

Edgar Filing: YELLOW CORP - Form 10-Q/A

YELLOW CORP  
Form 10-Q/A  
May 07, 2003

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

FORM 10-Q/A  
AMENDMENT NO. 1

(Mark One)

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

☐ For the quarterly period ended March 31, 2003

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  
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YELLOW CORPORATION

-----  
(Exact name of registrant as specified in its charter)

Delaware

48-0948788

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

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

10990 Roe Avenue, Overland Park, Kansas

66207

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

(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 ☐  
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Indicate by check mark whether the Registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒  
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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 April 30, 2003 -----
Common Stock, \$1 Par Value Per Share	29,698,931 shares

### EXPLANATION OF AMENDMENT

Yellow Corporation (the company) is filing this Form 10-Q/A as Amendment No. 1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2003 that was filed with the Securities and Exchange Commission on May 2, 2003 (Form 10-Q) for the purpose of correcting a single number in the "Contractual Cash Obligations" table under Item 2. In the Form 10-Q/A, the table reflects operating lease obligations due in less than one year of \$21.2 million. In the Form 10-Q, the table incorrectly reflected operating lease obligations due in less than one year of \$1.2 million. The total operating lease obligations reflected in the Form 10-Q was correct.

This amendment has no effect on net income, total assets, total liabilities or total equity as previously reported. Although only the disclosure with respect to the "Contractual Cash Obligations" table is modified, the complete text of Item 2 is included in this Form 10-Q/A pursuant to Rule 12b-15 of the Securities and Exchange Act of 1934.

### 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 the Consolidated Financial Statements of Yellow Corporation (also referred to as "Yellow," "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," "expects," "believes," "anticipates," "estimates" 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, labor relations, inclement weather, price and availability of fuel, competitor pricing activity, expense volatility, changes in and customer acceptance of new technology, changes in equity and debt markets and a downturn in general or regional economic activity.

### RESULTS OF OPERATIONS

#### CONSOLIDATED RESULTS

The following table summarizes the Statements of Consolidated Operations for the

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three months ended March 31 (in millions):

	2003	2002	Percent Change
Operating Revenue	\$ 681.1	\$ 578.8	17.7%
Operating Income	11.8	2.7	342.6%
Nonoperating Expenses, net	2.6	2.9	(12.1)%
Income (Loss) from Continuing Operations	5.6	(0.1)	n/m(1)
Loss from Discontinued Operations	-	(72.9)	n/m(1)
Net Income (Loss)	\$ 5.6	\$ (73.0)	107.7%

(1) Not meaningful.

Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

Our consolidated operating revenue for the first quarter of 2003 increased by \$102.3 million over the first quarter of 2002, primarily as a result of increased volumes at Yellow Transportation from growth in premium services and increased market share from the September 2002 closure of Consolidated Freightways, Inc. (CF), a major competitor of Yellow Transportation. We also recognized \$6.7 million of additional revenue at Meridian IQ, mostly due to increased volumes in international forwarding, the July 2002 acquisition of Clicklogistics, Inc. (Clicklogistics) customer contracts and the August 2002 acquisition of MegaSys, Inc. (MegaSys).

Operating income improved by \$9.1 million for the first quarter of 2003 compared to the first quarter of 2002 despite continued economic conditions and extreme weather experienced during the quarter. Corporate expenses increased approximately \$4.4 million over last year primarily due to \$4.0 million for an industry conference that Yellow hosts every other year. These costs are included under "Corporate" in the Business Segments note. Operating income for the first quarter of 2002 included \$0.7 million

related to losses on property disposals and spin-off and reorganization charges. The first quarter of 2003 included minimal losses on property disposals.

Nonoperating expenses decreased by \$0.3 million from the first quarter of 2002 due mostly to lower financing costs for our asset-backed securitization (ABS) obligations, from both lower interest rates and lower average borrowings. In the first quarter of 2002, ABS obligations were off-balance sheet with financing costs recorded as "ABS facility charges" on the Statement of Consolidated Operations. Due to the December 31, 2002 amendment to the facility, ABS borrowings were prospectively reflected on the Consolidated Balance Sheets and the related interest was recorded as "interest expense" on the Statement of Consolidated Operations. Interest expense for the first quarter of 2003 included approximately \$0.4 million related to the ABS facility compared to \$0.8 million of ABS facility charges in the first quarter of 2002.

Our effective tax rate on continuing operations for the first quarter of 2003 was 38.9 percent compared to 41.0 percent in the first quarter of 2002. The lower tax rate resulted from projected higher profits before tax and lower

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nondeductible business expenses in 2003 compared to 2002.

Our net loss of \$73.0 million for the first quarter of 2002 occurred primarily due to the impairment of goodwill associated with the acquisition of Jevic Transportation, Inc. (Jevic). In the first quarter of 2002, we recorded a non-cash charge of \$75.2 million as a cumulative effect of change in accounting for the impairment of Jevic goodwill. In September 2002, we successfully completed the 100 percent distribution (the spin-off) of all of the shares of SCS Transportation, Inc. (SCST) to our shareholders. As a result of the spin-off, the non-cash charge and the results of operations for SCST have been reclassified as discontinued operations on our 2002 Statement of Consolidated Operations.

### YELLOW TRANSPORTATION RESULTS

The table below provides summary information for Yellow Transportation for the three months ended March 31 (in millions):

	2003	2002	Percent Change
Operating Revenue	\$660.1	\$564.6	16.9%
Operating Income	19.5	6.7	192.7%
Operating Ratio	97.0%	98.8%	(1.8)pp

### Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

As discussed under our consolidated results, Yellow Transportation realized increases in volumes and price in the first quarter of 2003 compared to the first quarter of 2002 as a result of its premium services, pricing discipline, service quality and market share growth from the CF closure. Less-than-truckload (LTL) revenue per day increased 17.0% over the first quarter of 2002, primarily reflecting a 9.2% increase in LTL tonnage per day and a 7.1% improvement in LTL revenue per hundred weight. A primary indicator of pricing, LTL revenue per hundred weight excluding fuel surcharge, was up 3.7 percent in the first quarter of 2003 compared to the first quarter of 2002.

Yellow Transportation realized improved operating income of \$12.8 million from the first quarter of 2002 to the first quarter of 2003, despite increased costs for wages and benefits, workers' compensation, and bad debts in 2003. In addition, Yellow Transportation incurred approximately \$5.0 million of unexpected weather-related expenses in the first quarter of 2003, including driver delays, snow removal, and employee injuries. Higher volumes combined with contractual wage and benefit increases impacted first quarter 2003 operating expense by over \$35 million. Improved productivity and labor mix slightly offset the increased wages. Yellow Transportation also recognized a benefit of \$1.3 million from a partial insurance recovery under a fidelity policy related to prior years' cargo expenses. We are reviewing and making appropriate adjustments to our procedures and controls in response to this insurance claim.

As a result of increased costs per claim and longer duration of cases over the past several years, the projected ultimate costs of workers' compensation claims were higher than originally anticipated. This occurred despite the continued improvement of safety statistics at Yellow Transportation year over year. Workers' compensation expense increased by \$3.7 million in the first quarter of 2003 compared to the first quarter of 2002. During the second half of 2002,

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Yellow Transportation added additional resources to manage these claims.

Bad debt expense also had a negative impact on Yellow Transportation results, increasing by \$3.5 million in the first quarter of 2003 compared to the first quarter of 2002. The increase resulted from higher business levels, and a trend of additional write-offs partially due to the negative impact of the economy on certain customers and their ability to pay. During the fourth quarter of

2002, Yellow Transportation added additional collection personnel and improved its credit policies regarding new and continuing customers.

On March 28, 2003, the International Brotherhood of Teamsters ratified a new National Master Freight Agreement with the members of the Motor Freight Carrier Association, including Yellow Transportation. The five-year agreement, effective April 1, 2003, covers approximately 80 percent of Yellow Transportation employees. The new contract will increase wages and benefits about 3 percent annually.

### MERIDIAN IQ RESULTS

The table below provides summary information for Meridian IQ for the three months ended March 31 (in millions):

	2003	2002	Percent Change
Operating Revenue	\$22.1	\$15.4	43.4%
Operating Loss	(0.9)	(1.5)	(41.1)%

### Three Months Ended March 31, 2003 Compared to Three Months Ended March 31, 2002

As discussed under our consolidated results, Meridian IQ recognized additional revenue of \$6.7 million in the first quarter of 2003 compared to the first quarter of 2002, mostly due to increased volumes in international forwarding and the recent acquisitions of MegaSys and the customer contracts of Clicklogistics. Meridian IQ also realized additional revenue from premium services. Operating losses at Meridian IQ declined from the first quarter of 2002 as a result of improved operating revenue and margins.

### 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 bank credit agreement and an ABS agreement involving Yellow Transportation accounts receivable. We believe these facilities provide adequate capacity to fund 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

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receivable, effective cash management and ready access to funding.

### Bank Credit Agreement

We maintain a \$300 million bank credit agreement scheduled to expire in April 2004. In addition to funding short-term liquidity needs, we also use the facility to provide letters of credit that reduce available borrowings under the credit agreement. Letters of credit serve as collateral for our self-insurance programs, primarily in the areas of workers' compensation and bodily injury and property damage. The following table summarizes the availability under the bank credit agreement at each period end (in millions):

	March 31, 2003 -----	December 31, 2002 -----
Total capacity	\$ 300.0	\$ 300.0
Outstanding borrowings	-	-
Letters of credit	(152.5) -----	(146.2) -----
Available unused capacity	\$ 147.5	\$ 153.8

Our outstanding letters of credit at March 31, 2003 included \$14.0 million for property damage and workers' compensation claims against SCST. Yellow 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 Yellow to obtain a release of its letters of credit. SCST also agreed to indemnify Yellow for any claims against the letters of credit provided by Yellow. SCST reimburses Yellow for all fees incurred related to the remaining outstanding letters of credit. We also provide a guarantee regarding certain lease obligations of SCST equaling \$6.9 million at March 31, 2003.

### 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 commercial paper rate plus a fixed increment for utilization and administration fees. A1 rated commercial paper comprises more than 90 percent of the commercial paper market, significantly increasing our liquidity. We averaged a rate of 2.1 percent on the ABS facility in the first quarter of 2003 compared to a rate of 2.3 percent for the year ended December 31, 2002.

The table below provides the borrowing and repayment activity, as well as the resulting balances, for the periods presented (in millions):

Three Months Ended March 31, 2003 -----	Twelve Months End December 31, 20 -----
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ABS obligations outstanding at beginning of period	\$50.0	\$ 141.5
Transfer of receivables to conduit (borrowings)	85.0	421.5
Redemptions from conduit (repayments)	(85.0)	(513.0)
	-----	-----
ABS obligations outstanding at end of period	\$50.0	\$ 50.0

Our ABS facility involves receivables of Yellow Transportation only and has a limit of \$200 million. Under the terms of the agreement, Yellow Transportation provides servicing of the receivables and retains the associated collection risks. Although the facility has no stated maturity, there is an underlying letter of credit with the administering financial institution that has a 364-day maturity. Refer to our Annual Report on Form 10-K for the year ended December 31, 2002 for a further understanding of the process related to the ABS facility.

### Cash Flow Measurements

We use free cash flow as a measurement to manage working capital and capital expenditures. Free cash flow indicates excess cash available to fund additional capital expenditures, to reduce outstanding debt, or to invest in our growth strategies. This measurement 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 three months ended March 31 (in millions):

	2003	2002
	-----	-----
Net cash from operating activities	\$ 20.1	\$ 48.1
Net change in operating activities of discontinued operations	-	3.1
Accounts receivable securitizations, net	-	(30.5)
Net property and equipment acquisitions	(25.5)	(26.0)
Proceeds from stock options	-	2.0
	-----	-----
Free cash flow	\$ (5.4)	\$ (3.3)

The slight decline of \$2.1 million in free cash flow from the first quarter of 2002 compared to first quarter of 2003 resulted primarily from decreases of accounts payable and other working capital items partially offset by improved operating results and favorable changes in accounts receivable. Other working capital fluctuations resulted primarily from performance incentive accruals, income tax refunds and prefunded benefit contributions.

The items discussed above impact net cash from operating activities in addition to free cash flow. Other variances included in net cash from operating activities were changes in accounts receivable securitizations related to our ABS facility and net operating activities of discontinued operations. In the first quarter of 2002, we reduced ABS obligations by \$30.5 million. In 2003, ABS obligations were reflected as a financing activity on the Statements of Consolidated Cash Flows and had no impact on free cash flow or net cash from operating activities. Changes in operating activities of discontinued operations related to SCST activity until the spin-off in September 2002.

### Nonunion Pension Obligations

As discussed in more detail in our Annual Report on Form 10-K for the year ended

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December 31, 2002, we provide defined benefit pension plans for most employees not covered by collective bargaining agreements, or approximately 4,000 employees. Increases in our pension benefit obligations combined with market losses in 2002 and 2001 negatively impacted the funded status of our plans, resulting in additional funding and expense over the next several years. Based on a recent valuation study from the

independent actuary, our actual 2003 pension expense will be approximately \$17 million, significantly less than the \$24 million we expected at December 31, 2002. Cash funding requirements have not changed since December 31, 2002, and will approximate \$35 million in 2003.

### Regulatory Changes

In October 2002, the Environmental Protection Agency issued new engine emission standards that apply to heavy-duty vehicles. Yellow Transportation continues to test several units for fuel economy, reliability and performance standards. Although meaningful mileage and test results will not be available until the end of 2003, early results indicate that the engines are performing as expected and will not have a material impact on our capital expenditures or operating expenses in 2003.

### CONTRACTUAL OBLIGATIONS AND OTHER COMMERCIAL COMMITMENTS

The following tables provide aggregated information regarding our contractual obligations and commercial commitments as of March 31, 2003.

#### Contractual Cash Obligations

(amounts in millions)	Payments Due by Period				Total
	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years	
	-----	-----	-----	-----	-----
Balance sheet obligations:					
ABS borrowings	\$ 50.0	\$ -	\$ -	\$ -	\$ 50.0
Long-term debt	35.3	21.5	7.0	10.5	74.3
Off-balance sheet obligations:					
Operating leases	21.2	35.5	6.8	6.0	69.5(1)
	-----	-----	-----	-----	-----
Total contractual obligations	\$106.5	\$ 57.0	\$ 13.8	\$ 16.5	\$193.8
	=====	=====	=====	=====	=====

(1) The net present value of operating leases, using a discount rate of 10 percent, was \$58.3 million at March 31, 2003.

#### Other Commercial Commitments

The following table reflects other commercial commitments or potential cash outflows that may result from a contingent event.



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(amounts in millions)	Amount of Commitment Expiration Per Period				
	Less than 1 year -----	2 - 3 years -----	4 - 5 years -----	After 5 years -----	To -----
Available line of credit	\$ -	\$147.5 (1)	\$ -	\$ -	\$1
Letters of credit	20.1	132.4	-	-	1
Lease guarantees for SCST	1.3	3.3	1.9	0.4	
Surety bonds	21.0 (2)	34.6	1.2	0.3	
Total commercial commitments	----- \$42.4 =====	----- \$317.8 =====	----- \$3.1 =====	----- \$ 0.7 =====	----- \$3 =====

(1) The line of credit renews in April 2004. Although we have no assurance we will be able to renew the facility, we expect to begin the renewal process well in advance of the expiration and we believe other sources of funding are readily available.

(2) Includes \$4.6 million of surety bonds for SCST related to property damage and workers' compensation self insurance.

## SIGNATURES

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

YELLOW CORPORATION

-----  
Registrant

Date: May 7, 2003

/s/ Donald G. Barger, Jr.

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