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): October 21, 2003

Yellow Corporation
(Exact name of registrant as specified in its charter)

Delaware	000-12255	48-0948788
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

10990 Roe Avenue Overland Park, Kansas	66211
(Address of principal executive offices)	(Zip Code)

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

Item 5. Other Events

Condensed Consolidating Financial Statements

As previously reported, in August 2003, Yellow Corporation ("Yellow" or "the company") announced the completion of its private offering of contingent convertible senior notes ("the notes") due 2023. Yellow closed the sale of $200 million of the notes on August 8, 2003 and an additional $50 million of the notes on August 15, 2003. The notes are guaranteed by the company's domestic subsidiaries as of the time of the issuance and will be guaranteed by certain of the company's future domestic subsidiaries. Yellow Receivables Corporation, the special-purpose entity that manages the company's asset backed securitization agreement, and Yellow's foreign subsidiaries have not provided guarantees of the notes.

Yellow is required to file a Registration Statement on Form S-3 registering the resale of the notes, the related guarantees and the common stock into which the notes are convertible. Because the notes are guaranteed by certain of the company's subsidiaries, Yellow is required to include or incorporate in the Form S-3 certain information relating to guarantor and non-guarantor subsidiaries. Yellow is filing this Current Report on Form 8-K, which will be incorporated by reference in the Form S-3, to set forth the condensed consolidating financial statements for Yellow, its guarantor subsidiaries and its non-guarantor subsidiaries in accordance with Financial Reporting Release No. 55, "Financial Statement Requirements in Filings Involving the Guarantee of Securities by a Parent or Subsidiary," and Rule 3-10 of Regulation S-X. The foregoing is qualified by reference to the financial statements, including a note containing guarantor and non-guarantor financial information, filed as Exhibits 99.1 and 99.2 to this Current Report on Form 8-K, which are incorporated herein by reference. Except for the new financial information within the Condensed Consolidating Financial Statements note of Exhibit 99.1 and note 9 of Exhibit 99.2 and minor reclassifications, no other information within the attached exhibits has been changed from the versions previously filed with Yellow Corporation's Annual Report on Form 10-K on March 6, 2003 and Quarterly Report on Form 10-Q on July 29, 2003.

Roadway Corporation Acquisition Information

On July 8, 2003, Yellow and Roadway Corporation agreed to the acquisition of Roadway Corporation by Yankee LLC, a newly formed Delaware limited liability company and a wholly owned subsidiary of Yellow, under the terms of the Agreement and Plan of Merger filed as Exhibit 2.1 to the Current Report on Form 8-K filed on July 8, 2003, as amended. Certain historical and pro forma financial information related to Roadway Corporation and the proposed transaction is included in Items 7(a) and 7(b) of this Current Report on Form 8-K and incorporated herein by reference.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial statements of businesses acquired.

The following financial statements of Roadway Corporation are included in Exhibit 99.3 hereto and incorporated herein by reference:

Report of independent auditors dated January 22, 2003
Consolidated balance sheets at December 31, 2002 and 2001

Statements of consolidated income for the years ended December 31, 2002, 2001 and 2000
Statements of consolidated shareholders' equity for the years ended December 31, 2002, 2001 and 2000
Statements of consolidated cash flows for the years ended December 31, 2002, 2001 and 2000
Notes to consolidated financial statements

Consolidated balance sheets at March 29, 2003 (unaudited) and December 31, 2002
Statements of consolidated income (unaudited) for the twelve weeks ended March 29, 2003 and March 23, 2002
Statements of consolidated cash flows (unaudited) for the twelve weeks ended March 29, 2003 and March 23, 2002
Notes to condensed consolidated financial statements

Consolidated balance sheets at June 21, 2003 (unaudited) and December 31, 2002
Statements of consolidated income (unaudited) for the twelve weeks ended June 21, 2003 and June 15, 2002 and the twenty-four weeks ended June 21, 2003 and June 15, 2002
Statements of consolidated cash flows (unaudited) for the twelve weeks ended June 21, 2003 and June 15, 2002 and the twenty-four weeks ended June 21, 2003 and June 15, 2002
Notes to condensed consolidated financial statements

(b) Pro forma financial information.

The following pro forma financial information is included in Exhibit 99.4 hereto and incorporated herein by reference:

UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL DATA
Unaudited Condensed Combined Pro Forma Balance Sheet at June 30, 2003
Unaudited Condensed Combined Pro Forma Statement of Operations for the Year Ended December 31, 2002
Unaudited Condensed Combined Pro Forma Statement of Operations for the Six Months Ended June 30, 2003
Notes to Unaudited Condensed Combined Pro Forma Financial Statements

(c) Exhibits.

23.1 Consent of Ernst & Young LLP
23.2 Consent of KPMG LLP
99.1 Consolidated Financial Statements of Yellow Corporation and its Subsidiaries for the Years ended December 31, 2002, 2001 and 2000
99.2 Consolidated Financial Statements (unaudited) of Yellow Corporation and its Subsidiaries for the Three Months and Six Months ended June 30, 2003 and 2002
99.3 Certain financial statements of Roadway Corporation (see Item 7(a) above)

99.4 Certain pro forma financial statements (see Item 7(b) above)
99.5 Certain Risk Factors provided pursuant to Regulation FD

Item 9. Regulation FD Disclosure

Certain information related to the proposed Roadway merger, currently contemplated related financings and other matters related to Yellow is included in Exhibit 99.5 to this Current Report on Form 8-K and incorporated herein by reference.

The information presented in this Current Report on Form 8-K may contain forward-looking statements and certain assumptions upon which such forward-looking statements are in part based. Numerous important factors, including those factors identified in Yellow Corporation's Annual Report on Form 10-K and other of the company's filings with the Securities and Exchange Commission, and the fact that the assumptions set forth in this Current Report on Form 8-K could prove incorrect, could cause actual results to differ materially from those contained in such forward-looking statements.

Information in this Current Report that is being furnished pursuant to Item 9 shall not be deemed "filed" for the purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that Section. The information furnished pursuant to Item 9 in this Current Report shall not be incorporated by reference into any registration statement pursuant to the Securities Act of 1933, as amended. The furnishing of the information in Item 9 of this Current Report is not intended to, and does not, constitute a representation that such furnishing is required by Regulation FD or that the information Item 9 of this Current Report contains is material investor information that is not otherwise publicly available.

SIGNATURES

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

Date: October 21, 2003

YELLOW CORPORATION

By: /s/ Daniel J. Churay

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

Index to Exhibits

Exhibit Number	Description
23.1	Consent of Ernst & Young LLP
23.2	Consent of KPMG LLP
99.1	Consolidated Financial Statements of Yellow Corporation and its Subsidiaries for the Years ended December 31, 2002, 2001 and 2000
99.2	Consolidated Financial Statements (unaudited) of Yellow Corporation and its Subsidiaries for the Three Months and Six Months ended June 30, 2003 and 2002
99.3	Certain financial statements of Roadway Corporation
99.4	Certain pro forma financial statements
99.5	Certain Risk Factors provided pursuant to Regulation FD

Exhibit 23.1

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference of our report dated January 22, 2003 with respect to the consolidated financial statements and schedule of Roadway Corporation included in Yellow Corporation's Current Report on Form 8-K dated October , 2003, filed with the Securities and Exchange Commission in the following Registration Statements on Form S-8 (Nos. 33-47946, 333-02977, 333-16697, 333-59255 333-49618, 333-49620 and 333-88268) and the Registration Statement (No. 333-108081) on Form S-4 of Yellow Corporation.

Ernst & Young LLP

Akron, Ohio
October , 2003

Exhibit 23.2

Independent Auditors' Consent

We consent to the incorporation by reference in the registration statements (Nos. 33-47946, 333-02977, 333-16697, 333-59255, 333-49618, 333-49620 and 333-88268) on Form S-8 and the registration statement (No. 333-108081) on Form S-4 of Yellow Corporation of our report dated January 23, 2003, except for the Condensed Consolidating Financial Statements note as to which the date is October 7, 2003, with respect to the consolidated balance sheets of Yellow Corporation as of December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows, shareholders' equity, and comprehensive income for each of the years in the three-year period ended December 31, 2002, which report appears in the Yellow Corporation Form 8-K dated October 21, 2003; and to the inclusion of our report dated January 23, 2002 with respect to the related financial statement schedule, which report appears in the December 31, 2002, Form 10-K of Yellow Corporation.

Our report on the financial statements contains an explanatory paragraph that states that effective January 1, 2002, the Company ceased amortization of goodwill and changed its method of determining impairment of goodwill as required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

KPMG LLP

Kansas City, Missouri
October 21, 2003

Exhibit 99.1

Consolidated Balance Sheets

Yellow Corporation and Subsidiaries December 31, 2002 and 2001

(in thousands except per share data)	2002	2001
Assets		
Current Assets:		
Cash and cash equivalents	$ 28,714	$ 19,214
Accounts receivable, less allowances of $15,731 and $7,695	327,913	124,880
Prepaid expenses and other	68,726	75,858
Current assets of discontinued operations	—	92,458
Total current assets	425,353	312,410
Property and equipment, net of accumulated depreciation of $1,114,120 and $1,096,766	564,976	559,532
Goodwill and other assets	52,656	15,345
Noncurrent assets of discontinued operations	—	398,490
Total assets	$ 1,042,985	$ 1,285,777
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable	$ 114,989	$ 97,528
Wages, vacations, and employees' benefits	159,998	103,990
Other current and accrued liabilities	101,111	96,740
ABS borrowings	50,000	—
Current maturities of long-term debt	24,261	6,281
Current liabilities of discontinued operations	—	64,669
Total current liabilities	450,359	369,208
Long-term debt, less current portion	50,024	213,745
Claims and other liabilities	182,644	144,194
Noncurrent liabilities of discontinued operations	—	67,641
Commitments and contingencies		
Shareholders' Equity:		
Common stock, $1 par value per share-authorized 120,000 shares, issued 31,825 and 31,028 shares	31,825	31,028
Capital surplus	80,610	41,689
Retained earnings	325,474	537,496
Accumulated other comprehensive loss	(35,596)	(6,252)
Unamortized restricted stock awards	(1,053)	—
Treasury stock, at cost (2,244 and 6,163 shares)	(41,302)	(112,972)
Total shareholders' equity	359,958	490,989
Total liabilities and shareholders' equity	$ 1,042,985	$ 1,285,777

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

Statements of Consolidated Operations

Yellow Corporation and Subsidiaries for the years ended December 31

(in thousands except per share data)	2002	2001	2000
Operating Revenue	**$2,624,148**	**$2,505,070**	**$2,799,131**
Operating Expenses:			
Salaries, wages and employees' benefits	1,717,382	1,638,662	1,767,926
Operating expenses and supplies	385,522	398,054	431,336
Operating taxes and licenses	75,737	75,637	81,259
Claims and insurance	57,197	56,999	61,535
Depreciation and amortization	79,334	76,977	78,587
Purchased transportation	253,677	215,131	266,113
(Gains) losses on property disposals, net	425	(186)	(14,372)
Spin-off and reorganization charges	8,010	5,601	—
Total operating expenses	2,577,284	2,466,875	2,672,384
Operating Income	**46,864**	**38,195**	**126,747**
Nonoperating (Income) Expenses:			
Interest expense	7,211	8,437	10,131
ABS facility charges	2,576	7,996	10,052
Interest income	(843)	(1,198)	(1,003)
Loss on equity method investment	—	5,741	3,329
Other, net	334	(140)	(889)
Nonoperating expenses, net	9,278	20,836	21,620
Income From Continuing Operations Before Income Taxes	**37,586**	**17,359**	**105,127**
Income Tax Provision	**13,613**	**6,770**	**43,522**
Income From Continuing Operations	**23,973**	**10,589**	**61,605**
Income (loss) from discontinued operations, net	(117,875)	4,712	6,413
Net Income (Loss)	**$ (93,902)**	**$ 15,301**	**$ 68,018**
Average Common Shares Outstanding–Basic	**28,004**	**24,376**	**24,649**
Average Common Shares Outstanding–Diluted	**28,371**	**24,679**	**24,787**
Basic Earnings (Loss) Per Share:			
Income from continuing operations	$ 0.86	$ 0.44	$ 2.50
Income (loss) from discontinued operations	(4.21)	0.19	0.26
Net income (loss)	$ (3.35)	$ 0.63	$ 2.76
Diluted Earnings (Loss) Per Share:			
Income from continuing operations	$ 0.84	$ 0.43	$ 2.49
Income (loss) from discontinued operations	(4.15)	0.19	0.25
Net income (loss)	$ (3.31)	$ 0.62	$ 2.74

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

Statements of Consolidated Cash Flows

Yellow Corporation and Subsidiaries for the years ended December 31

(in thousands)	2002	2001	2000
Operating Activities:			
Net income (loss)	$ (93,902)	$ 15,301	$ 68,018
Noncash items included in net income (loss):			
Depreciation and amortization	79,334	76,977	78,587
Loss (income) from discontinued operations	117,875	(4,712)	(6,413)
Loss on equity method investment	—	5,741	3,329
Deferred income tax provision	1,449	16,746	9,606
(Gains) losses from property disposals, net	425	(186)	(14,372)
Changes in assets and liabilities, net:			
Accounts receivable	(49,633)	44,041	(7,885)
Accounts receivable securitizations	(91,500)	(35,500)	42,000
Accounts payable	5,928	(13,704)	7,116
Other working capital items	38,468	(97,532)	(14,257)
Claims and other	14,386	(3,742)	(11,107)
Other	2,978	8,759	(3,030)
Net change in operating activities of discontinued operations	17,250	76,106	74,157
Net cash from operating activities	43,058	88,295	225,749
Investing Activities:			
Acquisition of property and equipment	(86,337)	(88,022)	(100,577)
Proceeds from disposal of property and equipment	3,507	6,587	29,888
Acquisition of companies	(18,042)	(14,300)	—
Other	—	(5,830)	(5,114)
Net capital expenditures of discontinued operations	(24,372)	(19,619)	(59,034)
Net cash used in investing activities	(125,244)	(121,184)	(134,837)
Financing Activities:			
Unsecured bank credit lines, net	(85,000)	25,000	(40,000)
Repayment of long-term debt	(44,600)	(10,412)	(31,045)
Dividend from subsidiary upon spin-off	113,790	—	—
Proceeds from exercise of stock options	13,704	16,638	6,984
Treasury stock purchases	—	—	(24,997)
Proceeds from issuance of common stock	93,792	—	—
Net cash provided by (used in) financing activities	91,686	31,226	(89,058)
Net Increase (Decrease) In Cash and Cash Equivalents	**9,500**	**(1,663)**	**1,854**
Cash and Cash Equivalents, Beginning Of Year	**19,214**	**20,877**	**19,023**
Cash and Cash Equivalents, End Of Year	**$ 28,714**	**$ 19,214**	**$ 20,877**

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

Statements of Consolidated Shareholders' Equity

Yellow Corporation and Subsidiaries for the years ended December 31

(in thousands)	2002	2001	2000
Common Stock			
Beginning balance	$ 31,028	$ 29,959	$ 29,437
Exercise of stock options	737	1,063	516
Other	60	6	6
Ending Balance	31,825	31,028	29,959
Capital Surplus			
Beginning balance	41,689	23,304	16,063
Exercise of stock options, including tax benefits	15,296	18,286	7,130
Equity offering and other	23,625	99	111
Ending balance	80,610	41,689	23,304
Retained Earnings			
Beginning balance	537,496	522,195	454,177
Stock dividend to SCST shareholders	(118,120)	—	—
Net income (loss)	(93,902)	15,301	68,018
Ending balance	325,474	537,496	522,195
Accumulated Other Comprehensive Loss			
Beginning balance	(6,252)	(2,710)	(2,322)
Change in minimum pension liability adjustment	(30,848)	—	—
Changes in foreign currency translation adjustments	73	(616)	(388)
Changes in the fair value of interest rate swaps	1,431	(2,926)	—
Ending balance	(35,596)	(6,252)	(2,710)
Unamortized Restricted Stock Awards			
Beginning balance	—	—	—
Issuance of restricted stock awards	(1,458)	—	—
Amortization of restricted stock awards	405	—	—
Ending balance	(1,053)	—	—
Treasury Stock, At Cost			
Beginning balance	(112,972)	(112,972)	(87,975)
Treasury stock purchases	—	—	(24,997)
Equity offering—reissuance of treasury stock	71,670	—	—
Ending balance	(41,302)	(112,972)	(112,972)
Total Shareholders' Equity	**$ 359,958**	**$ 490,989**	**$ 459,776**

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

Statements of Comprehensive Income
Yellow Corporation and Subsidiaries for the years ended December 31

(in thousands)	2002	2001	2000
Net income (loss)	$ (93,902)	$ 15,301	$ 68,018
Other comprehensive income (loss), net of tax:			
Change in minimum pension liability adjustment	(30,848)	—	—
Changes in foreign currency translation adjustments	73	(616)	(388)
Changes in the fair value of interest rate swaps	1,431	(2,926)	—
Comprehensive income (loss)	**$ (123,246)**	**$ 11,759**	**$ 67,630**

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

Notes to Consolidated Financial Statements
Yellow Corporation and Subsidiaries

Description of Business

Yellow Corporation (also referred to as “Yellow” or “the company”) is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of asset and non-asset-based transportation services integrated by technology. Yellow Transportation, Inc. (Yellow Transportation) offers a full range of regional, national, and international services for the movement of industrial, commercial and retail goods. Meridian IQ, LLC (Meridian IQ) is a non-asset global transportation management company that plans and coordinates the movement of goods worldwide to provide customers a single source for transportation management solutions. Yellow Technologies, Inc. provides innovative technology solutions and services exclusively for Yellow Corporation companies.

On September 30, 2002, the company completed the 100 percent distribution (the spin-off) of all of its shares of SCS Transportation, Inc. (SCST) to Yellow shareholders of record on September 3, 2002. SCST provides regional overnight and second-day less-than-truckload (LTL) and selected truckload (TL) transportation services through two subsidiaries, Saia Motor Freight Line, Inc. (Saia) and Jevic Transportation, Inc. (Jevic). Shares were distributed on the basis of one share of SCST common stock for every two shares of Yellow common stock. As a result of the spin-off, the company’s financial statements have been reclassified to reflect SCST as discontinued operations for all periods presented.

Principles of Consolidation and Summary of Accounting Policies

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

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

Cash and Cash Equivalents

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

Concentration of Credit Risks

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

Revenue Recognition

For shipments in transit, Yellow Transportation records revenue based on the percentage of service completed as of the period end and accrues delivery costs as incurred. Meridian IQ recognizes revenue upon the completion of services. In certain logistics transactions where Meridian IQ acts as an agent, revenue is recorded on a net basis. Net revenue represents revenue charged to customers less third party transportation costs. Where Meridian IQ acts as principal, it records revenue from these transactions on a gross basis, without deducting transportation costs. Management believes these policies most accurately reflect revenue as earned.

Financial Instruments

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

Effective January 1, 2001, the company adopted Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended (Statement No. 133). As a result of the adoption of Statement No. 133, the company recognizes all derivative financial instruments as either assets or liabilities at their fair value.

In December 2000, the company entered into a three-year interest rate swap agreement (the swap) to hedge a portion of its variable rate debt. Pursuant to the agreement, the company pays a fixed rate of 6.06 percent and receives a variable three-month London interbank offer rate (LIBOR) on a notional amount of $50 million. The company has designated this interest rate contract as a hedge of the company's exposure to a portion of its variable-rate, asset backed securitization (ABS) financing. At December 31, 2002, approximately 40 percent of the company's debt was variable rate with the swap hedged against the entire variable amount. The company recorded a $22 thousand gain in 2002 and a $34 thousand loss in 2001 in other net nonoperating expense representing the ineffectiveness of the correlation between the hedge and the ABS financing rate. At December 31, 2002 and 2001, accumulated other comprehensive loss included a $1.5 million and $2.9 million, respectively, unrealized loss on the interest rate contract. The company recognizes the differential paid under the contract designated as a hedge as adjustments to interest expense. These adjustments approximated $2.1 million in 2002 and $0.8 million in 2001 in additional interest expense.

Property (Gains)/Losses and Spin-off and Reorganization Charges

The following were included in income from continuing operations for the years ended December 31:

(in thousands)	2002	2001	2000
Property (gains) / losses	$ 425	$ (186)	$ (14,372)
Spin-off charges	6,940	—	—
Reorganization costs	1,026	4,901	—
Other	44	700	—
Total	$ 8,435	$ 5,415	$ (14,372)

Spin-off charges included bank fees and external legal and accounting services. Reorganization costs were primarily associated with the reorganization of Yellow Transportation and Transportation.com. These charges included employee separation costs and lease termination and rent costs. The net property gains in 2000 primarily consisted of a $20.7 million pretax gain on the sale of real estate property in New York and a $6.5 million pretax loss on obsolete computer aided dispatch technology, both at Yellow Transportation.

Claims and Insurance Accruals

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

The company bases reserves for workers' compensation primarily upon actuarial analyses prepared by independent actuaries. These reserves are discounted to present value using a risk-free rate at the date of occurrence. The risk-free rate is the U.S. Treasury rate for maturities that match the expected payout of workers' compensation liabilities. The process of determining reserve requirements utilizes historical trends and involves an evaluation of accident frequency and severity, claims management, and changes in health care costs, but not certain future administrative costs. The effect of future inflation for costs is implicitly considered in the actuarial analyses. Adjustments to previously established reserves are included in operating results. At December 31, 2002 and 2001, estimated future payments for workers' compensation claims aggregated $98.6 million and $93.9 million, respectively. The present value of these estimated future payments was $80.5 million at December 31, 2002 and $75.4 million at December 31, 2001.

Stock-Based Compensation

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

Option Value Information

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

Dividend yield	— %	— %	— %
Expected volatility	39.0%	36.8%	36.2%
Risk-free interest rate	2.6%	4.2%	5.9%
Expected option life (years)	3	3	3
Fair value per option	$7.81	$6.04	$4.85

Pro Forma Information

The following table illustrates the effect on income from continuing operations, net income and earnings per share if the company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (Statement No. 123).

(in thousands except per share data)	2002	2001	2000
Net income (loss) – as reported	$ (93,902)	$ 15,301	$ 68,018
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,364)	(2,141)	(1,741)
Pro forma net income (loss)	$ (95,266)	$ 13,160	$ 66,277
Basic earnings (loss) per share:			
Income from continuing operations – as reported	$ 0.86	$ 0.44	$ 2.50
Income from continuing operations – pro forma	0.81	0.35	2.43
Net income (loss) – as reported	(3.35)	0.63	2.76
Net income (loss) – pro forma	(3.40)	0.54	2.69
Diluted earnings (loss) per share:			
Income from continuing operations – as reported	$ 0.84	$ 0.43	$ 2.49
Income from continuing operations – pro forma	0.79	0.34	2.42
Net income (loss) – as reported	(3.31)	0.62	2.74
Net income (loss) – pro forma	(3.36)	0.53	2.67

Impairment of Long-Lived Assets

If facts and circumstances indicate that the carrying value of identifiable intangibles and long-lived assets may be impaired, the company would perform an evaluation of recoverability. If an evaluation were required, the company would compare the estimated future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a write-down is required.

Reclassifications

The company has made certain reclassifications to the prior year consolidated financial statements to conform to the current presentation.

Preferred Stock

The Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 750,000 shares of Series A $10 preferred stock with a $1 par value per share, and 4,250,000 shares of preferred stock with a $1 par value per share. As of December 31, 2002, none of these shares have been issued.

Supplemental Cash Flow Information

The company provides the following supplemental cash flow information for the years ended December 31:

(in thousands)	2002	2001	2000
Income taxes paid, net	$ 8,272	$ 5,268	$47,813
Interest paid	$11,518	$16,628	$19,761

Supplemental cash flow information includes cash paid on behalf of SCST until the spin-off date.

Discontinued Operations

As required under Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the company evaluated the carrying value of SCST against the fair value, as determined by the market capitalization of SCST at the spin-off date. The following table presents the net assets (carrying value) of SCST at the spin-off date compared to the fair value as determined by the market capitalization:

(in thousands)	September 30, 2002
Cash	$ 2,383
Accounts receivable	99,233
Other current assets	18,158
Net property, plant and equipment and other assets	314,610
Accounts payable and accrued expenses	(64,275)
Long-term debt	(130,000)
Other liabilities	(69,342)
Total net assets (carrying value)	$ 170,767
Fair value at spin-off	(118,120)
Non-cash loss on disposal of SCST	$ (52,647)

Summarized results of operations related to SCST (as reported in discontinued operations) are as follows for the nine months ended September 30, 2002 and the years ended December 31, 2001 and 2000:

(in thousands except per share data)	2002	2001	2000
Operating revenue	$ 581,181	$ 771,581	$ 789,009
Operating expenses	559,751	752,423	763,227
Operating income	21,430	19,158	25,782
Nonoperating expenses, net	4,735	7,992	9,221
Income before income taxes	16,695	11,166	16,561
Provision for income taxes	6,748	6,454	8,864
Income from continuing operations	9,947	4,712	7,697
Loss on disposal of SCST	(52,647)	—	—
Cumulative effect of change in accounting for goodwill	(75,175)	—	—
Income (loss) from discontinued operations	$ (117,875)	$ 4,712	$ 7,697
Discontinued operations basic earnings (loss) per share:			
Income from continuing operations	$ 0.35	$ 0.19	$ 0.31
Loss on disposal of SCST	(1.88)	—	—
Cumulative effect of change in accounting for goodwill	(2.68)	—	—
Income (loss) from discontinued operations	$ (4.21)	$ 0.19	$ 0.31
Discontinued operations diluted earnings (loss) per share:			
Income from continuing operations	$ 0.35	$ 0.19	$ 0.31
Loss on disposal of SCST	(1.85)	—	—
Cumulative effect of change in accounting for goodwill	(2.65)	—	—
Income (loss) from discontinued operations	$ (4.15)	$ 0.19	$ 0.31

The company did not charge to discontinued operations the management fees and other corporate services that it previously allocated to SCST, as the company continues to incur a majority of the expense. The company allocated interest expense to discontinued operations based on the overall effective borrowing rate of Yellow applied to the debt reduction realized by Yellow from the spin-off. Interest expense included in discontinued operations was $4.6 million for the nine months ended September 30, 2002, and $8.0 million and $9.4 million for the years ended December 31, 2001 and 2000, respectively. Goodwill amortization expense included in discontinued operations was zero for 2002, and $3.0 million and $2.6 million for 2001 and 2000, respectively.

In July 1999, Preston Trucking Company (a former segment of the company sold in 1998) ceased operations and commenced a liquidation of its assets under federal bankruptcy regulations. The company recorded a charge to discontinued operations of $1.3 million net of tax benefit of $0.7 million in 2000 to settle pending liabilities associated with the bankruptcy. Income from discontinued operations, as shown on the Statements of Consolidated Operations, in 2000 consists of $7.7 million in income related to SCST and $1.3 million in losses related to Preston Trucking Company. Yellow does not anticipate any material change in the loss from disposition of the discontinued operations.

Prepaid Expenses and Other

Items classified as prepaid expenses and other consisted of the following at December 31:

(in thousands)	2002	2001
Fuel and operating supplies	$11,039	$12,341
Prefunded benefit contribution	40,005	40,015
Other prepaid expenses	17,682	23,502
Prepaid expenses and other	$68,726	$75,858

Goodwill and Other Assets

Items classified as goodwill and other assets consisted of the following at December 31:

(in thousands)	2002	2001
Goodwill	$20,491	$10,600
Intangibles	7,696	495
Other assets	24,469	4,250
Goodwill and other assets	$52,656	$15,345

Additional information on goodwill can be found in the Goodwill and Intangibles footnote.

Property and Equipment

Property and equipment consisted of the following at December 31:

(in thousands)	2002	2001
Land	$ 93,783	$ 92,878
Structures	516,006	516,070
Revenue equipment	825,606	801,652
Technology equipment and software	141,723	138,765
Other	101,978	106,933
	$ 1,679,096	$ 1,656,298
Less - Accumulated depreciation	(1,114,120)	(1,096,766)
Net property and equipment	$ 564,976	$ 559,532

For the years ended December 31, 2002, 2001, and 2000, depreciation expense was $78.9 million, $76.9 million, and $78.6 million, respectively.

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

	Years
Structures	10 – 40
Revenue equipment	3 – 14
Technology equipment and software	3 – 5
Other	3 – 15

The company charges maintenance and repairs to expense as incurred. The company capitalizes replacements and improvements when these costs extend the useful life of the asset.

The company’s investment in technology equipment and software consists primarily of advanced customer service and freight management equipment and related software. Yellow capitalizes certain costs associated with developing or obtaining internal-use software. Capitalizable costs include external direct costs of materials and services utilized in developing or obtaining the software, payroll, and payroll-related costs for employees directly associated with the project. For the years ended December 31, 2002, 2001, and 2000, the company capitalized $1.3 million, $2.2 million, and $3.2 million, respectively, which were primarily payroll and payroll-related costs.

Accounts Payable

Items classified as accounts payable consisted of the following at December 31:

(in thousands)	2002	2001
Checks outstanding in excess of bank balances	$ 63,685	$51,104
Accounts payable	51,304	46,424
Accounts payable	$114,989	$97,528

Other Current and Accrued Liabilities

Items classified as other current and accrued liabilities consisted of the following at December 31:

(in thousands)	2002	2001
Accrued income taxes	$ 8,179	$ —
Deferred income taxes, net	16,751	23,346
Claims and insurance accruals	44,045	46,347
Other current and accrued liabilities	32,136	27,047
Other current and accrued liabilities	$101,111	$96,740

Claims and Other Liabilities

Items classified as claims and other liabilities consisted of the following at December 31:

(in thousands)	2002	2001
Deferred income taxes, net	$ 25,657	$ 33,868
Pension liability	71,151	34,237
Claims and other liabilities	85,836	76,089
Claims and other liabilities	$182,644	$144,194

Debt and Financing

At December 31, debt consisted of the following:

(in thousands)	2002	2001
Unsecured credit agreement	$ —	$ 85,000
ABS borrowings	50,000	— (1)
Unsecured medium-term notes	55,250	77,250
Industrial development bonds	18,900	18,900
SCST debt	—	38,834
Capital leases and other	135	42
Total debt	$124,285	$220,026
ABS borrowings	50,000	— (1)
Current maturities	24,261	6,281
Long-term debt	$ 50,024	$213,745

(1) Prior to the December 31, 2002 amendment of the ABS agreement, ABS borrowings were not reflected on the balance sheets of the company. At December 31, 2001, $141.5 million was outstanding under the ABS facility.

Variable-Rate Debt

The company has a $300 million unsecured credit agreement with a group of banks, which expires April 2004. Yellow may use the agreement for additional short-term borrowings and for the issuance of standby letters of credit. Interest on borrowings is based on LIBOR, which was 1.38 percent and 2.44 percent at December 31, 2002 and 2001, respectively. The company pays a fixed increment over these rates. Under the terms of the agreement, among other restrictions, the company must maintain a minimum consolidated net worth and total debt must be no greater than a specified ratio of earnings before interest, income taxes, depreciation and amortization, and rents, as defined. At December 31, 2002 and 2001, the company was in compliance with all terms of this credit agreement. The following table provides the components of the available unused capacity under the bank credit agreement at December 31:

(in thousands)	2002	2001
Total capacity	$ 300,000	$300,000
Outstanding borrowings	—	(85,000)
Letters of credit	(146,200)	(89,900)
Available unused capacity	$ 153,800	$125,100

The company also maintains an ABS agreement that allows it to transfer an ongoing pool of receivables to a conduit administered by an independent financial institution (the conduit). Under the terms of the agreement, the company may transfer Yellow Transportation trade receivables to a special purpose entity, Yellow Receivables Corporation (YRC). YRC is a wholly owned consolidated subsidiary of Yellow Transportation designed to isolate the receivables for bankruptcy purposes. The conduit must purchase from YRC an undivided ownership interest in those receivables. The percentage ownership interest in receivables purchased by the conduit may increase or decrease over time, depending on the characteristics of the receivables, including delinquency rates and debtor concentrations.

The company services the receivables transferred to YRC and receives a servicing fee, which company management has determined approximates market compensation for these services. The conduit pays YRC the face amount of the undivided interest at the time of purchase. On a periodic basis, this sales price is adjusted, resulting in payments by YRC to the conduit of an amount that varies based on the interest rate on certain of the conduit’s liabilities and the length of time the sold receivables remain outstanding.

Prior to December 31, 2002, financing obtained under the ABS facility was treated as a sale of assets and the sold receivables and related obligations were not reflected on the Consolidated Balance Sheets. The right to repurchase receivable interests was limited to instances when ABS obligations were below $10 million. As of December 31, 2002, the ABS agreement was amended to provide YRC the right to repurchase, at any time, 100 percent of the receivable interests held by the conduit. Due to the amendment, the receivables transferred and the related borrowings are reflected on the Consolidated Balance Sheet as of December 31, 2002. The amendment does not alter the costs associated with operating the ABS facility.

The ABS facility provides additional liquidity and lower borrowing costs through access to the asset backed commercial paper market. By using the ABS facility, the company obtains 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 the liquidity. Yellow averaged a rate of 2.3 percent on the ABS facility in 2002.

The ABS facility involves receivables of Yellow Transportation only and has a limit of $200 million. Under the terms of the agreement, Yellow Transportation retains the associated collection risks. Although the facility has no stated maturity, the company has an underlying letter of credit with the administering financial institution that has a 364-day maturity.

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

(in thousands)	2002	2001
ABS obligations outstanding at January 1	$ 141,500	$ 177,000
Transfer of receivables to conduit (borrowings)	421,500	152,000
Redemptions from conduit (repayments)	(513,000)	(187,500)
ABS obligations outstanding at December 31	$ 50,000	$ 141,500

The company's loss on the sale of receivables under the ABS facility to the conduit was $2.6 million in 2002, $8.0 million in 2001, and $10.1 million in 2000. These charges are reflected as ABS facility charges on the Statements of Consolidated Operations.

Fixed-Rate Debt

Medium-term notes have scheduled maturities through 2008 with fixed interest rates ranging from 6.0 percent to 7.8 percent.

The company has loan guarantees, mortgages, and lease contracts in connection with the issuance of industrial development bonds (IDBs) used to acquire, construct or expand terminal facilities. Rates on these bonds range from 5.0 percent to 6.1 percent, with principal payments due through 2010.

The principal maturities of long-term debt, including current maturities, for the next five years and thereafter are as follows:

(in thousands)	Medium-Term Notes	IDBs	Other	Total
2003	$ 19,250	$ 5,000	$ 11	$24,261
2004	16,000	—	124	16,124
2005	12,000	4,400	—	16,400
2006	7,000	—	—	7,000
2007	—	—	—	—
Thereafter	1,000	9,500	—	10,500
Total	$ 55,250	$18,900	$135	$74,285

Based on the borrowing rates currently available to the company for debt with similar terms and remaining maturities, the fair value of fixed-rate debt at December 31, 2002 and 2001, was approximately $81.5 million and $114.2 million, respectively. The carrying amount of such fixed-rate debt at December 31, 2002 and 2001 was $74.3 million and $108.8 million, respectively.

Other Debt

SCST debt at December 31, 2001 consisted of subordinated debentures of $16.3 million, fixed and variable-rate mortgages of $11.6 million and $5.0 million, respectively, and variable-rate term notes of $5.9 million. SCST assumed the subordinated debentures of $16.3 million and the remaining debt was paid off as part of the spin-off.

Employee Benefits

Retirement Plans

Yellow Corporation and Yellow Transportation provide defined benefit pension plans for employees not covered by collective bargaining agreements (approximately 4,000 employees). Meridian IQ does not offer a defined benefit pension plan and instead offers retirement benefits through a contributory 401(k) savings plan, as discussed later in this section. Pension plan benefits are based on years of service and the employees' final average earnings. The company's funding policy is to contribute the minimum required tax-deductible contribution for the year while taking into consideration any variable Pension Benefit Guarantee Corporation premium. In 2000, the pension plan was amended to provide for the payment of unreduced benefits, at early retirement, for a participant whose combination of age and vested service equals 85 years or greater. Approximately 35 percent of the plans' assets are invested in fixed income securities, 50 percent in U.S. equities, and 15 percent in international equities. Neither the company nor its subsidiaries sponsor a postretirement health care benefit plan.

The following table sets forth the plans' funded status:

(in thousands)	2002	2001
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 356,035	$ 309,029
Service cost	15,772	14,496
Interest cost	25,595	23,427
Plan amendment	907	1,660
Actuarial loss	30,906	19,167
Benefits paid	(11,512)	(11,744)
Benefit obligation at end of year	$ 417,703	$ 356,035
Change in plan assets:		
Fair value of plan assets at beginning of year	$ 274,602	$ 269,765
Actual return on plan assets	(26,381)	(12,864)
Employer contributions	12,012	29,445
Benefits paid	(11,512)	(11,744)
Fair value of plan assets at end of year	$ 248,721	$ 274,602
Funded status	$ (168,982)	$ (81,433)
Unrecognized transition asset	(1,344)	(2,235)
Unrecognized prior service cost	13,579	13,985
Unrecognized net actuarial loss	121,850	38,444
Accrued benefit cost	$ (34,897)	$ (31,239)

Amounts recognized in the Consolidated Balance Sheets at December 31 are as follows:

(in thousands)	2002	2001
Accrued pension liability, net	$ (34,897)	$ (31,239)
Minimum pension liability	(61,629)	—
Intangible asset	13,579	—
Accumulated other comprehensive loss (pretax)	48,050	—
Accrued benefit cost	$ (34,897)	$ (31,239)

The following table provides the components of net pension cost:

(in thousands)	2002	2001	2000
Net pension cost:			
Service cost	$ 15,772	$ 14,496	$ 11,326
Interest cost	25,595	23,427	21,733
Expected return on plan assets	(25,139)	(21,010)	(20,742)
Amortization of unrecognized net transition assets	(2,380)	(2,384)	(2,388)
Amortization of prior service costs	1,438	1,304	1,113
Net pension cost	$ 15,286	$ 15,833	$ 11,042
Weighted average assumptions at December 31:			
Discount rate	6.75%	7.25%	7.50%
Rate of increase in compensation levels	4.50%	4.50%	4.50%
Expected rate of return on assets	9.00%	9.00%	9.00%

Increases in the company's pension benefit obligations combined with market losses in 2002 and 2001 have negatively impacted the funded status of the pension plans, resulting in additional funding and expense over the next several years. Due to these same factors, the company recorded an adjustment in 2002 to shareholders' equity of $30.8 million, net of tax of $17.2 million, to reflect the minimum liability associated with the plans.

Multi-Employer Plans

Yellow Transportation contributes to multi-employer health, welfare and pension plans for employees covered by collective bargaining agreements (approximately 80 percent of total employees). The amounts of these contributions are determined by contract and established in the agreements. The health and welfare plans provide health care and disability benefits to active employees and retirees. The pension plans provide defined benefits to retired participants. The company contributed and charged to expense the following amounts to these plans:

(in thousands)	2002	2001	2000
Health and welfare	$156,081	$150,012	$154,730
Pension	159,018	157,148	167,772
Total	$315,099	$307,160	$322,502

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

Yellow Transportation has collective bargaining agreements with its unions that stipulate the amount of contributions Yellow Transportation makes to multi-employer pension plans. The Internal Revenue Code and Internal Revenue Service regulations also establish minimum funding requirements for multi-employer pension plans and a process to address the plans' funding if it fails to meet those requirements.

401(k) Savings Plans

The company and its operating subsidiaries each sponsor defined contribution plans, primarily for employees not covered by collective bargaining agreements. The plans principally consist of contributory 401(k) savings plans and noncontributory profit sharing plans. Plans provided by Yellow Corporation and Yellow Transportation consist of both a fixed matching percentage and a discretionary amount. The nondiscretionary company match for these plans equals 25 percent of the first six percent of an eligible employee's contributions. Discretionary contributions for both the 401(k) savings plan and profit sharing plans are determined annually by the Board of Directors. The 401(k) savings plan offered by Meridian IQ provides a fixed matching percentage of 75 percent of the first six percent of an eligible employee's contributions with no option for discretionary contributions. Contributions for each of the three years in the period ended December 31, 2002, were not material to the operations of the company.

The company's employees covered under collective bargaining agreements can also participate in a contributory 401(k) plan. There are no employer contributions to the plan.

Performance Incentive Awards

The company and its operating subsidiaries each provide annual performance incentive awards to nonunion employees, which are based primarily on actual operating results achieved compared to targeted operating results. Income from continuing operations in 2002, 2001, and 2000 includes performance incentive expense for nonunion employees of $15.6 million, $2.9 million, and $38.7 million, respectively. Yellow pays performance incentive awards for a year primarily in the first quarter of the following year.

Executive Performance Plan

The company implemented a long-term incentive plan in 2002. This plan replaced the use of stock options as the exclusive vehicle for delivering long-term incentive compensation potential to the company's executive officers. Awards under the plan can be made in cash and performance share units at the discretion of the Board of Directors and are expected to vest over three years from the date of grant. The plan utilizes a phased implementation schedule that allows for one-third of the typical award in the first year of implementation, two-thirds in the second year, and the full award in the third year. In 2002, award amounts were based primarily on the company's return on committed capital compared to the Standard and Poor's Small Cap 600. Income from continuing operations in 2002 includes performance incentive accruals for executives of $2.0 million.

Stock Compensation Plans

The company has reserved 4.8 million shares of its common stock for issuance to key management personnel of the company and its operating subsidiaries under five stock option plans. The plans generally permit grants of nonqualified stock options and grants of stock options coupled with a grant of stock appreciation rights (SARs). In addition, the company has reserved 200,000 shares of its common stock for issuance to its Board of Directors. Under the plans, the exercise price of each option equals the closing market price of the company's common stock on the date of grant. The options vest ratably, generally over a period of four years, and expire ten years from the date of the grant. The 1992 plan also permits the issuance of restricted stock. In 2002, Yellow issued 56,300 shares of restricted stock from the 1992 plan at $25.90 per share that clif vest over three years.

The company implemented a new stock option plan in 2002 which reserves 1.0 million of the 4.8 million shares discussed above. This plan permits the issuance of restricted stock and restricted stock units, as well as options, SARs, and performance stock and performance stock unit awards. The maximum cumulative number of shares that can be awarded in any form other than options or SARs is 200,000 shares. Yellow did not issue any restricted stock or SARs from this plan during 2002.

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

As of December 31, 2002, 2001, and 2000, options on approximately 736,000 shares, 1,054,000 shares, and 1,421,000 shares, respectively, were exercisable at weighted average exercise prices of $17.77 per share, $20.62 per share, and $18.12 per share, respectively. The weighted average remaining contract life on outstanding options at December 31, 2002, 2001, and 2000 was 7.4 years, 7.3 years, and 7.9 years, respectively. A summary of activity in the company's stock option plans is presented in the following table.

		Exercise Price	
	Shares (in thousands)	Weighted Average	Range
Outstanding at December 31, 1999	3,134	$ 17.44	$ 11.50 - 27.00
Granted	1,170	16.63	14.56 - 18.75
Exercised	(517)	13.54	11.50 - 18.13
Forfeited / expired	(412)	19.13	11.50 - 27.00
Outstanding at December 31, 2000	3,375	$ 17.55	$ 11.50 - 27.00
Granted	42	20.30	18.25 - 21.87
Exercised	(1,063)	15.64	11.50 - 24.05
Forfeited / expired	(83)	18.57	12.25 - 24.05
Outstanding at December 31, 2001	2,271	$ 18.46	$ 11.50 - 27.00
Granted	900	26.81	22.42 - 29.67
Exercised	(737)	17.76	10.56 - 24.79
SCST spin-off adjustment	(352)	—	—
Forfeited / expired	(86)	17.83	10.56 - 24.05
Outstanding at December 31, 2002	1,996	$ 21.27	$ 10.56 - 29.67

The following table summarizes information about stock options outstanding as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of exercise prices	Shares (in thousands)	Weighted-Average Remaining Contractual Years	Weighted-Average Exercise Price	Shares (in thousands)	Weighted-Average Exercise Price
$10.56 - 15.61	558	7.1	$ 14.36	246	$ 14.30
$15.62 - 22.80	785	5.7	$ 19.26	480	$ 19.41
$22.81 - 29.67	653	9.7	$ 29.58	10	$ 23.93

As discussed in the Summary of Accounting Policies note, the company applies APB 25 in accounting for stock options. Please refer to that note for pro forma effects had the company applied Statement No. 123.

Goodwill and Intangibles

Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. Prior to the adoption on January 1, 2002 of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (Statement No. 142), the company amortized goodwill over the estimated period of benefit on a straight-line basis over periods generally ranging from 20 to 40 years, and the company reviewed goodwill for impairment under the policy for other long-lived assets. Since the adoption of Statement No. 142, the company discontinued amortization of goodwill, and reviews goodwill at least annually for impairment based on a fair value approach.

As a result of the spin-off, the company reports results of operations for SCST, including prior year goodwill amortization, under discontinued operations. Meridian IQ has not amortized goodwill in accordance with provisions of Statement No. 142. Therefore, income from continuing operations does not include goodwill amortization for any period presented.

The net carrying amount of goodwill attributable to each subsidiary with goodwill balances and changes therein follows:

(in thousands)	December 31, 2001	Impairment Adjustment	(Spin-off) / Acquisitions	December 31, 2002
SCST	$ 89,971	$ (75,175)	$ (14,796)	$ —
Meridian IQ	10,600	—	9,891	20,491
Goodwill	$ 100,571	$ (75,175)	$ (4,905)	$ 20,491

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

In connection with adopting Statement No. 142, the company also reassessed the useful lives and the classification of its identifiable intangible assets and determined that they continue to be appropriate.

The components of amortized intangible assets follow:

(in thousands)	December 31, 2002			December 31, 2001	
	Average Life (years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer related	11	$ 5,622	$ 355	$ 317	$ 34
Marketing related	6	1,550	42	1,963	812
Technology based	5	1,061	140	231	19
Intangible assets		$ 8,233	$ 537	$ 2,511	$ 865

The gross carrying amount of intangibles at December 31, 2001 included approximately $2 million of SCST assets and the related accumulated amortization of $.8 million. SCST intangibles and accumulated amortization are not reflected in the December 31, 2002 balances. Identifiable intangibles of approximately $7.7 million are reflected in the December 31, 2002 balances as a result of Meridian IQ acquisitions during 2002.

Amortization expense for intangible assets, as reflected in income from continuing operations, was $482 thousand for the year ending December 31, 2002. Estimated amortization expense for the next five years is as follows:

(in thousands)	2003	2004	2005	2006	2007
Estimated amortization expense	$972	$942	$859	$750	$606

Acquisitions

In July 2002, Meridian IQ acquired selected assets, consisting primarily of customer contracts, of Clicklogistics, Inc. (Clicklogistics) for nominal cash consideration. Clicklogistics provides non-asset transportation and logistics management services.

In August 2002, Meridian IQ completed the acquisition of MegaSys, Inc. (MegaSys), a Greenwood, Indiana based provider of non-asset transportation and logistics management services, for approximately $17 million. The acquisition price primarily related to $9.3 million of goodwill and $7.1 million of identifiable intangible assets. As part of the acquisition, Meridian IQ negotiated an earnout arrangement, which provides for Meridian IQ to pay contingent consideration upon MegaSys generating cash flow levels in excess of an established rate of return through December 31, 2005. If reached, the earnout amount could increase the purchase price up to an additional $18 million. The company believes the acquisition supports its plans to grow its non-asset-based business and be a single-source transportation provider.

In September 2001, the company completed its acquisition of the remaining ownership in Transportation.com from its venture capital partners. The cash purchase price of approximately $14.3 million was allocated to goodwill of $10.6 million, tax benefit receivable of $4.0 million and miscellaneous assets and liabilities of $(0.3) million. As of the acquisition date, Transportation.com, as well as the company's other non-asset-based services, have been consolidated under Meridian IQ. The purchase agreements provide for material contingent payments to be paid to the sellers in the event of a public offering of Meridian IQ on or before August 2006. The company has no current plans for a public offering of Meridian IQ. Prior to the acquisition date, the company accounted for its ownership interest under the equity method of accounting due to substantive participating rights of the minority investors. Losses on the company's investment of $5.7 million in 2001 and $3.3 million in 2000 were recorded in nonoperating expenses.

Income Taxes

Deferred income taxes are determined based upon the difference between the book and the tax basis of the company's assets and liabilities. Deferred taxes are recorded at the enacted tax rates expected to be in effect when these differences reverse. Deferred tax liabilities (assets) are comprised of the following at December 31:

(in thousands)	2002	2001
Depreciation	$ 90,004	$ 81,521
Prepaids	8,193	9,427
Employee benefits	52,330	48,519
Revenue	22,925	20,241
Other	6,354	9,467
Gross tax liabilities before discontinued operations	$ 179,806	$ 169,175
Gross tax liabilities of discontinued operations	—	62,530
Gross tax liabilities	$ 179,806	$ 231,705
Claims and insurance	$ (54,684)	$ (53,341)
Bad debts	(5,514)	(2,812)
Employee benefits	(45,076)	(18,712)
Revenue	(10,882)	(15,398)
Other	(21,242)	(21,698)
Gross tax assets before discontinued operations	$ (137,398)	$ (111,961)
Gross tax assets of discontinued operations	—	(20,416)
Gross tax assets	$ (137,398)	$ (132,377)
Net tax liability	$ 42,408	$ 99,328

A valuation allowance for deferred tax assets was not required at December 31, 2002 or 2001.

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

(in thousands)	2002	2001	2000
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net	(0.8)	(2.0)	4.0
Nondeductible business expenses	4.5	11.3	2.7
Foreign tax credit and rate differential	(2.2)	(2.5)	0.6
Other, net	(0.3)	(2.8)	(0.9)
Effective tax rate	36.2%	39.0%	41.4%

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

(in thousands)	2002	2001	2000
Current:			
U.S. federal	$12,697	$ (6,853)	$ 28,511
State	(353)	(3,628)	5,556
Foreign	(180)	505	(151)
Current income tax provision	$12,164	$ (9,976)	$ 33,916
Deferred:			
U.S. federal	$ 584	$14,220	$ 7,739
State	748	2,937	1,191
Foreign	117	(411)	676
Deferred income tax provision	$ 1,449	$16,746	$ 9,606
Income tax provision	$13,613	$ 6,770	$ 43,522
Based on the income from continuing operations before income taxes:			
Domestic	$37,892	$16,119	$105,472
Foreign	(306)	1,240	(345)
Income from continuing operations before income taxes	$37,586	$17,359	$105,127

Commitments, Contingencies, and Uncertainties

The company incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to operating expense and supplies on the Statements of Consolidated Operations. Actual rental expense, as reflected in income from continuing operations, was $34.8 million, $37.0 million, and $35.7 million for the years ended December 31, 2002, 2001, and 2000, respectively.

The company utilizes certain terminals and equipment under operating leases. At December 31, 2002, the company was committed under noncancelable lease agreements requiring minimum annual rentals payable as follows:

(in thousands)	2003	2004	2005	2006	2007	Thereafter
Minimum annual rentals	$26,203	$18,182	$13,373	$4,076	$3,039	$ 5,624

The company expects in the ordinary course of business that leases will be renewed or replaced as they expire. Projected 2003 net capital expenditures are expected to be $100 to $110 million, of which $32 million was committed at December 31, 2002.

The company's outstanding letters of credit at December 31, 2002 included $10.6 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 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. The company also provides a guarantee of $6.6 million regarding certain lease obligations of SCST.

The company is involved in litigation or proceedings that have arisen in the company's ordinary business activities. The company insures against these risks to the extent deemed prudent by its management, but no assurance can be given that the nature and amount of such insurance will be sufficient to fully indemnify the company against liabilities arising out of pending and future legal proceedings. Many of these insurance policies contain self-insured retentions in amounts the company deems prudent. Based on its current assessment of information available to the company as of the date of these financial statements, the company believes that its financial statements include adequate provision for estimated costs and losses that may ultimately be incurred with regard to the litigation and proceedings to which the company is a party.

Labor Negotiations

The National Master Freight Agreement covering Yellow Transportation collective-bargaining employees expires on March 31, 2003. Yellow Transportation began formal labor negotiations with the International Brotherhood of Teamsters in October 2002, with a goal to renegotiate the agreement prior to its expiration. Failure to reach an agreement prior to the expiration of the contract could have a significant impact on our financial condition and results of operations. The agreement covers approximately 80 percent of Yellow Transportation employees.

Business Segments

The company reports financial and descriptive information about its reportable operating segments on a basis consistent with that used internally for evaluating segment performance and allocating resources to segments. The segments are managed separately because each requires different operating and technology strategies. The company evaluates performance primarily on operating income and return on capital.

Yellow has two reportable segments, which are strategic business units that offer complementary transportation services to its customers. Yellow Transportation is a unionized carrier that provides comprehensive regional, national and international transportation services. Meridian IQ provides domestic and international freight forwarding, multi-modal brokerage and transportation management services.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies note. Management fees and other corporate services are charged to segments based on direct benefit received or allocated based on revenue. Corporate revenue in 2001 and 2000 represented certain non-asset-based services prior to the formation of Meridian IQ. Corporate operating losses represent operating expenses of the holding company, including salaries, wages and benefits, along with incentive compensation and professional services for all periods presented. In 2002, Corporate operating losses also included approximately $6.9 million of spin-off charges. Corporate identifiable assets primarily referred to cash and cash equivalents, in addition to pension intangible assets. In 2002, intersegment revenue related to transportation services provided by Yellow Transportation to Meridian IQ and charges to Yellow Transportation for use of various Meridian IQ service names.

Meridian IQ includes the former operations of Transportation.com as well as other non-asset-based services. The 2001 and 2000 segment data for Meridian IQ included the partial year results of operations of Transportation.com and other non-asset-based services for the periods they were part of the company's consolidated financial results. Full year revenue for Meridian IQ was $31.1 million and $23.4 million in 2001 and 2000, respectively. Full year operating losses for Meridian IQ were $(16.8) million and $(13.7) million in 2001 and 2000, respectively.

Revenue from foreign sources totaled $24.8 million, $26.0 million, and $24.5 million, in 2002, 2001, and 2000 respectively, and is largely derived from Canada and Mexico.

The following table summarizes the company's operations by business segment:

(in thousands)	Yellow Transportation	Meridian IQ	Corporate/ Eliminations	Consolidated
2002				
External revenue	$ 2,544,573	$ 79,575	$ —	$2,624,148
Intersegment revenue	2,479	2,196	(4,675)	—
Operating income (loss)	70,594	(2,697)	(21,033)[2]	46,864
Identifiable assets	940,252	64,617	38,116	1,042,985
Capital expenditures, net	81,232	1,537	61	82,830
Depreciation and amortization	76,972	2,321	41	79,334
2001				
External revenue	$ 2,485,972	$ 11,292	$ 7,806	$2,505,070
Intersegment revenue	6,360	—	(6,360)	—
Operating income (loss)	55,884	(5,738)	(11,951)	38,195
Identifiable assets	757,484	17,641	19,704	794,829[1]
Capital expenditures, net	80,463	822	150	81,435
Depreciation and amortization	76,227	698	52	76,977
2000				
External revenue	$ 2,763,426	$ 16,788	$ 18,917	$2,799,131
Intersegment revenue	14,346	—	(14,346)	—
Operating income (loss)	141,829	(4,507)	(10,575)	126,747
Identifiable assets	722,808	—	45,793	768,601[1]
Capital expenditures, net	61,791	256	8,642	70,689
Depreciation and amortization	68,780	120	9,687	78,587

(1) The December 31, 2001 and 2000, total assets per the Consolidated Balance Sheets includes $490,948 and $539,876, respectively, of assets related to discontinued operations not included above.

(2) Includes $6.9 million of spin-off charges, as discussed on the previous page.

Earnings Per Common Share

(in thousands except per share data)	2002	2001	2000
Income from continuing operations	$ 23,973	$10,589	$61,605
Income (loss) from discontinued operations	(117,875)	4,712	6,413
Net income (loss)	$ (93,902)	$15,301	$68,018
Average common shares outstanding - basic	28,004	24,376	24,649
Effect of dilutive options and restricted stock	367	303	138
Average common shares outstanding - diluted	28,371	24,679	24,787
Basic earnings per share:			
Income from continuing operations	$ 0.86	$ 0.44	$ 2.50
Income (loss) from discontinued operations	(4.21)	0.19	0.26
Net income (loss)	$ (3.35)	$ 0.63	$ 2.76
Effect of dilutive options on earnings per share:			
Income from continuing operations	$ (0.02)	$ (0.01)	$ (0.01)
Income (loss) from discontinued operations	0.06	—	(0.01)
Net income (loss)	$ 0.04	$ (0.01)	$ (0.02)
Diluted earnings per share:			
Income from continuing operations	$ 0.84	$ 0.43	$ 2.49
Income (loss) from discontinued operations	(4.15)	0.19	0.25
Net income (loss)	$ (3.31)	$ 0.62	$ 2.74

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

(in thousands except per share data)	2002	2001	2000
Weighted average option shares outstanding	129	611	1,500
Weighted average exercise price	$29.67	$24.18	$20.79

Condensed Consolidating Financial Statements

In August 2003, Yellow Corporation issued 5.0 percent Contingent Convertible Senior Notes (the notes) due 2023 pursuant to Rule 144A under the Securities Act of 1933, as amended. In connection with the notes, the following 100 percent owned subsidiaries of Yellow Corporation issued guarantees in favor of the holders of the notes: Yellow Transportation, Inc., Mission Supply Company, Yellow Redevelopment Corporation, Yellow Relocation Services, Yellow Technologies, Inc., Yellow Dot Com Subsidiary, Inc., MegaSys, Inc., Meridian IQ, LLC, Yellow GPS, LLC, and Globe.com Lines, Inc. Each of the guarantees is full and unconditional and joint and several.

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

The following represents summarized condensed consolidating financial information as of December 31, 2002 and 2001 with respect to the financial position, and for the three years ended December 31, 2002 for results of operations and for cash flows of Yellow Corporation and its subsidiaries. The Parent column presents the financial information of Yellow Corporation that is the primary obligor on the notes. The Guarantor Subsidiaries column presents the financial information of all guarantors excluding that of Yellow Corporation which is separately presented. The Non-guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those that are governed by foreign laws.

Condensed Consolidating Balance Sheets
December 31, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Cash and cash equivalents	$ 21,898	$ 2,470	$ 4,346	$ —	$ 28,714
Intercompany advances receivable	141,057	46,291	—	(187,348)	—
Accounts receivable, net	3,211	29,017	295,685	—	327,913
Prepaid expenses and other	3,518	65,148	60	—	68,726
Total current assets	169,684	142,926	300,091	(187,348)	425,353
Property and equipment	289	1,671,327	7,480	—	1,679,096
Less - accumulated depreciation	213	1,109,710	4,197	—	1,114,120
Net property and equipment	76	561,617	3,283	—	564,976
Investment in subsidiary	263,577	—	—	(263,577)	—
Goodwill and other assets	3,729	44,756	4,171	—	52,656
Total assets	$ 437,066	$ 749,299	$ 307,545	$ (450,925)	$ 1,042,985
Intercompany advances payable	$ —	$ —	$ 187,348	$ (187,348)	$ —
Accounts payable	1,412	113,251	326	—	114,989
Wages, vacations, and employees' benefits	2,389	157,230	379	—	159,998
Other current and accrued liabilities	(1,098)	101,287	922	—	101,111
ABS borrowings	—	—	50,000	—	50,000
Current maturities of long-term debt	19,250	5,011	—	—	24,261
Total current liabilities	21,953	376,779	238,975	(187,348)	450,359
Intercompany debt	(20,658)	20,658	—	—	—
Long-term debt, less current portion	36,000	14,024	—	—	50,024
Deferred income taxes, net	(17,319)	43,381	(405)	—	25,657
Claims and other liabilities	15,782	141,495	(290)	—	156,987
Commitments and contingencies					
Shareholders' equity	401,308	152,962	69,265	(263,577)	359,958
Total liabilities and shareholders' equity	$ 437,066	$ 749,299	$ 307,545	$ (450,925)	$ 1,042,985

Condensed Consolidating Balance Sheets
December 31, 2001
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Cash and cash equivalents	$ 11,154	$ 1,944	$ 6,116	$ —	$ 19,214
Intercompany advances receivable	88,768	32,348	—	(121,116)	—
Accounts receivable, net	716	15,695	108,469	—	124,880
Prepaid expenses and other	(1,011)	61,494	15,375	—	75,858
Current assets of discontinued operations	—	—	92,458	—	92,458
Total current assets	99,627	111,481	222,418	(121,116)	312,410
Property and equipment	240	1,647,947	8,111	—	1,656,298
Less - accumulated depreciation	182	1,091,899	4,685	—	1,096,766
Net property and equipment	58	556,048	3,426	—	559,532
Investment in subsidiary	474,283	—	—	(474,283)	—
Goodwill and other assets	4,044	11,169	132	—	15,345
Noncurrent assets of discontinued operations	—	—	398,490	—	398,490
Total assets	$ 578,012	$ 678,698	$ 624,466	$ (595,399)	$ 1,285,777
Intercompany advances payable	$ —	$ 44,704	$ 76,412	$ (121,116)	$ —
Accounts payable	546	96,691	291	—	97,528
Wages, vacations, and employees' benefits	783	103,004	203	—	103,990
Other current and accrued liabilities	4,231	87,634	4,875	—	96,740
Current maturities of long-term debt	—	41	6,240	—	6,281
Current liabilities of discontinued operations	—	—	64,669	—	64,669
Total current liabilities	5,560	332,074	152,690	(121,116)	369,208
Intercompany debt	(89,109)	(1,048)	90,157	—	—
Long-term debt, less current portion	162,250	18,900	32,595	—	213,745
Deferred income taxes, net	(15,402)	49,847	(577)	—	33,868
Claims and other liabilities	12,532	102,167	(4,373)	—	110,326
Noncurrent liabilities of discontinued operations	—	—	67,641	—	67,641
Commitments and contingencies					
Shareholders' equity	502,181	176,758	286,333	(474,283)	490,989
Total liabilities and shareholders' equity	$ 578,012	$ 678,698	$ 624,466	$ (595,399)	$ 1,285,777

Condensed Consolidating Statements of Operations
For the year ended December 31, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating revenue	$ 43,938	$2,599,394	$ 24,754	$ (43,938)	$2,624,148
Operating expenses:					
Salaries, wages and employees' benefits	12,056	1,697,567	7,759	—	1,717,382
Operating expenses and supplies	14,774	355,476	31,360	(16,088)	385,522
Operating taxes and licenses	206	74,999	532	—	75,737
Claims and insurance	1,233	55,944	20	—	57,197
Depreciation and amortization	41	79,028	265	—	79,334
Purchased transportation	—	244,087	9,590	—	253,677
(Gains) losses on property disposals, net	—	559	(134)	—	425
Spin-off and reorganization charges	6,613	1,397	—	—	8,010
Total operating expenses	34,923	2,509,057	49,392	(16,088)	2,577,284
Operating income (loss)	9,015	90,337	(24,638)	(27,850)	46,864
Nonoperating (income) expenses:					
Interest expense	8,087	3,932	3,394	(8,202)	7,211
ABS facility charges	—	—	2,576	—	2,576
Other, net	(24,296)	74,855	(50,669)	(399)	(509)
Nonoperating (income) expenses, net	(16,209)	78,787	(44,699)	(8,601)	9,278
Income (loss) from continuing operations before income taxes	25,224	11,550	20,061	(19,249)	37,586
Income tax provision	1,249	5,143	7,221	—	13,613
Income (loss) from continuing operations	23,975	6,407	12,840	(19,249)	23,973
Loss from discontinued operations, net	—	—	(117,875)	—	(117,875)
Net income (loss)	$ 23,975	$ 6,407	$(105,035)	$ (19,249)	$ (93,902)

Condensed Consolidating Statements of Operations
For the year ended December 31, 2001
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating revenue	$ 54,264	$ 2,480,119	$ 25,987	$ (55,300)	$ 2,505,070
Operating expenses:					
Salaries, wages and employees' benefits	8,390	1,622,638	7,634	—	1,638,662
Operating expenses and supplies	13,848	378,599	23,516	(17,909)	398,054
Operating taxes and licenses	174	74,920	543	—	75,637
Claims and insurance	1,983	56,372	(1,356)	—	56,999
Depreciation and amortization	38	76,668	271	—	76,977
Purchased transportation	—	205,424	9,707	—	215,131
(Gains) losses on property disposals, net	(1)	(202)	17	—	(186)
Spin-off and reorganization charges	633	5,089	(121)	—	5,601
Total operating expenses	25,065	2,419,508	40,211	(17,909)	2,466,875
Operating income (loss)	29,199	60,611	(14,224)	(37,391)	38,195
Nonoperating (income) expenses:					
Interest expense	18,513	2,356	5,017	(17,449)	8,437
ABS facility charges	—	—	7,996	—	7,996
Other, net	(14,294)	90,096	(49,645)	(21,754)	4,403
Nonoperating (income) expenses, net	4,219	92,452	(36,632)	(39,203)	20,836
Income (loss) from continuing operations before income taxes	24,980	(31,841)	22,408	1,812	17,359
Income tax provision (benefit)	9,679	(10,399)	7,490	—	6,770
Income (loss) from continuing operations	15,301	(21,442)	14,918	1,812	10,589
Income from discontinued operations, net	—	—	4,712	—	4,712
Net income (loss)	$ 15,301	$ (21,442)	$ 19,630	$ 1,812	$ 15,301

Condensed Consolidating Statements of Operations
For the year ended December 31, 2000
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating revenue	$ 44,117	$2,781,499	$ 24,521	$ (51,006)	$2,799,131
Operating expenses:					
Salaries, wages and employees’ benefits	6,653	1,752,506	8,767	—	1,767,926
Operating expenses and supplies	16,494	428,992	8,904	(23,054)	431,336
Operating taxes and licenses	190	80,510	559	—	81,259
Claims and insurance	1,232	61,067	(764)	—	61,535
Depreciation and amortization	54	78,226	307	—	78,587
Purchased transportation	—	257,127	8,986	—	266,113
(Gains) losses on property disposals, net	2,234	(13,518)	(3,088)	—	(14,372)
Spin-off and reorganization charges	—	—	—	—	—
Total operating expenses	26,857	2,644,910	23,671	(23,054)	2,672,384
Operating income (loss)	17,260	136,589	850	(27,952)	126,747
Nonoperating (income) expenses:					
Interest expense	16,546	2,401	16,909	(25,725)	10,131
ABS facility charges	—	—	10,052	—	10,052
Other, net	(77,074)	39,013	(27,059)	66,557	1,437
Nonoperating (income) expenses, net	(60,528)	41,414	(98)	40,832	21,620
Income (loss) from continuing operations before income taxes	77,788	95,175	948	(68,784)	105,127
Income tax provision (benefit)	5,431	39,747	(1,656)	—	43,522
Income (loss) from continuing operations	72,357	55,428	2,604	(68,784)	61,605
Income (loss) from discontinued operations, net	(1,284)	—	7,697	—	6,413
Net income (loss)	$ 71,073	$ 55,428	$ 10,301	$ (68,784)	$ 68,018

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating Activities:					
Net cash from (used in) operating activities	$ 19,435	$ 142,608	$ (95,311)	$ (23,674)	$ 43,058
Investing activities:					
Acquisition of property and equipment	(59)	(86,120)	(158)	—	(86,337)
Proceeds from disposal of property and equipment	—	3,306	201	—	3,507
Acquisition of companies	(17,105)	(937)	—	—	(18,042)
Net capital expenditures of discontinued operations	—	—	(24,372)	—	(24,372)
Net cash used in investing activities	(17,164)	(83,751)	(24,329)	—	(125,244)
Financing activities:					
Unsecured bank credit lines, net	(85,000)	—	—	—	(85,000)
Repayment of long-term debt	(22,000)	(75)	(22,525)	—	(44,600)
Dividend from subsidiary upon spin-off	—	—	113,790	—	113,790
Proceeds from exercise of stock options	13,704	—	—	—	13,704
Proceeds from issuance of common stock	93,792	—	—	—	93,792
Intercompany advances/repayments	7,977	(58,256)	26,605	23,674	—
Net cash provided by (used in) financing activities	8,473	(58,331)	117,870	23,674	91,686
Net increase (decrease) in cash and cash equivalents	10,744	526	(1,770)	—	9,500
Cash and cash equivalents, beginning of year	11,154	1,944	6,116	—	19,214
Cash and cash equivalents, end of year	$ 21,898	$ 2,470	$ 4,346	$ —	$ 28,714

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2001
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating Activities:					
Net cash from (used in) operating activities	$ 13,282	$ (4,042)	$ 72,818	$ 6,237	$ 88,295
Investing activities:					
Acquisition of property and equipment	(33)	(87,814)	(175)	—	(88,022)
Proceeds from disposal of property and equipment	—	6,587	—	—	6,587
Acquisition of company	—	(14,300)	—	—	(14,300)
Other	—	(5,830)	—	—	(5,830)
Net capital expenditures of discontinued operations	—	—	(19,619)	—	(19,619)
Net cash used in investing activities	(33)	(101,357)	(19,794)	—	(121,184)
Financing activities:					
Unsecured bank credit lines, net	25,000	—	—	—	25,000
Repayment of long-term debt	(1,000)	(7,694)	(1,718)	—	(10,412)
Proceeds from exercise of stock options	16,638	—	—	—	16,638
Intercompany advances/repayments	(48,811)	105,994	(50,946)	(6,237)	—
Net cash provided by (used in) financing activities	(8,173)	98,300	(52,664)	(6,237)	31,226
Net increase (decrease) in cash and cash equivalents	5,076	(7,099)	360	—	(1,663)
Cash and cash equivalents, beginning of year	6,078	9,043	5,756	—	20,877
Cash and cash equivalents, end of year	$ 11,154	$ 1,944	$ 6,116	$ —	$ 19,214

Condensed Consolidating Statements of Cash Flows
For the year ended December 31, 2000
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating Activities:					
Net cash from (used in) operating activities	$ 58,756	$ 115,749	$ 120,028	$ (68,784)	$ 225,749
Investing activities:					
Acquisition of property and equipment	(25)	(100,174)	(378)	—	(100,577)
Proceeds from disposal of property and equipment	—	26,578	3,310	—	29,888
Other	—	(5,114)	—	—	(5,114)
Net capital expenditures of discontinued operations	—	—	(59,034)	—	(59,034)
Net cash used in investing activities	(25)	(78,710)	(56,102)	—	(134,837)
Financing activities:					
Unsecured bank credit lines, net	(40,000)	—	—	—	(40,000)
Repayment of long-term debt	(28,750)	(728)	(1,567)	—	(31,045)
Proceeds from exercise of stock options	6,984	—	—	—	6,984
Treasury stock purchases	(24,997)	—	—	—	(24,997)
Intercompany advances/repayments	27,049	(32,972)	(62,861)	68,784	—
Net cash provided by (used in) financing activities	(59,714)	(33,700)	(64,428)	68,784	(89,058)
Net increase (decrease) in cash and cash equivalents	(983)	3,339	(502)	—	1,854
Cash and cash equivalents, beginning of year	7,061	5,704	6,258	—	19,023
Cash and cash equivalents, end of year	$ 6,078	$ 9,043	$ 5,756	$ —	$ 20,877

Independent Auditors' Report

To the Shareholders of Yellow Corporation:

We have audited the accompanying consolidated balance sheets of Yellow Corporation (a Delaware corporation) and Subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of operations, cash flows, shareholders' equity, and comprehensive income for each of the years in the three year period ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Yellow Corporation and Subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Goodwill and Intangibles note to the financial statements, effective January 1, 2002, the Company ceased amortization of goodwill and changed its method of determining impairment of goodwill as required by Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

KPMG LLP
Kansas City, Missouri
January 23, 2003,
except for the Condensed
Consolidating Financial
Statements note as to which the
date is October 7, 2003

Exhibit 99.2

CONSOLIDATED BALANCE SHEETS

Yellow Corporation and Subsidiaries
(Amounts in thousands except per share data)
(Unaudited)

	June 30, 2003	December 31, 2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 49,811	$ 28,714
Accounts receivable, net	334,360	327,913
Prepaid expenses and other	31,765	68,726
Total current assets	415,936	425,353
PROPERTY AND EQUIPMENT:		
Cost	1,698,586	1,679,096
Less - Accumulated depreciation	1,127,405	1,114,120
Net property and equipment	571,181	564,976
Goodwill and other assets	53,564	52,656
Total assets	$1,040,681	$1,042,985
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 71,283	$ 114,989
Wages, vacations, and employees' benefits	166,369	159,998
Other current and accrued liabilities	113,572	101,111
Asset backed securitization (ABS) borrowings	50,000	50,000
Current maturities of long-term debt	40,259	24,261
Total current liabilities	441,483	450,359
OTHER LIABILITIES:		
Long-term debt, less current portion	33,983	50,024
Deferred income taxes, net	27,089	25,657
Claims and other liabilities	153,260	156,987
Total other liabilities	214,332	232,668
SHAREHOLDERS' EQUITY:		
Common stock, $1 par value per share	31,910	31,825
Capital surplus	82,104	80,610
Retained earnings	349,460	325,474
Accumulated other comprehensive loss	(33,575)	(35,596)
Unamortized restricted stock awards	(810)	(1,053)
Treasury stock, at cost (2,359 and 2,244 shares)	(44,223)	(41,302)
Total shareholders' equity	384,866	359,958
Total liabilities and shareholders' equity	$1,040,681	$1,042,985

The accompanying notes are an integral part of these statements.

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

	Three Months		Six Months	
	2003	2002	2003	2002
OPERATING REVENUE	$713,453	$646,061	$1,394,546	$1,224,863
OPERATING EXPENSES:				
Salaries, wages and benefits	458,036	429,782	896,784	820,021
Operating expenses and supplies	103,908	92,753	213,851	173,821
Operating taxes and licenses	19,492	18,722	39,259	37,101
Claims and insurance	10,730	16,642	23,454	30,222
Depreciation and amortization	20,818	19,482	41,086	38,411
Purchased transportation	68,106	61,471	135,979	114,717
Losses on property disposals, net	30	438	41	906
Spin-off and reorganization charges	—	561	—	797
Total operating expenses	681,120	639,851	1,350,454	1,215,996
OPERATING INCOME	32,333	6,210	44,092	8,867
NONOPERATING (INCOME) EXPENSES:				
Interest expense	2,625	1,437	5,271	3,747
ABS facility charges	—	715	—	1,469
Other	(343)	(44)	(436)	(202)
Nonoperating expenses, net	2,282	2,108	4,835	5,014
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	30,051	4,102	39,257	3,853
INCOME TAX PROVISION	11,691	1,474	15,271	1,372
INCOME FROM CONTINUING OPERATIONS	18,360	2,628	23,986	2,481
Income (loss) from discontinued operations, net	—	3,592	—	(69,297)
NET INCOME (LOSS)	$ 18,360	$ 6,220	$ 23,986	$ (66,816)
AVERAGE SHARES OUTSTANDING-BASIC	29,586	28,404	29,585	26,687
AVERAGE SHARES OUTSTANDING-DILUTED	29,834	28,810	29,826	27,053
BASIC EARNINGS (LOSS) PER SHARE:				
Income from continuing operations	$ 0.62	$ 0.09	$ 0.81	$ 0.09
Income (loss) from discontinued operations	—	0.13	—	(2.59)
Net income (loss)	$ 0.62	$ 0.22	$ 0.81	$ (2.50)
DILUTED EARNINGS (LOSS) PER SHARE:				
Income from continuing operations	$ 0.62	$ 0.09	$ 0.80	$ 0.09
Income (loss) from discontinued operations	—	0.13	—	(2.56)
Net income (loss)	$ 0.62	$ 0.22	$ 0.80	$ (2.47)

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
(Amounts in thousands)
(Unaudited)

	2003	2002
OPERATING ACTIVITIES:		
Net income (loss)	$ 23,986	$ (66,816)
Noncash items included in net income (loss):		
Depreciation and amortization	41,086	38,411
Loss from discontinued operations	—	69,297
Losses on property disposals, net	41	906
Changes in assets and liabilities, net:		
Accounts receivable	(6,447)	(49,858)
Accounts receivable securitizations	—	(22,000)
Accounts payable	(43,706)	(21,641)
Other working capital items	55,861	67,522
Claims and other	(2,653)	20,056
Other	1,603	2,760
Net change in operating activities of discontinued operations	—	19,081
Net cash from operating activities	69,771	57,718
INVESTING ACTIVITIES:		
Acquisition of property and equipment	(48,038)	(39,398)
Proceeds from disposal of property and equipment	1,204	1,528
Net capital expenditures of discontinued operations	—	(9,229)
Net cash used in investing activities	(46,834)	(47,099)
FINANCING ACTIVITIES:		
Decrease in long-term debt	(43)	(113,011)
ABS borrowings, net	—	—
Proceeds from issuance of common stock	—	93,792
Treasury stock purchases	(2,921)	—
Proceeds from stock options	1,124	6,189
Net cash used in financing activities	(1,840)	(13,030)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,097	(2,411)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	28,714	19,214
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 49,811	$ 16,803
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid (refunds), net	$ 4,170	$ (5,055)
Interest paid	$ 4,491	$ 7,499

The accompanying notes are an integral part of these statements.

1. The accompanying consolidated financial statements include the accounts of Yellow Corporation and its wholly owned subsidiaries (also referred to as "Yellow," "we" or "our"). We have prepared the consolidated financial statements, without audit by independent public accountants, pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). In management's opinion, all normal recurring adjustments necessary for a fair statement of the financial position, results of operations and cash flows for the interim periods included herein have been made. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to SEC rules and regulations. Accordingly, the accompanying consolidated financial statements should be read in conjunction with the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002.

2. Yellow Corporation is a holding company that through wholly owned operating subsidiaries offers its customers a wide range of asset and non-asset-based transportation services integrated by technology. Yellow Transportation, Inc. (Yellow Transportation) offers a full range of regional, national and international services for the movement of industrial, commercial and retail goods. Meridian IQ, LLC (Meridian IQ) is a non-asset global transportation management company that plans, coordinates and manages the movement of goods worldwide to provide customers a single source for transportation management solutions. Yellow Technologies, Inc. provides innovative technology solutions and services exclusively for Yellow Corporation companies.

On July 8, 2003, Yellow and Roadway Corporation (Roadway) announced a definitive agreement under which we will acquire Roadway for approximately $966 million in cash and Yellow common stock on approximately a 50/50 basis. We will also assume an expected $140 million in net Roadway indebtedness, bringing the enterprise value of the acquisition to approximately $1.1 billion. Upon completion of the transaction, Roadway will be an operating subsidiary under the holding company, which will be renamed Yellow-Roadway Corporation. Please refer to our Current Report on Form 8-K/A dated July 8, 2003 for a more detailed description of the transaction.

On September 30, 2002, Yellow completed the 100 percent distribution (the spin-off) of all of its shares of SCS Transportation, Inc. (SCST) to Yellow shareholders. Shares were distributed on the basis of one share of SCST common stock for every two shares of Yellow common stock. As a result of the spin-off, our financial statements were reclassified to reflect SCST as discontinued operations for the periods prior to the spin-off.

Summarized results of operations relating to SCST (as reported in discontinued operations) for the three and six months ended June 30, 2002 were as follows (amounts in thousands, except per share data):

	Three Months	Six Months
Operating revenue	$ 196,488	$380,026
Operating expenses	189,162	367,253
Operating income	7,326	12,773
Nonoperating expenses, net	1,522	3,100
Income before income taxes	5,804	9,673
Income tax provision	2,212	3,795
Income from continuing operations	3,592	5,878
Cumulative effect of change in accounting for goodwill	—	(75,175)
Income (loss) from discontinued operations, net	$ 3,592	$ (69,297)
Discontinued operations basic earnings (loss) per share:		
Income from continuing operations	$ 0.13	$ 0.22
Cumulative effect of change in accounting for goodwill	—	(2.81)
Income (loss) from discontinued operations	$ 0.13	$ (2.59)
Discontinued operations diluted earnings (loss) per share:		
Income from continuing operations	$ 0.13	$ 0.22
Cumulative effect of change in accounting for goodwill	—	(2.78)
Income (loss) from discontinued operations	$ 0.13	$ (2.56)

Management fees and other corporate services previously allocated to SCST were not charged to discontinued operations, as we continue to incur the expenses. We allocated interest expense to discontinued operations based on the overall effective borrowing rate of Yellow applied to the debt reduction that we realized from the spin-off. Interest expense included in discontinued operations was $1.4 million and $3.0 million for the three months and six months ended June 30, 2002, respectively.

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

Yellow has two reportable segments, which are strategic business units that offer complementary transportation services to its customers. Yellow Transportation is a unionized carrier that provides comprehensive regional, national and international transportation services. Meridian IQ provides domestic and international freight forwarding, multi-modal brokerage and transportation management services.

The accounting policies of the segments are the same as those described in the Summary of Accounting Policies in our Annual Report on Form 10-K for the year ended December 31, 2002. We charge management fees and other corporate services to segments primarily based on direct benefit received or allocated based on revenue. Corporate operating losses represent operating expenses of the holding company, including salaries, wages and benefits, along with incentive compensation and professional services. In 2003, Corporate operating losses also included $4.0 million for an industry conference Yellow hosted. Corporate identifiable assets primarily include cash and cash equivalents, in addition to pension intangible assets. Intersegment revenue consists of transportation services provided by Yellow Transportation to Meridian IQ and charges to Yellow Transportation for use of various Meridian IQ service names.

The following table summarizes our operations by business segment (in thousands):

	Yellow Transportation	**Meridian IQ**	**Corporate/ Eliminations**	**Consolidated**
As of June 30, 2003				
Identifiable assets	$ 918,602	$ 64,874	$ 57,205	$ 1,040,681
As of December 31, 2002				
Identifiable assets	940,252	64,617	38,116	1,042,985
Three months ended June 30, 2003				
External revenue	690,817	22,636	—	713,453
Intersegment revenue	632	549	(1,181)	—
Operating income (loss)	36,361	64	(4,092)	32,333
Three months ended June 30, 2002				
External revenue	627,668	18,393	—	646,061
Intersegment revenue	547	549	(1,096)	—
Operating income (loss)	10,525	(454)	(3,861)	6,210
Six months ended June 30, 2003				
External revenue	1,350,376	44,170	—	1,394,546
Intersegment revenue	1,198	1,098	(2,296)	—
Operating income (loss)	55,861	(829)	(10,940)	44,092
Six months ended June 30, 2002				
External revenue	1,191,617	33,246	—	1,224,863
Intersegment revenue	1,241	1,098	(2,339)	—
Operating income (loss)	17,187	(1,969)	(6,351)	8,867

4. Yellow has various stock-based employee compensation plans, which are described more fully in our Annual Report on Form 10-K for the year ended December 31, 2002. Yellow accounts for those plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." We do not reflect compensation cost in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant.

   We estimated the pro forma calculations in the table below using the Black-Scholes option pricing model with the following weighted average assumptions for the three and six months ended June 30:

	Three Months		Six Months	
	2003	**2002**	**2003**	**2002**
Dividend yield	— %	n/a	— %	— %
Expected volatility	46.8%	n/a	46.9%	35.7%
Risk-free interest rate	2.2%	n/a	2.1%	3.8%
Expected option life (years)	3	n/a	3	3
Fair value per option	$ 8.91	n/a	$ 8.90	$ 5.59
Actual options granted	40,700	0	54,700	14,000

   The following table illustrates the effect on income from continuing operations, net income and earnings per share if Yellow had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, for the three and six months ended June 30:

	Three Months		Six Months	
(In thousands except per share data)	**2003**	**2002**	**2003**	**2002**
Net income (loss), as reported	$18,360	$6,220	$23,986	$(66,816)
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	552	345	1,101	705
Pro forma net income (loss)	$17,808	$5,875	$22,885	$(67,521)
Basic earnings (loss) per share:				
Income from continuing operations – as reported	$ 0.62	$ 0.09	$ 0.81	$ 0.09
Income from continuing operations – pro forma	0.60	0.08	0.77	0.06
Net income (loss) – as reported	0.62	0.22	0.81	(2.50)
Net income (loss) – pro forma	0.60	0.21	0.77	(2.53)
Diluted earnings (loss) per share:				
Income from continuing operations – as reported	$ 0.62	$ 0.09	$ 0.80	$ 0.09
Income from continuing operations – pro forma	0.60	0.08	0.76	0.06
Net income (loss) – as reported	0.62	0.22	0.80	(2.47)
Net income (loss) – pro forma	0.60	0.21	0.76	(2.50)

5. Our comprehensive income includes net income, changes in the fair value of an interest rate swap and foreign currency translation adjustments. Comprehensive income for the three months ended June 30, 2003 and 2002 was $19.5 million and $6.4 million, respectively, while comprehensive income (loss) for the six months ended June 30, 2003 and 2002 was $26.0 million and $(65.2) million, respectively.

6. As of June 30, 2003, the carrying amount of goodwill was $20.5 million and the gross amount of identifiable intangible assets was $8.3 million. Accumulated amortization of intangibles totaled $1.0 million. Refer to our Annual Report on Form 10-K for the year ended December 31, 2002 for a description of our goodwill and intangibles policies.

7. Yellow incurs rental expenses under noncancelable lease agreements for certain buildings and operating equipment. Rental expense is charged to operating expenses and supplies on the Statements of Consolidated Operations. The following table represents the actual rental expense, as reflected in operating income, incurred for the three and six months ended June 30 (in thousands):

	Three Months		Six Months	
	2003	2002	2003	2002
Rental expense	$9,578	$8,472	$19,173	$16,956

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

   Yellow Transportation has collective bargaining agreements with its unions that stipulate the amount of contributions it makes to multi-employer pension plans. The Internal Revenue Code and Internal Revenue Service regulations also establish minimum funding requirements for multi-employer pension plans and provide provisions to address the plans' funding if it fails to meet those requirements.

9. In August 2003, Yellow Corporation issued 5.0 percent Contingent Convertible Senior Notes (the notes) due 2023 pursuant to Rule 144A under the Securities Act of 1933, as amended. In connection with the notes, the following 100 percent owned subsidiaries of Yellow Corporation issued guarantees in favor of the holders of the notes: Yellow Transportation, Inc., Mission Supply Company, Yellow Redevelopment Corporation, Yellow Relocation Services, Yellow Technologies, Inc., Yellow Dot Com Subsidiary, Inc., MegaSys, Inc., Meridian IQ, LLC, Yellow GPS, LLC, and Globe.com Lines, Inc. Each of the guarantees is full and unconditional and joint and several.

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

   The following represents summarized condensed consolidating financial information as of June 30, 2003 and December 31, 2002 with respect to the financial position, and for the six months ended June 30, 2003 and 2002 for results of operations and for cash flows of Yellow Corporation and its subsidiaries. The Parent column presents the financial information of Yellow Corporation that is the primary obligor of the notes. The Guarantor Subsidiaries column presents the financial information of all guarantors excluding that of Yellow Corporation which is separately presented. The Non-guarantor Subsidiaries column presents the financial information of all non-guarantor subsidiaries, including those that are governed by foreign laws.

Condensed Consolidating Balance Sheets
June 30, 2003
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Cash and cash equivalents	$ 44,539	$ 1,464	$ 3,808	$ —	$ 49,811
Intercompany advances receivable	146,016	34,020	—	(180,036)	—
Accounts receivable, net	2,764	31,950	299,646	—	334,360
Prepaid expenses and other	514	31,162	89	—	31,765
Total current assets	193,833	98,596	303,543	(180,036)	415,936
Property and equipment at cost	296	1,689,861	8,429	—	1,698,586
Less - accumulated depreciation	218	1,122,505	4,682	—	1,127,405
Net property and equipment	78	567,356	3,747	—	571,181
Investment in subsidiary	231,326	—	—	(231,326)	—
Goodwill and other assets	3,612	45,199	4,753	—	53,564
Total assets	$ 428,849	$ 711,151	$ 312,043	$ (411,362)	$ 1,040,681
Intercompany advances payable	$ —	$ —	$ 180,036	$ (180,036)	$ —
Accounts payable	943	70,034	306	—	71,283
Wages, vacations, and employees’ benefits	2,600	163,598	171	—	166,369
Other current and accrued liabilities	1,724	111,643	330	(125)	113,572
ABS borrowings	—	—	50,000	—	50,000
Current maturities of long-term debt	35,250	5,009	—	—	40,259
Total current liabilities	40,517	350,284	230,843	(180,161)	441,483
Intercompany debt	(20,293)	20,293	—	—	—
Long-term debt, less current portion	20,000	13,983	—	—	33,983
Deferred income taxes, net	(16,939)	43,663	365	—	27,089
Claims and other liabilities	12,620	140,585	55	—	153,260
Shareholders’ equity	392,944	142,343	80,780	(231,201)	384,866
Total liabilities and shareholders’ equity	$ 428,849	$ 711,151	$ 312,043	$ (411,362)	$ 1,040,681

Condensed Consolidating Balance Sheets
December 31, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Cash and cash equivalents	$ 21,898	$ 2,470	$ 4,346	$ —	$ 28,714
Intercompany advances receivable	141,057	46,291	—	(187,348)	—
Accounts receivable, net	3,211	29,017	295,685	—	327,913
Prepaid expenses and other	3,518	65,148	60	—	68,726
Total current assets	169,684	142,926	300,091	(187,348)	425,353
Property and equipment at cost	289	1,671,327	7,480	—	1,679,096
Less - accumulated depreciation	213	1,109,710	4,197	—	1,114,120
Net property and equipment at cost	76	561,617	3,283	—	564,976
Investment in subsidiary	263,577	—	—	(263,577)	—
Goodwill and other assets	3,729	44,756	4,171	—	52,656
Total assets	$ 437,066	$ 749,299	$ 307,545	$ (450,925)	$ 1,042,985
Intercompany advances payable	$ —	$ —	$ 187,348	$ (187,348)	$ —
Accounts payable	1,412	113,251	326	—	114,989
Wages, vacations, and employees’ benefits	2,389	157,230	379	—	159,998
Other current and accrued liabilities	(1,098)	101,287	922	—	101,111
ABS borrowings	—	—	50,000	—	50,000
Current maturities of long-term debt	19,250	5,011	—	—	24,261
Total current liabilities	21,953	376,779	238,975	(187,348)	450,359
Intercompany debt	(20,658)	20,658	—	—	—
Long-term debt, less current portion	36,000	14,024	—	—	50,024
Deferred income taxes, net	(17,319)	43,381	(405)	—	25,657
Claims and other liabilities	15,782	141,495	(290)	—	156,987
Shareholders’ equity	401,308	152,962	69,265	(263,577)	359,958
Total liabilities and shareholders’ equity	$ 437,066	$ 749,299	$ 307,545	$ (450,925)	$ 1,042,985

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2003
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating revenue	$ 6,927	$ 1,381,475	$ 13,071	$ (6,927)	$ 1,394,546
Operating expenses:					
Salaries, wages and benefits	6,183	886,287	4,314	—	896,784
Operating expenses and supplies	10,212	196,603	13,938	(6,902)	213,851
Operating taxes and licenses	93	38,873	293	—	39,259
Claims and insurance	211	23,107	136	—	23,454
Depreciation and amortization	19	40,924	143	—	41,086
Purchased transportation	—	131,066	4,913	—	135,979
Losses on property disposals, net	27	13	1	—	41
Spin-off and reorganization charges	—	—	—	—	—
Total operating expenses	16,745	1,316,873	23,738	(6,902)	1,350,454
Operating income (loss)	(9,818)	64,602	(10,667)	(25)	44,092
Nonoperating (income) expenses:					
Interest expense	4,071	1,965	2,852	(3,617)	5,271
ABS facility charges	—	—	—	—	—
Other, net	(1,680)	27,024	(29,372)	3,592	(436)
Nonoperating (income) expenses, net	2,391	28,989	(26,520)	(25)	4,835
Income (loss) before income taxes	(12,209)	35,613	15,853	—	39,257
Income tax provision (benefit)	(4,251)	13,957	5,690	(125)	15,271
Net income (loss)	$ (7,958)	$ 21,656	$ 10,163	$ 125	$ 23,986

Condensed Consolidating Statements of Operations
For the six months ended June 30, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating revenue	$26,200	$1,212,303	$ 12,560	$ (26,200)	$1,224,863
Operating expenses:					
Salaries, wages and benefits	5,280	811,102	3,639	—	820,021
Operating expenses and supplies	5,380	162,448	14,318	(8,325)	173,821
Operating taxes and licenses	148	36,672	281	—	37,101
Claims and insurance	1,044	29,168	10	—	30,222
Depreciation and amortization	20	38,261	130	—	38,411
Purchased transportation	—	110,204	4,513	—	114,717
(Gains) losses on property disposals, net	—	1,053	(147)	—	906
Spin-off and reorganization charges	578	219	—	—	797
Total operating expenses	12,450	1,189,127	22,744	(8,325)	1,215,996
Operating income (loss)	13,750	23,176	(10,184)	(17,875)	8,867
Nonoperating (income) expenses:					
Interest expense	4,815	2,033	543	(3,644)	3,747
ABS facility charges	—	—	1,469	—	1,469
Other, net	(2,922)	40,547	(23,596)	(14,231)	(202)
Nonoperating (income) expenses, net	1,893	42,580	(21,584)	(17,875)	5,014
Income (loss) from continuing operations before income taxes	11,857	(19,404)	11,400	—	3,853
Income tax provision (benefit)	4,260	(6,592)	4,587	(883)	1,372
Income (loss) from continuing operations	7,597	(12,812)	6,813	883	2,481
Loss from discontinued operations, net	—	—	(69,297)	—	(69,297)
Net income (loss)	$ 7,597	$ (12,812)	$ (62,484)	$ 883	$ (66,816)

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2003
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating Activities:					
Net cash from (used in) operating activities	$ (3,198)	$ 66,113	$ 6,856	$ —	$ 69,771
Investing activities:					
Acquisition of property and equipment	(22)	(47,909)	(107)	—	(48,038)
Proceeds from disposal of property and equipment	1	1,203	—	—	1,204
Net cash used in investing activities	(21)	(46,706)	(107)	—	(46,834)
Financing activities:					
Decrease in long-term debt	—	(43)	—	—	(43)
ABS borrowings, net	—	—	—	—	—
Proceeds from stock options	1,124	—	—	—	1,124
Treasury stock purchases	(2,921)	—	—	—	(2,921)
Intercompany advances/repayments	27,657	(20,370)	(7,287)	—	—
Net cash provided by (used in) financing activities	25,860	(20,413)	(7,287)	—	(1,840)
Net increase (decrease) in cash and cash equivalents	22,641	(1,006)	(538)	—	21,097
Cash and cash equivalents, beginning of period	21,898	2,470	4,346	—	28,714
Cash and cash equivalents, end of period	$ 44,539	$ 1,464	$ 3,808	$ —	$ 49,811

Condensed Consolidating Statements of Cash Flows
For the six months ended June 30, 2002
(in thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Elimination	Consolidated
Operating Activities:					
Net cash from (used in) operating activities	$ 3,939	$ 73,216	$ (14,987)	$ (4,450)	$ 57,718
Investing activities:					
Acquisition of property and equipment	(55)	(39,258)	(85)	—	(39,398)
Proceeds from disposal of property and equipment	—	1,308	220	—	1,528
Net capital expenditures of discontinued operations	—	—	(9,229)	—	(9,229)
Net cash used in investing activities	(55)	(37,950)	(9,094)	—	(47,099)
Financing activities:					
Decrease in long-term debt	(107,000)	—	(6,011)	—	(113,011)
ABS borrowings, net	—	—	—	—	—
Proceeds from stock options	6,189	—	—	—	6,189
Proceeds from issuance of common stock	93,792	—	—	—	93,792
Intercompany advances/repayments	1,103	(34,214)	28,661	4,450	—
Net cash provided by (used in) financing activities	(5,916)	(34,214)	22,650	4,450	(13,030)
Net increase (decrease) in cash and cash equivalents	(2,032)	1,052	(1,431)	—	(2,411)
Cash and cash equivalents, beginning of period	11,154	1,944	6,116	—	19,214
Cash and cash equivalents, end of period	$ 9,122	$ 2,996	$ 4,685	$ —	$ 16,803

Exhibit 99.3

Report of Ernst & Young LLP
Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Roadway Corporation and subsidiaries as of December 31, 2002 and 2001, and the related statements of consolidated income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Roadway Corporation and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Akron, Ohio
January 22, 2003

Roadway Corporation and Subsidiaries

Consolidated Balance Sheets

	December 31	
	2002	2001
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 106,929**	$ 110,432
Accounts receivable, including retained interest in securitized receivables, net	**230,216**	182,463
Prepaid expenses and supplies	**16,683**	13,802
Deferred income taxes	**21,813**	16,134
Assets of discontinued operations	**87,431**	134,936
Total current assets	**463,072**	457,767
Carrier operating property, at cost	**1,515,648**	1,535,086
Less allowance for depreciation	**1,006,465**	1,012,279
Net carrier operating property	**509,183**	522,807
Goodwill, net	**283,910**	256,901
Deferred income taxes	**39,941**	31,054
Other assets	**39,767**	34,320
Total assets	**$1,335,873**	$1,302,849
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 193,501**	$ 179,829
Salaries and wages	**151,464**	120,198
Current portion of long-term debt	**33,703**	18,000
Freight and casualty claims payable	**49,815**	52,669
Liabilities of discontinued operations	**32,407**	67,353
Total current liabilities	**460,890**	438,049
Long-term liabilities:		
Casualty claims and other	**67,882**	65,997
Deferred income taxes	**10,666**	10,887
Accrued pension and postretirement health care	**135,053**	121,021
Long-term debt	**273,513**	307,000
Total long-term liabilities	**487,114**	504,905
Shareholders' equity:		
Preferred stock Authorized—20,000,000 shares; Issued—none	**—**	—
Common stock—$.01 par value; Authorized—100,000,000 shares; Issued—20,556,714 shares	**206**	206
Additional paid-in capital	**35,559**	38,555
Retained earnings	**397,173**	362,123
Accumulated other comprehensive loss	**(10,090)**	(9,741)
Unearned portion of restricted stock awards	**(12,896)**	(10,417)
Treasury shares (1,188,124 shares in 2002 and 1,179,900 shares in 2001)	**(22,083)**	(20,831)
Total shareholders' equity	**387,869**	359,895
Total liabilities and shareholders' equity	**$1,335,873**	$1,302,849

See accompanying notes.

Roadway Corporation and Subsidiaries

Statements of Consolidated Income

	Year ended December 31		
	2002	**2001**	**2000**
	(in thousands, except per share data)		
Revenue	**$3,010,776**	$2,778,891	$3,039,560
Operating expenses:			
Salaries, wages and benefits	**1,934,482**	1,781,243	1,889,928
Operating supplies and expenses	**479,415**	477,981	544,774
Purchased transportation	**289,612**	271,964	308,089
Operating taxes and licenses	**76,662**	71,360	78,271
Insurance and claims	**63,621**	47,028	64,442
Provision for depreciation	**75,786**	70,186	55,675
Net (gain) loss on sale of carrier operating property	**(650)**	434	1,969
Total operating expenses	**2,918,928**	2,720,196	2,943,148
Operating income from continuing operations	**91,848**	58,695	96,412
Other (expense) income:			
Interest expense	**(23,268)**	(2,751)	(341)
Other, net	**(6,543)**	(3,067)	2,213
	(29,811)	(5,818)	1,872
Income from continuing operations before income taxes	**62,037**	52,877	98,284
Provision for income taxes	**26,895**	22,214	41,742
Income from continuing operations	**35,142**	30,663	56,542
Income from discontinued operations	**3,782**	174	—
Net Income	**$ 38,924**	$ 30,837	$ 56,542
Basic earnings per share from:			
Continuing operations	**$ 1.90**	$ 1.66	$ 3.03
Discontinued operations	**0.20**	0.01	—
Basic earnings per share	**$ 2.10**	$ 1.67	$ 3.03
Diluted earnings per share from:			
Continuing operations	**$ 1.85**	$ 1.63	$ 2.98
Discontinued operations	**0.20**	0.01	—
Diluted earnings per share	**$ 2.05**	$ 1.64	$ 2.98
Dividends declared per share	**$ 0.20**	$ 0.20	$ 0.20

See accompanying notes.

Roadway Corporation and Subsidiaries

Statements of Consolidated Shareholders' Equity

	Total	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Unearned Portion of Restricted Stock Awards	Treasury Shares
				(in thousands)			
Year ended December 31, 2000							
Balance at January 1, 2000	$ 290,955	$ 206	$ 41,586	$ 282,490	$ (5,591)	$ (7,509)	$ (20,227)
Net income	56,542			56,542			
Foreign currency translation Adjustments	(1,134)				(1,134)		
Total comprehensive income	55,408						
Dividends declared	(3,875)			(3,875)			
Treasury stock activity—net	20						20
Restricted stock award activity	(2,637)		(1,156)			(1,481)	
Balance at December 31, 2000	339,871	206	40,430	335,157	(6,725)	(8,990)	(20,207)
Year ended December 31, 2001							
Net income	30,837			30,837			
Foreign currency translation adjustments	(2,424)				(2,424)		
Derivative fair value adjustments	(592)				(592)		
Total comprehensive income	27,821						
Dividends declared	(3,871)			(3,871)			
Treasury stock activity—net	(624)						(624)
Restricted stock award activity	(3,302)		(1,875)			(1,427)	
Balance at December 31, 2001	$ 359,895	$ 206	$ 38,555	$ 362,123	$ (9,741)	$ (10,417)	$ (20,831)
Year ended December 31, 2002							
Net income	**38,924**			**38,924**			
Foreign currency translation adjustments	**(615)**				**(615)**		
Derivative fair value adjustments	**266**				**266**		
Total comprehensive income	**38,575**						
Dividends declared	**(3,874)**			**(3,874)**			
Treasury stock activity—net	**(1,252)**						**(1,252)**
Restricted stock award activity	**(5,475)**		**(2,996)**			**(2,479)**	
Balance at December 31, 2002	**$ 387,869**	**$ 206**	**$ 35,559**	**$ 397,173**	**$ (10,090)**	**$ (12,896)**	**$ (22,083)**

See accompanying notes.

Roadway Corporation and Subsidiaries

Statements of Consolidated Cash Flows

	Year ended December 31		
	2002	**2001**	**2000**
		(in thousands)	
Cash flows from operating activities			
Net Income	**$ 38,924**	$ 30,837	$ 56,542
Less: income from discontinued operations	**3,782**	174	—
Income from continuing operations	**35,142**	30,663	56,542
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	**80,090**	71,498	56,878
(Gain) loss on sale of carrier operating property	**(650)**	434	1,969
Changes in assets and liabilities from continuing operations:			
Accounts receivable	**(46,766)**	42,872	420
Other assets	**(12,652)**	(11,253)	(8,829)
Accounts payable and accrued items	**38,155**	(23,974)	(7,184)
Long-term liabilities	**9,930**	2,515	(2,812)
Net cash provided by continuing operations	**103,249**	112,755	96,984
Cash flows from investing activities			
Business acquisitions, net of cash acquired	**(24,092)**	(413,222)	(2,885)
Purchases of carrier operating property	**(73,427)**	(70,540)	(109,617)
Sales of carrier operating property	**6,765**	4,481	3,617
Net cash (used) by investing activities	**(90,754)**	(479,281)	(108,885)
Cash flows from financing activities			
Sale of accounts receivable	**—**	100,000	—
Long-term debt (payments) proceeds	**(17,784)**	325,000	—
Debt issuance costs	**—**	(10,826)	—
Net dividends paid	**(3,863)**	(3,871)	(3,874)
Transfers from discontinued operation	**18,000**	—	—
Treasury stock activity—net	**(1,252)**	(624)	20
Net cash (used) provided by financing activities	**(4,899)**	409,679	(3,854)
Effect of exchange rate changes on cash	**(227)**	54	(103)
Net increase (decrease) in cash and cash equivalents from continuing operations	**7,369**	43,207	(15,858)
Net (decrease) increase in cash and cash equivalents from discontinued operations	**(10,872)**	2,286	—
Cash and cash equivalents at beginning of year	**110,432**	64,939	80,797
Cash and cash equivalents at end of year	**$ 106,929**	$ 110,432	$ 64,939

See accompanying notes.

1. Nature of Operations and Basis of Presentation

Roadway Corporation (the Company) is a holding company with two primary operating entities, Roadway Express, Inc. and Roadway Next Day Corporation. Approximately 75% of the Company's employees are represented by various labor unions, primarily the International Brotherhood of Teamsters (IBT). The current agreement with the IBT expires on March 31, 2003.

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

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

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

2. Accounting Policies

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

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

2. Accounting Policies (continued)

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

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

The carrying value of the Company's senior term loan approximates fair value as these financial instruments bear interest at variable rates based on LIBOR or the prime rate. The $225,000,000 in senior notes had an approximate fair value of $254,421,000 at December 31, 2002, based on quoted market prices.

The Company recognizes all derivative financial instruments as either assets or liabilities at fair value in the balance sheet. The Company's use of derivative financial instruments is limited principally to interest rate swaps on certain trailer leases as part of its overall risk management policy. The interest rate swaps have been designated as cash flow hedges under Statement of Financial Accounting Standards (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Under the provisions of SFAS No. 133, changes in the fair value of interest rate swaps are recognized in other comprehensive income in the statement of shareholders' equity until such time as the hedged items are recognized in net income. Due to the Company's limited use of derivatives, the fair value of these financial instruments, a liability of $326,000 net of tax, has not been separately disclosed on the balance sheet (see Note 12).

Receivable Sales**—**The Company sells receivables in securitization transactions, and retains an equity interest in the receivables pool, servicing rights, and a cash reserve account. These constitute the retained interests in the securitized receivables. The estimated fair value is based on the present value of the expected cash flows, which approximates face value adjusted for allowances for anticipated losses (see Note 13).

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

2. Accounting Policies (continued)

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

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

As of December 31, 2002, the Company had net unamortized goodwill of $283,910,000, including $269,093,000 of goodwill recorded in connection with the Company's acquisition of Roadway Next Day on November 30, 2001 (see Note 3). Amortization of previously existing goodwill resulting from the Company's earlier acquisitions was ended effective January 1, 2002. Goodwill amortization was zero in 2002, $967,000 in 2001, and $826,000 in 2000. As a result of adopting SFAS No. 142, the elimination of goodwill amortization would have resulted in an increase to net income of $560,000 ($0.03 per share–diluted) in 2001 and $475,000 ($0.03 per share–diluted) in 2000.

The Company completed the required transitional goodwill impairment test under SFAS No. 142 for all reporting units effective June 15, 2002 which did not indicate any impairment. As a result of finalizing the Roadway Next Day purchase price allocation during the fourth quarter, goodwill reflected in the ATS segment preliminary purchase price allocation was reallocated to the New Penn segment. Accordingly, all goodwill resulting from the Roadway Next Day acquisition has been recorded in the New Penn business segment at December 31, 2002. The Company updated its goodwill impairment test at December 31, 2002 due to the reallocation of goodwill previously recorded in the ATS business segment. The performance of the updated impairment test did not indicate any impairment of goodwill. The Company expects to perform the required annual goodwill impairment assessment on a recurring basis at the end of the second quarter each year, or more frequently should any indicators of possible impairment be identified.

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

2. Accounting Policies (continued)

Revenue Recognition**—**The Company recognizes revenue as earned on the date of freight delivery to the consignee. Related expenses are recognized as incurred.

Stock-Based Compensation**—** In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure*. The Company has adopted the disclosure provision of SFAS No. 148 as of December 31, 2002.

As permitted under SFAS No. 123, *Accounting for Stock-Based Compensation,* and SFAS No. 148, the Company has elected to follow APB Opinion No. 25, *Accounting for Stock Issued to Employees.* The Company has granted stock awards that have reduced net income as follows: 2002–$3,900,000; 2001–$2,115,000; and 2000–$1,495,000.

In addition, the Company has issued stock options for which compensation expense is not recognized in the Company's financial statements because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant (see Note 11).

2. Accounting Policies (continued)

Under SFAS No. 123, compensation expense is measured at the grant date based on the value of the award and is recognized over the vesting period. Had compensation expense been determined under SFAS No. 123 for the Company's stock options, based on the Black-Scholes value at the grant date, the Company's actual net income would have been reduced by $1,059,000, $947,000 and $931,000 in 2002, 2001, and 2000 respectively. Pro forma net income and earnings per share would have been as follows:

	2002	2001	2000
	(in thousands, except per share data)		
Income—as reported from:			
Continuing operations	**$35,142**	$30,663	$56,542
Discontinued operations	**3,782**	174	—
Net income—as reported	**$38,924**	$30,837	$56,542
Income—pro forma from:			
Continuing operations	**$34,083**	$29,716	$55,611
Discontinued operations	**3,782**	174	—
Net income—pro forma	**$37,865**	$29,890	$55,611
Basic earnings per share			
As reported from:			
Continuing operations	**$ 1.90**	$ 1.66	$ 3.03
Discontinued operations	**0.20**	0.01	—
As reported	$ 2.10	$ 1.67	$ 3.03
Pro forma from:			
Continuing operations	**$ 1.84**	$ 1.61	$ 2.98
Discontinued operations	**0.20**	0.01	—
Pro forma	**$ 2.04**	$ 1.62	$ 2.98
Diluted earnings per share			
As reported from:			
Continuing operations	**$ 1.85**	$ 1.63	$ 2.98
Discontinued operations	**0.20**	0.01	—
As reported	**$ 2.05**	$ 1.64	$ 2.98
Pro forma from:			
Continuing operations	**$ 1.79**	$ 1.58	$ 2.93
Discontinued operations	**0.20**	0.01	—
Pro forma	**$ 1.99**	$ 1.59	$ 2.93

2. Accounting Policies (continued)

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

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

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

Reclassifications**—**Certain items in the 2001 financial statements have been reclassified to conform to the 2002 presentation.

Discontinued Operations**—** In October 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, which establishes a single accounting model to be used for the impairment or disposal of long-lived assets.

Effective January 1, 2002, the Company adopted SFAS No. 144. The Company has reported the operations of ATS as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all years presented exclude the amounts related to this discontinued operation.

2. Accounting Policies (continued)

Recently Issued Accounting Pronouncements— In April 2002, the FASB issued SFAS No. 145, *Rescission of FASB Statements Nos. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections.* SFAS No. 145 is effective for the Company's financial statements beginning January 1, 2003. The adoption of SFAS No. 145 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. SFAS No. 146 will be effective for the Company for disposal activities initiated after December 31, 2002. The adoption of this standard is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

3. Business Acquisition

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

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

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

3. Business Acquisition (continued)

The following condensed balance sheet represents the adjusted amounts assigned to each major asset and liability caption of Roadway Next Day at November 30, 2001, including ATS and after the sale of ARLO:

	(in thousands)
Current assets	$ 111,767
Carrier operating property	162,754
Goodwill	269,093
Other assets	15,104
Total assets	$ 558,718
Current liabilities	$ 37,161
Long-term liabilities	43,634
Shareholders' equity	477,923
Total liabilities and shareholders' equity	$ 558,718

4. Discontinued Operations

On December 26, 2002, the Company entered into an agreement to sell ATS to a management group led by the unit's president and a private equity firm, for approximately $55,000,000 in cash. The ATS business segment was acquired as part of the Company's purchase of Roadway Next Day in November 2001, but did not fit the Company's strategic focus of being a LTL carrier. The transaction was completed on January 23, 2003. The Company did not recognize a significant gain or loss as a result of this transaction.

The Company has reported the operations of ATS as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all years presented exclude the amounts related to this discontinued operation.

The following table presents revenue and income from the discontinued operation for the years ended December 31, 2002 and 2001. The year ended December 31, 2001 includes only one month of operations since ATS was acquired on November 30, 2001.

	2002	**2001**
	(in thousands)	
Revenue	**$171,133**	$12,857
Pre-tax income from discontinued operations	**6,251**	290
Income tax expense	**2,469**	116
Income from discontinued operations	**$ 3,782**	$ 174

4. Discontinued Operations (continued)

Assets and liabilities of the discontinued operation were as follows:

	2002	2001
	(in thousands)	
Assets		
Current assets	**$22,025**	$ 37,623
Net carrier operating property	**64,065**	85,118
Other assets	**1,341**	12,195
Total assets	**$87,431**	$134,936
Liabilities		
Current liabilities	**$ 8,104**	$ 42,397
Long-term liabilities	**24,303**	24,956
Total liabilities	**$32,407**	$ 67,353
Net assets of discontinued operations	**$55,024**	$ 67,583

5. Segment Information

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

The Company's reportable segments are identified based on differences in products, services, and management structure. The measurement basis of segment profit or loss is operating income. Business segment assets consist primarily of customer receivables, net carrier operating property, and goodwill.

5. Segment Information (continued)

The following tables present information about reported segments for the years ended December 31, 2002 and 2001. The year ended December 31, 2001 includes only one month of operations for New Penn, since New Penn was acquired on November 30, 2001.

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

	For the year ended December 31, 2001		
	Roadway Express	New Penn	Total
		(in thousands)	
Revenue	$2,764,767	$ 14,124	$2,778,891
Operating expenses:			
Salaries, wages & benefits	1,768,744	9,654	1,778,398
Operating supplies	475,313	1,870	477,183
Purchased transportation	271,847	117	271,964
Operating taxes and licenses	70,955	207	71,162
Insurance and claims	46,805	967	47,772
Depreciation	69,178	399	69,577
Net loss (gain) on sale of operating property	460	(26)	434
Total operating expenses	2,703,302	13,188	2,716,490
Operating income	$ 61,465	$ 936	$ 62,401
Total assets	$ 711,387	$398,820	$1,110,207
Goodwill	$ 14,721	$242,180	$ 256,901

5. Segment Information (continued)

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

	2002	2001
	(in thousands)	
Segment operating income from continuing operations	**$ 91,848**	$62,401
Unallocated corporate (expense)	**—**	(3,706)
Interest (expense)	**(23,268)**	(2,751)
Other (expense), net	**(6,543)**	(3,067)
Consolidated income from continuing operations before income taxes	**$ 62,037**	$52,877

Reconciliation of total segment assets to total consolidated assets:

	2002	2001
	(in thousands)	
Total segment assets	**$1,211,584**	$1,110,207
Assets of discontinued operations	**87,431**	134,936
Unallocated corporate assets	**41,351**	78,167
Elimination of intercompany balances	**(4,493)**	(20,461)
Consolidated assets	**$1,335,873**	$1,302,849

6. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	2002	2001	2000
	(in thousands, except per share data)		
Income from:			
Continuing operations	**$35,142**	$30,663	$56,542
Discontinued operations	**3,782**	174	—
Net income	**$38,924**	$30,837	$56,542
Weighted-average shares for basic earnings per share	**18,507**	18,490	18,662
Incentive stock plans	**492**	318	330
Weighted-average shares for diluted earnings per share	**18,999**	18,808	18,992
Basic earnings per share from:			
Continuing operations	**$ 1.90**	$ 1.66	$ 3.03
Discontinued operations	**0.20**	0.01	—
Basic earnings per share	**$ 2.10**	$ 1.67	$ 3.03
Diluted earnings per share from:			
Continuing operations	**$ 1.85**	$ 1.63	$ 2.98
Discontinued operations	**0.20**	0.01	—
Diluted earnings per share	**$ 2.05**	$ 1.64	$ 2.98

7. Carrier Operating Property

Carrier operating properties consist of the following:

	2002	2001
	(in thousands)	
Land	**$ 109,564**	$ 111,173
Structures	**459,594**	442,896
Revenue equipment	**687,467**	735,474
Other operating property	**259,023**	245,543
Carrier operating property, at cost	**1,515,648**	1,535,086
Less allowance for depreciation	**1,006,465**	1,012,279
Net carrier operating property	**$ 509,183**	$ 522,807

8. Accounts Payable

Items classified as accounts payable consist of the following:

	2002	2001
	(in thousands)	
Trade and other payables	**$ 76,063**	$ 66,899
Drafts outstanding	**18,456**	25,785
Income taxes payable	**36,925**	30,525
Taxes, other than income	**29,688**	27,502
Multi-employer health, welfare, and pension plans	**32,369**	29,118
Accounts payable	**$193,501**	$179,829

9. Income Taxes

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

	2002	2001	2000
		(in thousands)	
Current taxes:			
Federal	**$ 29,557**	$19,655	$41,014
State	**7,349**	3,029	6,674
Foreign	**4,776**	(766)	1,426
	41,682	21,918	49,114
Deferred taxes:			
Federal	**(13,205)**	(1,012)	(6,009)
State	**(1,517)**	(56)	(580)
Foreign	**(65)**	1,364	(783)
	(14,787)	296	(7,372)
Provision for income taxes	**$ 26,895**	$22,214	$41,742

In addition to the 2002 provision for income taxes of $26,895,000, income tax benefits of $451,000 were allocated directly to shareholders' equity related to the Company's restricted stock awards. Income tax payments were $38,631,000 in 2002, $25,341,000 in 2001, and $54,245,000 in 2000.

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

	2002	2001	2000
		(in thousands)	
Domestic	**$50,279**	$50,445	$104,097
Foreign	**11,758**	2,432	(5,813)
Income before income taxes	**$62,037**	$52,877	98,284

9. Income Taxes (continued)

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

	2002	2001
	(in thousands)	
Deferred tax assets:		
Freight and casualty claims	**$ 40,934**	$ 41,028
Retirement benefit liabilities	**51,897**	46,466
Accrued employee benefits	**38,813**	32,453
Other	**10,274**	8,321
Valuation allowance	**(2,229)**	(2,387)
Total deferred tax assets	**139,689**	125,881
Deferred tax liabilities:		
Depreciation	**53,029**	52,165
Multi-employer pension plans	**33,420**	35,313
Other	**2,152**	2,102
Total deferred tax liabilities	**88,601**	89,580
Net deferred tax assets	**$ 51,088**	$ 36,301

At December 31, 2002, the Company had approximately $6,418,000 of foreign operating loss carry forwards, which have expiration dates ranging from 2008 to 2011. For financial reporting purposes, a valuation allowance of $2,229,000 has been recognized to offset the deferred tax asset relating to certain foreign operating loss carry forwards.

9. Income Taxes (continued)

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

	2002	2001	2000
Federal statutory tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal tax benefit	**6.1**	3.7	4.0
Non-deductible operating costs	**3.5**	3.3	2.1
Impact of foreign operations	**0.5**	0.3	1.6
Other, net	**(1.7)**	(0.3)	(0.2)
Effective tax rate	**43.4%**	42.0%	42.5%

10. Employee Benefit Plans

Multi-employer Plans

The Company charged to operations $174,007,000 in 2002, $165,331,000 in 2001, and $174,253,000 in 2000 for contributions to multi-employer pension plans for employees subject to labor contracts. The Company also charged to operations $178,955,000 in 2002, $163,775,000 in 2001, and $165,018,000 in 2000 for contributions to multi-employer plans that provide health and welfare benefits to employees and certain retirees who are or were subject to labor contracts. These amounts were determined in accordance with provisions of industry labor contracts. Under provisions of the Multi-employer Pension Plan Amendment Act of 1980, total or partial withdrawal from a plan would result in an obligation to fund a portion of the plan's unfunded vested liability. Management has no intention of changing operations so as to subject the Company to any material obligation.

10. Employee Benefit Plans (continued)

Retirement Plans

The following tables set forth the change in benefit obligation, change in plan assets, funded status, and amounts recognized in the consolidated balance sheets for the defined benefit pension and postretirement health care benefit plans as of December 31, 2002 and 2001:

	Pension Benefits		Health Care Benefits	
	2002	**2001**	**2002**	**2001**
		(in thousands)		
Change in benefit obligation				
Benefit obligation at beginning of year	**$330,790**	$293,100	**$ 41,721**	$42,713
Service cost	**17,520**	17,496	**1,741**	1,665
Interest cost	**24,183**	22,568	**3,156**	2,881
Actuarial losses (gains)	**32,295**	15,042	**5,024**	(2,911)
Benefits paid	**(18,224)**	(17,416)	**(2,482)**	(2,627)
Benefit obligation at end of year	**386,564**	330,790	**49,160**	41,721
Change in plan assets				
Fair value of plan assets at beginning of year	**308,229**	362,781	**—**	—
Actual return on plan assets	**(48,681)**	(37,136)	**—**	—
Benefits paid	**(18,224)**	(17,416)	**—**	—
Fair value of plan assets at end of year	**241,324**	308,229	**—**	—
Funded status				
Plan assets less than projected benefit obligation	**145,240**	22,561	**49,160**	41,721
Unamortized:				
Net actuarial (loss) gain	**(26,968)**	85,816	**(10,281)**	6,492
Net asset at transition	**8,372**	9,767	**—**	—
Prior service (cost) benefit	**(43,725)**	(48,136)	**13,255**	2,799
Accrued benefit cost	**$ 82,919**	$ 70,008	**$ 52,134**	$51,012

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

10. Employee Benefit Plans (continued)

The following table summarizes the assumptions used by the consulting actuary, and the related benefit cost information:

	Pension Benefits			Health Care Benefits		
	2002	2001	2000	2002	2001	2000
			(dollars in thousands)			
Weighted-average assumptions						
Discount rate	**6.75%**	7.50%	7.50%	**6.75%**	7.50%	7.50%
Future compensation	**3.25%**	3.25%	3.25%	**—**	—	—
Expected long-term return on plan assets	**9.50%**	9.50%	9.50%	**—**	—	—
Components of net periodic benefit cost						
Service cost	**$ 17,520**	$ 17,496	$ 15,458	**$ 1,741**	$ 1,665	$ 1,755
Interest cost	**24,183**	22,568	19,893	**3,156**	2,881	2,951
Expected return on plan assets	**(28,574)**	(33,841)	(32,404)	**—**	—	—
Amortization of:						
Prior service cost (benefit)	**5,245**	5,230	5,229	**(1,477)**	(305)	(169)
Net asset gain at transition	**(1,395)**	(1,396)	(1,395)	**—**	—	—
Unrecognized gain	**(3,940)**	(8,893)	(10,584)	**184**	(177)	(46)
Net periodic benefit cost (income)	**$ 13,039**	$ 1,164	$ (3,803)	**$ 3,604**	$ 4,064	$ 4,491

The Company has adjusted the expected long-term return on plan assets from 9.50% to 8.50% effective January 1, 2003.

For measurement purposes, the Company assumed a weighted-average annual rate of increase in the per capita cost of health care benefits (health care cost trend rate) of 11.5% for 2002 declining gradually to 5.0% in 2010 and thereafter.

A decrease in the assumed health care cost trend rate has a significant effect on the amounts reported. For example, a one percentage point decrease in the assumed health care cost trend rate would decrease the accumulated postretirement benefit obligation by $5,392,000 and the service and interest cost components by $582,000 as of December 31, 2002. A one percentage point increase in the assumed health care cost trend rate would have no effect on the accumulated postretirement benefit obligation or the service and interest cost components. The Company’s policy regarding the management of health care costs passes the increases beyond a fixed threshold to the plan participants.

The Company charged to operations $10,321,000 in 2002, $10,964,000 in 2001, and $10,395,000 in 2000 relating to its defined contribution 401(k) plans. These plans cover employees not subject to labor contracts. Annual contributions are related to the level of voluntary employee participation.

11. Stock Plans

Stock Granted Under the Management Incentive Stock Plan and Equity Ownership Plan

The Company's Management Incentive Stock Plan and Equity Ownership Plan (the Stock Plans) authorize the granting of common stock at the discretion of the Board of Directors to officers and certain key employees of the Company. The Board approved grants of 248,000 shares in 2002, 263,000 shares in 2001, and 189,000 shares in 2000. These grants are recorded as the unearned portion of restricted stock awards. The grants, originally recorded at market price, are amortized to compensation expense over the period for which the stock is restricted.

Compensation expense relating to the Stock Plans amounted to $6,890,000 in 2002, $3,647,000 in 2001, and $2,600,000 in 2000.

Employee Stock Purchase Plan

Under the Company's Employees' Stock Purchase Plan, all full-time eligible employees may purchase shares of the Company's common stock with up to 10% of their respective compensation through payroll deductions. The purchase price under the plan is 85% of the fair market value of the Company's common stock. Under this plan, employees purchased 149,000 shares in 2002, 171,000 shares in 2001, and 198,000 shares in 2000.

Union Stock Plan

The Company's Union Stock Plan provides stock awards to employees subject to labor contracts who meet the eligibility and performance requirements of providing a safe, reliably staffed, and injury-free work environment. The Company allocated 50,000 shares in 2002, 20,000 shares in 2001, and 100,000 shares in 2000 for grants under this plan.

11. Stock Plans (continued)

Options Granted Under the Equity Ownership Plan, Non employee Directors' Equity Ownership Plan and Nonemployee Directors' Stock Option Plan

Under the Equity Ownership Plan, the Board is authorized to award officers and key employees with various types of stock-based compensation, including stock options. Stock options vest over a period of four years from the date of grant, are exercisable at the rate of 25% each year, and expire at the end of ten years. The number of shares of common stock that may be issued or transferred under the plan may not exceed 2,000,000. No options were granted under this plan in 2002, 2001 or 2000.

Under the Nonemployee Directors' Equity Ownership Plan, the Compensation Committee is authorized to make awards of stock options and restricted shares. Stock options vest one year from date of grant. The number of shares of common stock that may be issued under the plan may not exceed 100,000.

Under the Nonemployee Directors' Stock Option Plan, directors can elect to invest all or a portion of their retainers in stock options. These stock options vest one year from the date of grant and expire at the end of ten years. The number of options issued under this plan may not exceed 100,000.

The following table summarizes all stock option activity:

	2002		2001		2000	
	Number of Stock Options	**Weighted-Average Exercise Price**	**Number of Stock Options**	**Weighted-Average Exercise Price**	**Number of Stock Options**	**Weighted-Average Exercise Price**
Outstanding January 1	**566,518**	**$ 20.47**	722,539	$ 20.47	725,049	$ 20.46
Exercised	**(109,063)**	**20.50**	(146,226)	20.50	—	—
Granted	**37,555**	**30.98**	5,955	21.19	3,490	21.75
Forfeited or expired	**(6,000)**	**20.50**	(15,750)	20.50	(6,000)	20.50
Outstanding December 31	**489,010**	**$ 21.27**	566,518	$ 20.47	722,539	$ 20.47
Exercisable at year-end	**287,447**	**$ 20.44**	194,538	$ 20.38	185,016	$ 20.35
Weighted-average fair value of options granted during the year	**$ 12.89**		$ 8.76		$ 11.09	

11. Stock Plans (continued)

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. The following table shows the weighted-average valuation assumptions used:

	2002	2001	2000
Expected life	5.0 years	5.0 years	7.0 years
Risk-free interest rate	4.4%	5.0%	6.4%
Volatility	43.4%	43.0%	45.8%
Dividend yield	0.7%	0.9%	1.1%

The following table summarizes information about stock options outstanding as of December 31, 2002:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 10–15	**7,896**	**—**	**$ 14.44**	**7,896**	**$ 14.44**
20–25	**443,559**	**0.83 years**	**20.57**	**279,551**	**20.60**
30–40	**37,555**	**0.41 years**	**30.98**	**—**	**—**
	489,010	**0.79 years**	**$ 21.27**	**287,447**	**$ 20.44**

12. Leases

The Company leases certain terminals and revenue equipment under noncancellable operating leases requiring minimum future rentals aggregating $139,520,000 payable as follows: 2003—$48,639,000; 2004—$32,633,000; 2005—$22,541,000; 2006—$13,211,000; 2007—$9,262,000 and thereafter $13,234,000. Rental expense for operating leases was $55,199,000, $50,761,000, and $45,445,000, for 2002, 2001, and 2000, respectively.

The Company has interest rate swap agreements with major commercial banks to fix the interest rate of its trailer leases from variable interest rates principally based on LIBOR. The value of the leases upon which the payments are based was not changed. The agreements, which expire in 2003 and 2004, fix the Company's interest costs at rates varying from 5.62% to 6.39% on leases with a notional amount of $14,400,000.

The fair value of the Company's interest rate swaps at December 31, 2002 is a liability of approximately $326,000, net of income taxes, and has been determined using proprietary financial models developed by the lending institutions which are counterparties to the swap arrangements. As a result of declining interest rates throughout 2002, the Company recognized incremental interest expense of approximately $734,000, which is included in interest expense in the accompanying financial statements. The ineffective portions of the Company's interest rate swap agreements were not material.

13. Sale of Accounts Receivable

Accounts receivable consist of the following:

	2002	2001
	(in thousands)	
Accounts receivable	**$ 21,031**	$ 25,241
Retained interest in securitized accounts receivable	**217,617**	165,396
Allowance for doubtful accounts	**(8,432)**	(8,174)
	$230,216	$182,463

On November 21, 2001, Roadway Express entered into an accounts receivable securitization agreement which matures in 2004, to finance up to $200,000,000 (total commitment) of its domestic accounts receivable. Under this arrangement, undivided interests in Roadway Express' domestic accounts receivable are sold through a special purpose entity (SPE), a wholly owned subsidiary of the Company, without recourse, to a financial conduit. Undivided interests in the accounts receivable pool aggregating zero in 2002 and $100,000,000 in 2001 were sold under this arrangement. The proceeds were used to partially fund the acquisition of Roadway Next Day and are reported as financing cash flows in the Statement of Consolidated Cash Flows.

The accounts receivable are sold at a discount from the face amount to pay investor yield (LIBOR) on the undivided interests sold to the conduit, for utilization fees (0.25% of the undivided interest sold), and for program fees (0.50% of the total commitment). The discount from the face amount for accounts receivable sold by Roadway Express in 2002 and 2001 aggregated $6,384,000 and $585,000 respectively and was directly offset by a gain on allowance for accounts receivable discounts upon the consolidation of the SPE. The interest expense recognized in conjunction with the sale of accounts receivable was $3,088,000 in 2002 and $317,000 in 2001.

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

The following transactions occurred between Roadway Express and the SPE in the years 2002 and 2001, respectively: proceeds from the accounts receivable sales, $2,650,810,000, and $493,673,000; servicing fees received, $1,529,000, and $150,000; payments received on investment in accounts receivable, $2,598,576,000, and $328,696,000.

14. Financing Arrangements

The Company’s consolidated debt consists of the following:

	2002	2001
	(in thousands)	
Revolving credit facilities	**$ —**	$ —
Senior term loan	**82,216**	100,000
8.25% senior notes due 2008	**225,000**	225,000
Sub-total	**307,216**	325,000
Less current portion	**(33,703)**	(18,000)
Long-term debt	**$273,513**	$307,000

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

The credit facility also includes a $175,000,000 senior term loan, which was drawn in full to partially fund the acquisition of Arnold. After-tax proceeds of $75,000,000 from the sale of ARLO were used to pay down borrowings on this facility in 2001. Pricing under the term loan is at a fluctuating rate based on the alternate base rate as determined by CSFB or LIBOR, plus an additional margin of 0.50% and 1.50%, respectively. As of December 31, 2002, $82,216,000 was outstanding under the term loan facility accruing interest at a rate of LIBOR plus 1.50% (2.91% effective rate) with future quarterly installments ranging from $2,426,000 in 2003 to $4,851,000 in 2006.

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

Under certain conditions, mandatory prepayments may be required under the credit facility and the senior notes. A mandatory prepayment of $8,000,000 was made on the senior term loan in 2002, related to the sale of ARLO. Additionally, a mandatory prepayment of $24,000,000 was made on the senior term loan in January 2003 upon the completion of the sale of ATS, and has been included in the current portion of long-term debt. Aggregate maturities of long-term debt for the next four years are: 2003 - $33,703,000; 2004 - $12,937,000; 2005 - $16,171,000; and 2006 - $19,405,000, at such time the senior term loan balance will be zero.

14. Financing Arrangements (continued)

The credit facility borrowings and the senior notes rank equally and are secured by a first-priority perfected lien on all of the capital stock of the Company's direct subsidiaries and are also supported by guarantees provided by all of the Company's current material subsidiaries and all future material subsidiaries.

In addition, the Company's Canadian subsidiary has $10,000,000 available for borrowing under a secured revolving line of credit and bankers' acceptances. Borrowings are payable upon demand and bear interest at either the bank's prime lending rate, U.S. dollar base rate in Canada, or LIBOR plus 1.50% for periods up to 180 days. At December 31, 2002, no amounts were outstanding on this facility.

The financing arrangements include covenants that require the Company to comply with certain financial ratios, including leverage and fixed-charge coverage ratios, and maintenance of a minimum level of tangible net worth. Interest expense, which approximates interest paid, amounted to $23,268,000 in 2002, $2,751,000 in 2001, and $341,000 in 2000.

15. Contingencies

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

The Company's former parent is currently under examination by the Internal Revenue Service for tax years 1994 and 1995, years prior to the spin-off of the Company. The IRS has proposed substantial adjustments for these tax years for multi-employer pension plan deductions. The IRS is challenging the timing, not the validity of these deductions. The Company is unable to predict the ultimate outcome of this matter; however, its former parent intends to vigorously contest these proposed adjustments.

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

15. Contingencies (continued)

We estimate the possible range of the remaining payments that may be due to the former parent to be approximately $0 to $16,000,000 in additional taxes and $0 to $9,000,000 in related interest, net of tax benefit. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

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

16. Guarantor and Non-Guarantor Subsidiaries

The following condensed consolidating financial statements set forth the Company's balance sheets as of December 31, 2002 and 2001 and the statements of income and statements of cash flows for the years ended December 31, 2002, 2001, and 2000. In the following schedules "Parent Company" refers to Roadway Corporation, "Guarantor Subsidiaries" refers to non-minor domestic subsidiaries, and "Non-guarantor subsidiaries" refers to foreign and minor domestic subsidiaries and "Eliminations" represent the adjustments necessary to (a) eliminate intercompany transactions and (b) eliminate the investments in the Company's subsidiaries.

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Condensed Consolidating Balance Sheets
December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Cash and cash equivalents	$ 12	$ 88	$ 7	$ —	$ 107
Accounts receivable, including retained interest in securitized receivables, net	—	216	14	—	230
Due from affiliates	11	330	2	(343)	—
Prepaid expenses and supplies	—	17	—	—	17
Deferred income taxes	—	22	—	—	22
Assets of discontinued operations	—	87	—	—	87
Total current assets	23	760	23	(343)	463
Carrier operating property, at cost	—	1,488	28	—	1,516
Less allowance for depreciation	—	992	15	—	1,007
Net carrier operating property	—	496	13	—	509
Goodwill, net	—	269	15	—	284
Investment in subsidiaries	656	4	—	(660)	—
Deferred income taxes	4	36	—	—	40
Long-term assets	10	30	—	—	40
Total assets	$ 693	$ 1,595	$ 51	$ (1,003)	$ 1,336
Accounts payable	$ (12)	$ 195	$ 11	$ —	$ 194
Due to affiliates	310	2	31	(343)	—
Salaries and wages	2	145	4	—	151
Current portion of long-term debt	—	34	—	—	34
Freight and casualty claims payable	—	49	1	—	50
Liabilities of discontinued operations	—	32	—	—	32
Total current liabilities	300	457	47	(343)	461
Casualty claims and other	5	62	—	—	67
Deferred income taxes	—	11	—	—	11
Long-term debt	—	274	—	—	274
Accrued pension and retiree medical	—	135	—	—	135
Total shareholders' equity	388	656	4	(660)	388
Total liabilities and shareholders' equity	$ 693	$ 1,595	$ 51	$ (1,003)	$ 1,336

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Condensed Consolidating Balance Sheets
December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Cash and cash equivalents	$ 35	$ 74	$ 1	$ —	$ 110
Accounts receivable, including retained interest in securitized receivables, net	1	167	15	—	183
Due from affiliates	11	371	1	(383)	—
Prepaid expenses and supplies	—	14	—	—	14
Deferred income taxes	—	16	—	—	16
Assets of discontinued operations		135		—	135
Total current assets	47	777	17	(383)	458
Carrier operating property, at cost	—	1,431	26	78	1,535
Less allowance for depreciation	—	921	13	78	1,012
Net carrier operating property	—	510	13	—	523
Goodwill, net	—	242	15	—	257
Investment in subsidiaries	662	(4)	—	(658)	—
Deferred income taxes	—	31	—	—	31
Long-term assets	10	24	—	—	34
Total assets	$ 719	$ 1,580	$ 45	$ (1,041)	$ 1,303
Accounts payable	$ 13	$ 158	$ 9	$ —	$ 180
Due to affiliates	346	1	36	(383)	—
Salaries and wages	—	117	3	—	120
Current portion of long-term debt	—	18	—	—	18
Freight and casualty claims payable	—	52	1	—	53
Liabilities of discontinued operations	—	67	—	—	67
Total current liabilities	359	413	49	(383)	438
Casualty claims and other	—	66	—	—	66
Deferred income taxes	—	11	—	—	11
Long-term debt	—	307	—	—	307
Accrued pension and retiree medical	—	121	—	—	121
Total shareholders' equity	360	662	(4)	(658)	360
Total liabilities and shareholders' equity	$ 719	$ 1,580	$ 45	$ (1,041)	$ 1,303

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Condensed Consolidating Statements of Income
Year ended December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Revenue	$ —	$ 2,886	$ 126	$ (1)	$ 3,011
Operating expenses:					
Salaries, wages and benefits	8	1,888	39	—	1,935
Operating supplies and expenses	(8)	460	28	(1)	479
Purchased transportation	—	250	40	—	290
Operating taxes and licenses	—	74	2	—	76
Insurance and claims expenses	—	62	1	—	63
Provision for depreciation	—	73	4	—	77
Net loss (gain) on disposal of operating property	—	(1)	—	—	(1)
Results of affiliates	(40)	(8)	—	48	—
Total operating expenses	(40)	2,798	114	47	2,919
Operating income from continuing operations	40	88	12	(48)	92
Other (expenses), net	(2)	(29)	1	—	(30)
Income from continuing operations before income taxes	38	59	13	(48)	62
Provision for income taxes	(1)	23	5	—	27
Income from continuing operations	39	36	8	(48)	35
Income from discontinued operations	—	4	—	—	4
Net income	$ 39	$ 40	$ 8	$ (48)	$ 39

Year ended December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Revenue	$ —	$ 2,658	$ 122	$ (1)	$ 2,779
Operating expenses:					
Salaries, wages and benefits	3	1,738	40	—	1,781
Operating supplies and expenses	1	449	29	(1)	478
Purchased transportation	—	231	41	—	272
Operating taxes and licenses	—	69	2	—	71
Insurance and claims expenses	—	46	1	—	47
Provision for depreciation	—	66	4	—	70
Net loss (gain) on disposal of operating property	—	1	—	—	1
Results of affiliates	(32)	(2)	—	34	—
Total operating expenses	(28)	2,598	117	33	2,720
Operating income from continuing operations	28	60	5	(34)	59
Other (expenses), net	—	(4)	(2)	—	(6)
Income from continuing operations before income taxes	28	56	3	(34)	53
Provision for income taxes	(3)	24	1	—	22
Income from continuing operations	31	32	2	(34)	31
Income from discontinued operations	—	—	—	—	—
Net income	$ 31	$ 32	$ 2	$ (34)	$ 31

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Year ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Revenue	$ —	$ 2,922	$ 120	$ (2)	$ 3,040
Operating expenses:					
Salaries, wages and benefits	—	1,848	42	—	1,890
Operating supplies and expenses	—	513	33	(1)	545
Purchased transportation	—	272	37	(1)	308
Operating taxes and licenses	—	76	1	—	77
Insurance and claims expenses	—	63	2	—	65
Provision for depreciation	—	52	4	—	56
Net loss on disposal of operating property	—	2	—	—	2
Results of affiliates	—	6	—	(6)	—
Total operating expenses	—	2,832	119	(8)	2,943
Operating income from continuing operations	—	90	1	6	97
Other income (expenses), net	—	8	(7)	—	1
Income (loss) from continuing operations before income taxes	—	98	(6)	6	98
Provision for income taxes	—	41	—	—	41
Income (loss) from continuing operations	—	57	(6)	6	57
Income from discontinued operations	—	—	—	—	—
Net income (loss)	$ —	$ 57	$ (6)	$ 6	$ 57

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Condensed Consolidating Statement of Cash Flows
Year ended December 31, 2002

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Net cash (used) provided by continuing operating activities	$ (61)	$ 155	$ 9	$ —	$ 103
Cash flows from investing activities					
Purchases of carrier operating property, net	—	(63)	(3)	—	(66)
Business acquisitions	(24)	—	—	—	(24)
Net cash (used) by investing activities	(24)	(63)	(3)	—	(90)
Cash flows from financing activities					
Dividends paid	(4)	—	—	—	(4)
Transfers to (from) parent	85	(67)	—	—	18
Accounts receivable securitization	—	—	—	—	—
Treasury stock activity—net	(1)	—	—	—	(1)
Debt issuance costs	—	—	—	—	—
Long-term debt	(18)	—	—	—	(18)
Net cash provided (used) by financing activities	62	(67)	—	—	(5)
Effect of exchange rates on cash	—	—	—	—	—
Net (decrease) increase in cash and cash equivalents from continuing operations	(23)	25	6	—	8
Net (decrease) in cash and cash equivalents from discontinued operations	—	(11)	—	—	(11)
Cash and cash equivalents at beginning of year	35	74	1	—	110
Cash and cash equivalents at end of year	$ 12	$ 88	$ 7	$ —	$ 107

16. Guarantor and Non-Guarantor Subsidiaries (continued)

Year ended December 31, 2001

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Net cash provided by continuing operating activities	$ 14	$ 99	$ —	$ —	$ 113
Cash flows from investing activities					
Purchases of carrier operating property, net	—	(64)	(3)	—	(67)
Business acquisitions	(453)	40	—	—	(413)
Net cash (used) by investing activities	(453)	(24)	(3)	—	(480)
Cash flows from financing activities					
Dividends paid	161	(164)	—	—	(3)
Accounts receivable securitization	—	100	—	—	100
Treasury stock activity—net	(1)	—	—	—	(1)
Debt issuance costs	(11)	—	—	—	(11)
Long-term debt	325	—	—	—	325
Net cash provided (used) by financing activities	474	(64)	—	—	410
Effect of exchange rates on cash	—	—	—	—	—
Net increase (decrease) in cash and cash equivalents from continuing operations	35	11	(3)	—	43
Net increase in cash and cash equivalents from discontinued operations	—	2	—	—	2
Cash and cash equivalents at beginning of year	—	61	4	—	65
Cash and cash equivalents at end of year	$ 35	$ 74	$ 1	$ —	$ 110

Year ended December 31, 2000

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
			(in millions)		
Net cash provided (used) by continuing operating activities	$ —	$ 100	$ (3)	$ —	$ 97
Cash flows from investing activities					
Purchases of carrier operating property, net	—	(103)	(3)	—	(106)
Business acquisitions	—	(3)	—	—	(3)
Net cash (used) by investing activities	—	(106)	(3)	—	(109)
Cash flows from financing activities					
Dividends paid	—	(4)	—	—	(4)
Treasury stock activity—net	—	—	—	—	—
Net cash (used) by financing activities	—	(4)	—	—	(4)
Effect of exchange rates on cash	—	—	—	—	—
Net (decrease) in cash and cash equivalents from continuing operations	—	(10)	(6)	—	(16)
Net (decrease) in cash and cash equivalents from discontinued operations	—	—	—	—	—
Cash and cash equivalents at beginning of year	—	71	10	—	81
Cash and cash equivalents at end of year	$ —	$ 61	$ 4	$ —	$ 65

Roadway Corporation and Subsidiaries
Condensed Consolidated Balance Sheets (Unaudited)

	March 29, 2003	December 31, 2002
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 117,151**	$ 106,929
Accounts receivable, including retained interest in securitized receivables, net	**217,610**	230,216
Assets of discontinued operations	**—**	87,431
Other current assets	**55,018**	38,496
Total current assets	**389,779**	463,072
Carrier operating property, at cost	**1,512,028**	1,515,648
Less allowance for depreciation	**1,007,788**	1,006,465
Net carrier operating property	**504,240**	509,183
Goodwill, net	**284,598**	283,910
Other assets	**90,157**	79,708
Total assets	**$ 1,268,774**	$ 1,335,873
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	**$ 187,457**	$ 193,501
Salaries and wages	**126,680**	151,464
Liabilities of discontinued operations	**—**	32,407
Other current liabilities	**60,743**	83,518
Total current liabilities	**374,880**	460,890
Long-term liabilities:		
Casualty claims and other	**77,467**	78,548
Accrued pension and retiree medical	**140,960**	135,053
Long-term debt	**273,513**	273,513
Total long-term liabilities	**491,940**	487,114
Shareholders' equity:		
Common Stock - $.01 par value Authorized - 100,000,000 shares Issued - 20,556,714 shares	**206**	206
Other shareholders' equity	**401,748**	387,663
Total shareholders' equity	**401,954**	387,869
Total liabilities and shareholders' equity	**$ 1,268,774**	$ 1,335,873

The number of shares of common stock outstanding at March 29, 2003 and December 31, 2002 were 19,653,213 and 19,368,590, respectively.

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. See notes to condensed consolidated financial statements.

Roadway Corporation and Subsidiaries
Condensed Statements of Consolidated Income (Unaudited)

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	**March 23, 2002**
	(in thousands, except per share data)	
Revenue	**$ 754,070**	$ 598,967
Operating expenses:		
Salaries, wages and benefits	**475,435**	399,164
Operating supplies and expenses	**130,412**	99,209
Purchased transportation	**74,784**	51,509
Operating taxes and licenses	**19,866**	15,564
Insurance and claims expense	**15,112**	11,431
Provision for depreciation	**17,299**	18,088
Net loss on disposal of operating property	**811**	295
Total operating expenses	**733,719**	595,260
Operating income from continuing operations	**20,351**	3,707
Other (expense), net	**(6,794)**	(6,824)
Income (loss) from continuing operations before income taxes	**13,557**	(3,117)
Provision (benefit) for income taxes	**5,694**	(1,244)
Income (loss) from continuing operations	**7,863**	(1,873)
Income from discontinued operations	**147**	124
Net income (loss)	**$ 8,010**	$ (1,749)
Earnings (loss) per share – basic:		
Continuing operations	**$ 0.42**	$ (0.10)
Discontinued operations	**$ 0.01**	$ 0.01
Total earnings (loss) per share – basic	**$ 0.43**	$ (0.09)
Earnings (loss) per share – diluted:		
Continuing operations	**$ 0.41**	$ (0.10)
Discontinued operations	**$ 0.01**	$ 0.01
Total earnings (loss) per share – diluted	**$ 0.42**	$ (0.09)
Average shares outstanding – basic	**18,655**	18,555
Average shares outstanding – diluted	**19,086**	18,555
Dividends declared per share	**$ 0.05**	$ 0.05

See notes to condensed consolidated financial statements.

Roadway Corporation and Subsidiaries
Condensed Statements of Consolidated Cash Flows (Unaudited)

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	**March 23, 2002**
	(in thousands)	
Cash flows from operating activities		
Income (loss) from continuing operations	**$ 7,863**	$ (1,873)
Depreciation and amortization	**18,260**	18,555
Other operating adjustments	**(24,201)**	(52,778)
Net cash provided (used) by operating activities	**1,922**	(36,096)
Cash flows from investing activities		
Purchases of carrier operating property	**(13,786)**	(11,043)
Sales of carrier operating property	**762**	1,381
Business disposal	**47,221**	—
Net cash provided (used) by investing activities	**34,197**	(9,662)
Cash flows from financing activities		
Dividends paid	**(960)**	(957)
Treasury stock activity, net	**(950)**	24
Long-term (repayments) borrowings	**(24,000)**	—
Net cash (used) by financing activities	**(25,910)**	(933)
Effect of exchange rate changes on cash	**51**	(11)
Net increase (decrease) in cash and cash equivalents from continuing operations	**10,260**	(46,702)
Net (decrease) in cash and cash equivalents from discontinued operations	**(38)**	(4,339)
Cash and cash equivalents at beginning of period	**106,929**	110,433
Cash and cash equivalents at end of period	**$ 117,151**	$ 59,392

See notes to condensed consolidated financial statements.

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the twelve weeks ended March 29, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2002.

Note 2—Accounting Period

Roadway Corporation (the registrant or Company) operates on 13 four-week accounting periods with 12 weeks in each of the first three quarters and 16 weeks in the fourth quarter.

Note 3—Discontinued operations

On December 26, 2002, the Company entered into an agreement to sell Arnold Transportation Services (ATS) to a management group led by the unit's president and a private equity firm, for approximately $55,000,000. The ATS business segment was acquired as part of the Company's purchase of Roadway Next Day in November 2001, but did not fit the Company's strategic focus of being a LTL carrier. The transaction was completed on January 23, 2003. The Company did not recognize a significant gain or loss as a result of this transaction.

The Company has reported the ATS results as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all periods presented exclude the amounts related to this discontinued operation.

The following table presents revenue and income from the discontinued operations for the quarters ended March 29, 2003 and March 23, 2002. The quarter ended March 29, 2003 includes results of operations only through the disposal date, January 23, 2003.

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	**March 23, 2002**
	(in thousands)	
Revenue	**$ 9,267**	$ 38,201
Pre-tax income from discontinued operations	**198**	212
Income tax expense	**51**	88
Income from discontinued operations	**$ 147**	$ 124

Note 4—Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	**March 23, 2002**
	(in thousands, except per share data)	
Income (loss) from:		
Continuing operations	**$ 7,863**	$ (1,873)
Discontinued operations	**147**	124
Net income (loss)	**$ 8,010**	$ (1,749)
Weighted-average shares for basic earnings per share	**18,655**	18,555
Management incentive stock plans	**431**	—
Weighted-average shares for diluted earnings per share	**19,086**	18,555
Basic earnings (loss) per share from:		
Continuing operations	**$ 0.42**	$ (0.10)
Discontinued operations	**0.01**	$ 0.01
Basic earnings (loss) per share	**$ 0.43**	$ (0.09)
Diluted earnings (loss) per share from:		
Continuing operations	**$ 0.41**	$ (0.10)
Discontinued operations	**0.01**	$ 0.01
Diluted earnings (loss) per share	**$ 0.42**	$ (0.09)

Note 5—Segment information

The Company provides freight services in two business segments: Roadway Express (Roadway) and New Penn Motor Express (New Penn). The Roadway segment provides long haul LTL freight services in North America and offers services to over 100 countries worldwide. The New Penn segment provides regional, next-day LTL freight service primarily in the northeast region of the United States.

The Company's reportable segments are identified based on differences in products, services, and management structure. The measurement basis of segment profit or loss is operating income. Business segment assets consist primarily of customer receivables, net carrier operating property, and goodwill.

	Twelve weeks ended March 29, 2003 (First Quarter)		
	Roadway Express	**New Penn**	**Total**
		(in thousands)	
Revenue	**$ 705,244**	**$ 48,826**	**$ 754,070**
Operating expense:			
Salaries, wages & benefits	**439,438**	**33,443**	**472,881**
Operating supplies	**125,826**	**7,667**	**133,493**
Purchased transportation	**74,242**	**542**	**74,784**
Operating license and tax	**18,379**	**1,389**	**19,768**
Insurance and claims	**13,895**	**954**	**14,849**
Depreciation	**14,924**	**2,209**	**17,133**
Net loss (gain) on sale of operating property	**802**	**9**	**811**
Total operating expense	**687,506**	**46,213**	**733,719**
Operating income	**$ 17,738**	**$ 2,613**	**$ 20,351**
Operating ratio	**97.5%**	**94.6%**	**97.3%**
Total assets	**$ 802,557**	**$403,315**	**$1,205,872**

Note 5—Segment information (continued)

	Twelve weeks ended March 23, 2002 (First Quarter)		
	Roadway Express	**New Penn**	**Total**
		(in thousands)	
Revenue	$ 553,558	$ 45,409	$ 598,967
Operating expense:			
Salaries, wages & benefits	366,335	30,709	397,044
Operating supplies	95,499	6,114	101,613
Purchased transportation	51,126	383	51,509
Operating license and tax	14,188	1,359	15,547
Insurance and claims	10,388	894	11,282
Depreciation	15,269	2,690	17,959
Net loss (gain) on sale of operating property	346	(51)	295
Total operating expense	553,151	42,098	595,249
Operating income	$ 407	$ 3,311	$ 3,718
Operating ratio	99.9%	92.7%	99.4%
Total assets	$ 703,834	$335,218	$1,039,052

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

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	**March 23, 2002**
	(in thousands)	
Segment operating income from continuing operations	**$ 20,351**	$ 3,718
Unallocated corporate (expense)	—	(11)
Interest (expense)	**(5,102)**	(5,464)
Other (expense), net	**(1,692)**	(1,360)
Consolidated income (loss) from continuing operations before taxes	**$ 13,557**	$ (3,117)

Note 5—Segment information (continued)

Reconciliation of total segment assets to total consolidated assets:

	March 29,2003	December 31, 2002
	(in thousands)	
Total segment assets	**$ 1,205,872**	$ 1,211,584
Unallocated corporate assets	**77,102**	41,351
Assets of discontinued operations	**—**	87,431
Elimination of intercompany balances	**(14,200)**	(4,493)
Consolidated assets	**$ 1,268,774**	$ 1,335,873

Note 6—Comprehensive Income

Comprehensive income differs from net income due to foreign currency translation adjustments and derivative fair value adjustments as shown below:

	Twelve Weeks Ended (First Quarter)	
	March 29, 2003	March 23, 2002
	(in thousands)	
Net income (loss)	**$ 8,010**	$ (1,749)
Foreign currency translation adjustments	**2,688**	(1,178)
Derivative fair value adjustment	**76**	—
Comprehensive income (loss)	**$ 10,774**	$ (2,927)

Note 7—Contingent Matter

The Company's former parent is currently under examination by the Internal Revenue Service for tax years 1994 and 1995, years prior to the spin-off of the Company. The IRS has proposed substantial adjustments for these tax years for multi-employer pension plan deductions. The IRS is challenging the timing, not the validity of these deductions. The Company is unable to predict the ultimate outcome of this matter; however, its former parent intends to vigorously contest these proposed adjustments.

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

We estimate the range of the remaining payments that may be due to the former parent to be $0 to $16,000,000 in additional taxes and $0 to $10,000,000 in related interest, net of tax benefit. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

Roadway Corporation and Subsidiaries

Condensed Consolidated Balance Sheets (Unaudited)

	June 21, 2003	December 31, 2002
	(in thousands, except share data)	
Assets		
Current assets:		
Cash and cash equivalents	$ 125,692	$ 106,929
Accounts receivable, including retained interest in securitized receivables, net	215,055	230,216
Assets of discontinued operations	—	87,431
Other current assets	49,541	38,496
Total current assets	390,288	463,072
Carrier operating property, at cost	1,511,699	1,515,648
Less allowance for depreciation	1,015,682	1,006,465
Net carrier operating property	496,017	509,183
Goodwill, net	286,181	283,910
Other assets	91,093	79,708
Total assets	$ 1,263,579	$ 1,335,873
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 164,806	$ 193,501
Salaries and wages	125,162	151,464
Liabilities of discontinued operations	—	32,407
Other current liabilities	61,889	83,518
Total current liabilities	351,857	460,890
Long-term liabilities:		
Casualty claims and other	75,505	78,548
Accrued pension and retiree medical	147,800	135,053
Long-term debt	270,279	273,513
Total long-term liabilities	493,584	487,114
Shareholders' equity:		
Common Stock - $.01 par value		
Authorized - 100,000,000 shares		
Issued - 20,556,714 shares		
Outstanding - 19,898,002 in 2003 and 19,368,590 in 2002	206	206
Other shareholders' equity	417,932	387,663
Total shareholders' equity	418,138	387,869
Total liabilities and shareholders' equity	$ 1,263,579	$ 1,335,873

Note: The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. See notes to condensed consolidated financial statements.

Roadway Corporation and Subsidiaries

Condensed Statements of Consolidated Income (Unaudited)

	Twelve Weeks Ended (Second Quarter)	
	June 21, 2003	**June 15, 2002**
	(in thousands, except per share data)	
Revenue	$ 741,528	$ 656,003
Operating expenses:		
Salaries, wages and benefits	468,223	427,273
Operating supplies and expenses	130,022	107,104
Purchased transportation	75,725	57,775
Operating taxes and licenses	18,688	17,481
Insurance and claims expense	14,529	13,129
Provision for depreciation	16,870	18,152
Net loss on disposal of operating property	30	283
Total operating expenses	724,087	641,197
Operating income from continuing operations	17,441	14,806
Other (expense), net	(6,044)	(6,823)
Income from continuing operations before income taxes	11,397	7,983
Provision for income taxes	4,787	3,347
Income from continuing operations	6,610	4,636
(Loss) income from discontinued operations	(302)	1,038
Net income	$ 6,308	$ 5,674
Earnings (loss) per share – basic:		
Continuing operations	$ 0.35	$ 0.25
Discontinued operations	(0.02)	0.05
Total earnings per share – basic	$ 0.33	$ 0.30
Earnings (loss) per share – diluted:		
Continuing operations	$ 0.35	$ 0.25
Discontinued operations	(0.02)	0.05
Total earnings per share – diluted	$ 0.33	$ 0.30
Average shares outstanding – basic	18,955	18,474
Average shares outstanding – diluted	19,336	18,888
Dividends declared per share	$ 0.05	$ 0.05

See notes to condensed consolidated financial statements.

Roadway Corporation and Subsidiaries

Condensed Statements of Consolidated Income (Unaudited)

	Twenty-four Weeks Ended (Two Quarters)	
	June 21, 2003	June 15, 2002
	(in thousands, except per share data)	
Revenue	$1,495,598	$1,254,970
Operating expenses:		
Salaries, wages and benefits	943,658	826,437
Operating supplies and expenses	260,434	206,313
Purchased transportation	150,509	109,284
Operating taxes and licenses	38,554	33,045
Insurance and claims expense	29,641	24,560
Provision for depreciation	34,169	36,240
Net loss on disposal of operating property	841	578
Total operating expenses	1,457,806	1,236,457
Operating income from continuing operations	37,792	18,513
Other (expense), net	(12,838)	(13,647)
Income from continuing operations before income taxes	24,954	4,866
Provision for income taxes	10,481	2,103
Income from continuing operations	14,473	2,763
(Loss) income from discontinued operations	(155)	1,162
Net income	$ 14,318	$ 3,925
Earnings (loss) per share – basic:		
Continuing operations	$ 0.77	$ 0.15
Discontinued operations	(0.01)	0.06
Total earnings per share – basic	$ 0.76	$ 0.21
Earnings (loss) per share – diluted:		
Continuing operations	$ 0.76	$ 0.15
Discontinued operations	(0.01)	0.06
Total earnings per share – diluted	$ 0.75	$ 0.21
Average shares outstanding – basic	18,802	18,514
Average shares outstanding – diluted	19,177	18,968
Dividends declared per share	$ 0.10	$ 0.10

See notes to condensed consolidated financial statements.

Roadway Corporation and Subsidiaries

Condensed Statements of Consolidated Cash Flows (Unaudited)

	Twenty-four Weeks Ended (Two Quarters)	
	June 21, 2003	**June 15, 2002**
	(in thousands)	
Cash flows from operating activities		
Income from continuing operations	$ 14,473	$ 2,763
Depreciation and amortization	35,849	37,175
Other operating adjustments	(31,928)	(45,756)
Net cash provided (used) by operating activities	18,394	(5,818)
Cash flows from investing activities		
Purchases of carrier operating property	(22,448)	(24,313)
Sales of carrier operating property	1,721	1,869
Business disposal	47,430	—
Net cash provided (used) by investing activities	26,703	(22,444)
Cash flows from financing activities		
Dividends paid	(1,931)	(1,940)
Treasury stock activity, net	1,713	(1,383)
Transfer from discontinued operation	—	2,500
Long-term (repayments) borrowings	(26,426)	(2,500)
Net cash (used) by financing activities	(26,644)	(3,323)
Effect of exchange rate changes on cash	348	(90)
Net increase (decrease) in cash and cash equivalents from continuing operations	18,801	(31,675)
Net (decrease) in cash and cash equivalents from discontinued operations	(38)	(5,163)
Cash and cash equivalents at beginning of period	106,929	110,432
Cash and cash equivalents at end of period	$ 125,692	$ 73,594

See notes to condensed consolidated financial statements.

Note 1—Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the twelve and twenty-four weeks ended June 21, 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Roadway Corporation Annual Report on Form 10-K for the year ended December 31, 2002.

The Company completed the required goodwill impairment test under SFAS No. 142 for all reporting units effective June 21, 2003 which did not indicate any impairment. The Company expects to perform the required annual goodwill impairment assessment on a recurring basis at the end of the second quarter each year, or more frequently should any indicators of possible impairment be identified.

Note 2—Accounting Period

Roadway Corporation (the registrant or Company) operates on 13 four-week accounting periods with 12 weeks in each of the first three quarters and 16 weeks in the fourth quarter.

Note 3—Discontinued operations

On December 26, 2002, the Company entered into an agreement to sell Arnold Transportation Services (ATS) to a management group led by the unit’s president and a private equity firm, for approximately $55,000,000. The ATS business segment was acquired as part of the Company’s purchase of Arnold Industries, Inc. (subsequently renamed Roadway Next Day Corporation) in November 2001, but did not fit the Company’s strategic focus of being a LTL carrier. The transaction was completed on January 23, 2003. The Company did not recognize a significant gain or loss as a result of this transaction.

The Company has reported the ATS results as a discontinued operation in the accompanying financial statements and, unless otherwise stated, the notes to the financial statements for all periods presented exclude the amounts related to this discontinued operation.

Note 4—Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Twelve Weeks Ended (Second Quarter)		Twenty-four Weeks Ended (Two Quarters)	
	June 21, 2003	June 15, 2002	June 21, 2003	June 15, 2002
	(in thousands, except per share data)			
Income (loss) from:				
Continuing operations	$ 6,610	$ 4,636	$ 14,473	$ 2,763
Discontinued operations	(302)	1,038	(155)	1,162
Net income	$ 6,308	$ 5,674	$ 14,318	$ 3,925
Weighted-average shares for basic earnings per share	18,955	18,474	18,802	18,514
Management incentive stock plans	381	414	375	454
Weighted-average shares for diluted earnings per share	19,336	18,888	19,177	18,968
Basic earnings (loss) per share from:				
Continuing operations	$ 0.35	$ 0.25	$ 0.77	$ 0.15
Discontinued operations	(0.02)	0.05	(0.01)	0.06
Basic earnings per share	$ 0.33	$ 0.30	$ 0.76	$ 0.21
Diluted earnings (loss) per share from:				
Continuing operations	$ 0.35	$ 0.25	$ 0.76	$ 0.15
Discontinued operations	(0.02)	0.05	(0.01)	0.06
Diluted earnings per share	$ 0.33	$ 0.30	$ 0.75	$ 0.21

Note 5—Segment information

The Company provides freight services in two business segments: Roadway Express (Roadway) and New Penn Motor Express (New Penn). The Roadway segment provides long haul, expedited, and regional LTL freight services in North America and offers services to over 100 countries worldwide. The New Penn segment provides regional, next-day LTL freight services primarily in the northeast region of the United States.

The Company's reportable segments are identified based on differences in products, services, and management structure. The measurement basis of segment profit or loss is operating income. Business segment assets consist primarily of customer receivables, net carrier operating property, and goodwill.

	Twelve weeks ended June 21, 2003 (Second Quarter)		
	Roadway Express	New Penn	Total
		(in thousands)	
Revenue	$ 691,156	$ 50,372	$ 741,528
Operating expense:			
Salaries, wages & benefits	433,101	32,657	465,758
Operating supplies	125,734	7,244	132,978
Purchased transportation	75,276	449	75,725
Operating license and tax	17,182	1,427	18,609
Insurance and claims	13,599	684	14,283
Depreciation	14,472	2,232	16,704
Net loss (gain) on sale of operating property	(21)	51	30
Total operating expense	679,343	44,744	724,087
Operating income	$ 11,813	$ 5,628	$ 17,441
Operating ratio	98.3%	88.8%	97.6%
Total assets	$ 761,817	$ 405,914	$ 1,167,731

Note 5—Segment information (continued)

	Twelve weeks ended June 15, 2002 (Second Quarter)		
	Roadway Express	New Penn	Total
		(in thousands)	
Revenue	$ 606,409	$ 49,594	$ 656,003
Operating expense:			
Salaries, wages & benefits	392,635	32,722	425,357
Operating supplies	103,488	5,937	109,425
Purchased transportation	57,317	458	57,775
Operating license and tax	16,043	1,383	17,426
Insurance and claims	11,964	947	12,911
Depreciation	15,416	2,615	18,031
Net loss (gain) on sale of operating property	303	(20)	283
Total operating expense	597,166	44,042	641,208
Operating income	$ 9,243	$ 5,552	$ 14,795
Operating ratio	98.5%	88.8%	97.7%
Total assets	$ 713,832	$ 336,587	$ 1,050,419

	Twenty-four weeks ended June 21, 2003 (Two Quarters)		
	Roadway Express	New Penn	Total
		(in thousands)	
Revenue	$ 1,396,400	$ 99,198	$ 1,495,598
Operating expense:			
Salaries, wages & benefits	872,539	66,100	938,639
Operating supplies	251,560	14,911	266,471
Purchased transportation	149,518	991	150,509
Operating license and tax	35,561	2,816	38,377
Insurance and claims	27,494	1,638	29,132
Depreciation	29,396	4,441	33,837
Net loss (gain) on sale of operating property	781	60	841
Total operating expense	1,366,849	90,957	1,457,806
Operating income	$ 29,551	$ 8,241	$ 37,792
Operating ratio	97.9%	91.7%	97.5%

Note 5—Segment information (continued)

	Twenty-four weeks ended June 15, 2002 (Two Quarters)		
	Roadway Express	New Penn	Total
		(in thousands)	
Revenue	$ 1,159,967	$ 95,003	$ 1,254,970
Operating expense:			
Salaries, wages & benefits	758,970	63,431	822,401
Operating supplies	198,987	12,051	211,038
Purchased transportation	108,443	841	109,284
Operating license and tax	30,231	2,742	32,973
Insurance and claims	22,352	1,841	24,193
Depreciation	30,685	5,305	35,990
Net loss (gain) on sale of operating property	649	(71)	578
Total operating expense	1,150,317	86,140	1,236,457
Operating income	$ 9,650	$ 8,863	$ 18,513
Operating ratio	99.2%	90.7%	98.5%

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

	Twelve Weeks Ended (Second Quarter)		Twenty-four weeks ended (Two quarters)	
	June 21, 2003	June 15, 2002	June 21, 2003	June 15, 2002
		(in thousands)		
Segment operating income from continuing operations	$ 17,441	$ 14,795	$ 37,792	$ 18,513
Unallocated corporate income	—	11	—	—
Interest (expense)	(4,779)	(5,473)	(9,881)	(10,937)
Other (expense), net	(1,265)	(1,350)	(2,957)	(2,710)
Consolidated income from continuing operations before taxes	$ 11,397	$ 7,983	$ 24,954	$ 4,866

Note 5—Segment information (continued)

Reconciliation of total segment assets to total consolidated assets:

	June 21, 2003	December 31, 2002
	(in thousands)	
Total segment assets	$1,167,731	$ 1,211,584
Unallocated corporate assets	103,142	41,351
Assets of discontinued operations	—	87,431
Elimination of intercompany balances	(7,294)	(4,493)
Consolidated assets	$1,263,579	$ 1,335,873

Note 6—Comprehensive Income

Comprehensive income differs from net income due to foreign currency translation adjustments and derivative fair value adjustments as shown below:

	Twelve weeks Ended (Second Quarter)		Twenty-four weeks ended (Two quarters)	
	June 21, 2003	June 15, 2002	June 21, 2003	June 15, 2002
	(in thousands)			
Net income	$ 6,308	$ 5,674	$ 14,318	$ 3,925
Foreign currency translation adjustments	3,089	1,122	5,776	(56)
Derivative fair value adjustment	50	—	126	—
Comprehensive income	$ 9,447	$ 6,796	$ 20,220	$ 3,869

Note 7—Contingent Matter

The Company's former parent is currently under examination by the Internal Revenue Service for tax years 1994 and 1995, years prior to the spin-off of the Company. The IRS has proposed substantial adjustments for these tax years for multi-employer pension plan deductions. The IRS is challenging the timing, not the validity of these deductions. The Company is unable to predict the ultimate outcome of this matter; however, its former parent intends to vigorously contest these proposed adjustments.

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

We estimate the range of the remaining payments that may be due to the former parent to be $0 to $16,000,000 in additional taxes and $0 to $10,000,000 in related interest, net of tax benefit. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

Note 8—Subsequent event

On July 8, 2003, the Company announced the signing of a definitive agreement under which Yellow Corporation would acquire Roadway for approximately $966 million, or $48 per share. See the Company's 8-K filed on July 8, 2003 for further information and details.

UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL DATA

The following unaudited condensed combined pro forma financial statements and explanatory notes have been prepared to give effect to the proposed merger of Roadway Corporation ("Roadway") with and into a subsidiary of Yellow Corporation ("Yellow"), the proceeds of Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and the consummation of Yellow's other currently contemplated financing transactions related to the proposed merger. At the effective time of the proposed merger, Roadway will be merged with and into a wholly owned acquisition subsidiary of Yellow. The transaction is being accounted for as a purchase business combination.

In general, upon the effectiveness of the proposed merger, each share of Roadway stock (except those shares owned directly or indirectly by Roadway or Yellow and those shares held by dissenting stockholders) will be converted into 1.924 shares of Yellow common stock. However, a Roadway stockholder may elect to receive $48.00 in cash in lieu of Yellow stock for each share of the stockholder's Roadway stock. Notwithstanding the individual elections of the Roadway stockholders, no more than 50% of the Roadway shares may be converted into cash and certain adjustments will be made so that the aggregate consideration in the proposed merger will consist of approximately 50% cash and 50% Yellow common stock. See "Description of the Merger".

The exchange ratio of 1.924 shares will be subject to further adjustment based upon the 20-trading-day average of the per share closing price of Yellow common stock as of the date five trading days before closing of the merger. If the average price is less than $21.21, the exchange ratio shall be the quotient of $40.81 and the average price, or if the average price is greater than $28.69, then the exchange ratio shall be the quotient of $55.20 and the average price. If the average price of Yellow common stock is less than $16.63, Yellow may elect not to consummate the proposed merger.

In accordance with Article 11 of Regulation S-X under the Securities Act of 1933, an unaudited condensed combined pro forma balance sheet as of June 30, 2003 and unaudited condensed combined pro forma statements of operations for the six months ended June 30, 2003 and the year ended December 31, 2002, have been prepared to reflect the proposed merger (treated as an acquisition of Roadway), the proceeds of Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and the consummation of Yellow's other currently contemplated financing transactions related to the proposed merger. The following unaudited condensed combined pro forma financial statements have been prepared based upon historical financial statements of Yellow and Roadway. Yellow operates on a calendar quarter reporting basis. Roadway operates on 13 four-week accounting periods with 12 weeks in each of the first three quarters and 16 weeks in the fourth quarter. Additionally, the unaudited condensed combined pro forma financial statements reflect certain balance sheet and statement of operations reclassifications made to conform Roadway's presentations to those of Yellow. The unaudited condensed combined pro forma financial statements should be read in conjunction with:

- Yellow's historical audited consolidated financial statements for the year ended December 31, 2002, and its unaudited condensed consolidated financial statements as of June 30, 2003 and for the six months ended June 30, 2003; and
- Roadway's historical audited consolidated financial statements for the year ended December 31, 2002, and its unaudited condensed consolidated financial statements as of June 21, 2003 and for the twenty-four week period (two quarters) ended June 21, 2003.

The unaudited condensed combined pro forma balance sheet was prepared by combining Yellow's historical unaudited consolidated balance sheet as of June 30, 2003 and Roadway's historical unaudited consolidated balance sheet as of June 21, 2003, adjusted to reflect the proposed merger, the proceeds of Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and the consummation of Yellow's other currently contemplated financing transactions related to the proposed merger, as if each had occurred at June 30, 2003.

The unaudited condensed combined pro forma statements of operations were prepared using the historical consolidated statements of operations for both Yellow and Roadway assuming the proposed merger and related transactions had each occurred on January 1, 2002. The unaudited condensed combined pro forma statement of operations for the year ended December 31, 2002 was prepared by combining the historical audited consolidated statement of operations of Yellow and the historical audited consolidated statement of income of Roadway for the year ended December 31, 2002. The unaudited condensed combined pro forma statement of operations for the six months ended June 30, 2003 was prepared by combining the historical unaudited consolidated statement of operations of Yellow for the six month period ended June 30, 2003 and the historical unaudited consolidated statement of income of Roadway for the twenty-four week period (two quarters) ended June 21, 2003. The unaudited condensed combined pro forma statements of operations give effect to the costs associated with financing the proposed merger, including interest expense and amortization of deferred financing costs associated with Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and other currently contemplated financing transactions related to the proposed merger, and the impact of other purchase accounting adjustments.

The unaudited condensed combined pro forma financial statements are prepared for illustrative purposes only, and are not necessarily indicative of the operating results or financial position that would have occurred if the merger transaction described above had been consummated at the beginning of the periods or the dates indicated, nor are they necessarily indicative of any future operating results or financial position. The unaudited condensed combined pro forma financial statements do not include any adjustments related to any restructuring charges, profit improvements, potential cost savings or one-time charges which may result from the proposed merger or the result of final valuations of tangible and intangible assets and liabilities.

The process of valuing Roadway's tangible and intangible assets and liabilities as well as evaluating accounting policies for conformity is still in the preliminary stages. Material revisions to our current estimates could be necessary as the valuation process and accounting policy review are finalized. Following closing of the proposed merger, we will finalize the process of determining the fair value at the date of acquisition of the tangible and intangible assets and liabilities of Roadway. As a result of this process, we anticipate that a portion of the amount classified as goodwill in the unaudited condensed combined pro forma financial statements, which in accordance with Statement of Financial Accounting Standards No. 142 will not be amortized, will be reclassified to the tangible and identified intangible assets and liabilities acquired, based on their estimated fair values at the date of acquisition. These tangible and identified intangible assets will be depreciated and amortized over their estimated useful lives. As a result, the actual amount of depreciation and amortization expense may be materially different from that presented in the unaudited condensed combined pro forma statements of operations and the effects cannot be quantified at this time.

The proposed merger had not been consummated as of the preparation of these unaudited condensed combined pro forma financial statements.

Unaudited Condensed Combined Pro Forma Balance Sheet

At June 30, 2003

	Historical		Pro Forma	
	Yellow	Roadway (at June 21, 2003)	Adjustments	Combined
		(in thousands)		
ASSETS				
Current assets:				
Cash and cash equivalents	$ 49,811	$ 125,692	$ (490,395) (1)	$ 8,618
			250,000 (2)	
			325,000 (3)	
			53,000 (4)	
			(100,000) (5)	
			(93,450) (6)	
			(111,040) (7)	
Accounts receivable, net	334,360	215,055	25,400 (8)	674,815
			100,000 (5)	
Prepaid expenses and other	31,765	49,541	(16,795) (9)	64,511
Total current assets	415,936	390,288	(58,280)	747,944
Property and equipment, at cost	1,698,586	1,511,699	225,000 (10)	2,419,603
			(1,015,682)(11)	
Less: accumulated depreciation	(1,127,405)	(1,015,682)	1,015,682 (11)	(1,127,405)
Net property and equipment	571,181	496,017	225,000	1,292,198
Goodwill	20,469	286,181	812,389 (1)	832,858
			(286,181)(12)	
Deferred income taxes	—	44,598	(44,598) (9)	—
Other assets	33,095	46,495	25,400 (6)	96,871
			(8,119) (7)	
Total Assets	$ 1,040,681	$ 1,263,579	$ 665,611	$ 2,969,871
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable	$ 71,283	$ 164,806	$ (57,526)(13)	$ 178,563
Wages, vacations and employees' benefits	166,369	125,162		291,531
Other current and accrued liabilities	113,572	51,378	(16,795) (9)	200,994
			(4,687) (9)	
			57,526 (13)	
ABS borrowings	50,000	—	53,000 (4)	103,000
Current maturities of long-term debt	40,259	10,511	(45,761) (7)	5,009
Total current liabilities	441,483	351,857	(14,243)	779,097
Long-term liabilities:				
Long-term debt, less current portion	33,983	270,279	250,000 (2)	840,573
			325,000 (3)	
			(65,279) (7)	
			26,590 (14)	
Claims and other liabilities	76,967	65,029	37,900 (15)	173,196
			(6,700)(16)	
Accrued pension and postretirement health care	76,293	147,800	50,800 (17)	274,893
Deferred income taxes	27,089	10,476	11,328 (9)	48,893
Total long-term liabilities	214,332	493,584	629,639	1,337,555
Total shareholders' equity	384,866	418,138	472,742 (1)	853,219
			(418,138)(18)	
			(4,389)(19)	
Total Liabilities and Shareholders' Equity	$ 1,040,681	$ 1,263,579	$ 665,611	$ 2,969,871

Unaudited Condensed Combined Pro Forma Statement of Operations

For the Year Ended December 31, 2002

	Historical		Pro Forma	
	Yellow	Roadway	Adjustments	Combined
	(in thousands, except per share data)			
Revenue	$2,624,148	$3,010,776	$ 3,000 (8)	$5,637,924
Operating expenses:				
Salaries, wages and employees' benefits	1,717,382	1,934,482		3,651,864
Operating expenses and supplies	385,522	479,415	(2,154)(13)	862,783
Operating taxes and licenses	75,737	76,662		152,399
Claims and insurance	57,197	63,621		120,818
Depreciation and amortization	79,334	75,786	2,154 (13)	157,174
			(100)(20)	
Purchased transportation	253,677	289,612		543,289
(Gains) losses on property disposals, net	425	(650)		(225)
Spin-off and reorganization charges	8,010	—		8,010
Total operating expenses	2,577,284	2,918,928	(100)	5,496,112
Operating income	46,864	91,848	3,100	141,812
Interest expense	7,211	23,268	3,249 (13)	59,642
			25,914 (21)	
ABS facility charges	2,576	3,688	(6,264)(21)	—
Other, net	(509)	2,855	(3,249)(13)	(903)
Nonoperating expenses, net	9,278	29,811	19,650	58,739
Income from continuing operations before income taxes	37,586	62,037	(16,550)	83,073
Income tax provision	13,613	26,895	(6,620)(22)	33,888
Income from continuing operations	$ 23,973	$ 35,142	$ (9,930)	$ 49,185
Earnings per share from continuing operations:				
Basic	$ 0.86	$ 1.90		$ 1.03
Diluted	0.84	1.85		1.02
Average common shares outstanding:				
Basic	28,004	18,507		47,661
Diluted	28,371	18,999		48,028

Unaudited Condensed Combined Pro Forma Statement of Operations

For the Six Months Ended June 30, 2003

	Historical		Pro Forma	
	Yellow	Roadway (for the two quarters ended June 21, 2003)	Adjustments	Combined
	(in thousands, except per share data)			
Revenue	$1,394,546	$ 1,495,598	$ 7,300 (8)	$2,897,444
Operating expenses:				
Salaries, wages and employees' benefits	896,784	943,658		1,840,442
Operating expenses and supplies	213,851	260,434	(302)(13)	473,983
Operating taxes and licenses	39,259	38,554		77,813
Claims and insurance	23,454	29,641		53,095
Depreciation and amortization	41,086	34,169	302 (13)	75,507
			(50)(20)	
Purchased transportation	135,979	150,509		286,488
Losses on property disposals, net	41	841		882
Spin-off and reorganization charges	—	—		—
Total operating expenses	1,350,454	1,457,806	(50)	2,808,210
Operating income	44,092	37,792	7,350	89,234
Interest expense	5,271	9,881	2,223 (13)	29,345
			11,970 (21)	
ABS facility charges	—	1,813	(1,813)(21)	—
Other, net	(436)	1,144	(2,223)(13)	(1,515)
Nonoperating expenses, net	4,835	12,838	10,157	27,830
Income from continuing operations before income taxes	39,257	24,954	(2,807)	61,404
Income tax provision	15,271	10,481	(1,123)(22)	24,629
Income from continuing operations	$ 23,986	$ 14,473	$ (1,684)	$ 36,775
Earnings per share from continuing operations:				
Basic	$ 0.81	$ 0.77		$ 0.75
Diluted	0.80	0.76		0.74
Average common shares outstanding:				
Basic	29,585	18,802		49,242
Diluted	29,826	19,177		49,483

NOTES TO UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL STATEMENTS

(1) The process of valuing Roadway's tangible and intangible assets and liabilities as well as evaluating accounting policies for conformity is still in the preliminary stages. Material revisions to our current estimates could be necessary as the valuation process and accounting policy review are finalized. These unaudited condensed combined pro forma financial statements are not necessarily indicative of the operating results or financial position that would have occurred had the proposed merger been consummated at the dates indicated, nor necessarily indicative of future operating results.

The purchase price is estimated as follows (in thousands, except per share data):

Merger consideration of approximately $963.1 million, based on $24.00 cash consideration per Roadway share, a fixed exchange ratio of 1.924 Yellow shares for each Roadway share, and the assumption of a 50% cash, 50% stock election by Roadway shareholders. For purchase accounting purposes, the Yellow common stock component of the merger consideration was valued at $24.05 per share, which represents the simple average of the daily opening and closing trade prices for the period from July 3, 2003 through July 10, 2003, the period immediately surrounding the date of the announcement of the proposed merger.

Cash	$ 490,395
Common stock (19.7 million Yellow shares)	472,742
Total merger consideration	963,137
Acquisition and change of control costs	49,150
Total purchase price	1,012,287
Net tangible assets acquired at fair value	199,898*
Costs in excess of net tangible assets of the acquired company (Goodwill)	$ 812,389**

* Net tangible assets acquired at fair value is comprised of the following (in thousands):

Roadway historical net tangible assets at June 21, 2003		$ 131,957
Purchase accounting adjustments, as described in the following notes:		
Merger-related expenses incurred by Roadway	(11,900)	
Write-off of certain deferred financing costs	(8,003)	
Conform revenue recognition policy	25,400	
Adjust property and equipment to fair value	225,000	
Adjust senior notes to fair value	(26,590)	
Conform workers' compensation policy	(37,900)	
Elimination of accrual for Roadway deferred shares	6,700	
Adjustment to pension and postretirement health care liabilities	(50,800)	
Current and deferred income taxes associated with purchase accounting adjustments	(53,966)	
Total purchase accounting adjustments		67,941
Net tangible assets acquired at fair value		$ 199,898

** Goodwill reflects the preliminary estimated adjustment for the costs in excess of net tangible assets of Roadway at estimated fair value. Subsequent to closing of the merger, we will be completing a study to determine the allocation of the total purchase price to the various tangible and intangible assets acquired and the liabilities assumed in order to allocate the purchase price. Management believes, on a preliminary basis, there may be intangible assets that will be assigned a fair value in the purchase price allocation. The sensitivity of the valuations regarding the above can be significant. Accordingly, as we conclude our evaluation of the assets acquired and liabilities assumed upon closing the merger, allocation of the purchase price among the tangible and intangible assets will be subject to change. Any such change may also impact results of operations.

(2) Reflects gross proceeds of Yellow's recent offering of $250.0 million aggregate principal amount of its 5.0% contingent convertible senior notes due 2023.

(3) Reflects gross proceeds of Yellow's other currently contemplated financing transactions related to the proposed merger, comprised of $175.0 million of secured term loan borrowings and $150.0 million of senior unsecured debt securities.

(4) Reflects additional borrowings under Yellow's asset backed securitization (ABS) facility.

(5) Reflects the elimination of Roadway's ABS facility as a component of the currently contemplated financing transactions. As Roadway's ABS facility receives sales treatment for financial reporting purposes and is therefore not reflected on its balance sheets, elimination of that facility effectively brings accounts receivable back onto the balance sheet.

(6) Represents costs associated with completing the proposed merger and the currently contemplated financing transactions, including Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023, as follows (in thousands):

Direct transaction costs, including investment banking, legal, accounting and other fees:	
Yellow	$12,650
Roadway	11,900
Deferred debt issuance costs	25,400
Bridge financing costs	4,500
Debt prepayment penalties	2,500
Director, officer and fiduciary insurance premium costs	6,100*
Change of control costs	30,400**
Total	$93,450

* This item represents the estimated cost to provide director, officer and fiduciary liability insurance coverage for Roadway directors, officers and employees for periods prior to the date of the proposed merger. In accordance with the merger agreement, this coverage will be provided for six years after the effective date of the proposed merger.

** The change of control costs represent the estimated maximum cost of various change of control provisions for key Roadway executives.

(7) Reflects the payoff of certain existing indebtedness in conjunction with the currently contemplated financing transactions and the write-off of deferred financing costs.

(8) Represents the adjustment necessary to conform Roadway's revenue recognition policy to the policy used by Yellow.

(9) Represents the impact on currently payable and deferred income taxes of the pro forma adjustments presented.

(10) Represents the net adjustment to Roadway's property and equipment based on initially estimated fair values.

(11) Represents the elimination of Roadway's historical accumulated depreciation.

(12) Represents the elimination of the historical goodwill of Roadway.

(13) Reflects certain balance sheet and statement of operations reclassifications made to conform Roadway's presentation to the presentation used by Yellow.

(14) Represents an increase in the fair value of Roadway's senior notes based on current market prices.

(15) Represents the estimated adjustment necessary to conform Roadway's workers' compensation accrual policy to the policy used by Yellow.

(16) Represents the elimination of the accrual previously established for shares of Roadway common stock that were deferred by the recipient under one of Roadway's compensation plans. These shares of Roadway common stock were distributed to the recipients upon the initial filing of this joint proxy statement/prospectus.

(17) Represents the estimated adjustment necessary to eliminate previously unrecognized gains or losses, prior service cost, and transition assets or obligations related to Roadway's defined benefit pension and postretirement health care benefit plans for employees not covered by collective bargaining agreements.

(18) Represents the elimination of Roadway's historical shareholders' equity balances.

(19) Represents the after-tax impact of bridge financing costs, debt prepayment penalties, and the write-off of Yellow's deferred financing costs associated with completing the currently contemplated financing transactions.

(20) Adjustment to record lower depreciation expense on the new basis of Roadway's property and equipment. The fair value of longer-lived assets increased while the fair value of shorter-lived assets decreased.

(21) Adjustment to record additional interest expense and amortization of deferred financing costs on borrowings related to Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and other currently contemplated financing transactions related to the proposed merger. The estimated weighted average annual interest rate of the currently contemplated debt structure is 6.1%. A $^1/_8$th% change in the variable interest rates associated with these borrowings would have a $0.3 million effect on annual interest expense. A $10.0 million change in the amount of borrowings necessary to finance the proposed merger would have a $0.6 million effect on annual interest expense.

(22) Adjustment to record the income tax impact of the pro forma adjustments at an effective income tax rate of 40.0%.

RISK FACTORS

You should pay particular attention to the following risks related to the proposed merger of Roadway Corporation ("Roadway") with and into a subsidiary of Yellow Corporation ("Yellow") and the business of the combined company ("Yellow Roadway"):

Risks of the Merger

The merger is subject to certain conditions to closing that, if not satisfied or waived, will result in the merger not being completed.

The merger is subject to customary conditions to closing, as set forth in the merger agreement. The conditions to the merger include, among others, the receipt of required approvals from Yellow's stockholders and Roadway's stockholders. If any of the conditions to the merger is not satisfied or, if waiver is permissible, not waived, the merger will not be completed. In addition, under circumstances specified in the merger agreement, Yellow or Roadway may terminate the merger agreement. As a result, we cannot assure you that we will complete the merger. If we do not complete the merger, the price of Yellow common stock or Roadway common stock may decline to the extent that the current market price of both Yellow common stock and Roadway common stock reflect a market assumption that the merger will be completed. Furthermore, our respective businesses may be harmed to the extent that customers, suppliers and others believe that Yellow and Roadway cannot effectively compete in the marketplace without the merger, or otherwise remain uncertain about either of us. Yellow and Roadway will also be obligated to pay certain investment banking, financing, legal and accounting fees in connection with the merger, whether or not the merger is completed. Moreover, under specified circumstances, Yellow and Roadway may be required to pay a termination fee of $25 million to the other in connection with the termination of the merger agreement.

We may face difficulties in achieving the expected benefits of the merger.

Yellow and Roadway currently operate as separate companies. Management has no experience running the combined business, and we may not be able to realize the operating efficiencies, synergies, cost savings or other benefits expected from the merger. In addition, the costs we incur in implementing synergies, including our ability to terminate, amend or renegotiate prior contractual commitments of Yellow and Roadway, may be greater than expected. We also may suffer a loss of employees, customers or suppliers, a loss of revenues, or an increase in operating or other costs or other difficulties relating to the merger.

Certain directors and executive officers of Roadway have interests and arrangements that are different from Roadway's stockholders and that may influence or have influenced their decision to support or approve the merger.

When considering the recommendation of Roadway's board of directors with respect to the merger, holders of Roadway common stock should be aware that certain of Roadway's directors and executive officers have interests in the merger that are different from, or in addition to, their interests as Roadway stockholders and the interests of Roadway stockholders generally. These interests include, among other things, the following:

- the appointment of three of Roadway's current directors to Yellow's board of directors;
- under the terms of the change in control severance agreements entered into between Roadway and certain of its officers, if an officer's employment with Roadway (or its successor) is terminated during the severance period (as defined in the officer's change in control severance agreement), that officer is entitled to severance benefits, including excise tax gross-up payments;

- as of the initial filing date of this joint proxy statement/prospectus, acceleration of vesting of stock options and restricted stock for officers under the terms of the Roadway Equity Ownership Plan and the Roadway Management Incentive Stock Plan and the acceleration of vesting of restricted stock for directors under the terms of the Roadway Non-Employee Directors' Equity Ownership Plan;
- as of the initial filing date of this joint proxy statement/prospectus, distribution of deferred shares and cash (including accelerated retirement credits) to officers under the terms of the Roadway Deferred Compensation Plan;
- receipt of stock, and in some cases, a cash payment in exchange for the cancellation and termination of unexercised options held by officers and directors under the terms of the merger agreement;
- indemnification of directors and officers of Roadway against certain liabilities arising both before and, in some cases, after the merger; and
- liability insurance for certain directors and officers of Roadway.

As a result, these directors and executive officers may be more likely to support and to vote to approve the merger than if they did not have these interests. Holders of Roadway common stock should consider whether these interests may have influenced these directors and officers to support or recommend approval of the merger. These directors and executive officers own and are entitled to vote shares of Roadway common stock .

The market value of shares of Yellow common stock that Roadway stockholders will receive in the merger will vary because the exchange ratio is fixed within a range of Yellow's stock price, potentially resulting in Roadway stockholders receiving a lower dollar value of Yellow common stock at the time of completion of the merger.

The exchange ratio is a fixed ratio within a range of $21.21 to $28.69 per share of Yellow common stock and will not be adjusted as a result of an increase or decrease in the price per share of Yellow common stock within that range or for any increase or decrease in the price per share of Roadway common stock. The prices of Yellow common stock and Roadway common stock at the time the merger is completed may be higher or lower than their price on the date of this document or on the date of the special meetings of Yellow stockholders and Roadway stockholders. Changes in the business, operations or prospects of Yellow or Roadway, market assessments of the benefits of the merger and of the likelihood that the merger will be completed, regulatory considerations, general market and economic conditions, or other factors may affect the prices of Yellow common stock or Roadway common stock. Most of these factors are beyond our control.

Because the merger will be completed only after the special meetings of our respective stockholders are held, there is no way to be sure that the price of the Yellow common stock now, or on the date of the special meetings, will be indicative of its price over the period used to determine the average closing price or at the time the merger is completed. We urge you to obtain current market quotations for shares of both Yellow common stock and Roadway common stock. Roadway does not have a right to terminate the merger agreement based solely upon changes in the market price of either Roadway common stock or Yellow common stock.

The pro forma financial data included in this Current Report on Form 8-K is preliminary and our actual financial position and results of operations may differ significantly and adversely from the pro forma amounts included in this Current Report on Form 8-K.

The process of valuing Roadway's tangible and intangible assets and liabilities, as well as evaluating Roadway's accounting policies for conformity is still in the preliminary stages. Material revisions to current estimates could be necessary as the valuation process and accounting policy review are finalized.

The unaudited pro forma operating data contained in this Current Report on Form 8-K is not necessarily indicative of the results that actually would have been achieved had the recent offering of Yellow's 5.0% contingent convertible senior notes due 2023, the proposed merger and Yellow's other currently contemplated financing transactions related to the merger been consummated on January 1, 2002, or that may be achieved in the future. We can provide no assurances as to how the operations and assets of both companies would have been run if they had been combined, or how they will be run in the future, which, together with other factors, could have a significant effect on the results of operations and financial position of the combined company.

Yellow Roadway will have higher levels of indebtedness than either Yellow or Roadway had before the merger.

You should consider that following the merger Yellow Roadway will have higher levels of debt and interest expense than either company had immediately prior to the merger on a stand-alone basis. As of June 30, 2003, after giving effect to the merger, Yellow's recent offering of its 5.0% contingent convertible senior notes due 2023 and other currently contemplated related financings, the combined company and its subsidiaries would have had approximately $948.6 million of indebtedness outstanding. The significant level of combined indebtedness after the merger may have an effect on our future operations, including:

- limiting our ability to obtain additional financing on satisfactory terms to fund our working capital requirements, capital expenditures, acquisitions, investments, debt service requirements and other general corporate requirements;
- increasing our vulnerability to general economic downturns, competition and industry conditions, which could place us at a competitive disadvantage compared to our competitors that are less leveraged;
- increasing our exposure to rising interest rates because a portion of our borrowings will be at variable interest rates;
- reducing the availability of our cash flow to fund our working capital requirements, capital expenditures, acquisitions, investments and other general corporate requirements because we will be required to use a substantial portion of our cash flow to service debt obligations; and
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate.

See "Recent and Proposed Financings" on page 113 of this joint proxy statement/prospectus.

The occurrence of certain events may prevent tax counsel from issuing an opinion that the merger constitutes a reorganization under Section 368(a) of the Internal Revenue Code, which is a condition to closing the merger.

The completion of the merger is conditioned on, among other things, receipt of opinions from tax counsel for each of Yellow and Roadway that the merger will qualify as a reorganization under Section 368(a) of the Internal Revenue Code. These opinions will be delivered only if, among other things, the Roadway stockholders receive in the merger, in the aggregate, Yellow shares with a value equal to at least 45% of the combined value of the total consideration paid for all Roadway shares, taking into account, among other things, the amount of cash paid or deemed paid to Roadway stockholders in connection with the merger (including cash received by Roadway stockholders who perfect their dissenters' rights and cash received in lieu of fractional Yellow shares).

In addition to the market value of the Yellow shares on the date of the merger and the other items described above, various factors affect the determination of whether the value of the Yellow shares received by the

Roadway stockholders in the merger is equal to at least 45% of the combined value of the total consideration paid for all Roadway shares, including:

- the amount, if any, to be paid to Roadway stockholders who perfect their dissenters' rights;
- whether prior to or in connection with the merger Roadway or Yellow (or parties related to either) redeems, repurchases or otherwise acquires Roadway shares or makes distributions to the Roadway stockholders (none of Roadway, Yellow or any corporation related to Roadway or Yellow has redeemed or purchased, or has any plan or intention to redeem or purchase, any Roadway shares in connection with the merger); and
- whether there will be any repurchases by Yellow (or parties related to Yellow) of the Yellow shares to be issued in the merger (neither Yellow nor any corporation related to Yellow has any plan or intention to repurchase any of the Yellow common stock to be issued in the merger).

Risks of Yellow Roadway Following the Merger

We are subject to general economic factors that are largely out of our control, any of which could significantly reduce our operating margins and income.

Our business is subject to a number of general economic factors that may significantly reduce our operating margins and income, many of which are largely out of our control. These include recessionary economic cycles and downturns in customers' business cycles and changes in their business practices, particularly in market segments and industries, such as retail and manufacturing, where we have a significant concentration of customers. Economic conditions may adversely affect our customers' business levels, the amount of transportation services they need and their ability to pay for our services. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses.

The transportation industry is affected by business risks that are largely out of our control, any of which could significantly reduce our operating margins and income.

Businesses operating in the transportation industry are affected by risks that are largely out of our control, any of which could significantly reduce our operating margins and income. These factors include weather, excess capacity in the transportation industry, interest rates, fuel prices and taxes, license and registration fees, and insurance premiums and self-insurance levels. Our results of operations may also be affected by seasonal factors.

We operate in a highly competitive industry, and our business will suffer if we are unable to adequately address potential downward pricing pressures and other factors that may adversely affect our operations and significantly reduce our operating margins and income.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include the following:

- We compete with many other transportation service providers of varying sizes, some of which have more equipment and greater capital resources than we do or have other competitive advantages.
- Some of our competitors periodically reduce their prices to gain business, especially during times of reduced growth rates in the economy, which limits our ability to maintain or increase prices or maintain significant growth in our business.
- Our customers may negotiate rates or contracts that minimize or eliminate our ability to continue passing on fuel price increases to our customers.
- Many customers reduce the number of carriers they use by selecting so-called "core carriers" as approved transportation service providers, and in some instances we may not be selected.

- Many customers periodically accept bids from multiple carriers for their shipping needs, and this process may depress prices or result in the loss of some business to competitors.
- The trend towards consolidation in the ground transportation industry may create other large carriers with greater financial resources and other competitive advantages relating to their size.
- Advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher prices to cover the cost of these investments.
- Competition from non-asset-based logistics and freight brokerage companies may adversely affect our customer relationships and prices.

If our relationship with our employees were to deteriorate, we may be faced with labor shortages, disruptions or stoppages, which could adversely affect our business and reduce our operating margins and income and place us at a disadvantage relative to non-union competitors.

Our operations rely heavily on our employees, and any labor shortage, disruption or stoppage caused by poor relations with our employees or the renegotiation of labor contracts could reduce our operating margins and income. Approximately 80% of Yellow’s and approximately 78% of Roadway’s employees are organized by the International Brotherhood of Teamsters and their wages and benefits are governed by a common labor agreement that is renegotiated every three to five years. The current five-year labor agreement will expire on March 31, 2008. It is possible that we could become subject to additional work rules imposed by agreements with labor unions, or that work stoppages or other labor disturbances could occur in the future, any of which could reduce our operating margins and income. Similarly, any failure to negotiate a new labor agreement when required might result in a work stoppage that could reduce our operating margins and income and place us at a disadvantage relative to non-union competitors.

Ongoing insurance and claims expenses could significantly reduce our income.

Our future insurance and claims expenses might exceed historical levels, which could significantly reduce our earnings. Yellow and Roadway currently self-insure for a portion of their claims exposure resulting from cargo loss, personal injury, property damage and workers’ compensation. If the number or severity of claims for which we are self-insured increases, our earnings could be significantly reduced. Yellow and Roadway also maintain insurance with licensed insurance companies above the amounts for which they self-insure.

We will have significant ongoing capital requirements that could reduce our income if we are unable to generate sufficient cash from operations.

The transportation industry is very capital intensive. If we are unable to generate sufficient cash from operations in the future, we may have to limit our growth, enter into additional financing arrangements, or operate our revenue equipment for longer periods, any of which could reduce our income. Our ability to incur additional indebtedness could be adversely affected by any increase in requirements that we post letters of credit in support of our insurance policies. See “—Ongoing insurance and claims expenses could significantly reduce our income”. Lack of availability of surety bonds in the future could result in our having to post additional letters of credit, which would in turn reduce borrowing availability under our credit agreement. If needed, additional indebtedness may not be available on terms acceptable to us.

We operate in a highly regulated industry, and costs of compliance with, or liability for violation of, existing or future regulations could significantly increase our costs of doing business.

The U.S. Department of Transportation and various state and federal agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations and safety. We may also become subject to new or more restrictive regulations imposed by the Department of Transportation, the Occupational Safety and Health Administration or other authorities relating to engine exhaust emissions, security and other matters. Compliance with such regulations could substantially impair equipment productivity and increase our costs.

The Environmental Protection Agency has issued regulations that require progressive reductions in exhaust emissions from diesel engines through 2007. These reductions began with diesel engines manufactured late in 2002. The regulations currently include subsequent reductions in the sulfur content of diesel fuel in 2006 and the introduction of emissions after-treatment devices on newly manufactured engines in 2007. These regulations could result in higher prices for tractors and increased fuel and maintenance costs.

We are subject to various environmental laws and regulations, and costs of compliance with, or liabilities for violations of, existing or future regulations could significantly increase our costs of doing business.

Our operations are subject to environmental laws and regulations dealing with, among other things, the handling of hazardous materials, underground fuel storage tanks and discharge and retention of stormwater. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination may have occurred. Our operations involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable laws or regulations, it could significantly increase our cost of doing business. Under specific environmental laws, we could be held responsible for all of the costs relating to any contamination at our past or present facilities and at third party waste disposal sites. If we fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

Following the merger, the combined company could be responsible for certain federal tax obligations of Roadway under a tax sharing agreement with its former parent corporation.

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

Under a tax sharing agreement entered into by Roadway and its former parent at the time of the spin-off, Roadway is obligated to reimburse its former parent for any additional taxes and interest that relate to Roadway’s business prior to the spin-off. The amount and timing of any payments is dependent on the ultimate resolution of the former parent’s disputes with the Internal Revenue Service and the determination of the nature and extent of the obligations under the tax sharing agreement. On January 16, 2003, Roadway made a $14 million payment to its former parent under the tax sharing agreement for taxes and interest related to certain of the proposed adjustments for tax years 1994 and 1995.

We estimate the possible range of the remaining payments that may be due to Roadway’s former parent to be approximately $0 to $16 million in additional taxes and $0 to $10 million in related interest, net of tax benefit. Roadway has established specific reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of Roadway to its former parent will not have a material adverse effect on the results of operations and financial position of the combined company.

In addition, Roadway has a similar tax issue in each of its subsequent federal income tax returns, and in the event of an adverse determination in the Federal Express tax case, it is likely that the Internal Revenue Service will make additional claims for taxes for those subsequent tax years.

We may be obligated to make additional contributions to multiemployer pension plans.

Yellow and Roadway each have collective bargaining agreements with their unions that stipulate the amount of contributions that each company must make to union-sponsored, multi-employer pension plans. The Internal Revenue Code and related regulations establish minimum funding requirements for these plans. If any of these plans fail to meet these requirements and the trustees of these plans are unable to obtain waivers of the requirements from the Internal Revenue Service or reduce pension benefits to a level where the requirements are met, the Internal Revenue Service could impose an excise tax on all employers participating in these plans to correct the funding deficiency. If an excise tax were imposed on the participating employers, it could have a material adverse impact on the financial results of Yellow or Roadway.

Our management team is an important part of our business and loss of key personnel could impair our success.

We benefit from the leadership and experience of our senior management team and depend on their continued services to successfully implement our business strategy. Other than our Chief Executive Officer, William D. Zollars, we have not entered into employment agreements with members of our current management. We also have entered into a five-year employment agreement with James D. Staley, currently President and Chief Executive Officer of Roadway, to become effective upon the closing of the merger. The loss of key personnel could have a material adverse effect on our operating results, business or financial condition.

Our business may be harmed by anti-terrorism measures.

In the aftermath of the terrorist attacks on the United States, federal, state and municipal authorities have implemented and are implementing various security measures, including checkpoints and travel restrictions on large trucks. Although many companies will be adversely affected by any slowdown in the availability of freight transportation, the negative impact could affect our business disproportionately. For example, we offer specialized services that guarantee on-time delivery. If the new security measures disrupt or impede the timing of our deliveries, we may fail to meet the needs of our customers, or may incur increased expenses to do so. We cannot assure you that these measures will not significantly increase our costs and reduce our operating margins and income.

Yellow Roadway's stock price may be volatile in the future, which could cause you to lose a significant portion of your investment.

The market price of Yellow Roadway common stock could be subject to significant fluctuations in response to certain factors, such as variations in our anticipated or actual results of operations, the operating results of other companies in the transportation industry, changes in conditions affecting the economy generally, including incidents of terrorism, analyst reports, general trends in the industry, sales of common stock by insiders, as well as other factors unrelated to our operating results. Volatility in the market price of Yellow Roadway common stock may prevent you from being able to sell your shares at or above the price you paid for your shares.

Our 5.0% contingent convertible senior notes due 2023 may result in dilution to our common stockholders.

Dilution in the per share value of our common stock could result from the conversion of most or all of the 5.0% contingent convertible senior notes due 2023 that we sold in a private placement in August 2003. There is currently $250 million aggregate principal amount of such notes outstanding. The notes are convertible upon the occurrence of certain events at a conversion price of $39.24 per share, subject to adjustment. Because approximately 6.4 million shares of our common stock could be issued upon the conversion of the notes, holders of our common stock could experience substantial dilution from the conversion of such notes. Furthermore, the trading price of our common stock could suffer from significant downward pressure as note holders convert these notes and sell the common shares received on conversion, encouraging short sales by the holders of such notes or other stockholders.

FORWARD-LOOKING STATEMENTS

This Current Report on Form 8-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The words “expect”, “will”, “look forward to” and similar expressions are intended to identify forward-looking statements.

The expectations set forth in this joint proxy statement/prospectus and the documents incorporated by reference regarding, among other things, accretion, returns on invested capital, achievement of annual savings and synergies, achievement of strong cash flow, sufficiency of cash flow to fund capital expenditures and achievement of debt reduction targets are only the parties’ expectations regarding these matters. Actual results could differ materially from these expectations depending on factors such as:

- the factors described under “Risk Factors”;
- the factors that generally affect Yellow’s and Roadway’s businesses as further outlined in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the companies’ Annual Reports on Form 10-K for the year ended December 31, 2002, and this joint proxy statement/prospectus, including inflation, labor relations (*i.e.*, disruptions, strikes or work stoppages), inclement weather, availability of fuel and the price of fuel as it affects the general economy, competitor pricing activity and the general impact of competition, expense volatility, capacity levels in the motor freight industry, changes in and customer acceptance of new technology, changes in equity and debt markets, our ability to control costs and uncertainties concerning the impact terrorist activities may have on the economy and the motor freight industry, the state of international, national and regional economies and the success or failure of our operating plans, including our ability to manage growth; and
- the fact that, following the merger, the actual results of the combined company could differ materially from the expectations set forth in this joint proxy statement/prospectus and the documents incorporated by reference depending on additional factors such as:
  - the combined company’s cost of capital;
  - the ability of the combined company to identify and implement cost savings, synergies and efficiencies in the time frame needed to achieve these expectations;
  - any loss of employees, customers or suppliers that the combined company may suffer as a result of the merger;
  - the combined company’s actual capital needs, the absence of any material incident of property damage or other hazard that could affect the need to effect capital expenditures and any currently unforeseen merger or acquisition opportunities that could affect capital needs; and
  - the costs incurred in implementing synergies including, but not limited to, our ability to terminate, amend or renegotiate prior contractual commitments of Yellow and Roadway.

Yellow’s plans regarding the maintenance of the separate Yellow and Roadway brands and networks, the continuation of the Roadway headquarters as a major operational center, the focus on administrative and back office synergies and workforce rationalizations are only its current plans and intentions regarding these matters. Actual actions that the combined company may take may differ from time to time as the combined company may deem necessary or advisable in the best interest of the combined company and its stockholders to attempt to achieve the successful integration of the companies, the synergies needed to make the transaction a financial success and to react to the economy and the combined company’s market for its transportation services.