# How did we get here?

Unfortunately, the freight recession has worsened for all trucking companies as 2009 has progressed but it's been more aggravated at YRCW companies than any other trucking group operating in North America. Several factors have contributed to this phenomenon with a few developments that would have been difficult to predict at the end of 2008.

- First, YRCW's finances became more challenged by an accelerated collapse of the freight environment in the First Quarter, right at the moment it was planning and implementing the most significant operational changes in the company's history, including the formal merger of Yellow and Roadway, the nation's two largest LTL companies. As a result of its underestimation of the one-time costs associated with the merger and diversion of business from wary shippers, YRCW was forced to renegotiate its banking and credit facility to avoid breaking certain financial covenants. While the revised bank terms gave them some short-term breathing room and opportunities for cash infusion, it placed tougher debt and interest payments on the company just as revenues fell further. The debt and bonds incurred from the ill-advised USF acquisition continues to choke YRCW at a time it has 30% less revenue than last year from which it has to make interest payments and other expenses.
- Second, other cash generating measures such as selling rolling stock and the 'sale-leasebacks' of terminal properties have not and will not produce sufficient liquidity to weather the next 12-18 months as YRCW rebuilds its business. The value of these physical assets has declined so significantly due to the glut of equipment and property already on the market that it has left the company's lenders and bondholders in a less secure position than they were just a few months ago. This reality makes the sale of excess assets, now worth less than half the value of just two years ago, extremely difficult.
- Lastly, the recession has been so severe that YRCW's competitors' have taken advantage of their challenged position in the marketplace, creating the worst predatory pricing environment in the modern trucking industry's history. For YRCW's mostly non-union competitors, a YRCW shut down would end the freight recession for them for the foreseeable future. They are all betting against the company's survival with their pocketbook, slashing rates by targeting specific lanes and customers. The losses they suffer now will be offset by the market share they ultimately capture if their plans prove correct. This involves often hauling freight at below cost in most cases, all in an effort to hasten the company's demise. Until the competition gets the message that YRCW is a viable and financially stable enterprise here for the long haul, this downward pricing spiral will continue and remain irrational.

### You said our last giveback would save the company? What will be different this time?

As the past eight months have shown, no one can predict where this economy is going, especially in what has become a global industrial and manufacturing recession that finds new lows each month. As our Locals and members know, this slump is occurring in precisely those sectors of the economy that most directly drive results for America's largest trucking companies, including housing, automotive and consumer goods. TNFINC and the Freight Division have engaged in an unprecedented amount of financial 'due diligence' and operational evaluation of YRCW since the last MOU was ratified six months ago. We have a full-time team of economists, financial analysts and freight experts assembled in Washington, DC that have challenged YRCW's assumptions about the future of the business and what it needs to survive this downturn every step of the way. Needless to say, we have not agreed with the company on many items, including appropriate staffing levels, terminal consolidation and transfers of work and made this explicitly clear to senior management especially during the recent two weeks of negotiations. Nevertheless, we believe, as do the professionals who work for the Union, that the economics contained in this Revised Plan create the only plausible scenario that allows YRCW to continue to weather the economic downturn over next 12-18 months.

### Why should we give more money to what is essentially the same failed management team?

TNFINC addressed this issue directly with YRCW management during recent negotiations. The company's response was that in June it revamped its entire executive management team and streamlined functions across all operating groups to improve efficiency and response time to problems. It elevated someone familiar to the union, Mike Smid to CEO of all North American trucking operations, a move viewed positively by the Union. While the elimination of excess management in Overland Park addressed some specific issues and those individuals participating in bargaining suggested a new level of dialogue with senior management is coming, the Union was not convinced. The Union's doubt in this area resulted in three significant items that are now contained in the Revised Agreement. First, if ratified, the union will gain a seat on the YRCW Board of Directors on the same terms as all other Directors. This is a major accomplishment and will give YRCW Teamsters a new voice and level of influence with the company's senior most decision-makers. Secondly, YRCW bargaining units will get an additional 20% worth of company stock options under terms similar to those of the last MOU, potentially increasing our members' position to 35% of all outstanding YRCW stock. Finally, TNFINC secured the right to approve the selection of a new person and position in the ranks of senior executive management, essentially a 'designated' senior officer that works directly with the CEO on issues influencing major corporate decisions, including personnel and financial, at the highest levels of YRCW.

## What other options did the union have to help YRCW survive?

With our YRCW members already working under a 10% wage reduction, the Union's Subcommittee fought the company's demand for an additional 10-20% more in wage reductions. Coupled with these deep wage cuts, the Union faced an economic proposal from the company that would have destroyed the integrity of the NMFA and its supplements, affecting many more items than just our wage and benefit package. This included substantial changes to nearly every aspect of our Agreement, changes that would have been near impossible to ever get back, even when the economy meaningfully improves. The 5% additional wage reduction that was ultimately agreed to recognize that TNFINC has never allowed a distressed freight company to go more than 15% below top NMFA wages. Unfortunately, the amount of savings that result from even this level do not 'move the needle' and afford the company enough cash or 'liquidity' to survive. The only economic item that would provide the type of short-term and dramatic relief the situation requires can come from a temporary cessation of pension payments.

## Where are their banks during this process? Are they giving anything up?

The banking group that lends to YRCW has been involved in the process and the Union has approached them directly at the highest levels about their stake in the game. The only way those institutions can recover all the money they've loaned to YRCW is if the company survives and we have emphasized that fact to them directly. Consistent with 'equal sacrifice' both inside and outside the company, the Revised Agreement is largely conditioned on requiring all other stakeholders, including all banks and bondholders, to offer additional considerations by contributing immediately to ease the cash crunch that is occurring. To date in 2009, the banks have given up significant collateral and freed up hundreds of millions of cash for YRCW's immediate use through seven amendments to its credit agreement but they need to do more. Unfortunately, since they are in the most secure position of all YRCW's constituents, getting banks that are already reluctant to extend additional credit to anyone or to move quickly has been very difficult.

## What's going to happen to my benefits under this new tentative Revised Agreement?

Please refer to the attached piece on how this Revised Agreement may impact your health and welfare and pension benefits. The Union fought to make the changes in this area as temporary as possible and believes we have achieved this result. The company sought a permanent restructuring of all benefit plans including introducing health insurance premium co-pays and replacing defined benefit pension plans with inferior defined contribution plans. The union denied the company's moves in all these directions but did agree to non-permanent modifications to the pension plans.

## Will the company survive if we agree to these contractual changes?

We believe that the best opportunity for the company to survive the current economic crisis is by adopting this Revised Agreement. As difficult as the terms are to embrace, we are firmly convinced it will take economic changes of this magnitude for a plausible scenario of survival and turnaround at YRCW to develop. Recent positive signs of freight volumes stabilizing and service levels returning to pre-integration highs (on time delivery, bills per hour, etc) of Yellow and Roadway give credence to our effort to save YRCW. Coupled with the additional economic relief provided by the Revised Agreement, we believe YRCW companies have a good chance of achieving sufficient liquidity to make it through 2010 and regain much of the freight that has been diverted over the past 12 months.

## What additional cuts are non-union YRCW employees taking at YRCW?

The 10% cut that YRCW non-union employees took in January 2009 has been made permanent under the Revised Agreement. They will also have further adjustments made to their total compensation package to bring their total wage and benefit package in line with what reductions are proposed in the Revised Agreement. For the 18 months that Teamsters at YRCW are under the Non-permanent Pension Contribution Termination Period, no YRCW employees will receive any retirement benefits or 401-k contributions whatsoever. Increases to wages, if any, can only be made in proportion to increases Teamsters will receive each April under the Revised Agreement.