LOEWS CORP
Form 10-Q
October 29, 2013
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**
**For the quarterly period ended September 30, 2013**

**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 1-6541**

**LOEWS CORPORATION**

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Delaware** | **13-2646102** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**667 Madison Avenue, New York, N.Y. 10065-8087**

**(Address of principal executive offices) (Zip Code)**

**(212) 521-2000**

**(Registrant s telephone number, including area code)**

**NOT APPLICABLE**

**(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 ___________

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ____X____ No ___________ Not Applicable ___________

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

Large accelerated filer _X_ Accelerated filer ____ Non-accelerated filer ____ Smaller reporting company ____

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ________ No ____X____

| Class | Outstanding at October 21, 2013 |
| --- | --- |
| Common stock, $0.01 par value | 387,161,457 shares |

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## PART I. FINANCIAL INFORMATION

**Item 1. Financial Statements.**

**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED BALANCE SHEETS**

**(Unaudited)**

| (Dollar amounts in millions, except per share data) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| **Assets:** | | |
| Investments: | | |
| Fixed maturities, amortized cost of $39,261 and $38,324 | $ 41,376 | $ 42,765 |
| Equity securities, cost of $862 and $893 | 841 | 898 |
| Limited partnership investments | 3,465 | 3,090 |
| Other invested assets, primarily mortgage loans | 496 | 460 |
| Short term investments | 6,180 | 5,835 |
| Total investments | 52,358 | 53,048 |
| Cash | 257 | 228 |
| Receivables | 9,023 | 9,366 |
| Property, plant and equipment | 14,381 | 13,935 |
| Goodwill | 991 | 996 |
| Other assets | 1,645 | 1,538 |
| Deferred acquisition costs of insurance subsidiaries | 642 | 598 |
| Separate account business | 213 | 312 |
| Total assets | $ 79,510 | $ 80,021 |
| **Liabilities and Equity:** | | |
| Insurance reserves: | | |
| Claim and claim adjustment expense | $ 23,962 | $ 24,763 |
| Future policy benefits | 10,681 | 11,475 |
| Unearned premiums | 3,820 | 3,610 |
| Policyholders funds | 127 | 157 |
| Total insurance reserves | 38,590 | 40,005 |
| Payable to brokers | 326 | 205 |

| | | |
|---|---|---|
| Short term debt | **270** | 19 |
| Long term debt | **9,705** | 9,191 |
| Deferred income taxes | **831** | 840 |
| Other liabilities | **4,754** | 4,773 |
| Separate account business | **213** | 312 |
| Total liabilities | **54,689** | 55,345 |
| Commitments and contingent liabilities | | |
| Preferred stock, $0.10 par value: | | |
| Authorized 100,000,000 shares | | |
| Common stock, $0.01 par value: | | |
| Authorized 1,800,000,000 shares | | |
| Issued 392,351,798 and 392,054,766 shares | **4** | 4 |
| Additional paid-in capital | **3,648** | 3,595 |
| Retained earnings | **15,911** | 15,192 |
| Accumulated other comprehensive income | **20** | 678 |
| | **19,583** | 19,469 |
| Less treasury stock, at cost (5,194,400 and 249,600 shares) | **(228)** | (10) |
| Total shareholders equity | **19,355** | 19,459 |
| Noncontrolling interests | **5,466** | 5,217 |
| Total equity | **24,821** | 24,676 |
| Total liabilities and equity | **$ 79,510** | $ 80,021 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **(In millions, except per share data)** | | | | |
| **Revenues:** | | | | |
| Insurance premiums | **$ 1,825** | $ 1,781 | **$ 5,389** | $ 5,098 |
| Net investment income | **647** | 682 | **1,867** | 1,794 |
| Investment gains (losses): | | | | |
| Other-than-temporary impairment losses | **(15)** | (62) | **(49)** | (89) |
| Portion of other-than-temporary impairment losses recognized in Other comprehensive income (loss) | **(2)** | (2) | **(2)** | (25) |
| Net impairment losses recognized in earnings | **(17)** | (64) | **(51)** | (114) |
| Other net investment gains | **21** | 71 | **65** | 173 |
| Total investment gains | **4** | 7 | **14** | 59 |
| Contract drilling revenues | **691** | 714 | **2,136** | 2,195 |
| Other | **537** | 531 | **1,757** | 1,701 |
| Total | **3,704** | 3,715 | **11,163** | 10,847 |
| **Expenses:** | | | | |
| Insurance claims and policyholders benefits | **1,414** | 1,435 | **4,364** | 4,164 |
| Amortization of deferred acquisition costs | **341** | 333 | **1,004** | 937 |
| Contract drilling expenses | **420** | 358 | **1,164** | 1,160 |
| Other operating expenses (Note 1) | **900** | 1,071 | **2,689** | 2,891 |
| Interest | **109** | 109 | **329** | 331 |
| Total | **3,184** | 3,306 | **9,550** | 9,483 |
| Income before income tax | **520** | 409 | **1,613** | 1,364 |
| Income tax expense | **(136)** | (99) | **(419)** | (337) |
| Net income | **384** | 310 | **1,194** | 1,027 |
| Amounts attributable to noncontrolling interests | **(102)** | (133) | **(401)** | (427) |

| | | | | |
|---|---|---|---|---|
| Net income attributable to Loews Corporation | **$ 282** | $ 177 | **$ 793** | $ 600 |
| **Basic net income per share** | **$ 0.73** | $ 0.45 | **$ 2.04** | $ 1.52 |
| **Diluted net income per share** | **$ 0.73** | $ 0.45 | **$ 2.03** | $ 1.51 |
| **Dividends per share** | **$ 0.0625** | $ 0.0625 | **$ 0.1875** | $ 0.1875 |
| **Weighted-average shares outstanding:** | | | | |
| Shares of common stock | **387.26** | 394.48 | **389.13** | 395.88 |
| Dilutive potential shares of common stock | **0.88** | 0.81 | **0.83** | 0.76 |
| Total weighted-average shares outstanding assuming dilution | **388.14** | 395.29 | **389.96** | 396.64 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME**

**(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2013** | 2012 | **2013** | 2012 |
| **(In millions)** | | | | |
| Net income | **$ 384** | $ 310 | **$ 1,194** | $ 1,027 |
| Other comprehensive income (loss), after tax | | | | |
| Changes in: | | | | |
| Net unrealized gains (losses) on investments with other-than-temporary impairments | **(3)** | 36 | **3** | 73 |
| Net other unrealized gains (losses) on investments | **(70)** | 191 | **(717)** | 528 |
| Total unrealized gains (losses) on available-for-sale investments | **(73)** | 227 | **(714)** | 601 |
| Unrealized losses on cash flow hedges | **(3)** | (18) | **(14)** | (5) |
| Pension liability | **3** | | **12** | 11 |
| Foreign currency | **56** | 34 | **(18)** | 36 |
| Other comprehensive income (loss) | **(17)** | 243 | **(734)** | 643 |
| Comprehensive income | **367** | 553 | **460** | 1,670 |
| Amounts attributable to noncontrolling interests | **(102)** | (160) | **(327)** | (493) |
| Total comprehensive income attributable to Loews Corporation | **$ 265** | $ 393 | **$ 133** | $ 1,177 |

*See accompanying Notes to Consolidated Condensed Financial Statements.*

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**Loews Corporation and Subsidiaries**

**CONSOLIDATED CONDENSED STATEMENTS OF EQUITY**

**(Unaudited)**

| | | Loews Corporation Shareholders | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Common Stock Held in Treasury | Noncontrolling Interests |
| (In millions) | | | | | | | |
| Balance, January 1, 2012 | $ 23,203 | $ 4 | $ 3,494 | $ 14,890 | $ 384 | $ - | $ 4,431 |

Mr. Winestock draws on his knowledge of the transportation industry, gained from over 40 years leadership experience at United Parcel Service, to provide our Board with valuable perspectives on the opportunities and challenges facing our industry and our operational, management and strategic issues.

**THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE *FOR* ALL DIRECTOR NOMINEES**

**Required Vote**

Our Bylaws provide that for a director nominee to be elected, he or she must receive a plurality of the votes cast by Stockholders present in person or represented by proxy voting together as a single class at the Annual Meeting.

Abstentions and broker non-votes will not be treated as votes cast for or against Proposal 1, and will therefore have no effect on the outcome of Proposal 1.

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**Directors Selected by the Holder of our Series A Preferred Stock**

Pursuant to the Series A Preferred Stock certificate of designations, the IBT, as the holder of our Series A Preferred Stock, has the right to select two directors (*Series A Directors*) and to fill any vacancy left by the death, disability, incapacity, retirement, resignation, disqualification or removal of a Series A Director. The holder of the Series A Preferred Stock has sole right to remove and replace Series A Directors. Each Series A Director was selected by the holder of our Series A Preferred Stock and has served continuously as a director since the date of his selection. STOCKHOLDERS DO NOT VOTE ON THE SELECTION OF SERIES A DIRECTORS.

| | | |
|---|---|---|
| Douglas A. Carty<br>*Director since*<br>*July 22, 2011* | 58 | Switzer-Carty Transportation Inc. (transportation): Chairman (since 2011); First Group America (transportation): Commercial Director, North America (2007 2008); Laidlaw Education Services (school bus transportation): President and Chief Executive Officer (2006 2007), Executive Vice President and Chief Financial Officer, Laidlaw International Ltd. (2003 2006); Atlas Worldwide Holdings, Inc. (global air freight): Senior Vice President and Chief Financial Officer (2001 2003); Canadian Airlines Corp. (commercial airline): Senior Vice President and Chief Financial Officer (1996 2000); Current Director: Wajax Industries Ltd. (sales, parts and service of mobile equipment, industrial components and power systems); and Points International Ltd. (internet-based loyalty reward program management platform).<br><br>Mr. Carty has senior executive experience in the transportation industry, experience with financial restructurings, and experience on other corporate boards. These inform his advice to our Board on the financial and operational issues we face. |
| William R. Davidson<br>*Director since*<br>*July 8, 2014* | 67 | Trucking Management, Inc. (multi-employer bargaining arm of the unionized general freight trucking industry): Senior Director (since 2013); Retired, though acting consultant in the trucking industry (2009 2013); Roadway Express, Inc. (motor freight carrier company): Corporate Vice President (2003 2009), Area Vice President of Labor Relations, Southern Division (1994 2003), Western Division (1985 1994).<br><br>Mr. Davidson draws on his experience and knowledge of the trucking business with over 40 years in the industry. These inform his expertise in operational, union and labor relations matters. |

The term of office of each Series A Director ends on the earlier of (i) the date on which no shares of Series A Preferred Stock are outstanding or the Series A Preferred Stock is subject to redemption pursuant to our Certificate; (ii) the death, disability, incapacity, retirement, resignation, disqualification or removal of a Series A Director by the holder of the Series A Preferred Stock; or (iii) the selection and qualification of a successor Series A Director.

On February 27, 2014, Harry J. Wilson resigned from his position as a Series A Director. The holder of the Series A Preferred Stock exercised its sole right to select a director by selecting Mr. Davidson to fill the vacancy left by Mr. Wilson s resignation.

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## Structure and Functioning of the Board

### Corporate Governance Philosophy

Our corporate governance philosophy is expressed in our Guidelines on Corporate Governance; the charters of our Audit & Ethics, Compensation, Governance and Finance Committees; our Code of Business Conduct that applies to all officers, directors, employees and contractors; and our Related Party Transaction Policy, Securities Trading and Disclosure Policy, and Anti-Bribery and Corruption Policy, among others. These governance documents were updated in 2014 to reflect regulatory developments and corporate governance trends, and provide additional guidance to our Board and its committees. Our Audit & Ethics, Compensation, and Governance Committee charters, Guidelines on Corporate Governance and Code of Business Conduct are available on the *Board Committee Charters and Code of Business Conduct* page of our website at *www.yrcw.com*.

We are committed to effective corporate governance, compliance with applicable laws and regulations, and the highest standards of ethical conduct and good corporate citizenship.

### Corporate Governance Structure and Function

Our Certificate provides that our Board will consist initially of nine persons, with the precise number of directors, other than those who may be elected by the holders of one or more series of Preferred Stock voting separately by class or series (including the Series A Preferred Stock), fixed from time to time exclusively pursuant to a resolution adopted by the majority of the whole board. Our Board continues to consist of nine persons. Seven of our directors are elected annually at each Annual Meeting by our Stockholders voting together as a single class. Two Series A Directors are selected by the IBT, as the holder of our Series A Preferred Stock. So long as the Series A Preferred Stock remains outstanding, the IBT will also be able to appoint one of its selected directors to each of the Audit & Ethics, Compensation, Governance and Finance Committees of the Board, provided that such director satisfies certain independence requirements set forth in our bylaws.

We have a flexible governance structure in which our Board, assisted by its committees, directs our Company s affairs.

Directors are encouraged to have direct dialogue with our management and internal auditors and may request attendance by management and internal and external auditors at Board and committee meetings.

We provide directors with tablet computers and an electronic portal through which they may review our corporate governance documents, compensation plans, Company policies, Board and committee minutes, continuing education materials, and reports and presentations prepared by management, internal and external auditors and other advisors in advance of each meeting. Directors are encouraged to review these materials prior to the meeting. We also use the portal to communicate with directors and solicit their opinions.

Our Legal Department makes continuing education opportunities available for directors to assist them in maintaining currency with legal and governance developments and trends.

The principal responsibility of our directors is to execute their fiduciary duties to promote the interests of our Stockholders and the long-term value of our Company. Directors may also consider the interests of other stakeholders, including lenders, customers, suppliers, employees, unions and the communities in which we operate.

Directors generally may rely without independent verification on recommendations, advice and information provided by management and outside experts on matters within their areas of expertise and competence, but are encouraged to independently challenge their assumptions and recommendations where appropriate.

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**Current Board and Executive Management**

Our current Board (other than Mr. Davidson who replaced Mr. Wilson as one of two Series A Directors) and senior executive management team were selected after our 2011 financial restructuring, although several members of our leadership team are Company veterans, including James L. Welch, our Chief Executive Officer (*CEO*), and many of the leaders of our operating subsidiaries. Jamie G. Pierson, our Chief Financial Officer (*CFO*), who joined us in 2011, played an important role in our 2011 financial restructuring.

Michelle A. Friel, our former Executive Vice President, General Counsel and Secretary, separated from the Company effective January 2, 2015.

Like much of our industry, we were severely affected by the 2008 2009 recession and resulting slow growth economy and their impact on customer demand. Our current management team also inherited an over-leveraged company and erosion in customer confidence and operating performance attributable in part to the difficult integration of Yellow and Roadway in 2009.

Since taking office, our current Board and management team have moved aggressively to reorganize our management structure, reinvigorate our corporate culture and employee morale, dispose of non-core assets, increase autonomy and accountability at the operating subsidiary level, and drive improvements in our efficiency, productivity, customer service, operating performance, and financial condition and liquidity, with the objective of restoring our Company to profitability. Although our Board and management have much work remaining, these initiatives have begun to show results. We recorded consolidated operating income of $45.5 million and Adjusted EBITDA, defined as Consolidated EBITDA in our credit facilities, of $244.5 million in 2014, compared with operating income of $28.4 million in 2013 and $24.1 million in 2012, and Adjusted EBITDA of $254.9 million in 2013 and $239.5 million in 2012. For a discussion of our use of non-GAAP financial measures and a reconciliation of Adjusted EBITDA to operating income, see pages 31 33 of our Annual Report on Form 10-K for the year ended December 31, 2014. Our Board and management will focus on execution and improvement in our operating performance throughout 2015.

**Primary Responsibilities of the Board**

As described in our Guidelines on Corporate Governance, our Board s primary functions are:

- overseeing the formation of and reviewing major strategies, plans and actions;
- reviewing and evaluating our performance against broad financial and strategic objectives;
- providing direction, advice and counsel to senior management;
- selecting, compensating and evaluating our CEO and other executive officers;
- reviewing succession planning for our CEO and other executive officers;

selecting appropriate candidates for election as directors;

reviewing our systems and practices designed to bring about compliance with applicable laws and regulations, including our accounting and financial reporting obligations; and

reviewing the major risks we face and helping us to develop and oversee strategies to address those risks.

**Director Independence**

Our Guidelines on Corporate Governance and NASDAQ Listing Rules require that a majority of our Board be independent. Our Board has affirmatively determined that each director (other than Mr. Welch) has no material relationships with us and is therefore independent in accordance with NASDAQ Listing Rule 5605 and the Director Independence Standards included in our Guidelines on Corporate Governance.

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An affiliate of Mr. Kneeland purchased approximately $54.5 thousand in ordinary course transportation services from our subsidiaries during 2014. Mr. Bromark is a director of CA, Inc., to which we paid approximately $43 thousand for the purchase and lease of computer software in 2014. Mr. Bromark also receives retirement compensation from PricewaterhouseCoopers, from which our affiliates may also receive services. Our Board evaluated these relationships and affirmatively determined they did not materially affect those directors objectivity or independence.

**Board Diversity**

Our Stockholders are better served when there is diversity of education, skill, age, experience, background, expertise and outlook on our Board. Our directors bring diverse backgrounds and experience to the Board that inform the Board s oversight function. Our Guidelines on Corporate Governance express the belief that diversity, including differences in background qualifications and personal characteristics, is important to our Board s oversight function.

**Director Meeting Attendance**

Our Board of Directors held 12 meetings during 2014. Directors are expected to prepare for and make every effort to attend and participate in meetings of the Board and committees on which they serve. Our Guidelines on Corporate Governance provide that each director should strive to attend at least 75% of the total number of meetings of the Board and committees on which he or she serves. During 2014, each director attended at least 75% of those meetings.

Our Guidelines on Corporate Governance provide that directors are expected to attend annual stockholder meetings in person or by telephone or other electronic means. All of our directors attended the 2014 Annual Meeting in person or by telephone.

**Executive Sessions of Independent Directors**

Our independent directors meet in regularly-scheduled executive sessions, with at least two executive sessions per year. Board committee members also regularly meet in executive sessions among themselves and with selected members of management and our internal and external auditors. The purpose of these executive sessions is to facilitate candid discussion about important matters affecting our Company.

**Board and Committee Self-Assessment**

To promote continuous improvement in our corporate governance processes, our Board and committees, led by our Governance Committee, conduct an annual self-assessment of their effectiveness and compliance with our corporate governance documents. The results are tabulated and analyzed by the Governance Committee and used to identify and implement improvements in our governance processes.

**Board Committees**

Our Board of Directors has four standing committees:

Audit & Ethics;

Compensation;

Governance; and

Finance.

The Chairman of each committee handles the function of lead director for committee matters, serves as spokesperson for the committee, and provides recommendations and guidance to our Board, Board Chairman and management.

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Each committee may retain its own legal and other advisors and conduct independent inquiries and investigations at our expense into matters under its oversight. Each committee has sole right to appoint and direct its own advisors, each of whom is accountable and reports directly to the committee.

*Audit & Ethics Committee*

Our Audit & Ethics Committee met 6 times during 2014.

The Audit & Ethics Committee was established in accordance with Exchange Act Section 3(a)(58)(A) and consists of Raymond J. Bromark (Chairman), Douglas A. Carty and Robert L. Friedman. Our Board has affirmatively determined that all members of the Audit & Ethics Committee are independent directors, as defined by NASDAQ Listing Rule 5605 and our Director Independence Standards. The Board has also affirmatively determined that Messrs. Bromark, Carty and Friedman meet the enhanced independence standards prescribed by NASDAQ Listing Rule 5605(c)(2)(A) and Exchange Act Rule 10A-3(b)(1). Our Board has additionally determined that Messrs. Bromark, Carty and Friedman are *audit committee financial experts*, as defined in Item 407(d)(5) of Regulation S-K, and meet the financial sophistication requirement in NASDAQ Listing Rule 5605(c)(2)(A). The Audit & Ethics Committee s functions are described in its charter, which is available on the *Board Committee Charters and Code of Business Conduct* page of our website at *www.yrcw.com.*

As described in its charter, the Audit & Ethics Committee s responsibilities include:

- overseeing our accounting and financial reporting process and the audit of our annual financial statements;
- overseeing the quality and integrity of our financial reporting;
- selecting and overseeing the qualifications, performance and independence of our independent registered public accounting firm *(independent auditor*);
- reviewing and discussing our financial statements with management and the independent auditor;
- reviewing the adequacy of our overall control environment, and reviewing and discussing with management and the independent auditor the adequacy and effectiveness of our system of internal controls;
- overseeing risks relating to accounting and financial reporting matters and ethics and general compliance matters;
- overseeing our internal audit function; and
- overseeing our compliance with legal and regulatory requirements.

Our independent auditor is accountable and reports directly to the Audit & Ethics Committee. The Audit & Ethics Committee reviews our independent auditor s independence and the overall scope and focus of the annual audit. The Audit & Ethics Committee discusses with our independent auditor any relationships or services that may affect its objectivity or independence. If the Audit & Ethics Committee is not satisfied with the independent auditor s assurances of independence, it will take, or recommend that the Board take, appropriate action to ensure its independence.

*Compensation Committee*

Our Compensation Committee met 7 times during 2014.

The Compensation Committee consists of Michael J. Kneeland (Chairman), William R. Davidson, Matthew A. Doheny and James E. Hoffman. Our Board has affirmatively determined that all members of the Compensation Committee are independent directors, as defined by NASDAQ Listing Rule 5605 and our Director Independence Standards. Our Board has also affirmatively determined that Messrs. Kneeland, Davidson, Doheny

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and Hoffman meet the enhanced independence standards prescribed by NASDAQ Listing Rule 5605(d)(2)(A) and Exchange Act Rule 10C-1(b)(1). The Compensation Committee members also qualify as *non-employee directors* under Exchange Act Rule 16b-3 and as outside directors under Section 162(m) of the Internal Revenue Code of 1986, as amended (Code). Our Compensation Committee s functions are described in its charter, which is available on the *Board Committee Charters and Code of Business Conduct* page of our website at *www.yrcw.com*.

As described in its charter, the Compensation Committee s responsibilities include:

- setting overall compensation policy and determining the compensation and benefits of our executive officers and other key officers other than our CEO;
- reviewing and recommending for approval by the independent members of the full Board the compensation and benefits of our CEO;
- reviewing and recommending the directors compensation for full Board approval;
- overseeing the development and implementation of our health, welfare and retirement benefit plans;
- overseeing equity and other incentive compensation programs; and
- overseeing the management of risks related to our compensation policies and practices.

The Compensation Committee has primary responsibility for determining our compensation programs for executive officers and directors. In evaluating the level of executive officer and director compensation, the Compensation Committee takes into consideration advice from its independent consultant and recommendations from senior management. The Compensation Committee has sole authority to engage and compensate a compensation consultant and determine its independence from management. The compensation consultant is accountable and reports directly to the Compensation Committee. See *Director Compensation* and *Compensation Discussion and Analysis* for additional information about the determination of director and NEO compensation for 2014.

*Compensation Committee Interaction with Compensation Consultants*

During 2014, the Compensation Committee engaged Pearl Meyer & Partners (*Pearl Meyer*), an executive compensation firm, to assist with its review of the compensation programs for our executive officers and the compensation disclosures in this proxy statement. The Compensation Committee intends to continue engaging Pearl Meyer in an advisory capacity with respect to executive compensation, including reviewing the compensation disclosures in this proxy statement. Although the Compensation Committee retains Pearl Meyer, Pearl Meyer interacts directly with our executive officers when necessary and appropriate. Pearl Meyer s advisory services included providing industry and peer group compensation data and presenting compensation plan designs to the Compensation Committee for consideration. The Compensation Committee considered and assessed all factors specified under NASDAQ Listing Rules with respect to advisor independence and determined that Pearl Meyer is an independent executive compensation firm whose scope of work is limited to research and advisory services related to executive compensation, including reviewing the compensation disclosures in this proxy statement. The Compensation Committee considered that Mr. Kneeland, a member of the Compensation Committee, was also director (but not a member of the compensation committee) of another company that also retained Pearl Meyer. Based on this review, we are not aware of any conflict of interest that has been raised by the work performed by Pearl Meyer.

*Governance Committee*

Our Governance Committee met 3 times during 2014.

The Governance Committee consists of James F. Winestock (Chairman), William R. Davidson and Michael J. Kneeland. Our Board has affirmatively determined that all members of the Governance Committee

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are independent directors, as defined by NASDAQ Listing Rule 5605 and our Director Independence Standards. The Governance Committee s functions are described in its charter, which is available on the *Board Committee Charters and Code of Business Conduct* page of our website at *www.yrcw.com*.

As described in its charter, the Governance Committee s responsibilities include:

- identifying, assessing and recommending Board candidates;
- developing the criteria for selecting Board candidates;
- recommending for approval to the Board director candidates (other than those directors appointed by the holder of our Series A Preferred Stock, if applicable);
- assisting the Board in assessing director independence;
- reviewing the structure and charters of Board committees and recommending to the Board, if desirable, changes in their number, responsibilities and membership;
- reviewing and approving related party transactions;
- providing oversight of our Related Party Transaction Policy and our Securities Trading and Disclosure Policy;
- administering, reviewing and reassessing the adequacy of our Guidelines on Corporate Governance and recommending any proposed changes to the Board;
- recommending other changes in corporate governance to the Board for approval from time to time;
- overseeing annual evaluations of the Board and its committees; and
- overseeing our enterprise risk management function.

Our Governance Committee has sole authority to retain and compensate search firms to assist in identifying and recruiting candidates for the Board. In early 2015, the Governance Committee engaged Spencer Stuart, an outside search firm, to help identify potential director candidates and to assist by providing background information and assessments of qualifications on potential candidates.

All of the seven Board nominees identified in this proxy statement are current directors. The Governance Committee reviewed the qualifications of each nominee and recommended each nominee for election to the Board. The Governance Committee will accept director nominations from Stockholders in accordance with the stockholder nominating procedures described in *Stockholder Proposals and Communications with our Board*. In addition to our Director Independence Standards, the following criteria from our Guidelines on Corporate Governance guide our Governance Committee in considering candidates for director, including nominees submitted by Stockholders:

- each director should be an individual of the highest character and integrity and have an inquiring mind, experience at a strategy/policy-setting or senior executive level, and the ability to work well with others;

- each director should have sufficient time available to devote to our affairs and carry out the responsibilities of a director. Directors are not qualified for service on the Board unless they are able to make a commitment to prepare for and attend Board and committee meetings on a regular basis;

- each independent director should be free of any conflict of interest that would interfere with his or her independence or the proper performance of his or her responsibilities as a director; and

- directors should utilize their unique experience and background to represent and act in the best interests of all stockholders as a group.

While the Governance Committee considers all of the factors described above, it may give greater weight to one factor or another when making nominating decisions. Our Governance Committee reviews annually the appropriate skills and characteristics required of directors in light of the current makeup of our Board, our Director Independence Standards, and NASDAQ and SEC rules. Board candidates nominated by Stockholders must meet the criteria described in this proxy statement, but will otherwise be considered on the same basis as candidates nominated by the Board. In addition, our Governance Committee may consider any other criteria for nominees it deems appropriate, including, but not limited to:

- a nominee s judgment, skill, education, diversity in accordance with our Guidelines on Corporate Governance, age, relationships, experience, and leadership and interpersonal skills;
- the organization, structure, size and composition of the Board and the interplay of the nominee s experience with the experience of other nominees;
- the qualifications and areas of expertise needed to further enhance the Board s deliberations and oversight; and
- the extent to which the nominee would be a desirable addition to the Board and its committees.

*Finance Committee*

Our Finance Committee met 12 times during 2014.

The Finance Committee consists of Matthew A. Doheny (Chairman), Douglas A. Carty and Robert L. Friedman. Our Board has affirmatively determined that all members of the Finance Committee are independent directors, as defined by NASDAQ Listing Rule 5605 and our Director Independence Standards.

As described in its charter, the Finance Committee s responsibilities include:

- overseeing and reviewing our capital budgets, financing plans, financing transactions and extraordinary transactions, and recommending them for approval by the Board;
- reviewing and approving the definitive financial terms of agreements relating to our financing transactions and significant acquisitions or divestitures that have been approved by the Board; and
- reviewing and approving our financial policies, including cash management and borrowing and dividend policies.

**Board Leadership Structure**

Our Bylaws require that the offices of Chairman of the Board and CEO be held by separate individuals and our Guidelines on Corporate Governance require that the Chairman be an independent director. We believe separation of the offices of Chairman and CEO is appropriate under our circumstances because it helps preserve our Board s independence and objectivity, provides an appropriate division of labor between our CEO and Chairman, and contributes to our effective governance, in part by having an independent Chairman available to counsel our CEO and facilitate his interactions with the Board. James E. Hoffman, who brings executive leadership and corporate governance experience to the Board, serves as our Chairman and leads the Board of Directors. James L. Welch brings transportation industry knowledge, experience and expertise and over 30 years experience with our Company to his role as our CEO.

In light of the requirement that our Chairman be an independent director, our Board does not have a lead independent director.

Our business and affairs are managed under the oversight of our Board. There are currently nine members of the Board. The four standing committees Audit & Ethics, Compensation, Governance and Finance are an integral part of our Board leadership structure. These committees, all of whose members are independent

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directors, are discussed in more detail above. In determining the membership of each standing committee, the Governance Committee considers each director s unique skills and experience in relation to the committee(s) on which he or she serves and the particular needs of each committee.

Our leadership structure also includes an experienced and energetic management team that provides information, business intelligence, reports and opinions to the Board on a regular basis. The Board and committees also rely on the advice of counsel, accountants, executive compensation consultants, internal and external auditors, and other expert advisors.

A robust committee framework sustains lines of communication among directors and with management. Regularly-scheduled management reports and presentations, based upon strategic, operational, financial, legal and risk management aspects of our business, provide vital information to our Board and committees. Directors have complete access to our CEO, CFO and other members of our senior management team.

The Board s role is to oversee, counsel and direct our senior management team. The role of our executive officers is to develop and implement corporate strategy, conduct our operations, manage our material risk exposures, and implement Board directives. Our Board endeavors to strike an appropriate balance between effective oversight and undue interference with our executives in the conduct of our affairs. We believe our leadership structure is effective because the Board and management respect one another s roles and work collaboratively to promote stockholder value.

**The Board s Role in Risk Management**

Management is primarily responsible for identifying, assessing and managing our material risk exposures. The Board s role is to oversee the systems and processes used by management to address those risks.

Management s processes for identifying, assessing and managing material risk exposures are described in its strategic plan, which is updated by management and reviewed by the Board on an annual and periodic basis.

The Board has delegated specific risk oversight responsibilities to its standing committees as follows:

- the Governance Committee oversees our enterprise risk management process;

- the Audit & Ethics Committee oversees risks related to accounting and financial reporting matters and ethics and general compliance matters; and

- the Compensation Committee oversees risks related to compensation policies and practices.

Pursuant to its charter, the Governance Committee oversees management s systems and processes for the identification, assessment and management of material risk exposures. These include:

- business and reputational risk;

legal, regulatory and internal policy compliance risk;

information technology, governance and security risk;

corporate governance risk;

claims, workers compensation and accident risk;

fraud risk;

financial covenant compliance risk;

disclosure risk;

competitive and economic risk;

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- credit, liquidity and going concern risk;
- profitability and margin risk;
- tax risk; and
- crisis management risk.

Management reports regularly to the Governance Committee on material risk exposures and its risk management approach, policies, systems and practices. The Governance Committee evaluates management s risk appetite and the appropriateness of risks assumed and managed within that context. The Governance Committee reports to the full Board on management s briefings and its own analysis and conclusions regarding our risk management process. The Governance Committee discusses with our Audit & Ethics Committee our accounting and financial reporting risk profile, key risk exposures and the steps management has taken to monitor and control such exposures.

The Audit & Ethics Committee s oversight of risks related to accounting and financial reporting includes reviewing the adequacy of our overall control environment and financial reporting function and controls related to selected areas presenting significant financial risk. The Audit & Ethics Committee also evaluates key financial statement issues and risks, their potential effect on our financial reporting, and the process used by management to address them. The Audit & Ethics Committee reports to the full Board its analyses and conclusions regarding our accounting and financial reporting risks.

The Board and each committee may retain independent legal and other advisors to advise and assist them in carrying out their risk oversight responsibilities.

## Legal Proceedings

To the best of our knowledge, there are no material proceedings adverse to us or any of our subsidiaries in which any of our directors, director nominees or executive officers or their affiliates or associates, or any owner of record or beneficially of more than 5% of any class of our Securities or their affiliates or associates, is a party adverse to us or in which any such person has an interest that is materially adverse to us or any of our subsidiaries.

## Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Michael J. Kneeland (Chairman), William R. Davidson, Matthew A. Doheny and James E. Hoffman. Currently and at all times during 2014, none of our executive officers served on the compensation committee or as a director of another entity where an executive officer of that entity also served on our Compensation Committee or the Board.

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## Director Compensation

The table below provides information on the compensation of our non-management directors for the year ended December 31, 2014. As required by applicable SEC rules, the disclosure in this section covers all persons who at any time served as a director during 2014, other than Mr. Welch, who also served as our CEO and received no compensation for serving as a director.

| Name | Retainer Fees Received in Cash ($) | Annual Award of Restricted Stock Units ($) (1) | Special Award of Restricted Stock Units ($) (3) | All Other Compensation ($) (4) | Total ($) |
|---|---|---|---|---|---|
| Raymond J. Bromark (5) | 90,000 | 107,776 | 106,636 | 185 | 304,597 |
| Douglas A. Carty (5) | 75,000 | 107,776 | 106,636 | 185 | 289,597 |
| William R. Davidson (6) | 56,250 | 138,816(2) | | 185 | 195,251 |
| Matthew A. Doheny (5) | 85,000 | 107,776 | 106,636 | 185 | 299,597 |
| Robert L. Friedman (5) | 75,000 | 107,776 | 106,636 | 185 | 289,597 |
| James E. Hoffman (5) | 125,000 | 107,776 | 106,636 | 185 | 339,597 |
| Michael J. Kneeland (5) | 85,000 | 107,776 | 106,636 | 185 | 299,597 |
| Harry J. Wilson (7) | | | 106,636 | 185 | 106,821 |
| James F. Winestock (8) | 85,000 | 107,776 | 106,636 | 185 | 299,597 |

(1) Amounts represent the grant date fair value of the annual award of RSUs granted on April 30, 2014 under the Director Compensation Plan. No assumptions were necessary to determine the grant date fair value. Each director was granted a number of RSUs equal to $100,000 divided by $20.81 (the 30-day average closing price of our Common Stock preceding the grant date). The grant date fair value of the awards was determined by multiplying the number of RSUs granted by the closing price of our Common Stock on the grant date, which was $22.43. Each director deferred receipt of any Common Stock underlying his 2014 annual RSU award until he ceases to be a member of the Board.

(2) Amounts represent the grant date fair value of the annual award of RSUs granted to Mr. Davidson on July 9, 2014 under the Director Compensation Plan. No assumptions were necessary to determine the grant date fair value. Mr. Davidson was granted 4,805 RSUs in accordance with the number of RSUs granted to the other directors in the April 30, 2014 annual grants. The grant date fair value of the awards was determined by multiplying the number of RSUs granted by the closing price of our Common Stock on the grant date, which was $28.89. Mr. Davidson deferred receipt of any Common Stock underlying his 2014 annual RSU award until he ceases to be a member of the Board.

(3) Amounts represent the grant date fair value of a special award of RSUs granted on February 25, 2014 under the Director Compensation Plan. No assumptions were necessary to determine the grant date fair value. Each director was granted a number of RSUs equal to $100,000 divided by $21.24 (the 30-day average closing price of our Common Stock preceding the grant date). The grant date fair value of the awards was determined by multiplying the number of RSUs granted by the closing price of our Common Stock on the grant date, which was $22.65. Each director deferred receipt of any Common Stock underlying his special award of RSUs until he ceases to be a member of the Board.

(4) Amounts represent reimbursement of taxes owed with respect to holiday gifts.

(5)

As of December 31, 2014, each non-management director other than Messrs. Winestock and Davidson had 38,548 RSUs allocated to his account (of which 9,298 were unvested and 29,250 were vested as of December 31, 2014).

(6) On March 2, 2014, Mr. Wilson resigned from his position as a Series A Director. On July 8, 2014, Mr. Davidson assumed his position as a Series A Director, filling the vacancy left by Mr. Wilson. As of December 31, 2014, Mr. Davidson had 4,805 RSUs allocated to his account, all of which were unvested.

(7) As of December 31, 2014, all of Mr. Wilson s previously-held, vested RSUs converted to 20,551 shares of Common Stock upon his resignation from the Board.

(8) As of December 31, 2014, Mr. Winestock had 14,006 RSUs allocated to his account (of which 9,298 were unvested and 4,708 were vested as of December 31, 2014).

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**Director Compensation Plan**

Our Board adopted a Director Compensation Plan in 2011 and amended and restated the Director Compensation Plan in December 2013. The Director Compensation Plan describes the compensation our non-management directors are eligible to receive, consisting of:

- an annual cash retainer of $75,000 for service on the Board ($125,000 for service as Chairman of the Board) and a cash retainer for service as a committee chair (Governance Committee $10,000, Finance Committee $10,000, Compensation Committee $10,000, and Audit & Ethics Committee $15,000). No additional compensation is paid for attendance or participation at Board or committee meetings. Committee members receive no retainers for committee service. Directors elected during the year are to receive all of their pro-rated retainer fees in cash for the year in which they are elected;

- reimbursement of costs and expenses incurred attending Board and committee meetings;

- on December 2, 2011, a grant of RSUs equal to $100,000 divided by $0.1134 (the original conversion ratio of our Series A Notes), adjusted proportionately to 2,939 RSUs to reflect our December 1, 2011 reverse stock split;

- for the period from September 15, 2011 through the date of the 2012 Annual Meeting, a grant of RSUs equal to $83,333 divided by the 30-day average closing price of our Common Stock preceding the grant date, made on the first business day following the 2012 Annual Meeting; and

- on the first business day following the date of the 2013 Annual Meeting and annually thereafter, a grant of RSUs equal to $100,000 divided by the 30-day average closing price of our Common Stock preceding the grant date.

The RSUs granted in 2011, 2012 and 2013 vested or will vest one-third on each of the grant date, the first anniversary of the grant date and the second anniversary of the grant date. The annual RSU award granted in 2014 and such annual awards granted thereafter vest one-third on the last day of the Board term in which the grant date occurs (*First Vesting Date*) and one-third each on the first and second anniversaries of the First Vesting Date. This change was made because the Compensation Committee decided to simplify the deferral process by granting annual RSU awards prospectively for future service rather than retroactively for past service. Because this change was disadvantageous to the non-employee directors, the Compensation Committee made a special one-time RSU award to each of the non-employee directors on February 25, 2014 equal to $100,000 divided by the 30-day average closing price of our Common Stock preceding the grant date, or 4,708 RSUs, each of which was fully-vested upon grant.

Non-management directors may elect to defer receipt of any Common Stock underlying their RSUs pursuant to the terms of the Director Compensation Plan. Grants of RSUs are made pursuant to a standard form of restricted stock unit agreement for non-employee directors.

**Equity Ownership Requirements**

We do not have an express equity ownership requirement for non-management directors. Our Guidelines on Corporate Governance do provide that directors should have an equity ownership in our Company. Toward that end, each non-management director is paid a portion of his or her director compensation in RSUs under the Director Compensation Plan.

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## Compensation Discussion and Analysis

This Compensation Discussion and Analysis (*CD&A*) describes our executive compensation program for 2014 and compensation decisions made relating to our executive compensation program for 2015.

### Overview

Our executive compensation program has reflected our unique circumstances and has served to balance risk and reward as we have strived to restructure our balance sheet, return to profitability, and position the company for long-term stockholder value creation. In this regard, 2014 was a transformative year for the Company, with the following significant accomplishments:

- We refinanced a substantial portion of our debt, which both reduced our indebtedness and extended the terms thereof, thus providing needed financing and flexibility to pursue long-term stockholder value;
- We raised new capital through the issuance of Common Stock and convertible preferred stock, which allowed us to pay down debt and reduce financial risk by rebalancing our capital structure; and
- We engaged in negotiations that ultimately resulted in a five year extension and amendment of our IBT collective bargaining agreement, which not only enabled us to complete the 2014 refinancing and restructuring transactions described above but also improved our cost structure and overall competiveness on a going forward basis.

These accomplishments were achieved and rewarded in early 2014, as previously disclosed in the CD&A within our proxy statement for our 2014 annual meeting of our stockholders (*2014 Annual Meeting*) filed with the SEC on March 18, 2014 (*2014 Proxy Statement*) and as discussed later within this CD&A.

Despite the critical and significant accomplishments in early 2014, and despite improvements in certain aspects of our operating performance over the prior year, we did not achieve our overall operating performance goals for 2014 evidenced by the following results:

| | 2013 Actual | 2014 Actual | % Change | 2014 Target |
|---|---|---|---|---|
| Revenue | $ 4,865 million | $ 5,069 million | 4.2% | $ 5,102 million |
| Adjusted EBITDA | $ 255 million | $ 245 million | (3.9%) | $ 356 million |

For a discussion of our use of non-GAAP financial measures and a reconciliation of Adjusted EBITDA to operating income, see pages 31 33 of our Annual Report on Form 10-K for the year ended December 31, 2014.

The Company s 2014 operating performance resulted in no short-term incentive compensation being earned by the NEOs except for Mr. Ware and no performance-based component of equity grants being earned under the employment agreements of Messrs. Welch and Pierson and Ms. Friel.

Although the Company s operating performance was below expectations, the restructuring results and operating performance improvements achieved in 2014 have created an environment where the Compensation Committee believes it can adopt a more traditional and market-based executive compensation program for 2015. Accordingly, in December 2014, the Compensation Committee terminated the non-traditional employment agreements with Messrs. Welch and Pierson and entered into separate severance agreements with each of them. Although these employment contracts were necessary and appropriate when adopted in 2011, their termination in 2014 facilitated the Company s adoption of a more traditional and market-based executive compensation structure beginning in 2015.

As a condition to terminate these employment agreements, and to have no further obligations under these agreements in subsequent years, the Compensation Committee approved equity grants of 280,615 and 178,859 common shares to Messrs. Welch and Pierson, respectively, in December 2014. The Compensation Committee determined that no additional value was being conveyed to Mr. Welch by making the grant early and there was no reduction in retention incentives for the Company as the vesting schedule of this equity granted has largely been retained from Mr. Welch s employment agreement. With respect to Mr. Pierson s grant, while the timing of the equity grant and, to some degree, the vesting thereof, have been accelerated to effectuate the termination of Mr. Pierson s employment agreement, the Compensation Committee determined that the accelerated grant and vesting of the contractually-guaranteed shares were in the best interest of the Company and still provided adequate retention incentive for Mr. Pierson. By approving the grants in this manner, the Compensation Committee was able to achieve the termination of the employment agreements, preservation of retention strength for these important executive leaders, and the ability to adopt more traditional, market-based executive compensation programs, policies, and practices in 2015.

The Compensation Committee also approved the vesting of 52,757 common shares in connection with Ms. Friel s separation agreement, effective January 2015.

With respect to 2015 executive compensation, the Compensation Committee approved the following executive compensation structure at a February 2015 meeting:

- reduced short-term incentive opportunities under the Company s annual short-term incentive program as compared to 2014, but with generally the same performance measures including Adjusted EBITDA, revenue, unlevered free cash flow and safety metrics;

- adopted a long-term incentive program consisting of performance-based restricted stock and time-based restricted stock offered under our 2011 Plan to balance the performance and retention objectives of long-term incentive compensation;

- reinstated executive stock ownership requirements for the NEOs; and

- approved new Executive Separation Guidelines.

The Compensation Committee believes that these 2015 pay levels, plan designs, and practices are well aligned with current market practices, will serve to continue to align executive pay with Company performance and will create appropriate incentive and reward opportunities for executive leadership without encouraging them to take unreasonable or excessive risk.

**Named Executive Officers**

The table below lists our NEOs for 2014, their titles during 2014, and the period during which they held those titles.

| Name | Title | Period |
|---|---|---|
| James L. Welch | Chief Executive Officer | Since July 2011 |

| | | |
|---|---|---|
| | President YRC Freight | From September 2013 to February 2014 |
| Jamie G. Pierson | Executive Vice President & Chief Financial Officer | Since November 2011 |
| Michelle A. Friel | Executive Vice President, General Counsel & Secretary | From February 2012 to January 2, 2015 |
| Darren D. Hawkins | President YRC Freight | Since February 2014 |
| Scott D. Ware | President USF Holland | Since May 2012 |

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### The Role of Say-On-Pay Votes

We provide our Stockholders with the opportunity to cast an annual advisory vote on executive compensation (*say-on-pay proposal*). At our 2014 Annual Meeting, approximately 85% of the votes cast on the say-on-pay proposal were voted in favor of the proposal. Our Compensation Committee valued this endorsement of its executive compensation philosophy. The Compensation Committee believes the beneficiaries of our executives efforts should have a say in how those executives are compensated, and will continue to consider the outcome of votes on say-on-pay proposals when making future compensation decisions for our NEOs.

### Compensation Philosophy and Objectives; Components of Executive Compensation

Our Compensation Committee establishes our compensation philosophy and oversees our executive compensation program. Our Board approves our CEO s compensation.

Our fundamental goal is to create sustainable long-term value for our Stockholders. To help achieve this goal, the primary objectives of our compensation program are to:

- Attract, retain and motivate a committed, high-performing management team;
- Align the interests of our executives with the long-term interests of our Stockholders by tying a significant portion of NEO compensation to equity-based awards; and
- Drive the short-term performance required to create sustainable long-term value by providing incentives tied to superior performance.

Our executive compensation program has reflected our unique circumstances and has served to balance risk and reward, but is continuing to evolve. Following our 2011 financial restructuring, our objective was to recruit and appropriately compensate a management team capable of leading our operational and financial turnaround. Recognizing that the debt reduction, refinancing and modification of our collective bargaining agreement with the IBT completed in early 2014 were necessary steps in our evolution from a turnaround situation to a company that could focus on longer term strategy and operational goals, the Compensation Committee placed more emphasis on our current operating context rather than the competitive market in setting executive compensation for 2014. The Compensation Committee sought to award compensation to reward executives for achieving continuous improvement and building long-term stockholder value, without encouraging them to take unreasonable or excessive risk.

### Determining Executive Compensation

The Compensation Committee has primary responsibility for determining the compensation package for our NEOs. In making its determinations, the Compensation Committee considers a variety of factors, including the Company s operating performance and financial strength, the needs of the business to attract, motivate, and retain experienced executives, the unique skills and abilities of individual executives, competitive market data and advice provided by the Compensation Committee s independent consultant, and additional information and recommendations made by our CEO and other members of our executive leadership.

<u>The Role of Benchmarking</u>

The Compensation Committee has not historically placed much emphasis on benchmarking of executive compensation because it believed that no other companies suitable for benchmarking faced similar circumstances as we did. Nonetheless, the Compensation Committee has requested and reviewed competitive market pay information from its independent consultants from time to time, including from its independent consultant, Pearl Meyer in both 2013 and 2014.

The competitive market data provided by Pearl Meyer was based, in part, on the following peer group that was developed by Pearl Meyer and approved by the Compensation Committee:

| | | |
|---|---|---|
| Arkansas Best Corporation | Hub Group, Inc. | Ryder System, Inc. |
| C.H. Robinson Worldwide, Inc. | J.B. Hunt Transport Services, Inc. | Swift Transportation Company |
| Con-way, Inc. | Landstar System, Inc. | UTi Worldwide Inc. |
| Expeditors International of Washington, Inc. | Old Dominion Freight Line, Inc. | Werner Enterprises, Inc. |

The Compensation Committee considered the peer group information useful but of limited immediate utility given our particular facts and circumstances. Accordingly, the Compensation Committee approved a 2014 compensation structure that continued to reflect our unique situation in 2014 and gave limited consideration to the peer group data. The peer group information was more impactful in establishing the 2015 executive compensation program.

The Role of Consultants

The Compensation Committee has the exclusive authority to engage an independent consultant and to direct the work of any such consultant selected. In 2013 and 2014, after considering the independence criteria established by the SEC, the Compensation Committee engaged Pearl Meyer as its independent consultant. Pearl Meyer reports directly to the Compensation Committee and provides no other services to the Company.

Definitions of Performance Measures Used in Our Incentive Program

We use Adjusted EBITDA (in dollars), called *Consolidated EBITDA* in our credit facilities, as the primary performance measure for our cash and equity incentive programs for 2014 and for our cash incentive program in 2015. Adjusted EBITDA is an important measure used by management to evaluate our core operating performance and a key component of our credit agreement financial covenants. The Compensation Committee believes Adjusted EBITDA is an appropriate performance goal for incentive compensation because improvement in our core operating performance and compliance with the financial covenants are imperative for our short-term and long-term success. We also use unlevered free cash flow as a performance measure for our cash incentive program.

Adjusted EBITDA and unlevered free cash flow are non-GAAP measures. Defined in our credit facilities as Consolidated EBITDA, Adjusted EBITDA measures our earnings before interest, taxes, depreciation and amortization expense, and further adjusted for letter of credit fees, equity-based compensation expense, net gains or losses on property disposals and certain other items, including restructuring professional fees, expenses associated with certain lump sum payments to our IBT employees and the impact of permitted dispositions and discontinued operations. Unlevered free cash flow is defined as our operating cash flow minus gross capital expenditures and excludes restructuring costs and interest payments on our indebtedness included in operating cash flow. Adjusted EBITDA and unlevered free cash flow are important measures used by management in evaluating our core operating performance and as such are deemed appropriate measures by our Compensation Committee in motivating executives to continue the turnaround.

We use Adjusted Return on Invested Capital (*Adjusted ROIC*) which is intended as a return on capital performance measure for purposes of our long-term incentive compensation beginning in 2015. Adjusted ROIC is defined as the quotient, expressed as a percentage, of our consolidated operating income (less dividends on our Common Stock, if any) and our total capital, which is the sum of the face value of our long-term debt, the par value of our outstanding Common Stock and the par value of our outstanding preferred stock, if any.

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**Description of Compensation Components**

Base Salary

Base salary for our NEOs is based upon their experience, level of responsibility, and internal pay equity considerations among executive officers.

In 2014, the Company increased Mr. Welch s base salary from $712,000 to $850,000 and Mr. Ware s base salary from $350,000 to $380,000. Mr. Welch s base salary was increased in order to recognize his leadership and to improve market competitiveness. Mr. Ware s base salary was increased in order to improve market competitiveness.

2014 Annual Incentive Plan (*2014 AIP*)

The purpose of our 2014 AIP was to motivate and reward executives for short-term improvements in Adjusted EBITDA and other measures that contribute to steady increases in stockholder value. The Compensation Committee determined that performance targets should be calibrated to ensure enough stretch was built in to drive the level of improved performance the Compensation Committee considered desirable. The Compensation Committee established 2014 performance targets that it believed would be challenging to achieve based on the business forecast information that was available to the Compensation Committee.

The 2014 AIP incorporated separate funding and allocation formulas. The funding formulas were based entirely on Adjusted EBITDA, measured at the Company level (*Consolidated*) and at YRC Freight and Regional segment levels. Each incentive pool is funded only when and to the extent we achieved the pre-determined applicable threshold level. In 2014, if we achieved the threshold level of Consolidated Adjusted EBITDA, the overall incentive pool would have been $2.2 million, and if we achieved the target level of Consolidated Adjusted EBITDA, the overall incentive pool would have been $6.8 million. If we achieved Consolidated Adjusted EBITDA above the $356 million target, the overall potential incentive pool would have been increased by an amount equal to 10% of Adjusted EBITDA above $356 million, subject to a maximum overall incentive pool of $13.6 million for exceptional performance.

The following were the threshold and target Adjusted EBITDA funding levels for 2014, the actual Adjusted EBITDA levels achieved, and the associated funding earned for the year:

| | **Adjusted EBITDA** | | **2014 Actual** | |
|---|---|---|---|---|
| **Operating Level** | **Threshold** | **Target** | **Adjusted EBITDA** | **% Funded** |
| Consolidated | $ 267 million | $ 356 million | $ 244 million | 0% |
| YRC Freight | $ 150 million | $ 199 million | $ 100 million | 0% |
| Regional Segment | $ 116 million | $ 170 million(1) | $ 144 million | 61% |

(1) Payment was to be made at target if Regional Segment achieved 110% of its targeted Adjusted EBITDA.

Once the funding level of each pool is determined, the amount of incentives paid is further evaluated based upon the following supplemental measures: revenue, unlevered free cash flow, and safety, measured at the Consolidated, YRC Freight, or Regional segment level, as applicable. If there is no funding of a specific pool, as was the case for the Consolidated and YRC Freight operating levels in 2014, the supplemental measures are not relevant in determining an NEO s compensation under the 2014 AIP unless the Compensation Committee uses its discretion to award below-target discretionary bonuses to executives as circumstances warrant.

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Based on the funding and allocation formulas under the 2014 AIP, the following table sets forth the actual incentives paid relative to the threshold, target, and maximum incentive opportunity for each NEO:

| | 2014 AIP Opportunities and Payouts | | | |
|---|---|---|---|---|
| NEO | Threshold | Target | Maximum | Actual |
| James Welch | $ 510,000 | $ 1,700,000 | $ 3,400,000 | $ |
| Jamie Pierson | $ 390,000 | $ 1,300,000 | $ 2,600,000 | $ |
| Michelle Friel | $ 150,000 | $ 500,000 | $ 1,000,000 | $ |
| Darren Hawkins | $ 140,000 | $ 400,000 | $ 800,000 | $ |
| Scott Ware | $ 98,000 | $ 280,000 | $ 560,000 | $ 170,520 |

The only NEO eligible for any incentive payout based on 2014 performance was Mr. Ware as the Regional segment incentive pool was funded while the Consolidated and YRC Freight incentive pools were not. The Compensation Committee determined not to exercise any discretion in the amount of Mr. Ware s bonus based on supplemental measures. Accordingly, Mr. Ware received an aggregate payment of $170,520 under the 2014 AIP.

These 2014 performance results were reviewed and certified by the Compensation Committee in February 2015 and the associated incentive compensation payments were approved by the Compensation Committee thereafter. The Compensation Committee believes the absence of any 2014 AIP compensation payable to the NEOs, other than Mr. Ware, appropriately aligns 2014 short-term incentive compensation with the Company s 2014 operating results.

2014 Equity Incentive Compensation

The purpose of equity incentive grants is to motivate greater longer term performance and to provide retention incentives for our key employees. Equity incentive awards also serve to align executive and stockholder interests and create retention incentives for key employees.

*Senior Executive Equity Awards*

As previously disclosed, the employment agreements for Messrs. Welch and Pierson and Ms. Friel have provided for awards of restricted Common Stock to be made annually over a period of several years. The mutual intent of these executives and the Board was that if each executive fully earned all of his or her annual performance awards, at the expiration of his or her employment agreement in 2015, he or she would have received, in total, an aggregate number of shares of Common Stock equal to 2.0%, 1.0% and 0.8%, respectively, of our outstanding Common Stock on a fully-diluted basis at such expiration date.

The Compensation Committee s rationale for structuring the awards in this manner was that these senior executives, who were selected and charged with responsibility to lead our turnaround beginning in 2011, assumed significant risk in accepting their positions at a time when there was substantial doubt about our ability to continue as a going concern and that any increase in our enterprise value over the term of their employment agreements would be significantly attributable to their leadership. There was, therefore, appreciable upside potential if the executives efforts were successful but also downside risk to the value of their equity incentive opportunities if they were not successful.

In 2014, in accordance with their employment agreements that were subsequently terminated, the following equity grants were made to Messrs. Welch and Pierson and Ms. Friel:

In February 2014, as previously disclosed in the 2014 Proxy Statement, equity grants were made to Mr. Welch, Mr. Pierson and Ms. Friel for 120,060 shares, 60,030 shares and 51,454 shares of restricted Common Stock, respectively. Although these grants were conditioned upon achieving a minimum Consolidated Adjusted EBITDA result for 2013 that was not achieved, the Compensation Committee determined to provide discretionary equity awards in recognition of the executives extraordinary efforts and results in connection with the debt reduction, refinancing and modification of our collective bargaining agreement with the IBT completed in early 2014; and

In December 2014, as previously disclosed in a Current Report on Form 8-K filed with the SEC on January 2, 2015, equity grants were made to Mr. Welch and Mr. Pierson for 280,615 shares and 178,859 shares of restricted common stock, respectively. These grants, along with entry into separate severance agreements, were made in order to effectuate the cancelation of their employment agreements. The size of each grant represents the same number of shares that were contractually guaranteed to Messrs. Welch and Pierson under their employment contracts assuming they remained employed by the Company through the term of their employment agreements. These shares vest 20%, 60%, and 20% on February 28, 2015, July 31, 2015, and February 28, 2016, respectively.

In connection with Ms. Friel s separation agreement, as previously disclosed in a Current Report on Form 8-K filed with the SEC on November 26, 2014, the Compensation Committee determined to cause the vesting of 52,757 shares of Common Stock, effective January 2015.

*Equity Awards to Other NEOs*

Annual equity grants to the other NEOs occur at the discretion of the Compensation Committee. In March 2014, Mr. Hawkins and Mr. Ware received awards of 30,000 time-vesting restricted shares and 10,000 time-vesting restricted shares, respectively, and in each case, 50% of the shares were immediately vested and 50% vest on the first anniversary of the grant date. The Compensation Committee made these awards partly in respect of 2013 performance as well as to encourage the executives to focus on operating company value creation that contributes to increases in consolidated value, as 50% of each award vested over time and would be forfeited if the executive voluntarily leaves us prior to the vesting.

Signing and Retention Bonus for Mr. Pierson

Prior to becoming our CFO, Mr. Pierson was an executive on the Alvarez & Marsal (*A&M*) team that consulted on our 2011 restructuring and had been working with us as a consultant since early 2009. He was highly knowledgeable about our financial structure and operations and was instrumental in the 2011 restructuring. Mr. Pierson had also developed business relationships with our lenders and other stakeholders. As a result, our Board felt that recruiting him to our leadership team was important to our turnaround strategy. As part of his compensation package, the Board agreed to pay Mr. Pierson a signing bonus of $640,000 upon execution of his employment agreement and to place an additional $560,000 in escrow as a retention bonus. Pursuant to the terms of the escrow arrangement, $268,000 of the retention bonus was released on December 31, 2012, $209,000 was released on December 31, 2013 and $83,000 was released on December 31, 2014.

**Benefit Plans**

All NEOs are eligible to participate in our health and welfare plans, including those providing medical, dental, life insurance and accidental death and dismemberment benefits, generally on the same basis as our other non-union employees. Our NEOs pay the same price for their elected benefits as other non-union employees. We provide a flex dollars benefit to employees that can only be applied toward the cost of their benefits. As an employee s pay increases, the amount of flex dollars he or she receives decreases. Pursuant to his employment agreement, we pay the premiums for Mr. Welch s coverage under our health and welfare plans and a $500,000 term life insurance policy.

Our NEOs may participate in our defined contribution 401(k) plan, a tax-qualified retirement savings plan. The Internal Revenue Code of 1986, as amended (the *Code*), limits the contributions NEOs can make to the 401(k) plan. In 2009, in connection with union wage concessions, we suspended indefinitely Company-matching contributions under the 401(k) plan for our employees, including NEOs.

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We sponsor two qualified defined benefit pension plans for employees of our Company and certain participating subsidiaries who commenced employment prior to January 1, 2004. We froze benefit accruals under these plans on July 1, 2008. Messrs. Welch and Hawkins and Ms. Friel participate in the Yellow Corporation Pension Plan based upon their service prior to that date. See *Pension Benefits* for a discussion of these qualified pension plans.

**Severance and Other Termination-of-Employment Benefits**

Messrs. Welch and Pierson are entitled to severance benefits under their December 2014 severance agreements if they are terminated without cause or resign for good reason, regardless of whether a change of control has occurred. The Compensation Committee believed providing these severance benefits was essential for their retention. In November 2014, the Company entered into a separation agreement with Ms. Friel in connection with her resignation effective January 2, 2015 which provided for certain benefits after her termination of employment. For further information regarding the severance agreements and the separation agreement, see *Potential Payments upon Termination or Change of Control Welch and Pierson Severance Agreements* and *Friel Separation Agreement*.

Recipients of restricted stock awards may be entitled to accelerated vesting of those awards upon a change of control or upon termination due to death, disability or, for awards granted in 2014 or prior, retirement at or after age 65, as described in *Potential Payments upon Termination or Change of Control Restricted Stock Award Agreements* below.

**Executive Separation Guidelines and Severance Policy**

In 2012, the Compensation Committee adopted Executive Separation Guidelines (*Prior Guidelines*) to assist itself in providing post-termination compensation to corporate and operating company executives. The Prior Guidelines were intended to provide guidance only, were not binding on the Compensation Committee and did not create any entitlements for executives. At December 31, 2014, the Prior Guidelines were applicable to Messrs. Hawkins and Ware, but not Messrs. Welch and Pierson who were party to severance agreements or Ms. Friel who was party to a separation agreement. See *Potential Payments upon Termination or Change of Control Welch and Pierson Severance Agreements* and *Friel Separation Agreement*.

The Prior Guidelines provided that to be eligible for any post-termination compensation, the employee must have first executed a separation agreement containing appropriate confidentiality and other provisions. The terms of these agreements could vary in the Compensation Committee s discretion, but generally a terminated executive would receive post-termination compensation in an amount equal to 100% of his or her annual base salary, payable in 12 monthly installments. The period during which the executive received post-termination compensation (*Inactive Employment Period*) began 60 days following termination. During this period, the terminated executive may elect to receive COBRA continuation coverage at the rate payable by non-union employees through the end of the Inactive Employment Period or until the terminated executive became entitled to other employer-provided health plan coverage, however, the Company does not reimburse such coverage. The terminated executive s other benefits (pension, 401(k), disability, incentive compensation, etc.) ceased on the termination date.

In February 2015, the Compensation Committee adopted a new severance policy (*Severance Policy*) to assist itself in providing post-termination compensation to corporate and operating company executives. The Severance Policy provides that to be eligible for any post-termination compensation, the employee must first execute a separation agreement containing appropriate confidentiality and other provisions. The terms of these agreements may vary in the Compensation Committee s discretion, but generally executive officers who are not party to a severance agreement will be entitled to a severance of 18 months salary, vice presidents and above will be entitled to six months salary and directors and above will be entitled to three months salary, payable in monthly installments. Severance is payable under the Severance Policy only upon involuntary termination

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without cause. Change-in-control related severance amounts are paid in a lump sum. The period during which the executive receives post-termination compensation, or Inactive Employment Period, begins 60 days following termination. During this period, the terminated executive may elect to receive COBRA continuation coverage at the rate payable by non-union employees through the end of the Inactive Employment Period or until the terminated executive becomes entitled to other employer-provided health plan coverage, however the Company does not reimburse such coverage. The terminated executive s other benefits (pension, 401(k), disability, incentive compensation, etc.) cease on the termination date. Stock awards that have not vested at the time of termination without cause or resignation for good reason are forfeited.

**Compensation Decisions for 2015**

During 2014 and in early 2015, the Compensation Committee engaged Pearl Meyer to assist with its review of the compensation programs for our executive officers, including our NEOs. Pearl Meyer s advisory services included providing industry and peer group compensation data and presenting compensation plan designs to the Compensation Committee for consideration. In establishing the 2015 executive compensation program, the Compensation Committee determined that in transitioning the Company from a turnaround situation to implementing longer term strategy and operational goals, our executive compensation structure should be more market-based. Accordingly, our Compensation Committee authorized and implemented certain design changes described below.

Compensation components will continue to include base salary, annual cash incentive compensation as short-term incentive compensation and equity-based incentive compensation as long-term incentive compensation, with market-based target compensation such that:

- base salary is targeted to be at the 50th percentile of market and is designed to provide fair and competitive fixed compensation for the executive s position;

- total cash compensation which is comprised of target base salary plus target short-term incentive opportunity is targeted to be between the 50th and 75th percentile of market, reflecting a desired emphasis on performance-based pay opportunities. Actual total cash compensation will be higher or lower than target compensation based on Company and executive performance relative to pre-determined goals; and

- annual equity grant values will yield target total direct compensation between the 50th and 75th percentile of market.

Accordingly, in February 2015, the Compensation Committee approved the following changes to NEO compensation:

- reduced annual incentive opportunities as compared to 2014;

- implemented annual equity grant value guidelines (as opposed to equity grants based on contractual arrangements); and established a long-term equity-based compensation program (LTIP) design, consisting of 50% time-based restricted stock and 50% performance-based restricted stock awarded under our 2011 Plan tied to Adjusted ROIC, to balance the performance and retention objectives of long-term incentive compensation.

The equity-based compensation will continue to be awarded under our 2011 Plan, which plan and performance measures were approved by our Stockholders at our 2014 Annual Meeting.

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The following sets forth the 2015 compensation structure for our continuing NEOs at target:

| Continuing NEO | Base Salary | 2015 AIP[1] % Salary | 2015 AIP[1] $ Amount | Total Cash | 2015 LTIP[1 2] % Salary | 2015 LTIP[1 2] $ Amount | Total Compensation | 2015 Target Pay Mix Base | 2015 Target Pay Mix AIP | 2015 Target Pay Mix LTIP |
|---|---|---|---|---|---|---|---|---|---|---|
| James Welch | $ 850,000 | 125% | $ 1,062,500 | $ 1,912,500 | 300% | $ 2,550,000 | $ 4,462,500 | 19% | 24% | 57% |
| Jamie Pierson | $ 612,000 | 100% | $ 612,000 | $ 1,224,000 | 150% | $ 918,000 | $ 2,142,000 | 29% | 29% | 43% |
| Darren Hawkins | $ 450,000 | 100% | $ 450,000 | $ 900,000 | 100% | $ 450,000 | $ 1,350,000 | 33% | 33% | 33% |
| Scott Ware | $ 380,000 | 100% | $ 380,000 | $ 760,000 | 100% | $ 380,000 | $ 1,140,000 | 33% | 33% | 33% |

1 Actual incentive of the 50% of the LTIP award comprising performance-based restricted stock can range from 0% to 200% of 50% of target.

2 Represents the target grant value of equity. The actual value of the equity will depend on Company performance and stock price performance.

The 2015 Annual Incentive Plan (*2015 AIP*) continues to be funded by Adjusted EBITDA performance relative to pre-determined goals as established by the Compensation Committee, and the allocation of any earned incentives will continue to be based on the additional supplemental measures of revenue, unlevered free cash flow and safety metrics. The 2015 target incentive pool is $3.9 million. The incentive pool may exceed target proportionately as Adjusted EBITDA performance warrants, with a maximum incentive pool of $7.8 million for exceptional performance.

The 2015 LTIP consists of time-based restricted stock and performance-based restricted stock, weighed equally and awarded under our 2011 Plan. The restricted shares vest ratably over three years. The performance-based shares have a one-year performance period and a three-year vesting period. The amount earned will be determined after the first year based on actual performance as compared to pre-determined performance measures and goals as established by the Compensation Committee with vesting one-third upon being earned and one-third per year over the subsequent two years.

The Compensation Committee does not have the discretion to adjust the performance achievement upward for any measurement period.

The Compensation Committee believes that (1) the 2015 NEO compensation structure is market competitive, (2) the pay mix emphasizes variable compensation over fixed compensation and long-term incentives over short-term incentives and (3) the variable pay will serve to link pay with performance and align executive and Stockholder interests and (4) allow the Company to continue attracting and retaining management talent.

**Executive Stock Ownership Guidelines**

In February 2015, we implemented executive stock ownership guidelines that require certain officers to own the number of shares of our Common Stock equal to the lesser of (a) a market value equal to a specified multiple of base salary and (b) the fixed number of shares owned at the time the guidelines were adopted or at the time a new executive is added to the guidelines. All executive officers are subject to the executive stock ownership guidelines. The required salary multiple for each such executive is 3.0, except for our chief executive officer, whose required salary multiple is 6.0. Each executive must comply with the executive stock ownership guidelines by the fifth anniversary of its adoption. The minimum share ownership guidelines are intended in part to ensure that executive officers have a financial stake in the Company that is aligned with that of our Stockholders.

**Incentive Compensation Recovery Policy**

In December 2007, the Compensation Committee adopted an executive compensation recovery policy that allows the Compensation Committee, in its sole discretion, to recover from executive officers any annual and long-term incentive compensation that is based upon financial statements required to be restated as a result of errors, omissions or fraud, regardless of whether an executive officer causes the restatement. The incentive compensation subject to recovery is that which exceeds the compensation that would otherwise have been granted based upon the restated financial results, but only to the extent of unvested or deferred equity awards. The Compensation Committee will consider the impact of taxes previously paid or withheld when determining whether, and to what extent, to recover incentive compensation.

Section 10D of the Exchange Act, enacted as part of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, requires public companies to recover, on a no-fault basis, incentive compensation amounts based upon financial results that are required to be restated due to material noncompliance with financial reporting requirements, and directs the SEC to adopt rules providing for such recoveries. The SEC has yet to adopt its 10D rules. Messrs. Welch and Pierson agreements with the Company provided that equity incentive awards made thereunder would be subject to clawback under Section 10D upon adoption of the SEC s 10D rules. The Compensation Committee intends to update its clawback policy accordingly when the new rules are adopted.

**Limitations on Deductibility of Executive Compensation**

Code Section 162(m) places a $1 million limit on the amount of compensation we may deduct for federal income tax purposes in any year with respect to certain executive officers. Certain performance-based compensation and certain other stockholder-approved compensation are not subject to the deduction limit. We believe we have qualified certain compensation for deductibility under Code Section 162(m), including certain executive officer compensation expense related to incentive compensation under our 2011 Plan. We may from time to time pay compensation to our executive officers that may not be deductible for federal income tax purposes if consistent with our executive compensation philosophy and objectives.

**Restrictions on Pledging Common Stock Awards and Abusive Trading Practices**

Our Securities Trading and Disclosure Policy prohibits our directors and officers from placing their Common Stock in a margin account with a broker or pledging their Common Stock as collateral to secure a debt. The policy also prohibits abusive trading practices involving our Common Stock, such as short-sales or hedging against market risk. Based upon information submitted by our directors and executive officers, we do not believe any Common Stock held by them has been placed in a margin account or pledged as security for a loan.

**Compensation Committee Report**

In 2014, our Compensation Committee was composed entirely of independent directors, as defined by NASDAQ Listing Rule 5605(d)(2)(A), our Director Independence Standards, and Exchange Act Rule 10C-1(b)(1). The Compensation Committee consists of Messrs. Kneeland (Chair), Davidson, Doheny and Hoffman.

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis and, based upon such review and discussion, the Compensation Committee recommended to our Board that Compensation Discussion and Analysis be included in this proxy statement.

Michael J. Kneeland, Chair

William R. Davidson

Matthew A. Doheny

James E. Hoffman

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## Compensation Risk Assessment

Our Compensation Committee has reviewed our compensation policies and practices, including incentive programs, to ensure they do not encourage unreasonable or excessive risk-taking. Based upon this review, we believe our compensation policies and practices are not reasonably likely to expose us to unreasonable or excessive risk that could have a material adverse effect on us. We believe our practice of providing a significant portion of compensation in the form of long-term equity compensation and using multiple performance measures in our incentive plans serve to balance risk and reward. We also maintain a prohibition on hedging and an incentive compensation recovery policy to mitigate undue risk associated with compensation.

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## Executive Compensation

The tables below provide information on our NEO compensation in 2014, 2013 and 2012.

### Summary Compensation Table

| Name and Principal Position | Year | Salary ($) (1) | Bonus ($) | Stock Awards ($) (2) | Option Awards ($) | Non-Equity Incentive Plan Compensation ($) | Change in Pension Value ($) (3) | All Other Compensation ($) (4) | Total ($) |
|---|---|---|---|---|---|---|---|---|---|
| James L. Welch | 2014 | 815,500 | | 9,855,537 | | | 109,000 | 14,988 | 10,795,025 |
| Chief Executive Officer | 2013 | 712,000 | 875,000(5) | 569,335 | | | | 14,295 | 2,170,630 |
| | 2012 | 701,500 | | 893,136 | | 250,000 | 98,000 | 25,688 | 1,968,324 |
| Jamie G. Pierson | 2014 | 612,000 | 83,000(6) | 6,181,926 | | | | 108,325 | 6,985,251 |
| Executive Vice President | 2013 | 612,000 | 1,034,000(7) | 270,153 | | | | 83,070 | 1,999,223 |
| & Chief Financial Officer | 2012 | 601,500 | 268,000(8) | | | 250,000 | | 80,672 | 1,200,172 |
| Michelle A. Friel | 2014 | 437,000 | | 1,391,933 | | | 51,000 | 1,996 | 1,881,929 |
| Executive Vice President, | 2013 | 437,000 | 300,000(5) | 227,266 | | | | 1,894 | 966,160 |
| General Counsel & Secretary | 2012 | 378,279 | | 500,142 | | 100,000 | 41,000 | 147,087 | 1,166,508 |
| Darren D. Hawkins | 2014 | 426,154 | | 737,100 | | | 41,000 | 87,785 | 1,292,039 |
| President YRC Freight | | | | | | | | | |
| Scott D. Ware | 2014 | 363,153 | 170,520(9) | 245,700 | | | | 1,996 | 781,369 |
| President USF Holland | 2013 | 350,000 | 385,000(5) | 74,640 | | | | 1,743 | 811,383 |

(1) See *Compensation Discussion and Analysis  Description of Compensation Components*  Base Salary for a discussion of base salaries for 2014.

(2) Amounts for 2014 represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of Common Stock and time-vested restricted Common Stock granted to our NEOs on the dates shown in the table below. Amounts for 2014 represent discretionary awards of Common Stock granted on February 25, 2014 and March 4, 2014 for 2013 performance presented in accordance with FASB ASC Topic 718 (120,060 shares to Mr. Welch, 60,030 to Mr. Pierson, 51,454 to Ms. Friel, 30,000 to Mr. Hawkins and 10,000 to Mr. Ware), Common Stock awarded on February 25, 2014 as bonuses in recognition of the extraordinary effort required to consummate the 2014 Financing Transactions (33,333 shares to each of Messrs. Welch and Pierson and 10,000 shares to Ms. Friel), and the Common Stock awarded on December 30, 2014 in connection with the cancelation of the employment agreements of Messrs. Welch and Pierson. See *Executive Employment Agreements  Welch Employment Agreement* and *Executive Employment Agreements  Pierson Employment Agreement*. Amounts for 2014 also reflect a one-time Common Stock award on February 25, 2014 in recognition of Messrs. Welch and Pierson and Ms. Friel  s efforts in connection with certain of the 2014 Financing Transactions. See *Compensation Discussion and Analysis  Description of Compensation Components  2014 Equity Incentive Compensation  Senior Executive Equity Awards*. The fair value of each grant is determined using the closing market price of our Common Stock on the grant date. The number of shares of Common Stock and restricted Common Stock awarded to each of the executives, the grant date determined in accordance with FASB ASC Topic 718, and the

closing price of our Common Stock on the grant date are as follows:

**2014 Grants**

| Name | Shares | Grant Date | Closing Price ($) |
|---|---|---|---|
| James L. Welch | 153,393 | 2/25/2014 | 22.65 |
| | 280,615 | 12/30/2014 | 22.74 |
| Jamie G. Pierson | 93,363 | 2/25/2014 | 22.65 |
| | 178,859 | 12/30/2014 | 22.74 |
| Michelle A. Friel | 61,454 | 2/25/2014 | 22.65 |
| Darren D. Hawkins | 30,000 | 3/4/2014 | 24.57 |
| Scott D. Ware | 10,000 | 3/4/2014 | 24.57 |

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Amounts for 2013 represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of Common Stock and time-vested restricted Common Stock granted to our NEOs on February 26, 2013. For Messrs. Welch and Pierson and Ms. Friel, amounts for 2013 represent the Common Stock awarded in 2013 for 2012 performance presented in accordance with FASB ASC Topic 718, and the Common Stock awarded in 2013 as make up awards, as described in footnote (a) below. The fair value of each grant is determined using the closing market price of our Common Stock on the grant date. The number of shares of Common Stock and restricted Common Stock awarded to each of the executives, the grant date determined in accordance with FASB ASC Topic 718, and the closing price of our Common Stock on the grant date are as follows:

**2013 Grants**

| Name | Shares | Grant Date | Closing Price ($) |
|---|---|---|---|
| James L. Welch | 91,533(a) | 2/26/2013 | 6.22 |
| Jamie G. Pierson | 43,433(a) | 2/26/2013 | 6.22 |
| Michelle A. Friel | 36,538(a) | 2/26/2013 | 6.22 |
| Scott D. Ware | 12,000 | 2/26/2013 | 6.22 |

(a) The amount for Mr. Welch includes a grant of 9,767 shares to make up a shortfall in shares that should have been included in his initial grant on December 2, 2011 and a grant of 4,665 shares to make up a shortfall in shares that should have been included in his February 20, 2012 performance grant. The amount for Mr. Pierson includes a grant of 4,883 shares to make up a shortfall in shares that should have been included in his initial grant on December 2, 2011. The amount for Ms. Friel includes a grant of 3,495 shares that should have been included in her initial grant on February 20, 2012.

Amounts for 2012 represent the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 of time-vested restricted Common Stock granted to Mr. Welch and Ms. Friel on February 20, 2012. For Mr. Welch, amounts for 2012 represent the Common Stock awarded in 2012 for 2011 performance presented in accordance with FASB ASC Topic 718. The fair value of each grant is determined using the closing market price of our Common Stock on the grant date. The number of shares of restricted Common Stock awarded to each of the executives, the grant date determined in accordance with FASB ASC Topic 718, and the closing price of our Common Stock on the grant date are as follows:

**2012 Grants**

| Name | Shares | Grant Date | Closing Price ($) |
|---|---|---|---|
| James L. Welch | 72,436 | 2/20/2012 | 12.33 |
| Michelle A. Friel | 40,563 | 2/20/2012 | 12.33 |

(3) Only Messrs. Welch and Hawkins and Ms. Friel are eligible to participate in our pension plans. The amounts reported in this column represent the aggregate change in the actuarial present value of the accumulated benefits under our qualified defined benefit pension plans. The accumulated benefits for Messrs. Welch and Hawkins and

Ms. Friel under our pension plans are due to their years of prior service with us. Benefit accruals under our pension plans were frozen on July 1, 2008. In 2014, the aggregate value of Mr. Welch s pension benefits increased by $109,000; the aggregate value of Ms. Friel s pension benefits increased by $51,000; and the aggregate value of Mr. Hawkins pension benefits increased by $41,000. The increase in benefits in 2014 was due to a decrease in the interest rate used to calculate the present value of the benefits. In 2013, the aggregate value of Mr. Welch s pension benefits decreased by $126,000 and the aggregate value of Ms. Friel s pension benefits decreased by $28,000. The decrease was due to an increase in the interest rate used to calculate the present value of the benefits. The increase in benefits in 2012 was due to a decrease in the interest rate used to calculate the present value of the benefits. The monthly benefit payable at retirement did not increase.

(4) All other compensation for 2014 includes the following:

| Name | Perquisite Payments ($) | Relocation Reimbursement ($) | Total ($) |
|---|---|---|---|
| James L. Welch | 14,988(a) | | 14,988 |
| Jamie G. Pierson | 108,325(b) | | 108,325 |
| Michelle A. Friel | 1,996(c) | | 1,996 |
| Darren D. Hawkins | 1,996(d) | 85,789(e) | 87,785 |
| Scott D. Ware | 1,996(f) | | 1,996 |

(a) Represents $14,793 paid for the cost of Mr. Welch s health and welfare benefits, $81 for family travel expenses reimbursed by us and $114 paid for the cost of premiums for a term life insurance policy paid by us.

(b) Represents amounts reimbursed to Mr. Pierson for temporary living expenses while in Overland Park, Kansas and reasonable costs incurred in his weekly travel from his home in Dallas, Texas to Overland Park. The total amount incurred by Mr. Pierson for his 2014 temporary living expenses and travel costs was $106,569. This total amount includes reimbursement of $34,475 of taxes with respect to these temporary living expenses and travel costs. Also represents $1,642 paid for the cost of Mr. Pierson s health and welfare benefits and $114 paid for the cost of premiums for a term life insurance policy paid by us.

(c) Represents $1,882 paid for the cost of Ms. Friel s health and welfare benefits paid by us and $114 paid for the cost of premiums for a term life insurance policy paid by us.

(d) Represents $1,882 paid for the cost of Mr. Hawkins health and welfare benefits paid by us and $114 paid for the cost of premiums for a term life insurance policy paid by us.

(e) Represents a $40,000 lump sum relocation payment by us, $26,415 moving and relocation expenses reimbursed by us, $680 for family travel expenses reimbursed by us and reimbursement of $18,694 of taxes with respect to these relocation costs.

(f) Represents $1,882 paid for the cost of Mr. Ware s health and welfare benefits paid by us and $114 paid for the cost of premiums for a term life insurance policy paid by us.

(5) Represents discretionary bonuses to Messrs. Welch and Ware and Ms. Friel in January 2014 in recognition of 2013 performance.

(6) Represents the remainder of Mr. Pierson s retention bonus released from escrow and paid to Mr. Pierson in 2014 under his employment agreement.

(7) Represents a discretionary bonus of $825,000 paid to Mr. Pierson in January 2014 in recognition of 2013 performance, and $209,000 of the retention bonus released from escrow and paid to Mr. Pierson in 2013 under his employment agreement.

(8) Represents a retention bonus paid to Mr. Pierson under his employment agreement.

(9) Represents a bonus paid to Mr. Ware under the 2014 AIP in February 2015 in recognition of 2014 performance. See *Compensation Discussion and Analysis Description of Compensation Components Annual Cash Incentive Compensation 2014 Annual Incentive Plan*.

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## Executive Employment Agreements

### Welch Employment Agreement

On July 22, 2011, we entered into an employment agreement with Mr. Welch (*Welch Agreement*), which was amended on October 30, 2012. On December 30, 2014, and as further described below, the Welch Agreement was canceled. Until cancelation, the Welch Agreement, as amended, contained the following key terms and conditions:

- a four-year employment term, commencing on July 22, 2011 and ending on July 22, 2015;
- an annualized base salary of $712,000 per year, which could be increased, but not decreased, by the Board in its discretion;
- an initial grant of restricted Common Stock equal to 0.6% of our outstanding Common Stock on a fully-diluted basis on the grant date, 25% of which vested on January 1, 2013 and an additional 25% of which vested or was to vest on each of July 22, 2013, July 22, 2014 and July 21, 2015, provided Mr. Welch continued to be employed by us on those dates;
- annual equity awards of up to 0.35% of our outstanding Common Stock on a fully-diluted basis on each grant date within 90 days after the end of each of the first four fiscal years occurring during the term of the Welch Agreement, based upon the level of achievement of performance goals to be determined by the Compensation Committee each year. The equity award for 2011 performance vested fully on February 20, 2013, and subsequent annual performance-based awards vested 50% on the grant date and 50% on the first anniversary of the grant date, provided Mr. Welch continued to be employed by us on those dates;
- if, at the expiration of the Welch Agreement, the aggregate number of shares received as the initial grant and subsequent annual performance-based awards was less than 2.0% of our then outstanding Common Stock on a fully-diluted basis on such date, then Mr. Welch was to receive an equity adjustment award to make up the difference, which would be fully vested on the grant date;
- a cash bonus payable in 2013 in an amount not to exceed $250,000 if certain performance criteria determined by the Compensation Committee were satisfied during 2012, the full amount of which Mr. Welch received in 2013 based upon full achievement of the $233 million Adjusted EBITDA target for 2012; and
- participation in our benefit and insurance programs available to senior executives, payment of medical and dental plan premiums, a term life insurance policy, four weeks of vacation per year, and reimbursement of reasonable business expenses.

On December 30, 2014, Mr. Welch and the Company entered into a cancelation agreement that canceled the Welch Agreement. As consideration for canceling the Welch Agreement, (i) Mr. Welch entered into a severance agreement, as described below, (ii) Mr. Welch remained entitled to (a) continue participation in our benefit programs available to senior executives, (b) payment of medical and dental plan premiums, and (c) a $500,000 term life insurance policy while Mr. Welch is employed by us, all of which Mr. Welch was entitled to under the Welch Agreement, and (iii) we granted the remaining 280,615 equity awards that were contractually guaranteed to Mr. Welch under the Welch Agreement on the sole condition in his original agreement that he remained our employee through the end of his contract term. This equity award vested or will vest 20% on February 28, 2015, 60% on July 31, 2015 and 20% on February 28, 2016. Although the timing of the equity grant has been accelerated to effectuate the termination of the Welch Agreement, the vesting schedule of the equity grants approximates the vesting schedule timing set forth in the Welch Agreement. Accordingly, no additional consideration was conveyed to Mr. Welch by making the grant early and there was no reduction in retention incentives for the Company as the original vesting schedule has largely been retained. For a further description of Mr. Welch s severance agreement, see *Potential Payments upon Termination or Change of Control Welch and Pierson Severance Agreements.*

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**Pierson Employment Agreement**

On November 3, 2011, we entered into an employment agreement with Mr. Pierson (*Pierson Agreement*), which was amended October 30, 2012. On December 30, 2014, and as further described below, the Pierson Agreement was canceled. Until cancelation, the Pierson Agreement, as amended, contained the following key terms and conditions:

- an employment term commencing on November 3, 2011 and ending on December 31, 2015;

- an annualized base salary of $612,000 per year, which could be increased, but not decreased, by the Board in its discretion;

- an initial grant of restricted Common Stock equal to 0.3% of our outstanding Common Stock on a fully-diluted basis on the grant date, 25% of which vested on January 1, 2013 and an additional 25% of which vested or was to vest on each of November 3, 2013, November 3, 2014 and November 3, 2015, provided Mr. Pierson continued to be employed by us on those dates;

- annual equity awards of up to 0.175% of our outstanding Common