction with this organizational change consisting primarily of employee separation and contract termination costs.

In addition, in January 2007 we announced further organizational changes that brought the management of Yellow Transportation and Roadway under one organization established as YRC National Transportation. We incurred employee separation charges in the first quarter of 2007 related to these changes.

As a part of our 2005 acquisition of USF Corporation, we closed an operating subsidiary (USF Dugan) and consolidated certain administrative functions and locations. We incurred restructuring and other closure related charges related to these actions. During 2007, we have continued to make payments under these obligations.

We reassess the reserve requirements under the above restructuring efforts at the end of each reporting period. A rollforward of the restructuring accrual is set forth below:

(in millions)	Employee Separation	Contract Termination and Other Costs	Total
Balance at December 31, 2006	$ 1.0	$ 6.5	$ 7.5
Restructuring charges	8.6	2.3	10.9
Adjustments [a]	(0.7)	(2.9)	(3.6)
Payments	(4.8)	(2.7)	(7.5)
Balance at September 30, 2007	$ 4.1	$ 3.2	$ 7.3

[a] Included in adjustments are amounts credited to goodwill in accordance with purchase accounting requirements and reduction to severance accruals.

In addition to the above restructuring charges of $10.9 million, we incurred reorganization and other closure related charges of $0.1 million and $7.9 million during the three and nine months ended September 30, 2007, respectively. These charges are included in the Reorganization and settlements caption in the consolidated statements of operations and consist primarily of the following through September 30, 2007:

(in millions)	Three Months	Nine Months
Acceleration of stock-based compensation related to certain terminated executives	$	$ 2.3
Write off of signage and other assets resulting from the YRC Logistics name change		1.4
Other USF Bestway closure related charges	0.1	4.2
Total	$ 0.1	$ 7.9

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4. **Debt and Financing**

Total debt consisted of the following:

(in millions)	September 30, 2007	December 31, 2006
ABS borrowings, secured by accounts receivable	$ 310.0	$ 225.0
Floating rate notes	150.0	150.0
USF senior notes	261.1	264.7
Roadway senior notes	230.7	234.3
Contingent convertible senior notes	400.0	400.0
Term loan	150.0	
Other	10.5	9.5
Total debt	$ 1,512.3	$ 1,283.5
ABS borrowings	(310.0)	(225.0)
Current maturities	(150.0)	
Long-term debt	$ 1,052.3	$ 1,058.5

Credit Agreement

On August 17, 2007, we entered into a Credit Agreement with certain banks, expiring August 17, 2012, that provides us with a $1.1 billion senior unsecured revolving credit facility, including sublimits available for borrowings under certain foreign currencies and a $150 million senior unsecured term loan. This agreement replaces our existing Amended and Restated Credit Agreement, dated as of May 19, 2005, that provided us with, among other things, a $850 million senior unsecured revolving credit facility. The new agreement also provides for letters of credit to be issued that would, in turn, reduce the borrowing capacity under the revolving credit facility. As of September 30, 2007, $1.0 million was drawn under the revolving credit facility and the term loan of $150 million was also outstanding. At September 30, 2007, the proceeds from the term loan remain in an interest bearing account and are immediately available for corporate purposes.

Interest related to the Credit Agreement is based on our credit rating and is subject to change. Currently, amounts borrowed under the revolving credit facility and term loan bear interest at LIBOR plus 0.50% and LIBOR plus 0.625%, respectively. Additionally, we are currently obligated to pay a facility fee equal to 0.125% of the total revolving credit facility commitment. In accordance with the terms of the Credit Agreement, we must comply with certain performance covenants. As of September 30, 2007, we were in compliance with all terms of the Credit Agreement.

Asset-Backed Securitization Facility

On August 17, 2007, we amended our asset-backed securitization (ABS) facility to increase the financing limit to $700 million, up from the previous limit of $650 million. The ABS facility continues to provide a letter of credit sublimit of $325 million. The interest rate continues to be a variable rate based on the A1/P1 commercial paper rate, plus a fixed increment for utilization. No other material changes were made to the ABS facility. The expiration date of the 364-day ABS facility remains May 16, 2008.

Future maturities of total debt for the years ending December 31 are as follows:

(in millions)	
2007	$
2008	687.5
2009	101.0
2010	406.0
2011	
Thereafter	301.0
Total	$ 1,495.5

The above reflects contractual maturities for all debt other than our contingent convertible senior notes. These notes are instead presented based on the earliest possible redemption date defined as the first date on which the note holders have the option to require us to purchase their notes (the put date). For the $250 million notes the stated maturity is August 2023 with an initial put date of August 2010 and for the $150 million notes the stated maturity is November 2023 with an initial put date of November 2012.

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5. **Employee Benefits**

Components of Net Periodic Pension and Other Postretirement Cost

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)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 9.8	$ 11.1	$ 29.4	$ 33.7
Interest cost	16.4	15.9	49.1	47.5
Expected return on plan assets	(17.4)	(14.8)	(52.3)	(44.4)
Amortization of prior service cost	0.3	0.4	0.9	1.2
Amortization of net loss	2.0	3.0	6.0	8.5
Net periodic pension cost	11.1	15.6	33.1	46.5
Settlement cost			1.4	
Special termination benefit cost			1.5	
Total periodic pension cost	$ 11.1	$ 15.6	$ 36.0	$ 46.5

The settlement and special termination benefit costs of $2.9 million presented above are included in Reorganization and settlements in our consolidated statement of operations for the nine months ended September 30, 2007.

The following table sets forth the components of our other postretirement costs for the three and nine months ended September 30:

	Three Months		Nine Months	
(in millions)	**2007**	**2006**	**2007**	**2006**
Service cost	$ 0.1	$ 0.1	$ 0.3	$ 0.4
Interest cost	0.5	0.5	1.5	1.4
Amortization of prior service cost	0.1	0.1	0.3	0.2
Amortization of net (gain)	(0.1)	(0.1)	(0.3)	(0.2)
Other postretirement cost	$ 0.6	$ 0.6	$ 1.8	$ 1.8

6. **Income Taxes**

Uncertain Tax Positions

We adopted the provisions of Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), on January 1, 2007. As a result of the implementation of FIN 48, we recognized a $7.1 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction of $5.7 million to the January 1, 2007 balance of retained earnings and an increase of $1.4 million to goodwill resulting from prior acquisitions. Additionally, we reclassified a $53 million credit from Prepaid Expenses and Other to Other Current and Accrued Liabilities effective January 1, 2007. We have elected to treat interest and penalties on uncertain tax positions as interest expense and other operating expenses, respectively, rather than continue the treatment as components of the income tax provision as we had prior to the adoption of FIN 48.

The total amounts of unrecognized tax benefits and accrued interest as of the date of adoption were $78.3 million and $2.1 million, respectively. Both are classified on our consolidated balance sheet within Other Current and Accrued Liabilities . The balance of unrecognized tax benefits as of the date of adoption has been adjusted by $3.6 million during the nine months ended September 30, 2007, to reflect the reclass of deferred tax assets associated with certain indirect federal benefits. In connection with the finalization of our 2006 federal income tax return, we have determined the application of certain tax attributes has reduced the amount of unrecognized tax benefits measured under FIN 48. As a result of

this determination, the amount of unrecognized tax benefits has been reduced by $4.7 million during the three months ended September 30, 2007, with a resulting reduction to goodwill by the same amount.

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We accrued $1.4 million and $3.0 million of interest on uncertain tax positions during the three and nine months ended September 30, 2007, respectively. We have accrued no penalties relative to uncertain tax positions.

The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate as of the date of adoption was $5 million.

Tax years that remain subject to examination for our major tax jurisdictions as of the date of adoption and at September 30, 2007:

		Pre-acquisition tax years	
	YRC Worldwide	**USF Corporation [a]**	**Roadway [b]**
Statute remains open	2003-2006	2000-2005	2001-2003
Tax years currently under examination/exam completed	2003-2005	2000-2005	2001-2003
Tax years not examined	2006	None	None

[a] Years ending on or before May 24, 2005.
[b] Years ending on or before December 11, 2003.

Reasonably possible changes in the next 12 months in the amount of unrecognized tax benefits relate to the following tax positions:

The United States Internal Revenue Service (IRS) has begun an audit of the Company s 2005 tax return and has proposed an adjustment relative to the deduction claimed for contributions to union pension plans. We are protesting the adjustment. The additional tax that could result from the adjustment is approximately $51 million. Pursuant to the provisions of FIN 48, we have posted no tax benefit for this deduction.

The IRS has audited certain pre-acquisition tax returns for a consolidated group acquired in 2005 and disallowed a 2002 loss related to the disposition of the stock of a member of that group. The Company believes the loss is fully deductible and has protested the IRS adjustment. The additional tax that could result should the loss ultimately be totally denied is approximately $37 million. Any tax liability resulting from the audit would affect only goodwill recognized in the allocation of the purchase price of the acquired subsidiary.

Effective Tax Rate

The Company s accounting policy is to report income tax expense for interim reporting periods using an estimated annual effective income tax rate. However, the effects of significant discrete events are not considered in the estimated annual effective tax rate. The tax effects of these events are recognized in the interim period in which the events occur.

For the three months ended September 30, 2007, the Company recorded income tax expense of $23.2 million, resulting in an effective rate of 36.3% compared to 38.3% for the three months ended September 30, 2006.

For the nine months ended September 30, 2007, the Company recorded income tax expense of $53.3 million resulting in an effective rate of 35.4% compared to 38.3% for the nine months ended September 30, 2006. The 2007 rate was favorably impacted by a $1.9 million propane fuel tax credit related to 2006, which was fully recognized in the second quarter. The 2007 effective tax rate is favorably impacted by a projected $7.4 million benefit related to the same credit.

7. **Earnings Per Share**

Dilutive securities, consisting of options to purchase our common stock or rights to receive common stock in the future, included in the calculation of diluted weighted average common shares were 689,000 and 688,000 for the three and nine months ended September 30, 2007, respectively, and 755,000 and 684,000 for the three and nine months ended September 30, 2006, respectively. In addition, dilutive securities related to our net share settle contingent convertible notes were 177,000 for the three and nine months ended September 30, 2007 and 177,000 and 600,000 for the three and nine months ended September 30, 2006, respectively.

The impact of certain other options were excluded from the calculation of diluted earnings per share because average exercise prices were greater than the average market price of common shares. In addition, the computation of the assumed conversion of the convertible senior notes includes inputs of the year-to-date average stock price relative to the stated conversion price. If this

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relationship is such that the year-to-date average stock price is less then the stated conversion price, the computed shares would be antidilutive under the treasury stock method. Data regarding antidilutive securities for the three and nine months ended September 30 is summarized below:

	Three Months		Nine Months	
(in thousands except per share data)	**2007**	**2006**	**2007**	**2006**
Weighted average exercise price per share	$ 43.46	$ 43.46	$ 43.46	$ 43.46
Antidilutive weighted average option shares outstanding	23	23	23	23
Antidilutive convertible senior note conversion shares	849	565	2,800	295

8. **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 evaluate performance primarily on operating income and return on capital.

We have three reportable segments, which are strategic business units that offer complementary transportation services to their customers. National Transportation includes carriers that provide comprehensive regional, national and international transportation services. Regional Transportation is comprised of carriers that focus primarily on business opportunities in the regional and next-day delivery markets. Logistics, previously referred to as our Meridian IQ segment, provides domestic and international freight forwarding, warehousing, and cross-dock services, multi-modal brokerage services, and transportation management services.

Information relative to USF Red Star and USF Dugan, previously included in Regional Transportation, has been included in the Corporate segment in 2007 as these entities are no longer operating.

Prior to 2007 we reported four operating segments. In January 2007, we consolidated the management structure of Yellow Transportation and Roadway to form YRC National Transportation. As a result, these two previously separate segments have been combined in 2007. Amounts presented for 2006 have been restated to reflect this change.

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, 2006. We charge management fees and other corporate services to our segments based on the direct benefits received or as a percentage of revenue. Corporate and other operating losses represent residual operating expenses of the holding company, including compensation and benefits and professional services for all periods presented. Corporate identifiable assets primarily refer to cash, cash equivalents and deferred debt issuance costs. Intersegment revenue relates to transportation services between our segments.

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The following table summarizes our operations by business segment:

(in millions)	National Transportation	Regional Transportation	Logistics	Corporate/ Eliminations	Consolidated
As of September 30, 2007					
Identifiable assets	$ 3,393.3	$ 2,220.1	$ 451.7	$ 139.3	$ 6,204.4
As of December 31, 2006					
Identifiable assets	3,269.1	2,179.2	413.5	90.4	5,952.2
Three months ended September 30, 2007					
External revenue	1,708.4	600.4	148.9		2,457.7
Intersegment revenue	0.6		4.0	(4.6)	
Operating income (loss)	90.4	(1.2)	4.2	(5.7)	87.7
Three months ended September 30, 2006					
External revenue	1,794.7	624.7	151.7		2,571.1
Intersegment revenue	1.3		2.0	(3.3)	
Operating income	128.2	48.1	0.8	0.5	177.6
Nine months ended September 30, 2007					
External revenue	5,018.3	1,804.9	449.4		7,272.6
Intersegment revenue	2.6		11.5	(14.1)	
Operating income	216.3	8.5	4.7	(13.0)	216.5
Nine months ended September 30, 2006					
External revenue	5,196.5	1,870.9	443.6		7,511.0
Intersegment revenue	3.8		3.6	(7.4)	
Operating income	321.6	123.0	6.0	(12.9)	437.7

9. **Comprehensive Income**

Comprehensive income for the three and nine months ended September 30 follows:

	Three Months		Nine Months	
(in millions)	2007	2006	2007	2006
Net income	$ 40.7	$ 95.8	$ 97.4	$ 230.2
Other comprehensive income (loss), net of tax:				
Amortization of pension costs	1.2		4.1	
Changes in foreign currency translation adjustments	5.4	(0.2)	14.4	4.3
Other comprehensive income (loss)	6.6	(0.2)	18.5	4.3
Comprehensive income	$ 47.3	$ 95.6	$ 115.9	$ 234.5

10. **Commitments and Contingencies**

Multi-Employer Pension Plans

Yellow Transportation, Roadway, New Penn, USF Holland and USF Reddaway contribute to approximately 20 major multi-employer pension plans for employees that our collective bargaining agreements cover (approximately 70% of total YRC Worldwide employees). The pension

plans provide defined benefits to retired participants.

We do not directly manage multi-employer plans. Trustees, half of whom the International Brotherhood of Teamsters (the Teamsters) appoints and half of whom various contributing employers appoint, manage the trusts covering these plans.

Our labor agreements with the Teamsters determine the amounts of our contributions to these plans. We recognize as net pension cost the contractually required contribution for the period and recognize as a liability any contributions due and unpaid.

The Pension Protection Act of 2006

In 2006, the Pension Protection Act became law and modified both the Internal Revenue Code of 1986 (as amended, the Code) as it applies to multi-employer pension plans and the Employment Retirement Income Security Act of 1974 (as amended,

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ERISA). The Code and ERISA (in each case, as so modified) and related regulations establish minimum funding requirements for multi-employer pension plans. The funding status of these plans is determined by the following factors:

the number of participating active and retired employees

the number of contributing employers

the amount of each employer s contractual contribution requirements

the investment returns of the plans

plan administrative costs

the discount rate used to determine the funding status

the actuarial attributes of plan participants (such as age, estimated life and number of years until retirement)

If any of the multi-employer pension plans to which we contribute fails to:

meet minimum funding requirements

meet a funding improvement or rehabilitation plan that the Pension Protection Act may require for certain of our underfunded plans

obtain from the IRS certain changes to or a waiver of the requirements in how the applicable plan calculates its funding levels or

reduce pension benefits to a level where the requirements are met

the Pension Protection Act could require us to make additional contributions to any multi-employer pension plan that is in critical status from five to ten percent of the contributions that our collective bargaining agreement requires until the collective bargaining agreement expires. If we fail to make our required contributions to a multi-employer plan under a funding improvement or rehabilitation plan or if a plan fails to meet the benchmarks that an applicable funding improvement or rehabilitation plan provides by the end of a prescribed period, the IRS could impose an excise tax on us. The excise tax would not be credited toward our contributions or the funding status of the plan, as the amounts are deposited directly in the United States general treasury funds.

Depending on the amount involved, a requirement to increase contributions beyond our contractually agreed rate or the imposition of an excise tax on us could have a material adverse impact on the financial results of YRC Worldwide.

Funded status of the Central States Plan

The plan administrators and trustees of multi-employer plans do not routinely provide us with current information regarding the status of each multi-employer pension plan s funding. This will change in the near future because the Pension Protection Act requires multi-employer pension plans to file more current and expanded, routine reports with the IRS, the Department of Labor and other interested parties for plan years beginning after January 1, 2008. At this time, the information that we are providing in this Form 10-Q regarding the funding status, funded percentage or our portion of multi-employer plan theoretical withdrawal liabilities is based on publicly available information, which is often dated, and on the limited information available from plan administrators or plan trustees, which may not be independently validated.

The Pension Protection Act provides that certain plans with a funded percentage of less than 65% will be deemed to be in critical status. Plans in critical status must create a rehabilitation plan to exit critical status within periods that the Pension Protection Act prescribes. The Central States Southeast and Southwest Areas Pension Plan (the Central States Plan) provides retirement benefits to approximately 41% of our total employees. We believe that the funded percentage of the Central States Plan is approximately 50%.

United Parcel Service, Inc. (UPS) has historically been a major participant in the Central States Plan. UPS issued a press release on October 1, 2007 stating that UPS has reached a new tentative labor agreement for unionized employees engaged in UPS package business. The press release indicates that UPS has agreed to withdraw from the Central States Plan and make a multi-billion dollar cash payment to the plan in its new labor agreement with the Teamsters. This new labor agreement would be effective upon the affected UPS Teamster employees ratifying the agreement.

If the new UPS labor agreement is ratified and UPS makes its contractually agreed withdrawal payment to the Central States Plan, we believe the funded percentage of the Central States Plan would increase to approximately 70%. Under the Pension Protection Act, even if the funded percentage exceeds 65%, a plan may be in critical status if it has an accumulated funding deficiency for the current year or certain following years (in each case, excluding the impact of certain IRS permitted extensions of a plan s amortization of unfunded liabilities).

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The IRS has granted the Central States Plan an extension on the amortization of its unfunded liabilities through 2014, subject to Central States Plan improving its funding levels during that period and certain other conditions. Assuming that the Central States Plan meets these conditions, it is expected to meet the minimum funding requirements, as the IRS has modified them, through at least 2014. Even so, and even after a UPS withdrawal payment to the Central States Plan, we understand that the Central States Plan believes it will be in critical status under the accumulated funding deficiency test. As a result, we understand that the Central States Plan believes that it will adopt a rehabilitation plan within the time periods that the Pension Protection Act requires, which could be prior to the effective date of our new labor agreement with the Teamsters. Our current labor agreement expires on March 31, 2008. We understand that the Central States Plan believes that the funding levels that the IRS set forth in its amortization extension could form the basis of the rehabilitation plan.

Contingent Withdrawal Liabilities

We understand the Central States Plan revised its actuarial assumptions when calculating the proposed withdrawal liability for UPS and that these changes will apply to future calculations of withdrawal liability for any participating employer irrespective of whether UPS actually withdraws. As a result of these changes, we now believe that our portion of the contingent liability in the case of a full withdrawal or termination from all of the multi-employer pension plans to which we contribute would be in a range from $3.5 billion to $4.5 billion on a pre-tax basis. This estimated range reflects an increase from the amount disclosed in our Annual Report on Form 10-K filed on March 1, 2007. If the Company were subject to withdrawal liability with respect to a plan, ERISA provides that a withdrawing employer can pay the obligation over time determined by the employer s contribution rate prior to withdrawal, which, in some cases, could be up to 20 years. Even so, our applicable subsidiaries have no current intention of taking any action that would subject us to withdrawal obligations.

Class Action Lawsuit

On July 30, 2007, Farm Water Technological Services, Inc. d/b/a Water Tech, and C.B.J.T. d/b/a Agricultural Supply, on behalf of themselves and other plaintiffs, filed a putative class action lawsuit against the Company and 10 other companies engaged in the LTL trucking business in the United States District Court for the Southern District of California. Since that time, other plaintiffs have filed similar cases in various courts across the nation. Under federal court rules, the courts will likely consolidate these cases into a single proceeding. The plaintiffs allege that the defendants, including the Company, conspired to fix fuel surcharges in violation of federal antitrust law and seek unspecified treble damages, injunctive relief, attorneys fees and costs of litigation. The Company believes that its fuel surcharge practices are lawful and these suits are without factual basis or legal merit. An appropriate defense has begun, and the Company intends to defend these allegations vigorously. Given that the actions are at a very preliminary stage, the Company is not able to determine that any potential liability that might result is probable or estimatable and, therefore, the Company has not recorded a liability related to the actions. If an adverse outcome were to occur, it could have a material adverse effect on the Company s consolidated financial condition, cash flows and results of operations.

Grupo Almex

On May 18, 2007, the Company settled the arbitration proceedings initiated against the Company by Gustavo Gonzalez Garcia and various members of his family (the Gonzalez Family) and Autolineas Mexicanas, S.A. de C.V., Servicios Gerenciales del Norte, S.A. de C.V. and Logistica ALM, S.A. de C.V. (collectively, Grupo Almex). Pursuant to the settlement, the Company paid the Gonzalez Family and Grupo Almex $2.0 million and forgave approximately $9.3 million of debt that Soflex, S. de R.L. de C.V. (Soflex) owed to the Company pursuant to a series of notes. The Gonzalez Family wholly owns Soflex. The notes from Soflex were written off as uncollectible debt in 2005 as part of the Company s acquisition consideration for USF Corporation. The Company accrued $0.6 million in 2006 of the $2.0 million settlement. The remaining $1.4 million was expensed in the second quarter of 2007 and is included in Reorganization and settlements in the accompanying consolidated statement of operations.

USF Red Star

In the third quarter of 2007, we reached a settlement agreement with two of the multi-employer pension plans that claimed a withdrawal liability from USF Red Star, a discontinued operation we assumed responsibility for as part of the acquisition of USF Corporation. As a part of the settlements, we agreed to pay $9.4 million to be released from the obligations. As we previously accrued $10.9 million for these obligations, resulting gains on settlement of $1.5 million were recorded during the third quarter of 2007 and are included in Reorganization and settlements in the accompanying consolidated statement of operations.

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In June 2007, we reached a settlement agreement with a certain multi-employer pension plan that claimed a withdrawal liability from USF Red Star. As a part of the settlement, we agreed to pay $26.4 million to be released from the obligation. As we had previously accrued $31.3 million for this obligation, a resulting gain on settlement of $4.9 million was recorded during the second quarter of 2007 and is included in Reorganization and settlements in the accompanying consolidated statement of operations.

11. **Stock Repurchase Program**

In April 2006, our Board of Directors approved a stock repurchase program that authorized the Company to repurchase up to $100 million of its common stock. During the three months ended September 30, 2007, the Company purchased 1.1 million shares under this program at a weighted-average cost of $31.13 per share for a total cost of $35.0 million. In 2006, the Company purchased 521,100 shares under this program at a weighted-average cost of $38.34 per share for a total cost of $20.0 million. At September 30, 2007, $45 million remains available under the authorized program.

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12. **Guarantees of the Contingent Convertible Senior Notes and Senior Floating Rate Notes**

In August 2003, YRC Worldwide issued 5.0% contingent convertible senior notes due 2023. In November 2003, we issued 3.375% contingent convertible senior notes (the August and November issuances, collectively, may also be known as the contingent convertible senior notes) due 2023. In December 2004, we completed exchange offers pursuant to which holders of the contingent convertible senior notes could exchange their notes for an equal amount of new net share settled contingent convertible senior notes. Substantially all notes were exchanged as part of the exchange offers. In May 2005, we completed the private placement of $150 million in aggregate principal amount of senior floating rate notes due 2008. In connection with the net share settled contingent convertible senior notes and the floating rate notes, the following 100% owned subsidiaries of YRC Worldwide have issued guarantees in favor of the holders of the net share settled contingent convertible senior notes and floating rate notes: Yellow Transportation, Inc. Mission Supply Company, Yellow Relocation Services, Inc., YRC Worldwide Technologies, Inc., YRC Logistics, Inc. (formerly Meridian IQ Inc.), YRC Logistics Global, LLC (formerly MIQ LLC), Globe.com Lines, Inc., Roadway LLC, Roadway Next Day Corporation, Roadway Express, Inc., USF Holland and Regional Transportation (formerly known as USF Corporation). Each of the guarantees is full and unconditional and joint and several.

The condensed 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 separate financial statements and related disclosures would be material to investors. There are currently no significant restrictions on the ability of YRC Worldwide or any guarantor to obtain funds from its subsidiaries by dividend or loan.

The following represents condensed consolidating financial information as of September 30, 2007 and December 31, 2006 with respect to the financial position, for the three and nine months ended September 30, 2007 and 2006 for results of operations and for the nine months ended September 30, 2007 and 2006 for the statement of cash flows of YRC Worldwide and its subsidiaries. The Parent column presents the financial information of YRC Worldwide, the primary obligor of the contingent convertible senior notes and the floating rate notes. The Guarantor Subsidiaries column presents the financial information of all guarantor subsidiaries of the net share settled contingent convertible senior notes and the floating rate notes. 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, the special-purpose entity that is associated with our ABS agreement.

Condensed Consolidating Balance Sheets

September 30, 2007

(in millions)	**Parent**	**Guarantor Subsidiaries**	**Non-Guarantor Subsidiaries**	**Eliminations**	**Consolidated**
Cash and cash equivalents	$ 168	$ 22	$ 15	$	$ 205
Intercompany advances receivable		(78)	78		
Accounts receivable, net	3	(16)	1,278	(12)	1,253
Prepaid expenses and other	3	124	160		287
Total current assets	174	52	1,531	(12)	1,745
Property and equipment		3,435	606		4,041
Less accumulated depreciation		(1,524)	(131)		(1,655)
Net property and equipment		1,911	475		2,386
Investment in subsidiaries	3,885	466	(36)	(4,315)	
Receivable from affiliate	(732)	714	18		
Goodwill, intangibles and other assets	258	1,852	313	(350)	2,073
Total assets	$ 3,585	$ 4,995	$ 2,301	$ (4,677)	$ 6,204
Intercompany advances payable	$ 497	$ (534)	$ 242	$ (205)	$
Accounts payable	25	295	79	(7)	392
Wages, vacations and employees benefits	26	363	47		436
Other current and accrued liabilities	(15)	220	183	(4)	384
Asset-backed securitization borrowings			310		310
Current maturities of long-term debt	150				150

Total current liabilities	683	344	861	(216)	1,672
Payable to affiliate	(133)	60	223	(150)	
Long-term debt, less current portion	550	501	1		1,052
Deferred income taxes, net	20	431	162		613
Pension and postretirement	244				244
Claims and other liabilities	93	3	234		330
Commitments and contingencies					
Shareholders equity	2,128	3,656	820	(4,311)	2,293
Total liabilities and shareholders equity	$ 3,585	$ 4,995	$ 2,301	$ (4,677)	$ 6,204

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December 31, 2006

(in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents	$ 20	$ 21	$ 35	$	$ 76
Intercompany advances receivable		(68)	68		
Accounts receivable, net	5	11	1,193	(18)	1,191
Prepaid expenses and other	22	193	109		324
Total current assets	47	157	1,405	(18)	1,591
Property and equipment	1	3,258	583		3,842
Less accumulated depreciation	(1)	(1,461)	(110)		(1,572)
Net property and equipment		1,797	473		2,270
Investment in subsidiaries	3,372	254	5	(3,631)	
Receivable from affiliate	(563)	426	137		
Goodwill, intangibles and other assets	262	1,869	310	(350)	2,091
Total assets	$ 3,118	$ 4,503	$ 2,330	$ (3,999)	$ 5,952
Intercompany advances payable	$ 402	$ (548)	$ 355	$ (209)	$
Accounts payable	15	321	71	(9)	398
Wages, vacations and employees benefits	15	338	61		414
Other current and accrued liabilities	18	135	171		324
Asset-backed securitization borrowings			225		225
Total current liabilities	450	246	883	(218)	1,361
Payable to affiliate	(101)	28	223	(150)	
Long-term debt, less current portion	550	508			1,058
Deferred income taxes, net	18	430	161		609
Pension and postretirement	350				350
Claims and other liabilities	12	38	332		382
Commitments and contingencies					
Shareholders equity	1,839	3,253	731	(3,631)	2,192
Total liabilities and shareholders equity	$ 3,118	$ 4,503	$ 2,330	$ (3,999)	$ 5,952

Condensed Consolidating Statements of Operations

For the three months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 10	$ 2,076	$ 460	$ (88)	$ 2,458
Operating expenses:					
Salaries, wages and employees benefits	8	1,193	246		1,447
Operating expenses and supplies	6	413	121	(76)	464
Purchased transportation		218	87	(18)	287
Depreciation and amortization		48	14		62
Other operating expenses		93	16		109
Losses on property disposals, net		1			1
Reorganization and settlements					
Total operating expenses	14	1,966	484	(94)	2,370
Operating income (loss)	(4)	110	(24)	6	88

Nonoperating (income) expenses:					
Interest expense	9	9	5		23
Other, net	6	53	(59)	1	1
Nonoperating (income) expenses, net	15	62	(54)	1	24
Income (loss) before income taxes	(19)	48	30	5	64
Income tax provision (benefit)	(5)	17	12	(1)	23
Net income (loss)	$ (14)	$ 31	$ 18	$ 6	$ 41

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For the three months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 14	$ 2,184	$ 469	$ (96)	$ 2,571
Operating expenses:					
Salaries, wages and employees benefits	7	1,248	231	(8)	1,478
Operating expenses and supplies	7	407	125	(79)	460
Purchased transportation		215	70	(7)	278
Depreciation and amortization		49	15		64
Other operating expenses		90	16		106
Losses on property disposals, net		2			2
Reorganization and settlements		2	3		5
Total operating expenses	14	2,013	460	(94)	2,393
Operating income (loss)		171	9	(2)	178
Nonoperating (income) expenses:					
Interest expense	9	7	7		23
Other, net	6	30	(35)	(1)	
Nonoperating (income) expenses, net	15	37	(28)	(1)	23
Income (loss) before income taxes	(15)	134	37	(1)	155
Income tax provision (benefit)	(4)	50	15	(2)	59
Net income (loss)	$ (11)	$ 84	$ 22	$ 1	$ 96

For the nine months ended September 30, 2007 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 34	$ 6,165	$ 1,345	$ (272)	$ 7,272
Operating expenses:					
Salaries, wages and employees benefits	28	3,565	741		4,334
Operating expenses and supplies	21	1,228	372	(246)	1,375
Purchased transportation		624	215	(28)	811
Depreciation and amortization		140	42		182
Other operating expenses		286	53		339
(Gains) losses on property disposals, net		(3)	4		1
Reorganization and settlements	4	7	3		14
Total operating expenses	53	5,847	1,430	(274)	7,056
Operating income (loss)	(19)	318	(85)	2	216
Nonoperating (income) expenses:					
Interest expense	25	25	15		65
Other, net	20	160	(181)	2	1
Nonoperating (income) expenses, net	45	185	(166)	2	66
Income (loss) before income taxes	(64)	133	81		150
Income tax provision (benefit)	(18)	45	30	(4)	53

Net income (loss)	$	(46)	$	88	$	51	$	4	$	97

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For the nine months ended September 30, 2006 (in millions)	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Operating revenue	$ 44	$ 6,390	$ 1,375	$ (298)	$ 7,511