ROADWAY CORP
Form 10-Q
October 23, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)
[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.
For the Period ended
September 8, 2001.
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 000-32821

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

Delaware	34-1956254
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No)

1077 Gorge Boulevard, Akron, OH	44310
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (330) 384-1717

Roadway Express, Inc.
(Former name, former address, and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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 [X] No ____.

The number of shares of common stock ($.01 par value) outstanding as of October 3, 2001 was 19,224,463.

PART I -- FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ROADWAY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	September 8, 2001	Decembe
	(in thousands, except share da	
Assets		
Current assets:		
Cash and cash equivalents	$ 82,554	$
Accounts receivable, net	283,319	
Prepaid expenses and supplies	20,316	
Total current assets	386,189	
Carrier operating property, at cost	1,426,141	
Less allowance for depreciation	1,001,747	
Net carrier operating property	424,394	
Goodwill, net	15,206	
Deferred income taxes	46,375	
Total assets	$ 872,164	$
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	$ 180,012	$
Salaries and wages	108,304	
Freight and casualty claims payable	51,680	
Total current liabilities	339,996	
Long-term liabilities:		
Casualty claims and other	62,685	
Accrued pension and retiree medical	119,617	
Total long-term liabilities	182,302	
Shareholders' equity:		
Common Stock - $.01 par value		
Authorized - 100,000,000 shares		
Issued - 20,556,714 shares	206	
Other shareholders' equity	349,660	
Total shareholders' equity	349,866	
Total liabilities and shareholders' equity	$ 872,164	$

Note: The balance sheet at December 31, 2000 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements.

The number of shares of common stock outstanding at September 8, 2001 and December 31, 2000 were 19,363,075 and 19,390,328 respectively.

See notes to condensed consolidated financial statements.

ROADWAY CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME (UNAUDITED)

	Twelve Weeks En (Third Quarte
	September 8, 2001
	(in thousands, except pe
Revenue	$ 631,657
Operating expenses:	
Salaries, wages and benefits	404,722
Operating supplies and expenses	107,199
Purchased transportation	63,866
Operating taxes and licenses	16,342
Insurance and claims expense	8,777
Provision for depreciation	16,678
Net (gain) loss on disposal of operating property	(88)
Total operating expenses	617,496
Operating income	14,161
Other income, net	314
Income before income taxes	14,475
Provision for income taxes	6,302
Net income	$ 8,173
Earnings per share - basic	$ .44
Earnings per share - diluted	$ .43
Average shares outstanding - basic	18,455
Average shares outstanding - diluted	18,987
Dividends declared per share	$ 0.05

See notes to condensed consolidated financial statements.

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ROADWAY CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED INCOME (UNAUDITED)

	Thirty-six Weeks (Three Quarter
	September 8, 2001
	(in thousands, except pe
Revenue	$ 1,924,251
Operating expenses:	
Salaries, wages and benefits	1,229,033
Operating supplies and expenses	336,833
Purchased transportation	191,954
Operating taxes and licenses	49,829
Insurance and claims expense	34,044
Provision for depreciation	47,617
Net loss on disposal of operating property	534
Total operating expenses	1,889,844
Operating income	34,407
Other (expense) income, net	(4,257)
Income before income taxes	30,150
Provision for income taxes	12,964
Net income	$ 17,186
Earnings per share - basic	$ .93
Earnings per share - diluted	$ .91
Average shares outstanding - basic	18,449
Average shares outstanding - diluted	18,938
Dividends declared per share	$ 0.15

See notes to condensed consolidated financial statements.

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ROADWAY CORPORATION AND SUBSIDIARIES
CONDENSED STATEMENTS OF CONSOLIDATED CASH FLOWS (UNAUDITED)

	Thirty-six Weeks (Three Quarter
	September 8, 2001
	(in thousands
CASH FLOWS FROM OPERATING ACTIVITIES	
Net income	$ 17,186
Depreciation and amortization	48,497
Other operating adjustments	(748)
Net cash provided by operating activities	64,935
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of carrier operating property	(46,305)
Sales of carrier operating property	2,445
Net cash used by investing activities	(43,860)
CASH FLOWS FROM FINANCING ACTIVITIES	
Dividends paid	(2,906)
Treasury stock activity, net	(709)
Net cash used by financing activities	(3,615)
Effect of exchange rate on cash	155
Net increase (decrease) in cash and cash equivalents	17,615
Cash and cash equivalents at beginning of period	64,939
Cash and cash equivalents at end of period	$ 82,554

See notes to condensed consolidated financial statements.

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Roadway Corporation and Subsidiaries
Notes to Condensed Consolidated Financial Statements (unaudited)

Note 1--Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the twelve weeks ending September 8, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and footnotes thereto included in the registrant's Annual Report on Form 10-K for the year ended December 31, 2000.

Note 2--Accounting Period

The registrant operates on 13 four-week accounting periods with 12 weeks in each of the first three quarters and 16 weeks in the fourth quarter.

Note 3--Earnings per Share

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

	Twelve Weeks Ended (Third Quarter)		Thirty-si (Three
	Sept. 8, 2001	Sept. 9, 2000	Sept. 8, 2001
	(in thousands, except per share data		
Net income	$ 8,173	$ 10,845	$ 17,186
Weighted-average shares for basic earnings per share	18,455	18,649	18,449
Management incentive stock plans	532	362	489
Weighted-average shares for diluted earnings per share	18,987	19,011	18,938
Earnings per share - basic	$ 0.44	$ 0.58	$ 0.93
Earnings per share - diluted	$ 0.43	$ 0.57	$ 0.91

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Note 4--Comprehensive Income

Comprehensive income differs from net income due to foreign currency translation adjustments as shown below:

	Twelve Weeks Ended (Third Quarter)		Thirty-six (Three
	Sept. 8, 2001	Sept. 9, 2000	Sept. 8, 2001
		(in thousands)	

Net income	$ 8,173	$ 10,845	$ 17,186
Foreign currency translation adjustments	(471)	559	93
Comprehensive income	$ 7,702	$ 11,404	$ 17,279

Note 5--Contingent Matter

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

Under a tax sharing agreement entered into by the Company and its former parent at the time of the spin-off, the Company is obligated to reimburse the former parent for any additional taxes and interest which relate to the Company's business prior to the spin-off. The amount and timing of such payments, if any, is dependent on the ultimate resolution of the former parent's disputes with the IRS and the determination of the nature and extent of the obligations under the tax sharing agreement. The Company has established certain reserves with respect to these proposed adjustments. There can be no assurance, however, that the amount or timing of any liability of the Company to the former parent will not have a material adverse effect on the Company's results of operations and financial position.

Note 6--Impact of Recently Issued Accounting Standards

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, effective January 1, 2001. The effect of the adoption of SFAS No. 133 was not material to the Company's earnings, financial position, or cash flows.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, Business Combinations, which is effective for business combinations completed subsequent to June 30, 2001. This standard eliminates the pooling-of-interests method of accounting for business combinations and requires the purchase method. SFAS No. 141 also clarifies the criteria for recognition of intangible assets separately from goodwill.

SFAS No. 142, Goodwill and Other Intangible Assets, which is effective for the Company on January 1, 2002, eliminates the amortization of goodwill and indefinite-lived intangible assets. This statement also requires an initial goodwill impairment assessment in the year of adoption and annual impairment tests thereafter. As of September 8, 2001, the Company had net unamortized goodwill if $15.2 million and amortization expense on an annual basis of approximately $1.0 million.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company had net income of $8.2 million or $0.43 per share (diluted), for the third quarter ended September 8, 2001, compared to income of $10.8 million, or $0.57 per share (diluted) in the same quarter last year, a decrease of 24.6%. Revenues were $632 million in the current quarter, a 9.6% decrease from third quarter 2000.

The Company delivered 1.7 million tons of freight in the current quarter, down 13% compared to the prior year quarter. Less-than-truckload (LTL) and truckload tons were both down 13%. The tonnage decline is primarily attributable to the national economic slowdown. Net revenue per ton was $374.09, up 4.1% compared to the same quarter last year. The industry's pricing environment continues to remain firm, which mitigates some of the impact of the reduced tonnage. The improvement in revenue per ton was due to the general rate increase in the fourth quarter of 2000, and adjustments in contract rates. The variable rate fuel surcharge averaged 2.6% of revenue in the current quarter compared to 3.0% in the prior-year quarter. Total operating expenses were down $63 million, but increased 4.6% on a per-ton basis with the decline in tonnage. The operating ratio deteriorated to 97.8% of revenue, compared to 97.3% in the same quarter last year. When looking at the current year, the 97.8% operating ratio compares favorably with the 98.4% operating ratio in the first half of 2001. Cost controls and staffing reductions led to this improvement, despite the tonnage decline.

Salaries, wages, and benefits increased to 64.1% of revenue, up from 62.6% in the third quarter of 2000 due to increases in the cost of health care, pension benefits, and driver wages. Reductions in variable pay related to performance and workers compensation costs offset part of this increase. The reduction of workers compensation expense is the result of the Company's Challenge 2000 program, which is a comprehensive effort to mobilize the entire workforce to reduce the frequency and severity of injuries and accidents. Other salary and wage expenses were up slightly as a percentage of revenue. Due to the reduced business levels, the Company's workforce has been reduced by 10% through layoffs and hiring restrictions, when compared to the third quarter of 2000.

Operating supplies and expenses were down 13%, reflecting reduced business levels. Significant reductions in excess of the decline in business levels occurred in the areas of fuel, pickup and delivery equipment rents, and terminal supplies and services.

Purchased transportation expenses declined 14%, primarily due to a 23% reduction of railroad miles in linehaul service. Rail miles were 25% of total miles, compared to 28% in the same quarter last year. Canadian and Mexican owner-operators miles were down 6% from last year.

Improved cargo handling performance, improvements in highway safety, and the reduction in tonnage led to the 33% decline in claims and insurance expense. The decrease in operating taxes reflects lower fuel taxes associated with the decline in business levels. Depreciation expense increased $3 million and reflects recent capital expenditures, primarily for revenue equipment and information technology.

The tax rate for the third quarter of 2001 and 2000 differs from the Federal statutory rate due to the impact of state taxes, taxes on foreign operations, and non-deductible operating expenses. The variation in the tax rate from the first half of 2001 resulted from changes in the annual effective rate due to expectations of reduced earnings.

On August 20, 2001, the Company implemented a general freight rate increase of approximately 5.9% that had a minor impact on third quarter results. Revenue is only recognized as earned when freight is delivered. The full benefit of this increase will become evident in the fourth quarter. Roadway continues to take actions to increase operating margins and yield on freight, such as working with specific customers to improve efficiencies and reduce unnecessary transportation costs. Pricing adjustments are negotiated with contract customers throughout the year under terms of the agreements.

At the end of the quarter, the Roadway's cash and marketable securities amounted to $82 million, a $18 million increase from year-end 2000. This increase is due to a reduction of capital expenditures during the current year, and an increase in cash flow from operations. Capital expenditures for the year are expected to be $75 million, which has been reduced from second quarter expectations of $80 million. Cash flow from operations and current and proposed financing sources will be sufficient to meet working capital needs. The Company currently has no long-term debt.

On August 21, 2001, Roadway entered into an agreement to acquire Arnold Industries, Inc. (Arnold) of Lebanon, Pennsylvania (NASDAQ: AIND) for $21.75 per share in cash, an aggregate consideration of approximately $550 million. Arnold's subsidiaries are New Penn Motor Express, a regional next-day LTL carrier and Arnold Transportation Services, an irregular route truckload carrier. New Penn and Arnold Transportation will operate independently under their respective brand names. The acquisition is expected to have an immediate, positive impact on Roadway's earnings. The completion of this transaction is subject to the approval of Arnold's shareholders. The transaction is expected to close before the end of 2001, and will be accounted for as a purchase business combination.

SUBSEQUENT EVENTS

On October 17, 2001, Roadway entered into a definitive agreement with E. H. Arnold, CEO of Arnold and Arnold Logistics, Inc. to sell Arnold's logistics operations for $105 million in cash after Roadway's acquisition of Arnold is completed. The transaction is subject to customary regulatory approval.

In conjunction with the acquisition of Arnold, Roadway has obtained financing commitments for an additional $700 million to finance the acquisition and to provide for future working capital needs. The financing commitments include a five-year term loan of $175 million, an accounts receivable securitization facility of up to $200 million, an offering of seven-year notes of $225 million, and a revolving line of credit of $150 million, which will replace the existing $50 million line of credit. The Company intends to use the net after-tax proceeds from the sale of Arnold Logistics to repay a significant portion of the term loan. Management believes that consolidated cash flow from operations and financing sources will be sufficient to meet working capital needs.

The portions of narrative set forth in this discussion that are not historical in nature are forward-looking statements. The Company's actual future performance and operating and financial results may differ from those described in the forward-looking statements as a result of a variety of factors that, besides those mentioned, include the condition of the industry and the economy, capacity and rate levels in the motor freight industry, fuel prices, labor relations, and the success of the Company's operating plans, including the consummation of its pending acquisition of Arnold. These forward-looking statements reflect management's analysis only as of the date of this filing. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect events or circumstances that arise after the date hereof. In addition to the disclosure contained herein, readers should carefully review risks and uncertainties contained in other documents the Company files from time to time with the Securities and Exchange Commission.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not hold any market risk sensitive instruments for trading purposes. The Company's primary market risks include fluctuations in interest rates, currency exchange rates, and fuel prices.

The Company has interest rate swap agreements with major commercial banks to fix the interest rate of its trailer leases from previous variable interest rates. The value of the leases upon which the payments are based was not changed. The agreements, which expire from 2002 to 2004, fix the Company's interest costs at rates varying from 6.07% to 7.12% on leases valued at $25 million, and prevent the Company's earnings from being directly affected by changes in interest rates related to its trailer leases.

Roadway may incur some economic losses due to adverse changes in foreign currency exchange rates, primarily with fluctuations in the Canadian dollar and Mexican peso. A 10% adverse change in foreign currency exchange rates would have no material impact on future cash flows and earnings of the Company.

Fuel price increases are mitigated by a variable rate fuel surcharge when the national average diesel fuel price exceeds $1.10 per gallon. This surcharge has been in place at varying rates since the third quarter of 1999, and was discussed in Item 2 above.

PART II -- OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On October 3, 2001, the Board of Directors declared a cash dividend of $0.05 per share on the Company's common stock payable on December 3, 2001, to shareholders of record on November 9, 2001.

ITEM 6. EXHIBIT INDEX AND REPORTS ON FORM 8-K

Exhibit No.

none

List of the Current Reports on Form 8-K which were filed during the current quarter:

Date of Form 8-K	Description
August 21, 2001	Announcement of Roadway's agreement to acquire Arnold Industries, Inc.

SIGNATURES

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

ROADWAY CORPORATION

Date: October 23, 2001	By: /s/ J. Dawson Cunningham
	J. Dawson Cunningham, Executive Vice President and Chief Financial Officer
Date: October 23, 2001	By: /s/ John G. Coleman
	John G. Coleman, Controller