

YRC Worldwide Inc.
Form 10-K
February 19, 2019
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

OR

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

For the transition period from _____ to _____
Commission file number: 0-12255

YRC Worldwide Inc.
(Exact name of registrant as specified in its charter)

Delaware	48-0948788
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10990 Roe Avenue, Overland Park, Kansas	66211
(Address of principal executive offices)	(Zip Code)
(913) 696-6100	
(Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes ☐ No ☒

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

Yes ☒ No ☐

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by referenced in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒

Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

As of June 29, 2018, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$331.5 million based on the closing price as reported on the NASDAQ Global Select Market.

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

Class	Outstanding at February 12, 2019
Common Stock, \$0.01 par value per share	33,843,786 shares

DOCUMENTS INCORPORATED BY REFERENCE

Pursuant to General Instruction G to Form 10-K, information required by Part III of this Form 10-K, either is incorporated herein by reference to a definitive proxy statement filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K or will be included in an amendment to this Form 10-K filed with the SEC no later than 120 days after the end of the fiscal year covered by this Form 10-K.

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Note on Forward-Looking Statements

This entire report, including (among other items) Item 1, “Business,” Item 1A, “Risk Factors,” and Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other documents incorporated herein by reference includes forward-looking statements (each a “forward-looking statement”) within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements include those preceded by, followed by or including the words “will,” “may,” “should,” “expect,” “intend,” “anticipate,” “believe,” “project,” “forecast,” “propose,” “plan,” “estimate,” “enable” and similar expressions. Those forward-looking statements speak only as of the date of this report. We disclaim any obligation to update those statements, except as applicable law may require us to do so, and we caution you not to rely unduly on them. We have based those forward-looking statements on our current expectations and assumptions about future events, which may prove to be inaccurate. While our management considers those expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory (including environmental), legal and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Factors that might cause or contribute to such differences include, but are not limited to, those we discuss in this report under the section entitled “Risk Factors” in Item 1A and the section entitled “Liquidity and Capital Resources” in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and in other reports we file with the Securities and Exchange Commission (the “SEC”). The factors we discuss in this report are not necessarily all the important factors that could affect us. Unpredictable or unknown factors we have not discussed in this report also could have material adverse effects on actual results of matters that are the subject of our forward-looking statements. We do not intend to update our description of important factors each time a potentially important factor arises. We advise our existing and potential security holders that they should (1) be aware that important factors to which we do not refer in this report could affect the accuracy of our forward-looking statements and (2) use caution and common sense when considering our forward-looking statements.

PART I

Item 1. Business

General Description of the Business

YRC Worldwide Inc. (also referred to as “YRC Worldwide,” the “Company,” “we,” “us” or “our”) is a holding company that, through its operating subsidiaries, offers its customers a wide range of transportation services. We have one of the largest, most comprehensive less-than-truckload (“LTL”) networks in North America with local, regional, national and international capabilities. Through our team of experienced service professionals, we offer expertise in LTL shipments and flexible supply chain solutions, ensuring customers can ship industrial, commercial and retail goods with confidence. Our reporting segments include the following:

- YRC Freight is the reporting segment that focuses on longer haul business opportunities with national, regional and international services. YRC Freight provides for the movement of industrial, commercial and retail goods, primarily through centralized management. This reporting segment includes, YRC Inc. (doing business as, and hereinafter referred to as, “YRC Freight”), our LTL subsidiary, Reimer Express Lines Ltd. (“YRC Reimer”), a subsidiary located in Canada that specializes in shipments into, across and out of Canada, and HNRV Logistics, Inc. (“HNRV Logistics”), our logistics solutions provider. In addition to the United States and Canada, YRC Freight also serves parts of Mexico and Puerto Rico.
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Regional Transportation is the reporting segment for our transportation service providers focused on business opportunities in the regional and next-day delivery markets. Regional Transportation is comprised of USF Holland LLC (“Holland”), New Penn Motor Express LLC (“New Penn”) and USF Reddaway Inc. (“Reddaway”). These companies each provide regional, next-day ground services in their respective regions through a network of facilities located across the United States, Canada, and Puerto Rico.

Incorporated in Delaware in 1983 and headquartered in Overland Park, Kansas, we employed approximately 31,000 people as of December 31, 2018. The mailing address of our headquarters is 10990 Roe Avenue, Overland Park, Kansas 66211, and our telephone number is (913) 696-6100. Our website is www.yrcw.com. Through the “SEC Filings” link on our website, we make available the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. All of these filings may be viewed or printed from our website free of charge.

Narrative Description of the Business

YRC Freight

YRC Freight offers a full range of services for the transportation of industrial, commercial and retail goods in national, regional and international markets, primarily through the operation of owned or leased equipment in its North American ground distribution network. Transportation services are provided for various categories of goods, which may include (among others) apparel, appliances, automotive parts, chemicals, food, furniture, glass, machinery, metal, metal products, non-bulk petroleum products, rubber, textiles, wood and other manufactured products or components. YRC Freight provides both LTL services, which combine shipments from multiple customers on a single trailer, and truckload services. Deliveries are predominately LTL shipments with truckload services offered to maximize equipment utilization and reduce empty miles (the distance empty or partially full trailers travel to balance the network). YRC Freight also provides higher-margin specialized services, including guaranteed expedited services, time-specific deliveries, cross-border services, coast-to-coast air delivery, product returns, temperature-sensitive shipment protection and government material shipments.

YRC Freight serves manufacturing, wholesale, retail and government customers throughout North America. YRC Freight's approximate 19,000 employees are dedicated to operating its extensive network which supports approximately 10.1 million shipments annually. YRC Freight shipments have an average shipment size of approximately 1,200 pounds and travel an average distance of roughly 1,250 miles. Operations research and engineering teams coordinate the equipment, routing, sequencing and timing necessary to efficiently transport shipments through our distribution network. On December 31, 2018, YRC Freight's revenue fleet was comprised of approximately 7,600 tractors, including approximately 5,400 owned tractors and 2,200 leased tractors, and approximately 30,700 trailers, including approximately 22,700 owned trailers and 8,000 leased trailers. The YRC Freight network includes 260 strategically located service facilities including 126 owned facilities with approximately 8,100 doors and 134 leased facilities with approximately 6,000 doors.

YRC Freight provides services throughout North America, has one of the largest networks of LTL service centers, equipment and transportation professionals and provides flexible and efficient supply chain solutions including:

Standard LTL: one-stop shopping for all big-shipment national LTL freight needs with centralized customer service for LTL shipping among the countries of North America. YRC Freight offers flexibility, convenience and reliability that comes with one national freight shipping provider.

Guaranteed Standard: services moving on our Standard network, with guaranteed on-time delivery by a specific day or within a multi-day window. Our guaranteed multiple-day window service is designed to meet retail industry needs to reduce chargeback fees.

Accelerated: a faster option to our Standard service that moves through YRC Freight's faster network to increase our customers' speed to market.

Time-Critical: for expedited and specialized shipments including emergency and window deliveries via ground or air anywhere in North America with shipment arrival timed to the hour or day, proactive notification and a 100% on-time guarantee.

Logistics Solutions: includes a variety of services to meet industry and customer-specific needs with offerings such as custom projects, consolidation and distribution, reverse logistics, residential white glove, and exhibit services. These services are provided under HENRY Logistics.

yrcfreight.com and HNRLogistics.com: secure e-commerce websites offering online resources for supply chain visibility and shipment management in real time.

YRC Freight includes the operations of its wholly owned Canadian subsidiary, YRC Reimer, and wholly owned logistics solutions subsidiary, HNRLogistics. Founded in 1952, YRC Reimer offers Canadian shippers a selection of direct connections within Canada and throughout North America. YRC Reimer's operating network and information systems are completely integrated with those of YRC Freight, enabling YRC Reimer to provide seamless cross-border services between Canada, Mexico and the United States and markets overseas. Formed in 2018, HNRLogistics is a coast-to-coast logistics brokerage company utilizing the YRC Worldwide portfolio of LTL companies to provide a full suite of logistics solutions to our customers.

YRC Freight represented 63% of our consolidated operating revenue in 2018, 2017 and 2016.

Regional Transportation

Regional Transportation is comprised of Holland, New Penn and Reddaway:

Holland: headquartered in Holland, Michigan, provides local next-day, regional and expedited services through a network located in 21 states in the Midwestern and Southeastern portions of the United States. Holland also provides service to the provinces of Ontario and Quebec, Canada.

New Penn: headquartered in Lebanon, Pennsylvania, provides local next-day, day-definite, and time-definite services through a network located in the Northeastern United States; Quebec, Canada; and Puerto Rico.

Reddaway: headquartered in Tualatin, Oregon, provides local next-day, regional and expedited services through a network located in 12 western states spanning California, the Pacific Northwest, the Rocky Mountain States and the Southwest. Additionally, Reddaway provides services to Alaska, Hawaii and to the province of British Columbia, Canada.

Together, the Regional Transportation companies deliver services in the next-day, second-day and time-sensitive markets, which are among the fastest-growing transportation segments. The Regional Transportation service portfolio includes:

Regional delivery: including next-day local area delivery and second-day services; consolidation/distribution services; protect-from-freezing and hazardous materials handling; truckload and a variety of other specialized offerings.

Guaranteed and expedited delivery: including day-definite, hour-definite and time-definite capabilities.

Interregional delivery: combining our best-in-class regional networks, Regional Transportation provides reliable, high-value services between our regional operations.

Cross-border delivery: through strategic partnerships, the Regional Transportation companies provide full-service capabilities between the United States, Canada, and Puerto Rico.

hollandregional.com, newpenn.com, and reddawayregional.com: our e-commerce websites offering secure and customized online resources to manage transportation activity.

The approximate 12,000 employees of our Regional Transportation companies serve and support manufacturing, wholesale, retail and government customers throughout North America and transport approximately 9.8 million shipments annually. Regional Transportation shipments have an average shipment size of approximately 1,400 pounds and travel an average distance of roughly 400 miles. As of December 31, 2018, the Regional Transportation revenue fleet includes approximately 6,500 tractors including approximately 4,800 owned and 1,700 leased and approximately 14,300 trailers including approximately 10,600 owned and 3,700 leased. The Regional Transportation network includes 124 service facilities including 62 owned facilities with approximately 3,900 doors and 62 leased facilities with approximately 2,800 doors.

The Regional Transportation companies accounted for 37% of our consolidated operating revenue in 2018, 2017 and 2016.

Parent Company

YRC Worldwide, headquartered in Overland Park, Kansas, has approximately 400 employees. The parent company provides centrally-managed support to our operating companies that spans a variety of functions, including components of IT, finance, legal, risk management, sales, procurement, and security.

Each of our shared services organizations charges the operating companies for their services, either based upon usage or on an overhead allocation basis.

Competition

Our companies operate in a highly competitive environment. Our competitors include global, integrated freight transportation services providers, global freight forwarders, national freight services providers (including intermodal providers), regional or interregional carriers, third party logistics providers, and small, intraregional transportation companies. The entire trucking industry

also faces emerging competition from online technology firms that specialize in load-matching services and large customers that may use their significant scale advantages to offer transportation solutions to their suppliers and customers.

Our companies also have competitors within several different modes of transportation including: LTL, truckload, air and ocean cargo, intermodal rail, parcel and package companies, transportation consolidators, reverse logistics firms, and privately-owned fleets.

Ground-based transportation includes private fleets and “for-hire” provider groups. The private provider segment consists of fleets owned by companies that move their own goods and materials. The “for-hire” groups are classified based on the typical shipment sizes that they handle. Truckload refers to providers transporting shipments that generally fill an entire van, and LTL refers to providers transporting goods from multiple shippers in a single trailer.

LTL transportation providers consolidate numerous shipments (generally ranging from 100 to 20,000 pounds) from varying businesses at service centers within close proximity to where those shipments originated. Utilizing expansive networks of pickup and delivery operations around local service centers, shipments are moved between origin and destination using distribution centers when necessary, where consolidation and deconsolidation of shipments occur. Depending on the distance shipped, shared load providers are often classified into one of four sub-groups:

Regional - Average distance is typically fewer than 500 miles with a focus on one- and two-day delivery times.

Regional transportation companies can move shipments directly to their respective destination centers, which increases service reliability and avoids costs associated with intermediate handling.

Interregional - Average distance is usually between 500 and 1,000 miles with a focus on two- and three-day delivery times. There is a competitive overlap between regional and national providers in this category, as each group sees the interregional segment as a growth opportunity, and few providers focus exclusively on this sector.

National - Average distance is typically in excess of 1,000 miles with focus on two- to five-day delivery times.

National providers rely on intermediate shipment handling through a network of facilities, which require numerous satellite service centers, multiple distribution centers and a relay network. To gain service and cost advantages, they often ship directly between service centers, minimizing intermediate handling.

Global - Providing freight forwarding and final-mile delivery services to companies shipping to and from multiple regions around the world. This service can be offered through a combination of owned assets or through a purchased transportation model and may involve just one leg of a shipment’s movement between countries.

YRC Freight provides services in all four sub-groups in North America. Holland, New Penn and Reddaway compete in the regional, interregional and national transportation marketplace. Each brand competes against a number of providers in these markets, from small firms with one or two vehicles to global competitors with thousands of physical assets. While we have competitors with a similar multi-dimensional approach, there are few in the traditional LTL segment with as comprehensive an offering in those categories as our family of companies provides.

Asset-based LTL carriers utilize Third Party Logistics (“3PL”) firms. These non-asset based service providers are both our customers and competitors. As customers, these firms aggregate truck shipment demand and distribute that demand across the transportation sector. Asset-based LTL carriers are the providers of shipping capacity to 3PL companies and thus our LTL offerings can benefit from the relationships with 3PL firms. As competitors, 3PLs often control shipper relationships and can shift shipment volumes away from specific carriers. Certain 3PLs have completed purchases of asset-based LTL carriers and certain LTL carriers have completed purchases of 3PLs, both of which might alter the competitive landscape in the future.

Several technology firms have introduced, or are in the process of introducing, load-matching technologies for heavyweight freight. Whereas these firms operate similar to a third-party logistics firm, they allow any carrier to bid on specific shipment opportunities. Successfully winning a bid opportunity could be based on a truck’s proximity to the pick-up location, price, or other factors. Just as in the 3PL scenario, we view these as potential opportunities as well as a competitive risk.

Large shippers with significant scale and advanced technologies could offer transportation management services to their suppliers and customers. These companies often operate their own private fleets and can merge asset and non-asset based transportation solutions to create a market-facing offer.

Competitive cost of entry into the asset-based LTL sector on a small scale, within a limited service area, is relatively low (although more so than in other sectors of the transportation industry). The larger the service area, the greater the barriers to entry, due primarily to the need for additional equipment and facilities associated with broader geographic service coverage. Broader market

coverage in the competitive transportation landscape also requires increased technology investment and the ability to capture cost efficiencies from shipment density (scale), making entry on a national basis more difficult. Further development of density-based pricing strategies will require carriers to continue to make investments in scanning and measuring technologies. We have already taken significant steps toward implementing these technologies, and other competitors in our industry are also making investments in this technology at varying speeds.

Regulation

Our operating companies and other interstate motor carriers were substantially deregulated following the enactment of the Motor Carrier Act of 1980, the Trucking Industry Regulatory Reform Act of 1994, the Federal Aviation Administration Authorization of 1994 and the ICC Termination Act of 1995. Prices and services are now largely free of regulatory controls, although states retain the right to require compliance with safety and insurance requirements, and interstate motor carriers remain subject to regulatory controls imposed by agencies within the U.S. Department of Transportation.

Our companies are subject to regulatory and legislative changes, which can affect our economics and those of our competitors. Various federal and state agencies regulate us and our operations are also subject to various federal, foreign, state, provincial and local environmental laws and regulations dealing with transportation, storage, presence, use, disposal and handling of hazardous materials, emissions related to the use of petroleum-based fuels, fuel efficiency, discharge of storm-water and underground fuel storage tanks. Our drivers and facility employees are protected by occupational safety and health regulations and our drivers are subject to hours of service regulations. Some regulatory changes could potentially impact the pool of available drivers. We are also subject to security regulations intended to combat terrorism imposed by the U.S. Department of Homeland Security and other federal and state agencies. See the Risk Factors section related to our compliance with laws and regulations in Item 1A of this report.

Environmental Matters

Our operations are subject to U.S. federal, foreign, state, provincial and local regulations with regard to air and water quality and other environmental matters. We believe that we are in substantial compliance with these regulations. Regulation in this area continues to evolve and changes in standards of enforcement of existing regulations, as well as the enactment and enforcement of new legislation or regulation, may require us and our customers to modify, supplement or replace equipment or facilities or to change or discontinue present methods of operation.

Our operating companies store fuel and lubricating oils for use in our revenue equipment in approximately 242 underground storage tanks (“USTs”) located throughout the United States. Maintenance of such USTs is regulated at the federal and, in some cases, state level. The USTs are required to have leak detection systems and are required to be extracted upon our exiting the property.

During 2018, we spent approximately \$9.0 million to comply with U.S. federal, state and local provisions regulating the discharge of materials into the environment or otherwise relating to the protection of the environment (collectively, “Environmental Regulations”). In 2019, we expect to spend approximately \$9.1 million to comply with the Environmental Regulations. Based upon current information, we believe that our compliance with Environmental Regulations will not have a material adverse effect upon our capital expenditures, results of operations and competitive position because we have either made adequate reserves for such compliance expenditures or the cost for such compliance is expected to be small in comparison with our overall expenses.

The Comprehensive Environmental Response, Compensation and Liability Act (known as the “Superfund Act”) imposes liability for the release of a “hazardous substance” into the environment. Superfund liability is imposed without regard to fault and even if the waste disposal was in compliance with then-current laws and regulations. With the joint and several liabilities imposed under the Superfund Act, a potentially responsible party (“PRP”) may be required to pay more than its proportional share of any required environmental remediation. Several of our subsidiaries have been identified as PRPs at various sites discussed below. The U.S. Environmental Protection Agency (the “EPA”) and appropriate state agencies are supervising investigative and cleanup activities at these sites.

The former Yellow Transportation (now a part of YRC Freight) has been alleged to be a PRP for two locations: Angeles Chemical Co., Santa Fe Springs, CA and Alburn Incinerator, Inc., Chicago, IL, which is included in the Lake Calumet Cluster Site. With respect to these sites, there is little, if any evidence that YRC Freight contributed to any contamination and these allegations are not believed to present material exposure. The former Roadway Express (now a part of YRC Freight) has been alleged to be a PRP for three locations: Ward Transformer, Raleigh, NC, Roosevelt Irrigation District, Phoenix, AZ and Berry's Creek, Carlstadt, NJ. There is scant evidence connecting YRC Freight with either the Ward Transformer site or to the Roosevelt Irrigation District's contaminated groundwater wells and any potential exposure is believed to be immaterial. The EPA and a number of potentially

responsible parties have performed a Remedial Investigation and Feasibility Study (“RI/FS”) and the EPA has issued a record of decision for an interim remedy for the Berry’s Creek Study Area (“BCSA”). The EPA has requested that YRC Freight participate in designing the remedy (“Remedial Design”) for the BCSA. YRC Freight does not believe that it is a PRP for the BCSA and has, therefore, declined to participate in the Remedial Design.

The EPA has issued YRC Worldwide a Request for Information (“RFI”) regarding current and former Yellow Transportation and Roadway Express (now YRC Freight) facilities adjacent to or in close proximity of Newtown Creek, NY and its tributaries. None of YRC Worldwide’s operating companies have been named as a PRP in this matter, but YRC Freight has entered into a tolling agreement with the Newtown Creek Group (“NCG”). The NCG is comprised of five companies and the City of New York who, per Consent Order, have agreed to perform a RI/FS under the supervision of the EPA. The EPA’s website regarding this matter provides status updates of site investigations and study.

USF RedStar LLC, a non-operating subsidiary, has been alleged to be a PRP at three locations: Booth Oil, N. Tonawanda, NY and two separate landfills in Byron, NY, and Moira, NY. Holland has been alleged to be a PRP in an RFI for one location, Horton Sales Piedmont Site, Greenville County, SC.

Although the outcome of any legal matter is subject to uncertainties, based on our current knowledge, we believe the potential combined costs at all of the above sites will not be significant and we believe we have made adequate reserves for complying with future EPA demands at such sites.

While PRPs in Superfund actions have joint and several liabilities for all costs of remediation, it is not possible at this time to quantify our ultimate exposure because the projects are either in the investigative or early remediation stage. Based upon current information, we do not believe that probable or reasonably possible expenditures in connection with the sites described above are likely to have a material adverse effect on our financial condition or results of operations because:

To the extent necessary, we have established adequate reserves to cover the estimate we presently believe will be our liability with respect to the matter;

• We and our subsidiaries have only limited or de minimis involvement in the sites based upon volumetric calculations; Other PRPs involved in the sites have substantial assets and may reasonably be expected to pay a larger share of the cost of remediation; and

• We believe that our ultimate liability is relatively small compared with our overall expenses.

We are subject to various other governmental proceedings and regulations, including foreign regulations, relating to environmental matters, and are investigating potential violations of Environmental Regulations with respect to certain sites, but we do not believe that any of these matters or investigations is likely to have a material adverse effect on our business, financial condition, liquidity or results of operations.

Economic Factors and Seasonality

Our business is subject to a number of general economic factors that may have a material adverse effect on the results of our operations, many of which are largely out of our control. These include the impact of recessionary economic cycles and downturns in our customers’ business cycles, 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. We operate in a highly price-sensitive and competitive industry, making industry pricing actions, quality of customer service, effective asset utilization and cost control major competitive factors.

All of our revenues are subject to seasonal variations which are common in the trucking industry. Customers tend to reduce shipments just prior to and after the winter holiday season. Operating expenses as a percent of revenue tend to

be higher, and operating cash flows as a percent of revenue tend to be lower in the winter months, primarily due to colder weather and seasonally lower levels of shipments and the seasonal timing of expenditures. Generally, most of the first quarter and the latter part of the fourth quarter are the seasonally weakest while the second and third quarters are the seasonally strongest. The availability and cost of labor and other operating cost inputs, such as fuel, equipment maintenance and equipment replacements, can significantly impact our overall cost, competitive position within our industry and our resulting earnings and cash flows.

Item 1A. Risk Factors

In addition to the risks and uncertainties described elsewhere in this report or in our other SEC filings, the following risk factors should be considered carefully in evaluating us. These risks could have a material adverse effect on our business, financial condition and results of operations.

Business Risks

If our relationship with our employees and unions were to deteriorate, we may be faced with labor disruptions or stoppages or general uncertainty by our customers, which could have a material adverse effect on our business, financial condition and results of operations, result in a loss of customers, and place us at a disadvantage relative to non-union competitors.

Each of our operating subsidiaries has employees who are represented by the International Brotherhood of Teamsters ("IBT"). These employees represent 78% of our workforce at December 31, 2018. Salaries, wages and employee benefits for both union and non-union employees compose over half of our operating costs.

Each of our YRC Freight, New Penn, and Holland subsidiaries employ most of their unionized employees under the terms of a common national master freight agreement with the IBT, as supplemented by additional regional supplements and local agreements, a significant majority of which will expire on March 31, 2019. If we are unable to reach agreement with our unionized IBT employees on the amended terms of the collective bargaining agreement, we may be subject to work interruptions and/or stoppages. Any work stoppage could immediately and adversely affect our ability to operate our freight transportation services and could have a material adverse effect on our financial condition, results of operations and the price of our common stock. Among other consequences, this could cause potential disruption in service or uneasiness for our customers, who may seek other transportation service alternatives. Moreover, there is a general risk of deterioration in customer accounts during the negotiation process due to uncertainty or potential negative publicity which may adversely impact the Company's ability to maintain expected volume and revenue expectations as contract expiration approaches pending a ratified agreement. In addition, any labor dispute, work stoppage or strike may materially impact our results of operations and could cause us to be unable to meet the terms of the term loan facility, ABL Facility, and our amended and restated contribution deferral agreements. In addition, any labor dispute, work stoppage or strike could increase significantly our funding obligations under our multi-employer pension plans. The IBT also represents a number of employees at Reddaway and YRC Reimer under more localized agreements, which have wages, benefit contributions and other terms and conditions that better fit the cost structure and operating models of these business units. Our subsidiaries are regularly subject to grievances, arbitration proceedings and other claims concerning alleged past and current non-compliance with applicable labor law and collective bargaining agreements.

We are subject to general economic factors that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

Our business is subject to a number of general economic factors that may adversely affect our business, financial condition and results of operations, many of which are largely out of our control. These factors 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. Because a portion of our costs are fixed, it may be difficult for us to quickly adjust our cost structure proportionally with fluctuations in volume levels. Customers encountering adverse economic conditions represent a greater potential for loss, and we may be required to increase our reserve for bad-debt losses. Further, we depend on our suppliers for equipment, parts and services that are critical to our business. A disruption in the availability of these supplies or a material increase in their cost due to adverse economic conditions or financial constraints of our suppliers could adversely impact our business, results of operations and liquidity.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could have a material adverse effect on our business, financial condition and results of operations.

We are subject to business risks and increasing costs associated with the transportation industry that are largely out of our control, any of which could adversely affect our business, financial condition and results of operations. The factors contributing to these risks and costs include increasing equipment and operational costs, weather, fuel prices, interest rates, insurance premiums, self-insurance levels, letters of credit required to support outstanding claims, license and registration fees, and excess capacity in the transportation industry, as well as the other factors discussed in this risk factor section. Further, we periodically need to upgrade or change our technology systems, which may be costly and could disrupt or reduce the efficiency of our operations.

We operate in a highly competitive industry, and our business will suffer if we are unable to adapt to competitive pressures which could have a material adverse effect on our business, financial condition and results of operations. Numerous competitive factors could adversely affect our business, financial condition and results of operations. These factors include the following:

• We compete with many other transportation service providers of varying sizes and types, some of which have a lower cost structure, more and/or newer 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 or grow our business;

• Our customers may negotiate rates or contracts that minimize or eliminate our ability to offset fuel prices through fuel surcharges;

• 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, which 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; and

• As a union carrier, we may have a competitive disadvantage compared to non-union carriers with lower costs and greater operating flexibility.

Our pension expense could increase significantly and have a material adverse effect on our business, financial condition and results of operations.

Our subsidiaries began making contributions to most of the multi-employer pension funds (the “funds”) beginning June 1, 2011 at the rate of 25% of the contribution rate in effect on July 1, 2009. Any fund that did not allow our subsidiaries to begin making contributions at a reduced rate elected to either (i) apply the amount of the contributions toward paying down previously deferred contributions under our Contribution Deferral Agreement, or (ii) have the amount of the contributions placed in escrow until such time when the fund is able to accept re-entry at the reduced rate.

If contributions to the funds do not reach certain goals (including those required not to enter endangered or critical status or those required by a fund’s funding improvement or rehabilitation plan), our pension expenses and required cash contributions could further increase upon the expiration of our collective bargaining agreements and, as a result, could materially adversely affect our business, financial condition and results of operations. Decreases in investment returns that are not offset by contributions could also increase our obligations under such plans.

YRC Freight, Holland, Reddaway and New Penn also contribute to various separate multi-employer health, welfare and pension plans for employees that are covered by our collective bargaining agreements.

Based on information obtained from public filings and from plan administrators and trustees, we believe our portion of the contingent liability in the case of a full withdrawal from or termination of all of the multi-employer pension plans would be an estimated \$9 billion on a pre-tax basis. If we were subject to withdrawal liability with respect to a multi-employer plan, the Employment Retirement Income Security Act of 1974, as amended (“ERISA”), provides that a withdrawing employer can pay the obligation in a lump sum or over time based upon an annual payment that is the highest contribution rate to the relevant plan multiplied by the average of the three highest consecutive years measured in contribution base units, which, in some cases, could be up to 20 years. Even so, our applicable subsidiaries have no current intention of taking any action that would subject us to payment of material withdrawal obligations; however, we cannot provide any assurance that such obligations will not arise in the future which would have a material adverse effect on our business, financial condition, liquidity and results of operations.

Ongoing self-insurance and claims expenses could have a material adverse effect on our business, financial condition and results of operations.

Our future insurance and claims expenses might exceed historical levels. We currently self-insure for a majority of our claims exposure resulting from workers' compensation, property damage and liability claims, and cargo, supplemented by high deductible purchased insurance. If the number or severity of claims for which we are self-insured increases, our business, financial condition

and results of operations could be adversely affected, and we may have to post additional letters of credit or cash collateral to state workers' compensation authorities or insurers to support our insurance policies, which may adversely affect our liquidity. Although we have significantly reduced our letter of credit expense in recent years, there is no assurance this trend will continue. If we lose our ability to self-insure, our insurance costs could materially increase, and we may find it difficult to obtain adequate levels of insurance coverage.

Our self-insured retention limits can make our insurance and claims expense higher and/or more volatile. We accrue for the costs of the uninsured portion of pending claims, based on the nature and severity of individual claims and historical claims development trends. Estimating the number and severity of claims, as well as related judgment or settlement amounts is inherently difficult. This, along with legal expenses associated with claims, incurred but not reported claims, and other uncertainties can cause unfavorable differences between actual self-insurance costs and our reserve estimates.

In general, our insurance coverage with respect to each of workers' compensation, property damage and liability claims, and cargo claims is subject to policy limits. Although we believe our aggregate insurance policy limits are sufficient to cover reasonably expected claims, it is possible that one or more claims could exceed those limits. In this case, we would bear the excess expense, in addition to the amount of our self-insurance retention. Our insurance and claims expense could increase, or we could find it necessary to raise our self-insured retention or decrease our aggregate coverage limits when our policies are renewed or replaced.

We have significant ongoing capital expenditure requirements that could have a material adverse effect on our business, financial condition and results of operations if we are unable to generate sufficient cash from operations. Our business is capital intensive. Our capital expenditures focus primarily on revenue equipment replacement, investments in information technology and improvements to land and structures. Our capital expenditures for each of the years ended December 31, 2018 and 2017 was \$145.4 million and \$103.3 million. These amounts were principally used to fund the purchase of used tractors and trailers, to refurbish engines for our revenue fleet, and capitalized costs for our network facilities and technology infrastructure. We will need to continue to update our fleet. If we are unable to generate sufficient cash from operations to fund our capital requirements, we may have to limit our growth, utilize our existing liquidity, or enter into additional financing arrangements, including leasing arrangements, or operate our revenue equipment (including tractors and trailers) for longer periods resulting in increased maintenance costs, any of which could reduce our operating income. If our cash from operations and existing financing arrangements are not sufficient to fund our capital expenditure requirements, we may not be able to obtain additional financing at all or on terms acceptable to us. In addition, our credit facilities contain provisions that limit our level of annual capital expenditures.

We operate in an industry subject to extensive government regulations, 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. Departments of Transportation and Homeland Security and various federal, state, local and foreign agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, safety and permits to conduct transportation business. Our drivers are also subject to hours-of-service rules of the Federal Motor Carrier Safety Administration ("FMCSA"). In the future, we may become subject to new or more restrictive regulations that the FMCSA, Departments of Transportation and Homeland Security, the Occupational Safety and Health Administration, the Environmental Protection Agency or other authorities impose, including regulations relating to engine exhaust emissions, fuel efficiency, the hours of service that our drivers may provide in any one-time period, security and other matters. Compliance with these regulations could substantially impair productivity and increase our costs.

In December 2010, the FMCSA established the Compliance Safety Accountability ("CSA") motor carrier oversight program under which drivers and fleets are evaluated based on certain safety-related standards. Carriers' safety and fitness ratings under CSA include the on-road safety performance of the carriers' drivers. The FMCSA has also implemented changes to the hours of service ("HOS") regulations which govern the work hours of commercial drivers and adopted a rule that requires commercial drivers who use paper log books to maintain hours-of-service records with electronic logging devices ("ELDs") and will require commercial drivers who use automatic on-board recording

devices (“AOBRDs”) to record HOS to use ELDs by December 2019. The vast majority of our companies’ fleets utilize AOBRDs, and we are currently in the process of updating our fleet to meet the ELD requirement deadline of December 2019. At any given time, there are also other proposals for safety-related standards that are pending legislative or administrative approval or adoption. If additional or more stringent standards are adopted, such may result in a reduction of the pool of qualified drivers available for employment by us. If we experience safety and fitness violations, our safety and fitness scores could be adversely impacted and our fleet could be ranked poorly as compared to our peers. A reduction in our safety and fitness scores or those of our drivers could also reduce our competitiveness in relation to other companies that have higher scores. Additionally, competition for qualified drivers with favorable safety ratings may increase and thus result in increases in driver-related compensation costs.

Like many trucking companies, we compensate our drivers based primarily on mileage rate and activity-based formulas. The state of California adopted legislation that sets forth requirements for the payment of a separate hourly wage for “nonproductive” time worked by piece-rate employees, and separate payment for compensable rest and recovery periods to those employees. Specifically, the new legislation, which became effective January 1, 2016, codified three basic statutory requirements for the payment of employees on a piece-rate basis: (i) employees must be separately compensated at their regular rate for the time during which they take rest and recovery breaks; (ii) employees must be separately compensated for “other nonproductive time,” which is defined as “time under the employer’s control, exclusive of rest and recovery periods, that is not directly related to the activity being compensated on a piece-rate basis;” and (iii) this “other nonproduction time” time must be compensated at an hourly rate no less than the applicable minimum wage. The application of this legislation to the Company and its operations could increase our operating costs, including labor costs and legal exposure.

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

Our operations are subject to environmental regulations dealing with, among other things, the handling of hazardous materials, underground fuel storage tanks, and the discharge and retention of storm water. 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 environmental laws or regulations, it could significantly increase our cost of doing business. Under specific environmental laws and regulations, we could be held responsible for all of the costs relating to any contamination at our past or present terminals and at third-party waste disposal sites. If we fail to comply with applicable environmental laws and regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

In addition, as climate change initiatives become more prevalent, federal, state and local governments and our customers are beginning to promulgate solutions for these issues. The increased focus on greenhouse gas emission reductions and corporate environmental sustainability may result in new regulations and customer requirements that could negatively affect us. This could cause us to incur additional direct costs or to make changes to our operations in order to comply with any new regulations and customer requirements. We could also lose revenue if our customers divert business from us because we have not complied with their sustainability requirements. These costs, changes and loss of revenue could have a material adverse effect on our business, financial condition, liquidity and results of operations.

Our business may be harmed by anti-terrorism measures.

In the aftermath of terrorist attacks on the United States, federal, state and municipal authorities have implemented and continue to implement security measures, including checkpoints and travel restrictions on large trucks. Although many companies would 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 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.

Current or future litigation may adversely affect our business, financial condition, liquidity or results of operations. We have been and continue to be involved in legal proceedings, claims and other litigation that arise in the ordinary course of business. Litigation may be related to labor and employment, competitive matters, property damage and liability claims, safety and contract compliance, environmental liability, our past financial restructurings and other matters. We discuss legal proceedings in the “Commitments, Contingencies, and Uncertainties” footnote to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K. Some or all of our expenditures to defend, settle or litigate these matters may not be covered by insurance or could impact our cost and

ability to obtain insurance in the future. Litigation can be expensive, lengthy and disruptive to normal business operations, including to our management due to the increased time and resources required to respond to and address the litigation. The results of complex legal proceedings are often uncertain and difficult to predict. An unfavorable outcome of any particular matter or any future legal proceedings could have a material adverse effect on our business, financial condition, liquidity or results of operations. In the future, we could incur judgments or enter into settlements of claims that could harm our financial position, liquidity and results of operations.

In addition, in December 2018, the United States on behalf of the United States Department of Defense filed a complaint (the “DOD Complaint”) against the Company alleging that the Company violated the False Claims Act by overcharging the Department of Defense for freight carrier services by failing to comply with the contractual terms of freight contracts between the Department

of Defense and the Company and related government procurement rules. In January 2019, a purported class action lawsuit (the “Securities Class Action”) was filed against the Company and certain of our current and former officers. The Securities Class Action complaint generally alleges that the Company made false and misleading statements relating to its freight billing practices as alleged in the Department of Defense complaint described above. Although the Company believes it has meritorious defenses and intends to vigorously defend these actions, the DOD Complaint and Securities Class Action each assert claims that, if resolved against us, could give rise to substantial damages, and an unfavorable outcome or settlement may result in a significant monetary judgment or award against us or a significant monetary payment by us, and could have a material adverse effect on our business, financial conditions and results of operations.

We may not realize the expected benefits and cost savings from operational changes and performance improvement initiatives.

We initiate operational changes and process improvements to reduce costs and improve financial performance. These changes and initiatives typically include evaluating management talent, reducing overhead costs, closing facilities, making upgrades to our technology, eliminating non-core assets and unnecessary activities and implementing changes of operations under our labor agreements. There is no assurance that any changes and improvements will be successful, that their implementation may not have an adverse impact on our operating results or that we will not have to initiate additional changes and improvements in order to achieve the projected benefits and cost savings.

Difficulties attracting and retaining qualified drivers could result in increases in driver compensation and purchased transportation costs and could adversely affect our profitability and our ability to maintain or grow our fleet.

We may need to attract new qualified drivers and may face difficulty doing so. Like many in the trucking industry, it is important to our business that we retain the necessary number of qualified drivers to operate efficiently. Regulatory requirements, including the CSA program of the FMCSA, have reduced the number of eligible employee drivers and independent contractors and may continue to do so in the future. Future Company driver shortages may result in less than optimal use of rail and over-the-road purchased transportation, which may result in higher costs to the Company and which use is limited under our Memorandum of Understanding (“MOU”) with the IBT. The compensation we offer our drivers is subject to market conditions, and we may find it necessary to increase driver compensation in future periods if we must attract new drivers. In addition, we and our industry suffer from a high driver turnover rate. Driver turnover requires us to continually recruit a substantial number of drivers in order to operate existing revenue equipment. If we are unable to continue to retain drivers and attract new drivers when needed, we could be required to adjust our compensation packages, increase our use of purchased transportation, let tractors sit idle, or operate with fewer tractors and face difficulty meeting customer demands, any of which would adversely affect our growth and profitability.

A significant privacy breach or IT system disruption could adversely affect our business and we may be required to increase our spending on data and system security.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes and activities. In addition, the provision of service to our customers and the operation of our networks and systems involve the storage and transmission of proprietary information and sensitive or confidential data, including personal information of customers, employees and others.

Our information technology systems, some of which are managed by third-parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, malicious insiders, telecommunication failures, user errors or catastrophic events. Hackers, acting individually or in coordinated groups, may also launch distributed denial of service attacks or ransom or other coordinated attacks that may cause service outages or other interruptions in our business and access to our data. In addition, breaches in security could expose us, our customers, our suppliers, our employees, or the individuals affected, to a risk of loss or misuse of proprietary information and sensitive or confidential data. Like other companies, we have experienced data security incidents before. For example, during the third quarter of 2018, an employee email account was compromised by

unknown persons outside of our company via a phishing email. Upon completion of an investigation into the incident, we determined that certain personal information of many of our employees may have been compromised and we promptly notified the impacted individuals. We incurred insignificant legal and other costs in connection with remediating this incident, and the incident did not have any impact on our operations.

The techniques used to obtain unauthorized access, disable or degrade service or sabotage systems change frequently, may be difficult to detect for a long time and often are not recognized until launched against a target. As a result, we may be unable to anticipate these techniques or to implement adequate preventative measures.

Any of these occurrences could result in disruptions in our operations, the loss of existing or potential customers, damage to our brand and reputation, and litigation and potential liability for the Company. In addition, the cost and operational consequences of implementing further data or system protection measures could be significant and our efforts to deter, identify, mitigate and/or eliminate any security breaches may not be successful.

We face risks associated with doing business in foreign countries.

We conduct a portion of our operations in Canada and, to a lesser extent, Mexico. Our revenue from foreign sources totaled \$104.1 million, \$99.3 million, and \$101.0 million in 2018, 2017 and 2016, respectively, and our long-lived assets located in foreign countries totaled \$6.5 million, \$5.3 million and \$5.2 million at December 31, 2018, 2017, and 2016, respectively. As a participating carrier in the Customs and Trade Partnership Against Terrorism ("C-TPAT") program, we and our contractors are able to cross into these countries more efficiently, thereby avoiding substantial delays. If we should lose the ability to participate in the C-TPAT program, we could experience significant border delays which could have a negative impact on our ability to remain competitive and operate efficiently in those countries. In addition, our foreign operations are subject to certain risks inherent in doing business in jurisdictions outside of the United States, including:

- exposure to local economic, political and labor conditions;
- unexpected changes in laws, regulations, trade, treaties, monetary or fiscal policy;
- fluctuations in interest rates, foreign currency exchange rates and changes in the rate of inflation;
- tariffs, quotas, customs and other import or export restrictions and other trade barriers;
- difficulty of enforcing agreements, collecting receivables and protecting assets through non-U.S. legal systems;
- withholding and other taxes on remittances and other payments by subsidiaries;
- violence and civil unrest in foreign countries;
- compliance with the requirements of applicable anti-bribery laws, including the U.S. Foreign Corrupt Practices Act;
- changes in tax law; and
- controls on the repatriation of cash, including the imposition or increase of withholding and other taxes on remittances and other payments by our subsidiaries.

We are dependent on the services of key employees and the loss of any substantial number of these individuals or an inability to hire additional personnel could adversely affect us.

Our success is dependent upon our ability to attract and retain skilled employees, particularly personnel with significant management and leadership skills. If we are unable to attract and retain skilled key employees, we may be unable to accomplish the objectives set forth in our business and strategic plans.

Seasonality and the impact of weather affect our operations and profitability.

As is common in the trucking industry, our revenues are subject to seasonal variations. During late fourth quarter and early first quarter each year, we expect operating expenses as a percent of revenue to increase and operating cash flows as a percent of revenue to decrease as compared to the rest of the year. The seasonal impact is primarily due to inclement weather, seasonally lower levels of shipments, and the seasonal timing of expenditures. We anticipate these seasonal trends will continue to impact our financial results and liquidity.

Changes in fuel prices and shortages of fuel can have a material adverse effect on the results of operations and profitability.

To lessen the effect of fluctuating fuel prices on our margins, we utilize a fuel surcharge program with our customers. These programs are common in the trucking industry and involve adjusting amounts charged to customers as fuel prices fluctuate. In the short term, under our present fuel surcharge program, rising fuel costs generally benefit us while falling fuel costs have a negative impact on our results of operations, though these effects are typically moderated over time. However, rapid material changes in the index upon which we base our program or our cost of fuel could significantly impact our revenue and operating income, resulting in a material adverse effect on our

financial condition.

In addition, fuel shortages and petroleum product rationing could have a material adverse impact on our operations and profitability.

Financial and Liquidity Risks

Our failure to comply with the covenants in the documents governing our existing and future indebtedness could materially adversely affect our financial condition and liquidity.

The documents governing our indebtedness contain financial covenants, affirmative covenants requiring us to take certain actions and negative covenants restricting our ability to take certain actions. In particular, our agreement (the “Term Loan Agreement”) for our \$600 million term loan facility (“Term Loan”) has certain financial covenants that, among other things, restrict certain capital expenditures and require us to not exceed a maximum total leverage ratio. For the four consecutive fiscal quarters ending December 31, 2018, our maximum total leverage ratio was 3.50 to 1.00, and our actual total leverage ratio during this period 2.64 to 1.00. The maximum total leverage ratio under the Term Loan steps down to 3.25 for the four consecutive fiscal quarters ending March 31, 2019, then to 3.00 for the four consecutive fiscal quarters ending December 31, 2019. For additional information, see the “Debt and Financing” footnote to the consolidated financial statements.

Our current internal projections reflect that our maximum total leverage ratio will be below the ratio of 3.00 to 1.00 for the remainder of 2019. Our ability to satisfy our liquidity needs and meet future stepped-up covenants beyond the next twelve months is dependent upon our ability to maintain operating results consistent with levels achieved during 2018. Maintaining results will depend on a number of factors including our ability to successfully negotiate a new labor agreement with our union employees as our current agreement is set to expire on March 31, 2019.

If going forward we are unsuccessful in meeting our financial covenants, we will need to seek an amendment or waiver from our lenders, or take other remedial measures; otherwise, we will be in default under our credit facilities, which would enable lenders thereunder to accelerate the repayment of amounts outstanding and exercise remedies with respect to the collateral. If our lenders under our credit facilities demand payment, we will not have sufficient cash to repay such indebtedness. In addition, a default under our credit facilities or the lenders exercising their remedies thereunder could trigger cross-default provisions in our other indebtedness and certain other operating agreements as well as increase our funding obligations under our pension plans. Our ability to amend our credit facilities or otherwise obtain waivers from our lenders depends on matters that are outside of our control and there can be no assurance that we will be successful in that regard. In addition, any covenant breach or event of default could harm our credit rating and our ability to obtain financing on acceptable terms. The occurrence of any of these events could have a material adverse effect on our financial condition and liquidity.

Our indebtedness and cash interest payment obligations, lease obligations and pension funding obligations, as well as our liquidity position, could adversely affect our financial flexibility and our competitive position.

As of December 31, 2018, we had \$890.0 million in aggregate principal amount of outstanding indebtedness. We also have, and will continue to have, substantial lease obligations. We currently plan to procure a portion of our new revenue equipment using operating leases in 2019 and beyond. As of December 31, 2018, our expected minimum cash payments for our operating leases for 2019 are \$138.4 million, and our total operating lease obligations payable through 2030 are \$429.2 million. We expect our required contributions in 2019 under our multi-employer pension funds and single-employer pension plans will be approximately \$129.0 million. Our indebtedness, lease obligations and pension funding obligations could continue to have an impact on our business. Our principal sources of liquidity are cash and cash equivalents, available borrowings under our asset-based loan facility (“ABL Facility”) and any prospective cash flow from operations. As of December 31, 2018, our availability under our ABL facility was \$39.2 million and our Managed Accessibility was \$1.2 million. “Managed Accessibility” represents the maximum amount we would access on the ABL Facility and is adjusted for eligible receivables plus eligible borrowing base cash measured as of December 31, 2018. If eligible receivables fall below the threshold management uses to measure availability, which is 10% of the borrowing line, the credit agreement governing the ABL Facility permits adjustments from

eligible borrowing base cash to restricted cash prior to the compliance measurement date of January 15, 2019. Cash and cash equivalents and Managed Accessibility totaled \$203.8 million at December 31, 2018.

For example, these obligations and liquidity limitations could:

- increase our vulnerability to adverse changes or persistent slow growth in general economic, industry and competitive conditions;
- require us to dedicate a portion of our cash flow from operations to make principal and interest payments on our indebtedness, leases and pension funding obligations, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- restrict us from taking advantage of business opportunities;

- make it more difficult to satisfy our financial obligations and meet future stepped up financial covenants in our credit facilities;
- place us at a competitive disadvantage compared to our competitors that have less debt, lease obligations, and pension funding obligations; and
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business strategy or other general corporate purposes on satisfactory terms or at all.

Our ability to service all of our indebtedness and satisfy all of other obligations depends on many factors beyond our control, and if we cannot generate enough cash to service our indebtedness and satisfy such other obligations, we may be forced to take one or more actions, which may not be successful.

Cash flows from operations are the principal source of funding for us. Our business may not generate cash flow from operations in an amount sufficient to fund our liquidity needs. If our cash flows are insufficient to service our indebtedness and satisfy our other obligations, we may be forced to reduce or delay capital expenditures, sell assets, seek additional capital or restructure or refinance our indebtedness or other financial obligations. Our ability to restructure or refinance our indebtedness will depend on the condition of the capital and credit markets and our financial condition at such time. Any refinancing of our indebtedness could be at higher interest rates. In addition, any refinancing of our indebtedness or restructuring of our other obligations may require us to comply with more onerous covenants, which could further restrict our business operations and limit our financial flexibility. In addition, the terms of existing or future debt agreements may restrict us from adopting some of these alternatives. Any failure to make payments of interest and principal on our outstanding indebtedness or satisfy our other financial obligations on a timely basis would likely result in a lowering of our credit rating, which could harm our ability to incur additional indebtedness. These alternative measures may not be successful and, as a result, our liquidity and financial condition could be adversely affected and we may not be able to meet our scheduled debt service obligations. If for any reason we are unable to meet our debt service obligations, we would be in default under the terms of the agreements governing our outstanding debt.

Restrictive covenants in the documents governing our existing and future indebtedness may limit our current and future operations, particularly our ability to respond to changes in our business or to pursue our business strategies. The documents governing our existing indebtedness contain, and the documents governing any future indebtedness will likely contain, a number of restrictive covenants that impose significant operating and financial restrictions, including restrictions on our ability to take actions that we believe may be in our interest. The documents governing our existing indebtedness, among other things, limit our ability to:

- incur or guarantee additional indebtedness;
- make certain restricted payments or investments;
- enter into agreements that restrict distributions from restricted subsidiaries;
- sell or otherwise dispose of assets, including capital stock of restricted subsidiaries;
- enter into transactions with affiliates;
- create or incur liens;
- enter into sale/leaseback transactions;
- merge, consolidate or sell substantially all of our assets; and
- make certain investments and acquire certain assets.

The restrictions could adversely affect our ability to:

- finance our operations;
- make strategic acquisitions or investments or enter into alliances;
- withstand a future downturn in our business or the economy in general;
- engage in business activities, including future opportunities, that may be in our interest; and
- plan for or react to market conditions or otherwise execute our business strategies.

Our ability to obtain future financing or to sell assets could be adversely affected because substantially all of our assets have been pledged as collateral for the benefit of the holders of our indebtedness.

Risks Related to Our Common Stock

The price of our Common Stock may fluctuate significantly, and this may make it difficult to resell our Common Stock when holders want or at prices they find attractive.

The market price for our Common Stock has been highly volatile and subject to significant fluctuations. We expect the market price of our Common Stock to continue to be volatile and subject to these fluctuations in response to a wide variety of factors, including the following:

- fluctuations in stock market prices and trading volumes of securities of similar companies;
- labor disputes;
- general market conditions and overall fluctuations in U.S. equity markets;
- large blocks of stockholders selling via automated trading systems;
- variations in our operating results, or the operating results of our competitors;
- changes in our financial guidance, if any, or securities analysts' estimates of our financial performance;
- sales of large blocks of our Common Stock, including sales by our executive officers, directors and significant stockholders;
- additions or departures of any of our key personnel;
- announcements related to litigation;
- changing legal or regulatory developments in the United States and other countries; and
- commentary about us or our stock price by the financial press and in online investor communities.

In addition, the stock markets from time to time experience price and volume fluctuations that may be unrelated or disproportionate to the operating performance of companies and that may be extreme. These fluctuations may adversely affect the trading price of our Common Stock, regardless of our actual operating performance.

Future issuances of our Common Stock or equity-related securities in the public market could adversely affect the trading price of our Common Stock and our ability to raise funds in new stock offerings.

In the future, we may issue additional shares of our Common Stock to raise capital or in connection with a restructuring or refinancing of our indebtedness. In addition, shares of our Common Stock are reserved for issuance, exercise of outstanding stock options and vesting of outstanding share units. As of December 31, 2018, we had outstanding options to purchase an aggregate of approximately 33,000 shares of Common Stock, outstanding vested restricted stock and share units and performance based share units representing the right to receive a total of approximately 1.4 million shares of Common Stock upon vesting, and an aggregate of approximately 1.5 million shares of our Common Stock was reserved for future issuance under our Amended and Restated 2011 Incentive and Equity Award Plan (the "Amended 2011 Plan"). We have registered under the Securities Act all of the shares of Common Stock that we may issue upon the exercise of our outstanding options and the vesting of outstanding share units and on account of future awards made under the Amended 2011 Plan. All of these registered shares generally can be freely sold in the public market upon issuance. If a large number of these shares are sold in the public market, the sales could reduce the trading price of our Common Stock.

We cannot predict the size of future issuances or the effect, if any, that such issuances may have on the market price for our Common Stock. Sales of significant amounts of our Common Stock or equity-related securities in the public market, or the perception that such sales may occur, could adversely affect prevailing trading prices of our Common Stock and could impair our ability to raise capital through future offerings of equity or equity-related securities. Further sales of shares of our Common Stock or the availability of shares of our Common Stock for future sale or in connection with hedging and arbitrage activity that may develop with respect to our Common Stock, could adversely affect the trading price of our Common Stock.

We do not intend to pay dividends on our Common Stock in the foreseeable future.

We do not anticipate that we will pay any dividends on shares of our Common Stock in the foreseeable future. We intend to retain any future earnings to fund operations, invest in new revenue equipment, to service debt and other

obligations, such as lease and pension funding requirements, and to use for other corporate needs. Further, our credit facilities limit our ability to pay cash dividends.

We can issue shares of preferred stock that may adversely affect the rights of holders of our Common Stock.

Our certificate of incorporation currently authorizes the issuance of 5.0 million shares of preferred stock. Our Board of Directors is authorized to approve the issuance of one or more series of preferred stock without further authorization of our shareholders and to fix the number of shares, the designations, the relative rights and the limitations of any series of preferred stock. As a result,

our Board, without shareholder approval, could authorize the issuance of preferred stock with voting, conversion and other rights that could proportionately reduce, minimize or otherwise adversely affect the voting power and other rights of holders of our Common Stock or other series of preferred stock or that could have the effect of delaying, deferring or preventing a change in our control.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

At December 31, 2018, we operated a total of 384 transportation service facilities located in 50 states, Puerto Rico and Canada. Of this total, we own 188 and we lease 196, generally with lease terms ranging from one month to ten years with right of renewal options. The number of customer freight servicing doors totaled approximately 20,800, of which approximately 12,000 are at owned facilities and approximately 8,800 are at leased facilities. The transportation service centers vary in size ranging from one to three doors at small local facilities to 426 doors at the largest consolidation and distribution facility. In addition, we own and occupy a general office building in Lebanon, Pennsylvania. We also lease and occupy general office buildings in Holland, Michigan, Overland Park, Kansas, Tualatin, Oregon and Winnipeg, Manitoba. Our owned transportation service facilities and office buildings serve as collateral under our credit agreements.

We believe our facilities and equipment are adequate to meet current business requirements in 2019. Refer to “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a more detailed discussion of expectations regarding capital spending in 2019.

Top 10 YRCW Service Facilities by Number of Doors at December 31, 2018

Location	Doors Owned/Leased	Segment
Chicago Heights, IL	426 Owned	YRC Freight
Bloomington, CA	325 Owned	YRC Freight
Winston-Salem, NC	289 Leased	YRC Freight
Harrisburg, PA	284 Owned	YRC Freight
Charlotte, NC	274 Leased	YRC Freight
Dallas, TX	261 Owned	YRC Freight
Maybrook, NY	239 Owned	YRC Freight
Atlanta, GA	227 Leased	YRC Freight
Nashville, TN	213 Owned	YRC Freight
Memphis, TN	198 Owned	YRC Freight

Item 3. Legal Proceedings

We discuss legal proceedings in the “Commitments, Contingencies and Uncertainties” footnote of our consolidated financial statements included in this Annual Report on Form 10-K as well as in “Environmental Matters” in Part I hereof.

Item 4. Mine Safety Disclosures

Not applicable.

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Executive Officers of the Registrant

Name	Age	Position(s) Held
Darren D. Hawkins	49	Chief Executive Officer of the Company (since April 30, 2018); President and Chief Operating Officer of the Company (January 2018-April 2018), President (February 2014-December 2017), Senior Vice President - Sales and Marketing (January 2013-February 2014) of YRC Freight; Director of Operations (December 2011-January 2013) and Director of Sales (January 2009-December 2011) for Con-Way Freight, a subsidiary of Con-Way, Inc.; various positions of increasing responsibility with Yellow Transportation, Inc. (1991-2009).
Stephanie D. Fisher	42	Chief Financial Officer of the Company (since May 2017); Acting Chief Financial Officer (January 2017-May 2017); Vice President and Controller of the Company (May 2012-May 2017); Director - Financial Reporting and various positions in the Company's Corporate Accounting department (2004-2012).
Mark D. Boehmer	58	Vice President and Treasurer of the Company (since July 2013); Vice President and Treasurer of Sealy Corporation (2003-2013).
James A. Fry	57	Vice President, General Counsel and Corporate Secretary of the Company (since April 2015); Executive Vice President and General Counsel (2010-2015), Corporate Counsel (2008-2010) for Swift Transportation Company; General Counsel of Global Aircraft Solutions, Inc. (2003-2008).
Justin M. Hall	39	Chief Customer Officer of the Company (since June 2016); President of Logistics Planning Services (transportation management and logistics software) (2006-2016); Principal of LP Projects International, LLC (2003-2016).
Mitchell K. Lilly	63	Senior Vice President, Labor and Employee Relations for YRC Worldwide Inc. (the "Company") (since July 2018); Senior Vice President, Operations and Employee Relations (2016-2018) and Senior Vice President of Operations (2012-2014) for YRC Freight; various positions of increasing responsibility with YRC Freight and Yellow Transportation 2006-2011).
Jason T. Ringgenberg	53	Chief Information Officer of the Company (since March 2017); Sr. Vice President and Chief Information Officer for YRC Freight (April 2014-March 2017); various positions of increasing responsibility with Accenture, most recently Managing Director of North American Freight (June 1992-April 2014).
Brianne L. Simoneau	40	Vice President and Controller of the Company (since May 2017); Director, Financial Reporting (April 2015-May 2017); Controller for Freightquote.com (March 2009-April 2015).