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ROADWAY CORP
Form 8-K
November 16, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K
CURRENT REPORT

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

Date of report (Date of earliest event reported) November 16, 2001

ROADWAY CORPORATION
(Exact Name of Registrant as Specified in Charter)

Delaware
(State or Other Jurisdiction
of Incorporation)

000-32821
(Commission File
Number)

34-19562
(IRS Emplo
Identificatio

1077 Gorge Boulevard
Akron, Ohio
(Address of Principal Executive Offices)

44310
(Zip Code)

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

ITEM 5. OTHER EVENTS.

In connection with the offering referenced in the Current Report on Form 8-K filed earlier today, November 16, 2001, the following pro forma financial information is provided.

UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL DATA

The following unaudited condensed combined pro forma financial statements and explanatory notes have been prepared to give effect to our acquisition of

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Arnold and the consummation of the transactions related thereto. At the time of the closing of the acquisition of Arnold, a wholly owned acquisition subsidiary of Roadway will be merged with and into Arnold for aggregate cash consideration of approximately \$553.0 million. The transaction is being accounted for as a purchase business combination.

In accordance with Article 11 of Regulation S-X under the Securities Act, an unaudited condensed combined pro forma balance sheet as of September 8, 2001 and unaudited condensed combined pro forma statements of income for the thirty-six weeks (three quarters) ended September 8, 2001 and the year ended December 31, 2000, have been prepared to reflect our acquisition of Arnold and the consummation of the transactions related thereto. The following unaudited pro forma financial statements have been prepared based upon the historical financial statements of Roadway and Arnold. We operate on 13 four-week accounting periods with 12 weeks in each of the first three quarters and 16 weeks in the fourth quarter. Arnold operates on a calendar basis. Additionally, the pro forma financial statements reflect certain balance sheet and statement of income reclassifications made to conform Arnold's presentations to our presentations. The unaudited pro forma financial statements should be read in conjunction with:

- our historical audited consolidated financial statements for the year ended December 31, 2000, and our unaudited condensed consolidated financial statements as of September 8, 2001 and for the thirty-six week period (three quarters) ended September 8, 2001, and
- the historical audited consolidated financial statements of Arnold for the year ended December 31, 2000, and the unaudited condensed consolidated financial statements as of September 30, 2001 and for the nine month period ended September 30, 2001.

The pro forma balance sheet was prepared by combining our historical unaudited consolidated balance sheet data as of September 8, 2001 and the historical unaudited consolidated balance sheet data as of September 30, 2001 for Arnold, adjusted to reflect the use of proceeds from the notes offered by this offering circular, the borrowings under our new credit facility, the proceeds from the accounts receivable securitization and the intended sale of ARLO. We expect that either concurrently with or shortly after the acquisition of Arnold, we will sell substantially all of ARLO's assets for \$105.0 million in cash. The data has also been adjusted to reflect the application of net after-tax proceeds, which are estimated to be \$75.0 million, to prepay a portion of the borrowings under the new credit facility. ARLO is reported as a segment of Arnold, with 2000 and nine month 2001 revenues of approximately \$47.8 million and \$42.8 million, respectively. The pro forma balance sheet reflects the historical unaudited financial position of Roadway and Arnold, adjusted to present the acquisition of Arnold and consummation of these related transactions as if each had occurred at September 8, 2001.

The pro forma statements of income were prepared using the historical consolidated statements of income data for both us and Arnold assuming the acquisition and related transactions had each occurred on January 1, 2000. The pro forma statement of income for the year ended December 31, 2000 was prepared by combining the historical audited consolidated statements of income data of us and the historical audited consolidated statements of income data of Arnold for the year ended December 31, 2000. The pro forma statement of income for the thirty-six week period (three quarters) ended September 8, 2001 was prepared by combining the historical unaudited consolidated statement of income data of us for the thirty-six week period (three quarters) ended September 8, 2001 and the historical unaudited consolidated statement of income data of Arnold for the nine month period ended September 30, 2001. The pro forma statements of income give effect to the cost associated with financing the acquisition, including interest expense and amortization of deferred loan origination fees.

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The pro forma financial statements are prepared for illustrative purposes only, and are not necessarily indicative of the operating results or financial position that would have occurred if the acquisition and sale transaction described above had been consummated at the beginning of the periods or the dates indicated,

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nor are they necessarily indicative of any future operating results or financial position. The pro forma financial statements do not include any adjustments related to any restructuring charges, profit improvements, potential costs savings or one-time charges which may result from the acquisition of Arnold, the intended sale of ARLO or the result of final valuations of supplies, carrier operating property, other equipment and fixtures, investments in limited partnerships, intangible assets and employee benefit obligations. Following the acquisition, Roadway and Arnold will continue to operate independently under their respective brand names and each company's management team and headquarters location will remain the same. Therefore, we expect no integration costs. The pro forma financial statements include an adjustment related to our intended sale of ARLO. If the final sales proceeds are different than that assumed in the pro forma financial statements, "costs in excess of net tangible assets acquired and other intangible assets," long term debt, interest expense and tax expense would change.

Upon closing of the acquisition, we will undertake a process to determine the fair value at the date of acquisition of the tangible and intangible assets acquired and liabilities assumed of Arnold. We expect that the process of determining the fair value of most assets and liabilities will be substantially completed by March 31, 2002, subject to the finalization of any contingencies which are identified which may require future adjustment to arrive at a final purchase price allocation. As a result of this process, we anticipate that a portion of the amount initially classified as "costs in excess of net tangible assets acquired and other intangible assets" in the pro forma financial statements, which in accordance with Statement of Financial Accounting Standards No. 142 will not be amortized, will be reclassified to the tangible and identified intangible assets acquired, based on their estimated fair values at the date of acquisition. These tangible and identified intangible assets will be depreciated and amortized over their estimated useful lives. The excess of the purchase price over the fair value of the tangible and identified intangible assets acquired will be classified as goodwill, which will not be amortized. As a result, the actual amount of depreciation and amortization expense may be materially different from that presented in the pro forma statements of income. Costs associated with implementing profit improvement programs initiated subsequent to the consummation of the acquisition will be charged to our earnings.

The acquisition has not been consummated as of the preparation of these pro forma financial statements and there can be no assurances that the acquisition will be consummated in the future. Our acquisition of Arnold is a condition to the closing of this offering, but the sale of ARLO is not.

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CONDENSED COMBINED PRO FORMA BALANCE SHEET -- SEPTEMBER 8, 2001
(UNAUDITED)

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	ROADWAY HISTORICAL	ARNOLD ADJUSTED (26)	ROADWAY PRO FORMA ADJUSTMENTS	ROADWAY COMBINED P FORMA (1)
	(DOLLARS IN THOUSANDS)			
ASSETS				
Current assets:				
Cash and cash equivalents.....	\$ 82,554	\$ 51,036	\$ (66,400) (2) 13,500 (3) 105,000 (4) (75,000) (5)	\$ 110,69
Accounts receivable, net.....	283,319	42,319	(100,000) (6)	225,63
Prepaid expense and supplies.....	20,316	7,823		28,13
Total current assets.....	386,189	101,178	(122,900)	364,46
Carrier operating property, at cost.....	1,426,141	347,048	(155,275) (7) 9,589 (8)	1,627,50
Less: allowance for depreciation.....	1,001,747	155,275	(155,275) (7)	1,001,74
Net carrier operating property.....	424,394	191,773	9,589	625,75
Costs in excess of net tangible assets acquired and other intangible assets.....	15,206	7,459	247,494 (9) (7,459) (10) 4,200 (11)	266,90
Deferred income taxes.....	46,375	1,765	(38,926) (12)	9,21
Other assets.....		9,001	9,300 (11)	18,30
TOTAL ASSETS.....	\$ 872,164	\$311,176	\$ 101,298	\$1,284,63
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities:				
Accounts payable.....	\$ 180,012	\$ 17,385	\$ 13,500 (11) 7,250 (13) 30,000 (14)	\$ 248,14
Salaries and wages.....	108,304	12,166		120,47
Current portion-long-term debt, freight and casualty claims payable.....	51,680	3,147		54,82
Total current liabilities.....	339,996	32,698	50,750	423,44
Long-term liabilities:				
Casualty claims and other.....	62,685	4,026		66,71
Accrued pension and postretirement health care.....	119,617			119,61
Deferred income taxes.....		34,995	3,931 (15) (38,926) (12)	
Long-term debt.....			400,000 (16) (75,000) (5)	325,00
Total long-term liabilities.....	182,302	39,021	290,005	511,32
Total stockholders' equity.....	349,866	239,457	(239,457)	349,86
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY.....	\$ 872,164	\$311,176	\$ 101,298	\$1,284,63

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CONDENSED COMBINED PRO FORMA INCOME STATEMENT (UNAUDITED)

	THIRTY-SIX WEEKS (THREE QUARTERS) ENDED SEPTEMBER 8, 2012			
	ROADWAY HISTORICAL	ARNOLD ADJUSTED (27)	ROADWAY PRO FORMA ADJUSTMENTS	ROADWAY COMBINED PRO FORMA
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
Revenue.....	\$1,924,251	\$292,996		\$2,217,247
Operating expenses:				
Salaries, wages and benefits.....	1,229,033	141,933		1,370,966
Operating supplies and expenses.....	336,833	46,109	\$ (213) (17)	382,729
Purchased transportation.....	191,954	39,468		231,422
Operating taxes and licenses.....	49,829	7,761		57,590
Insurance and claims.....	34,044	7,869		41,913
Provision for depreciation.....	47,617	20,853	664 (18)	69,112
Net loss (gain) on sale of carrier operating property.....	534	25		509
Total operating expenses.....	1,889,844	264,018	451	2,154,313
Operating income.....	34,407	28,978	(451)	62,934
Interest expense.....	(505)	(63)	(18,818) (19)	(19,386)
Other income (expense), net.....	(3,752)	(700)	(1,344) (20) (854) (21) 1,286 (22)	(5,210)
Total other income (expense).....	(4,257)	(763)	(19,730)	(24,750)
Income before income taxes.....	30,150	28,215	(20,181)	38,184
Provision for income taxes.....	12,964	10,262	(7,571) (23)	15,655
Net income.....	\$ 17,186	\$ 17,953	\$ (12,610)	\$ 22,529
Earnings per share -- diluted.....	\$ 0.91	\$ 0.95	\$ (0.67)	\$ 1.10
Fully diluted shares outstanding.....	18,938	18,938	18,938	18,938
Operating ratio(24).....	98.2%	90.1%		97.8%
CALCULATION OF EBITDA:				
Income before income taxes.....				\$ 38,184
Interest expense.....				19,386
Depreciation.....				69,112
Amortization of costs in excess of net tangible assets acquired and other intangible assets.....				8,324
Amortization of loan origination fees....				1,300
EBITDA (25).....				\$ 128,806

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CONDENSED COMBINED PRO FORMA INCOME STATEMENT
(UNAUDITED)

YEAR ENDED DECEMBER 31, 2000

	ROADWAY HISTORICAL	ARNOLD ADJUSTED (28)	ROADWAY PRO FORMA ADJUSTMENTS	ROADWAY COMBINED PRO FORMA
(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Revenue.....	\$3,039,560	\$414,543		\$3,454,103
Operating expense:				
Salaries, wages and benefits.....	1,889,928	189,135		2,079,063
Operating supplies and expenses.....	544,774	62,501	\$ (284) (17)	606,988
Purchased transportation.....	308,089	58,633		366,722
Operating taxes and licenses.....	78,271	10,392		88,663
Insurance and claims.....	64,442	9,858		74,300
Provision for depreciation.....	55,675	29,509	959 (18)	86,166
Net loss (gain) on sale of carrier operating property.....	1,969	(1,977)		6
Total operating expenses.....	2,943,148	358,051	675	3,301,874
Operating income.....	96,412	56,492	(675)	152,229
Interest expense.....	(341)	(1,340)	(28,002) (19)	(29,683)
Other income (expense), net.....	2,213	1,622	(1,958) (20) (1,243) (21)	6
Total other income (expense).....	1,872	282	(31,203)	(29,075)
Income before income taxes.....	98,284	56,774	(31,878)	123,180
Provision for income taxes.....	41,742	20,975	(12,213) (23)	50,504
Net income.....	\$ 56,542	\$ 35,799	\$ (19,665)	\$ 72,611
Earnings per share -- diluted.....	\$ 2.98	\$ 1.88	\$ (1.03)	\$ 3.00
Fully diluted shares outstanding.....	18,992	18,992	18,992	18,992
Operating ratio(24).....	96.8%	86.4%		95.1%
CALCULATION OF EBITDA:				
Income before income taxes.....				\$ 123,180
Interest expense.....				29,683
Depreciation.....				86,166
Amortization of costs in excess of net tangible assets acquired and other intangible assets.....				1,243
Amortization of loan origination fees....				1,991
EBITDA (25).....				\$ 242,263

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NOTES TO UNAUDITED CONDENSED COMBINED PRO FORMA FINANCIAL STATEMENTS

- (1) The unaudited pro forma financial statements do not give effect to any potential cost savings or other profit improvements that could result from the acquisition. Roadway will undertake a study to determine the allocation of the total purchase price to the various tangible and intangible assets acquired and the liabilities assumed. These pro forma financial statements reflect a preliminary allocation of purchase price which is subject to change based on the finalization of the fair value of the tangible and intangible assets acquired and liabilities assumed as of the acquisition date. The preliminary estimated fair value of the assets acquired and the liabilities assumed in the acquisition are as follows:

	TOTAL	ARLO	NET
	-----	-----	-----
	(DOLLARS IN MILLIONS)		
Tangible assets acquired at fair value.....	\$376.3	\$(53.7)	\$322.6
Costs in excess of the net tangible assets of the acquired business.....	277.1	(25.4)	251.7
Acquisition costs.....	(13.5)	--	(13.5)
Liabilities assumed.....	(87.0)	4.1	(82.9)
Total purchase price.....	\$552.9	\$(75.0)	\$477.9
	=====	=====	=====

These pro forma financial statements are not necessarily indicative of the operating results or financial position that would have occurred had the acquisition been consummated at the dates indicated, nor necessarily indicative of future operating results.

- (2) Reflects excess cash available at Roadway to be used in connection with financing the acquisition.
- (3) Reflects direct transaction related expenses of \$4.2 million and loan origination costs of \$9.3 million which are accrued but unpaid in the pro forma balance sheet.
- (4) Represents expected gross proceeds from the sale of ARLO.
- (5) Represents the application of net after-tax proceeds, which are estimated to be \$75.0 million, from our intended sale of ARLO to prepay a portion of the borrowings under the new credit facility.
- (6) Reflects the sale of accounts receivable of \$100.0 million in connection with the receivables financing used to finance, in part, the acquisition of Arnold.
- (7) Represents elimination of historical accumulated depreciation due to the application of purchase accounting.
- (8) Represents the preliminary net adjustment to carrier operating property, buildings and other equipment and fixtures based on estimated fair values as required by purchase accounting.
- (9) Reflects the preliminary estimated adjustment for the costs in excess of the net tangible assets of the acquired business at estimated fair value. Roadway will undertake a study to determine the allocation of the total purchase price to the various assets acquired and liabilities assumed in

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order to allocate the total purchase price to the various intangible assets, if any, acquired. Management believes, on a preliminary basis, there may be intangible assets which will be evaluated. Any excess not attributable to tangible and intangible assets will be reflected as costs in excess of net tangible assets acquired and other intangible assets. The sensitivity of the valuations regarding the above can be significant. Accordingly, Roadway intends to continue to evaluate the assets acquired and liabilities assumed and, as a result, the allocation of the purchase price among the tangible and intangible assets is subject to change.

- (10) Represents the elimination of the historical goodwill from Arnold.
 - (11) Represents the accrual of certain direct transaction expenses associated with completing the acquisition and deferred financing costs related to the financing associated with the acquisition, including banking, legal, accounting and other.
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- (12) Reflects certain balance sheet and statement of income reclassifications made to conform Arnold's presentation to Roadway's presentation.
 - (13) Represents the accrual on Arnold's opening balance sheet of certain direct transaction expenses associated with completing the acquisition and related transactions, including banking, legal, accounting and other.
 - (14) Represents the accrual of currently payable income taxes associated with the taxable gain on the sale of ARLO.
 - (15) Represents deferred tax liabilities associated with the step-up in the basis of carrier operating property, buildings, other equipment and fixtures based on estimated fair values as required by purchase accounting.
 - (16) Represents the issuance of \$225.0 million of the notes offered by this offering circular and \$175.0 million of term loan borrowings under the new credit facility, used to finance the acquisition of Arnold.
 - (17) Adjustment to remove Arnold's historical amortization of costs in excess of net tangible assets acquired and other intangible assets.
 - (18) Adjustment to record incremental depreciation expense on the step-up of Arnold's property and equipment.
 - (19) Adjustment to record additional interest expense on the new Roadway financing arrangements.
 - (20) Adjustment to record amortization of deferred financing costs related to the new Roadway financing arrangements.
 - (21) Adjustment to reflect the facility fee on the Roadway revolving line of credit.
 - (22) Adjustment to reverse direct transaction costs recorded by Arnold related to the acquisition including legal, accounting and other.
 - (23) Adjustment to record the income tax impact of the pro forma adjustments assuming a combined pro forma effective income tax rate of 41%.
 - (24) The operating ratio is defined as the ratio of total operating expenses

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for a period to total revenues for that period.

- (25) EBITDA is defined as income before income tax expense, interest expense, depreciation expense, amortization of costs in excess of net tangible assets acquired and other intangible assets and amortization of deferred loan origination fees. While EBITDA should not be considered a substitute for operating income or a better indicator of liquidity than cash flows from operating activities, which are determined in accordance with generally accepted accounting principles, it is included in this offering circular to provide additional information with respect to our ability to meet our future debt service, capital expenditure and working capital requirements. EBITDA is also included because management believes that some investors find it to be a useful tool for measuring the ability to service debt.

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- (26) This adjustment relates to the intended sale of ARLO. The balance sheet at September 30, 2001 for Arnold was calculated as follows:

	ARNOLD HISTORICAL	ARLO ADJUSTMENTS	ARNOLD ADJUSTED
	-----	-----	-----
(DOLLARS IN THOUSANDS)			
ASSETS			
Current assets:			
Cash and cash equivalents.....	\$ 38,661	\$ (928) (a) 13,303 (b)	\$ 51,036
Marketable securities.....	13,303	(13,303) (b)	
Accounts receivable, net.....	50,868	(8,549) (a)	42,319
Prepaid expenses and supplies.....	9,014	(1,191) (a)	7,823
Current deferred tax asset.....	1,765	(1,765) (b)	
	-----	-----	-----
Total current assets.....	113,611	(12,433)	101,178
Property plant and equipment.....	420,040	(72,992) (a)	347,048
Accumulated depreciation.....	187,449	(32,174) (a)	155,275
	-----	-----	-----
Net property, plant and equipment.....	232,591	(40,818)	191,773
Other assets:			
Costs in excess of net tangible assets acquired and other intangible assets.....	10,878	(3,419) (a)	7,459
Deferred income taxes.....		1,765 (b)	1,765
Other long-term assets.....	9,142	(141) (a)	9,001
	-----	-----	-----
Total assets.....	\$366,222	\$ (55,046)	\$311,176
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable.....	\$ 15,712	\$ (489) (a) 361 (b) 705 (b) 1,096 (b)	\$ 17,385
Current notes payable.....	237	(237) (a)	
Salaries and wages.....	13,169	(642) (a) (361) (b)	12,166
Income taxes payable.....	705	(705) (b)	
Freight and casualty claims payable.....	5,132	(889) (a) (1,096) (b)	3,147

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Total current liabilities.....	34,955	(2,257)	32,698
Other liabilities:			
Casualty claims payable and other.....	2,001	2,025 (b)	4,026
Notes payable.....	918	(918) (a)	
Other long-term liabilities.....	2,050	(25) (a)	
		(2,025) (b)	
Deferred income taxes.....	34,995		34,995
	=====	=====	=====
Total stockholders' equity.....	291,303	(51,846)	239,457
	-----	-----	-----
Total liabilities and stockholders' equity....	\$366,222	\$(55,046)	\$311,176
	=====	=====	=====

(a) Represents the historical cost of assets that will be sold and the liabilities that will not be assumed in connection with the sale of Arnold to Roadway due to the intended sale of ARLO, taken from the books and records of ARLO.

(b) Represents reclassification adjustments necessary to conform Arnold's financial statement presentation to Roadway's presentation.

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(27) This adjustment relates to the intended sale of ARLO. For the nine months ended September 30, 2001, the Arnold adjusted pro forma statement of income was calculated as follows:

	ARNOLD HISTORICAL	ARLO ADJUSTMENTS	ARNOLD ADJUSTED
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Revenues.....	\$335,789	\$(42,793) (a)	\$292,996
Operating expenses:			
Salaries, wages and benefits.....	164,045	(22,112) (a)	141,933
Operating supplies and expenses.....	57,021	(10,912) (a)	46,109
Purchased transportation.....	39,468		39,468
Operating taxes and licenses.....	8,304	(543) (a)	7,761
Insurance and claims.....	8,112	(243) (a)	7,869
Provision for depreciation.....	24,310	(3,457) (a)	20,853
Net loss (gain) on sale of carrier operating property.....	31	(6)	25
	-----	-----	-----
Total operating expenses.....	301,291	(37,273)	264,018
Operating income.....	34,498	(5,520)	28,978
Interest expense.....	(146)	83 (a)	(63)
Other income (expense), net.....	(700)		(700)
	-----	-----	-----
Total other income (expense).....	(846)	83	(763)
	-----	-----	-----
Income before income taxes.....	33,652	(5,437)	28,215
Provision for income taxes.....	12,420	(2,158) (a)	10,262
	-----	-----	-----
Net income.....	\$ 21,232	\$(3,279)	\$ 17,953
	=====	=====	=====

 (a) Represents the elimination of historical results taken from the books and records of ARLO for the three quarters ended September 30, 2001. ARLO, which is reported as Arnold's logistics and warehousing segment, is intended to be sold in connection with the acquisition of Arnold.

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(28) This adjustment relates to the intended sale of ARLO. For the year ended December 31, 2000, the Arnold adjusted pro forma statement of income was calculated as follows:

	ARNOLD HISTORICAL	ARLO ADJUSTMENTS	ARNOLD ADJUSTED
	-----	-----	-----
	(DOLLARS IN THOUSANDS)		
Revenues.....	\$462,365	\$ (47,822) (a)	\$414,543
Operating expenses:			
Salaries, wages and benefits.....	212,403	(23,268) (a)	189,135
Operating supplies and expenses.....	75,273	(12,772) (a)	62,501
Purchased transportation.....	58,633		58,633
Operating taxes and licenses.....	11,173	(781) (a)	10,392
Insurance and claims.....	10,081	(223) (a)	9,858
Provision for depreciation.....	33,359	(3,850) (a)	29,509
Net loss (gain) on sale of carrier operating property.....	(1,977)		(1,977)
	-----	-----	-----
Total operating expenses.....	398,945	(40,894)	358,051
Operating income.....	63,420	(6,928)	56,492
Interest expense.....	(1,646)	306 (a)	(1,340)
Other income (expense), net.....	1,304	318 (a)	1,622
	-----	-----	-----
Total other income (expense).....	(342)	624	282
	-----	-----	-----
Income before income taxes.....	63,078	(6,304)	56,774
Provision for income taxes.....	23,541	(2,566) (a)	20,975
	-----	-----	-----
Net income.....	\$ 39,537	\$ (3,738)	\$ 35,799
	=====	=====	=====

 (a) Represents the elimination of historical results taken from the books and records of ARLO for the year ended December 31, 2000. ARLO, which is reported as Arnold's logistics and warehousing segment, is intended to be sold in connection with the acquisition of Arnold.

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SIGNATURES

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

ROADWAY CORPORATION

By: /s/ John J. Gasparovic

Name: John J. Gasparovic
Title: Vice President, General Counsel
and Secretary

Date: November 16, 2001