

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1994

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-12255

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

Delaware

48-0948788

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

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

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

66207

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

-----  
(Zip Code)

(913) 967-4300

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

No changes.

-----  
(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days.

Yes  No

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

Class	Outstanding at July 31, 1994
-----	-----
Common Stock, \$1 Par Value	28,107,594 shares

## YELLOW CORPORATION

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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS  
Yellow Corporation and Subsidiaries  
June 30, 1994 and December 31, 1993  
(Amounts in thousands except share data)  
(Unaudited)

	June 30 1994	December 31 1993
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash	\$ 15,174	\$ 13,937
Short-term investments	5,889	6,777
Accounts receivable	283,707	276,223
Other current assets	96,020	82,456
	-----	-----
Total current assets	400,790	379,393
	-----	-----
OPERATING PROPERTY:		
Cost	1,848,390	1,765,992
Less - Accumulated depreciation	962,994	910,122
	-----	-----
Net operating property	885,396	855,870
	-----	-----
OTHER ASSETS	27,671	30,391
	-----	-----
	\$1,313,857	\$1,265,654
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 82,722	\$ 71,580
Wages and employees' benefits	149,712	117,723
Other current liabilities	122,962	140,854
Current maturities of long-term debt	12,223	12,327
	-----	-----
Total current liabilities	367,619	342,484
	-----	-----
OTHER LIABILITIES:		
Long-term debt	265,379	214,176
Deferred income taxes	53,872	58,911
Claims, insurance and other	177,387	163,630
	-----	-----
Total other liabilities	496,638	436,717
	-----	-----
SHAREHOLDERS' EQUITY:		
Common stock, \$1 par value	28,858	28,850
Capital surplus	6,641	6,469
Retained earnings	441,606	483,586
Shares held by Stock Sharing Plan	(9,920)	(14,880)
Treasury stock	(17,585)	(17,572)
	-----	-----
Total shareholders' equity	449,600	486,453
	-----	-----
	\$1,313,857	\$1,265,654
	=====	=====

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED INCOME  
Yellow Corporation and Subsidiaries  
For the Quarter and Six Months Ended June 30, 1994 and 1993  
(Amounts in thousands except per share data)  
(Unaudited)

	Second Quarter		Six Months	
	1994	1993	1994	1993
OPERATING REVENUE	\$592,211	\$732,901	\$1,340,370	\$1,335,121
OPERATING EXPENSES:				
Salaries, wages and benefits	417,100	493,063	923,810	910,248
Operating expenses and supplies	95,057	104,765	209,960	193,682
Operating taxes and licenses	24,414	26,775	54,183	49,394
Claims and insurance	15,747	16,834	38,374	30,911
Communications and utilities	9,909	10,047	20,848	18,960
Depreciation	33,264	34,095	66,787	65,353
Purchased transportation	26,769	26,435	60,875	43,929
Network development	-	18,000	-	18,000
Total operating expenses	622,260	730,014	1,374,837	1,330,477
INCOME (LOSS) FROM OPERATIONS	(30,049)	2,887	(34,467)	4,644
NONOPERATING (INCOME) EXPENSES:				
Interest expense	4,719	4,796	9,243	8,442
Other, net	(876)	552	(908)	1,078
Nonoperating expenses, net	3,843	5,348	8,335	9,520
LOSS BEFORE INCOME TAXES	(33,892)	(2,461)	(42,802)	(4,876)
BENEFIT FROM INCOME TAXES	(12,016)	(575)	(14,542)	(1,241)
NET LOSS	\$(21,876)	\$ (1,886)	\$ (28,260)	\$ (3,635)
AVERAGE COMMON SHARES OUTSTANDING	28,108	28,106	28,106	28,106
LOSS PER SHARE	\$ (.78)	\$ (.07)	\$ (1.01)	\$ (.13)

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CASH FLOWS  
Yellow Corporation and Subsidiaries  
For the Six Months Ended June 30, 1994 and 1993  
(Amounts in thousands)  
(Unaudited)

	1994	1993
	-----	-----
OPERATING ACTIVITIES:		
Net cash from operating activities	\$ 50,903	\$ 68,942
	-----	-----
INVESTING ACTIVITIES:		
Acquisition of operating property	(99,990)	(26,079)
Proceeds from disposal of operating property	6,587	4,356
Purchases of short-term investments	(3,836)	(4,488)
Proceeds from maturities of short-term investments	4,724	10,465
Purchase of Preston Corporation, net of cash acquired	-	(23,683)
	-----	-----
Net cash used in investing activities	(92,515)	(39,429)
	-----	-----
FINANCING ACTIVITIES:		
Proceeds from issuance of long-term debt	14,000	395
Repayment of long-term debt	(2,896)	(87,887)
Commercial paper borrowings, net	44,842	85,812
Cash dividends paid to shareholders	(13,208)	(13,202)
Reduction of Stock Sharing Plan debt guarantee	(4,960)	(4,509)
Shares allocated by Stock Sharing Plan	4,960	4,509
Other, net	111	55
	-----	-----
Net cash from (used in) financing activities	42,849	(14,827)
	-----	-----
NET INCREASE IN CASH	1,237	14,686
CASH, BEGINNING OF PERIOD	13,937	19,016
	-----	-----
CASH, END OF PERIOD	\$ 15,174	\$ 33,702
	=====	=====
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	\$ 1,654	\$ 10,558
	=====	=====
Interest paid	\$ 9,048	\$ 9,178
	=====	=====

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Yellow Corporation and Subsidiaries

1. In the opinion of management, all adjustments necessary for a fair statement of the results of operations for the interim periods included herein have been made.
2. The company's reserves for workers' compensation are discounted to present value using a rate of 5.5% at December 31, 1993. Effective January 1, 1994, the company changed its discount rate to a risk-free rate. The risk-free rate is the U.S. Treasury rate for maturities that match the expected pay-out of workers' compensation liabilities. The change in rates was prompted by a Securities and Exchange Commission directive requiring a discount rate that does not exceed a risk-free rate. This change did not have a material impact on the financial condition or results of operations of the company.
3. In February 1993, Yellow Corporation (the company) acquired the stock of Preston Corporation (Preston). Preston is the holding company for three regional less-than-truckload carriers serving the Northeast, Upper Midwest and Southeast United States. The acquisition was accounted for by the purchase method and, accordingly the financial statements include the operating results of Preston effective March 1, 1993. Assuming the acquisition of Preston had occurred on January 1, 1993, the company's unaudited results of operations (in thousands, except per share data) for the six months ended June 30, 1993 would have been as follows:

	1993
	----
Operating revenue	\$ 1,422,229
Loss before cumulative effect of accounting change	\$ (9,697)
Net loss	\$ (10,802)
Earnings per share: -----	
Loss before cumulative effect of accounting change	\$ (.35)
Net loss	\$ (.38)

The unaudited pro forma results are not necessarily indicative of what would have occurred if the acquisition had been consummated at the beginning of 1993, nor are they necessarily indicative of future consolidated results.

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

FINANCIAL CONDITION

June 30, 1994 Compared to December 31, 1993

Working capital decreased by \$4 million during the first six months of 1994, resulting in a \$33 million positive working capital position at June 30, 1994.

The company's total debt level at June 30, 1994 increased \$51 million compared to that of December 31, 1993, primarily due to the relatively higher level of capital expenditures in the first six months of 1994 and the impact of the strike, described in Part II, Item 6(a), on cash flow. Additional borrowings were primarily from commercial paper with some medium-term notes also issued. Most of the capital expenditures were for revenue equipment at Yellow Freight System, Inc., (Yellow Freight), the company's largest operating subsidiary. It is anticipated that the remaining capital expenditures for 1994 will be financed primarily through internally-generated funds.

The Board of Directors of the company declared a quarterly dividend of \$.235 per share of common stock on July 21, 1994, payable on August 15 to shareholders of record on August 1.

RESULTS OF OPERATIONS

Comparison of Three Months Ended June 30, 1994 and 1993

Operating revenue for the company was \$592.2 million in this year's second quarter compared to \$732.9 million in the second quarter last year, a decrease of 19.2%. The net loss for the quarter was \$21.9 million, or \$.78 per share, versus a net loss of \$1.9 million, or \$.07 per share, in the second quarter last year.

The decline in revenue and the entire net loss in the most recent quarter are due to the 24 day strike in April by the International Brotherhood of Teamsters (Teamsters) against Yellow Freight. The revenue decline was partially offset by increases achieved at the company's other subsidiaries. The strike also impacted three of Yellow Freight's largest competitors who are also members of Trucking Management, Inc., the industry bargaining group. The results for the second quarter of 1993 include an \$11.2 million, or \$.40 per share, after tax charge for network development.

The Teamster membership overwhelmingly ratified a new four-year labor contract which provides Yellow Freight and Preston Trucking Company (Preston Trucking) greater operational flexibility while giving employees increased wages and benefits and more job security. The increased flexibility means faster transit times, more convenient and responsive customer service, and a more competitive cost structure. Yellow Freight and Preston Trucking have the ability to lower operating costs by gaining the right to use more rail transportation and dock casual workers whose rate of pay is fixed during the contract. In return, the carriers agreed to a 14% increase in wages and benefits over the life of the contract.

Including the impact of the strike, Yellow Freight's operating ratio for the quarter was approximately 108.2. Management estimates that the strike negatively impacted Yellow Freight revenue by \$181.4 million, operating income by \$58.4 million and net income by \$34.8 million.

During May and June Yellow Freight returned to profitability by regaining approximately 95 percent of pre-strike business levels, better than many anticipated. Yellow Freight has won back business with intensive marketing efforts, but without additional discounting.

Preston Trucking was profitable in the second quarter of 1994, with an operating ratio of 97.8, primarily as a result of significant revenue growth during the period. They were also impacted by the strike, but benefited by being able to return to work under an interim agreement with the Teamsters after only six days. The increased volume handled during the strike resulted in additional expenses to restore service levels, which partially offset the revenue strength.

Also in the second quarter, more than 85 percent of Preston Trucking's Teamster associates approved a plan that would reduce wages in return for a share of profits if certain operating results are achieved. The associates voted to approve a wage reduction program that would lessen pay by seven percent in 1994, five percent in 1995 and return to standard contract wages in 1996. This plan replaced a one year, nine percent wage reduction approved in March 1993, shortly after Preston Trucking was acquired by the company. The temporary reduction in wages was necessary to help complete a financial turnaround of Preston Trucking. The vote on the wage reduction provides them with additional time to implement permanent changes and complete the turnaround.

Two other motor carrier subsidiaries of the company, Saia Motor Freight Line and Smalley Transportation, had a successful second quarter. Both of these companies had significant revenue growth in the quarter, primarily due to increased freight volume as a result of ongoing expansion plans and the strike. Saia's operating ratio was 87.3, while Smalley continued to improve on its dramatic turnaround with an operating ratio of 92.8.

In order to leverage the performance of these two companies, we will integrate Smalley Transportation into Saia Motor Freight Line. By combining their operations, Smalley and Saia can offer customers improved access to the southern tier of states they now serve independently. Cost savings will also result for the combined company. The integration of the two companies is expected to be completed by the first quarter of 1995.

The House and Senate are currently working on legislation that would deregulate intrastate trucking. The passage of such legislation would require the company to write-off the book value of its intrastate operating rights, which approximated \$6.7 million at June 30, 1994.

#### Comparison of Six Months Ended June 30, 1994 and 1993

Operating revenue in the first half of 1994 was \$1,340.4 million compared to \$1,335.1 million in the same period last year. The inclusion of the Preston group of companies, effective March 1, 1993, increased revenue by 9.5% but the strike offset this increase, resulting in essentially the same revenue as last year.

For the first six months of 1994 the net loss was \$28.3 million, or \$1.01 per share, compared to a net loss of \$3.6 million, or \$.13 per share in 1993. The results for 1993 include an \$11.2 million, or \$.40 per share, after tax charge for network development. The severe winter weather experienced in the first quarter and the strike in the second quarter caused the loss in the first six months of 1994.

## PART II - OTHER INFORMATION

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

## (a) Reports on Form 8-K

On June 21, 1994, a Form 8-K was filed under Item 5, Other Events, which reported that the company announced on June 15, 1994, that it expects to report a net loss of between \$23 and \$25 million, or between \$.80 and \$.90 per share, for the second quarter of 1994. The loss is entirely due to the 23 day strike during April by the International Brotherhood of Teamsters (IBT) against Yellow Freight System, Inc., the company's largest motor carrier subsidiary. Comparatively, in the second quarter of 1993, the company lost \$1.9 million, or \$.07 per share, after an \$11.2 million after-tax, or \$.40 per share, restructuring charge.

Yellow Freight System's business is running about 90 to 95 percent of pre-strike levels, a more rapid return of business than originally anticipated. Yellow Freight System showed a profit for the month of May. With pricing stability and a healthy economy, the company's primary subsidiary stands to benefit later this year from the flexibility gained in the industry's new four-year agreement with the IBT.

On July 5, 1994, a Form 8-K was filed under Item 5, Other Events, which reported that the company announced on June 30, 1994, that the union associates of its Preston Trucking Company subsidiary had approved a plan that would reduce wages in return for a share of profits if certain operating results are achieved. The associates, members of the International Brotherhood of Teamsters, voted to approve a wage reduction program that would lessen pay by seven percent in 1994, five percent in 1995 and return to standard contract wages in 1996. This plan replaced a one year, nine percent wage reduction approved in March 1993, shortly after Preston Trucking was acquired by the company.

The company indicated that the temporary reduction in wages was necessary to help complete a financial turnaround of Preston Trucking. The vote on the wage reduction provides Preston Trucking with additional time to implement permanent changes and complete the turnaround.

## SIGNATURES

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

## YELLOW CORPORATION

-----  
Registrant

Date: August 8, 1994  
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/s/ H. A. Trucksess, III

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H. A. Trucksess, III  
Senior Vice President - Finance

Date: August 8, 1994  
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/s/ Phillip A. Spangler

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Phillip A. Spangler  
Vice President and Treasurer