ABF Freight TEAMSTERS UPDATE

APRIL 20, 2010

# Freight Leaders Overwhelmingly Endorse Economic Relief Plan

## Package Will Protect Jobs, Benefits

On Monday, April 19, leaders of freight local unions from across the country overwhelmingly endorsed an economic relief plan for ABF Freight System, Inc. that will protect thousands of Teamster members' jobs and their health, welfare and pension benefits.

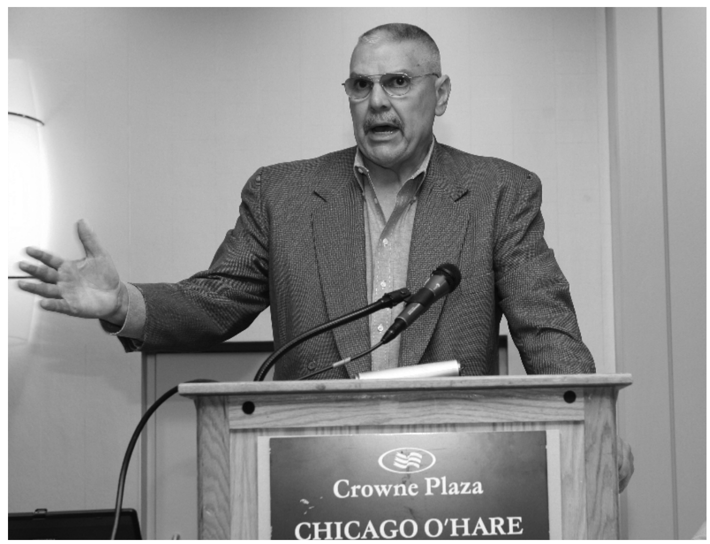
"Local union leaders understand that we need to take a bold step to help ABF get through this terrible economy and that we must act now to prevent far worse problems down the road," said Tyson Johnson, Director of the Teamsters National Freight Division. "No one wants to see wage cuts, but this agreement protects our ABF members' jobs and their health, welfare and pension benefits."

Johnson said the union responded to members' concerns that it only move forward if it could independently verify the company's financial situation.

"An independent financial advisor has verified that the company is losing money and has been exhausting its cash reserves," Johnson said. "The message is that we must act now."

"ABF has been bleeding and they cannot keep bleeding," said Teamsters General Secretary-Treasurer Tom Keegel. "We need to take steps now to protect our members' jobs and health, welfare and pension benefits before conditions worsen."

The Wage Reduction—Job Security Plan calls for a reduction in gross wages and mileage rates of 15 percent effective the first payroll period after ratification through the term of the National Master Freight Agreement (NMFA), which runs until March 31, 2013. Negotiated wage increases (less 15 percent) and cost of living adjustments, if any, will remain in effect for the life the plan.




The plan has safeguards for ABF Teamsters—it contains triggers to reduce the wage reduction in 2011-2012 or terminate the plan if certain benchmarks are reached indicating a financial turnaround for the company. The plan also calls for equal sacrifice among all union and non-union employees. During the past two-plus years, management has faced pay freezes and benefit cuts, and management will face more so that their sacrifice is equal to Teamster sacrifices. Under the plan, the union will have access to the company's financial records and the right to have an annual audit done. This will help protect members' interests. (see plan summary for specifics).

### Plan Protects Benefits

The economic relief provided in the plan was limited to the 15 percent wage reduction. There are no changes to any health, welfare and pension contributions. These plans are funded as provided for in the NMFA. (See further plan details later in this newsletter). In addition, a full copy of the plan will be mailed to members in the ballot packages.

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## National Conference Call

**ABF Teamsters are invited to participate on a national conference call to learn more about the Wage Reduction—Job Security Plan for ABF that will protect thousands of Teamster members' jobs and their health, welfare and pension benefits. The call is at 8:30 p.m. (Eastern) Tuesday, April 27. The number to call is (877) 269-7289. You will then be asked to enter the code, which is 14111.**

# Summary of the Proposed ABF Economic Relief Plan

The Wage Reduction—Job Security Plan ("Plan") Memorandum of Agreement was negotiated with the express purpose of enabling ABF the ability to compete, protect health, welfare and pension benefits and provide job security for Teamster bargaining unit employees. Upon being presented with the facts surrounding the company's need for economic relief that were verified by both internal and independent financial experts, the union engaged ABF in talks this month to hear the company's concerns about its financial future. This occurred after the membership was polled and guidance was received from our Local Union officers and regional freight coordinators. Only after the company agreed to the principles of equal sacrifice among all ABF employees, including nonunion and management employees; a formula for pay-backs and snap-backs if the company becomes profitable again; and no changes to benefit plans would the Union agree to formal negotiations. What follows is a summary of the results of those negotiations: the MOU on the ABF Wage Reduction—Job Security Plan: its coverage and terms, key provisions/ conditions and protections. The plan also provides for additional monitoring and compliance mechanisms.

## Plan Coverage and Terms

The plan calls for a reduction in gross wages and mileage rates of 15 percent effective the first payroll period after ratification through the term of the NMFA—March 31, 2013, subject to certain operating performance measures that can reduce that amount by 5 percent each year if reached. The wage and mileage increases called for under the NMFA will also be reduced by 15 percent. The cost of living adjustment, if any, will be unaffected by the Plan insuring some protection against runaway inflation. (Sections 2 and 4)

The economic relief provided in the Plan is limited to the 15 percent wage reduction. There are no changes to any health, welfare and pension contributions. These plans are funded as provided for in the NMFA. (Section 5)

## Key Provisions/Conditions for the Wage Reduction

There are a number of key provisions the union insisted upon as a condition of the wage reduction:

- Equal Sacrifice: First and foremost is the concept of equal sacrifice. Management and non-union employees are required to participate in cost sharing in an equal manner as ABF Teamsters. If cuts made to these individuals already in 2008 (changes in health care premiums and co-pays, reductions in defined contribution pension plan, increased cost of health care and elimination of wage increases for 2009 and 2010) do not meet the 15 percent compensation reduction, then additional wage and benefit cuts must be implemented. The employer is obligated to achieve similar cost reductions from its other non-Teamster and non-NMFA bargaining units. (Section 3)
- Earnings Plus Plan: Second is the opportunity for Plan participants to earn some of the wage reduction back each calendar quarter when the company returns to profitability. This will occur under the "Earnings Plus Plan" that will pay back employees' wage sacrifices as a percentage of quarterly earnings based on publically announced operating ratios every three months. Payback will begin when a quarterly operating ratio falls below 99.0 and monies will increase as the operating ratio meaningfully improves. While unlikely to occur in the near term, one could see some possible upside if ABF does particularly well in the latter years—similar to the operating levels experienced in the 2004-2006 period. (Section 10)
- Decrease in Wage Reduction: Third is a "snap-back" feature that will automatically reduce the wage cut by 5 percent each April if ABF achieves an "operating ratio" of 97.0 or below and/or an EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) level that exceeds $99.5 million annually for any prior calendar year during the life of the Plan. The Union was responding to the members' and Locals' concerns that ABF is not likely to remain as distressed as other motor carriers will due to its historic operating margins and superior performance. Just like ABF's financial fortunes dropped off with the general economy in late 2008, it may pick back up in equal measure during the inevitable recovery. While no one can predict when the industrial and retail sectors of the U.S. economy will see this rebound, we need to limit the Plan, if and when it does, to protect Teamster incomes. In fact, one would have to go back to the freight recession of the mid 1990s to see ABF's operating ratios at levels experienced over the last two years so a "snap-back" is a distinct possibility. Fortunately, the Negotiating Committee was able to achieve this "snap-back" feature and maintain the Earnings Plus Plan for income protection in the event of a stronger than expected economic turnaround. (Section 2(b))
- Termination/Amendment of Plan: Fourth, if during the term of the Plan ABF "increases its full-time, active Teamsters workforce by 20 percent or more from the level of full-time, active Teamsters employed in the NMFA bargaining unit on the effective date of the Plan, the Union reserves the right to terminate this Plan with 30 days written notice …" In the event the freight economy improves for ABF, this provision gives the Union the right to snap back the wages to the full NMFA rate. (Section 17)
- Work Preservation: Fifth, ABF is prevented from purchasing any non-union regular route trucking entity without approval of the union and must work with the Union Sub-Committee created to oversee the Plan on a whole range of issues, including the expansion of bank debt, ensuring access to detailed financial records, and the requirement that any funds generated by the wage reduction must be used to improve only the operations of ABF Freight System. (Sections 15 and 16)
- Extension of Recall for Laid off Teamsters: Sixth is the increase of recall rights from five (5) to ten (10) years for any Teamster on layoff as of the effective date of the Plan or who becomes laid off during the term of the Plan. (Section 13)
- No Additional Financial Relief from Teamsters: Seventh, the Plan provides that, if ABF needs additional funds to satisfy its liquidity needs beyond those that exists on the date of ratification, it must obtain the additional funds from its lenders. (Section 16)
- Snap Backs to Full NMFA Wages: Eighth are a series of additional protections that provide wage restoration to the full NMFA rate if the plan is terminated, if the employer files bankruptcy or if there is a material change in ownership (i.e., if the company is sold). There is a snap back to full NMFA wages on March 31, 2013. (Sections 4,17, and 21)

## Monitoring and Compliance

In addition to the key provisions, the plan contains additional language on monitoring and enforcement rights. The employer is required to share financial information sufficient for the union to monitor compliance with the plan and pay for an annual audit to determine compliance. (Section 6)

A subcommittee is created to monitor compliance, resolve disputes and discuss other pertinent information including the implementation of the employer's business plan. Disputes if not resolved by the Subcommittee, will to go to the grievance procedure in the NMFA (Section 6 and 7).

Please consult the actual plan and your Local Union for specifics on each item of the Plan. Additional material will be posted on www.teamster.org as it becomes available.

# Questions & Answers for ABF Members

### Q: How did we get here? I thought ABF was doing well.

**A:** ABF Freight Systems, like all freight companies, is doing its best to weather the worst operating period it has ever experienced. ABF, with a reputation as one of the best and most efficient motor carriers in the LTL industry, has suffered an unprecedented drop in shipments and revenues since late 2008 coinciding with the near collapse of the entire U.S. economy. Due to prudent business decisions throughout its growth as a Teamster-represented carrier, ABF has been able to survive the throes of this recession because it carried little debt on its books and always maintained adequate cash reserves. In contrast, YRC Worldwide, Inc. (YRCW) had very high levels of debt and very little cash reserves to weather the drop in freight volumes and aggressive pricing environment.

Unfortunately, 18 months later with an economy that continues to struggle and a freight environment beset with high costs and over capacity, ABF's situation is now changing. It is losing more than $10 million a month and other economic factors are worsening (see information below).

### Q: ABF has been profitable over the years, and it's not facing imminent bankruptcy. Why act now?

**A:** ABF's financial situation has worsened dramatically as this recession continues. ABF lost $99.9 million in 2009 after a $49 million profit in 2008—almost a $150 million swing in the wrong direction. Revenue was down 21 percent from 2008 to 2009. ABF is exhausting its cash reserves and cannot sustain the losses it faces for much longer, especially in a tight credit market where alternative financing has dried up. We estimate the company will continue to lose more than $10 million per month in 2010 and liquidity continues to worsen. So, while the company has been profitable in the past, it no longer is and something needs to be done to help it make it through the recession.

### Q: How can wage concessions help the company?

**A:** A temporary wage concession now by all of ABF's union, nonunion, and management employees (there will be equal sacrifice by all employees if the plan is approved), will provide ABF with the adequate liquidity to survive the recession. The paramount goal of the union is to make sure ABF Teamsters' jobs and benefits are protected.

### Q: What happens to the wage reduction if the economy improves?

**A:** If the economy improves and ABF operates at a 97.00 operating ratio for any calendar year during the life of the agreement, the the 15% wage reduction will be reduced by 5% each year. Also, if ABF increases its fulltime, active Teamster workforce by 20% or more from the level of fulltime, active Teamsters employed on the effective date of the agreement, the Union has the right to terminate the entire wage reduction and snap back to full NMFA wages. In addition, under the Earnings Plus Plan in the agreement, as soon as ABF generates an operating ratio of at least 99.00 or below for a quarter, employees will begin getting a payment each quarter based on a percentage of their earnings during the quarter.

### Q: Why should we help ABF when the company spends so much money on NASCAR advertising?

**A:** ABF doesn't own a stock car or NASCAR team as some have alleged. The company's involvement in NASCAR is possible through a bartering agreement where it leases ad space on cars in exchange for hauling freight for NASCAR related companies. This arrangement does not drain its cash reserves but actually adds business that supports jobs of its Teamster-represented employees based on our independent investigations and on written explanation from the company. Also, the company has been able to generate other business that moves within its LTL network because of the NASCAR relationship.

### Q: Why should we help ABF when the company is allegedly forming non-union moving and storage services?

**A:** ABF has served the self-move consumer market through its U-Pack service for many years. Customers load their belongings on to ABF trailers or small containers and ABF Teamsters haul them to their new location. ABF estimates 95 percent of these trailers are spotted by ABF city drivers and once loaded they are picked up by ABF city drivers and moved over the road by ABF road drivers. Recently, ABF started a new subsidiary, Moving Solutions, Inc., to comply with certain household goods licensing regulations that require distinct corporate ownership if the long haul motor carrier piece (ABF's role and business segment) is separated from the loading and unloading end of the industry. Because some customers need the loading and unloading service as well, ABF's parent bought a small household goods company and created an entity that acts as a household goods freight forwarding agent. This freight forwarding agent can bundle all services including the packing/unpacking and loading/unloading function through local agents in the United States. This new subsidiary is committed to having ABF and its drivers continue to provide the underlying city and road portion of the service insuring more ABF Teamsters will continue to be adequately compensated as it has been in the past for its role in the U-Pack business.

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Ballots are scheduled to be mailed out to members on or about April 30, and ballots are tentatively scheduled to be counted on May 21. About 7,000 Teamsters are actively employed at ABF while another 1,200 are on recall.

The Teamsters National Freight Industry Negotiating Committee (TNFINC) and ABF management reached a tentative agreement on the plan April 16. Teamster leaders attending the April 19 meeting voiced strong support for the plan.

"People realize something needs to be done sooner rather than later so that our members' jobs and their health, welfare and pension benefits remain protected," said Tim Nichols, President of Local 878 in Little Rock, Arkansas, the fourth largest ABF local union. "If we fail to take action now, we face a situation later where we may be hanging curtains on a house that's on fire, and nobody wants that. Local 878 has had a longstanding relationship with Tyson Johnson, and we fully support his leadership."

"We've got to do something before ABF gets on life support and a foot in the grave," said Doug Davis, Secretary-Treasurer of Local 957 in Dayton, Ohio, the second largest ABF local. "If we wait, it might be more painful and we might have to give more to help save the company. By acting now, we protect our members' jobs and health, welfare and pension benefits."

"It's good that our members have the opportunity now to stop the bleeding at ABF to avoid the kind of problems that occurred by waiting longer at YRC, where our members had to sacrifice a great deal more," said Randy Cammack, Secretary-Treasurer of Local 63 in Covina, California.

"We have to do something—it's our job now to do something to help our members," said Mike Simeone, Secretary-Treasurer of Local 17 in Denver. "No one likes to see concessions, but we were elected to lead."

"We need to act quickly to avoid things getting worse," said Ernie Soehl, President of Local 701 in North Brunswick, New Jersey. Local 701 represents fewer than 20 workers, which makes it a typical size ABF local. "It's vital that we protect our members' benefits and retirement security."

ABF lost $99.9 million in 2009 after a $49 million profit in 2008—almost a $150 million negative swing. Revenue was down 21 percent from 2008 to 2009. ABF has been exhausting its cash reserves at an unsustainable rate and cannot face losses of this magnitude for much longer, especially in a tight credit market where alternative financing has largely dried up. The union estimates the company continues to lose more than $10 million per month in 2010 and liquidity continues to worsen. Once it becomes effective, the company-wide wage concessions will not pull ABF completely out of the woods based on the union's projections, but it will provide immediate assistance and steer the turnaround.