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Con-way Inc.  
Form 10-Q  
July 30, 2014

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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: 1-05046

Con-way Inc.  
(Exact name of registrant as specified in its charter)

Delaware 94-1444798  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

2211 Old Earhart Road, Suite 100, Ann Arbor, MI 48105  
(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (734) 994-6600

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  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  No

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:

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Large accelerated filer  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

The number of shares of common stock, \$0.625 par value, outstanding as of June 30, 2014 was 57,513,918.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

Con-way Inc.

## Consolidated Balance Sheets

	June 30, 2014 (Unaudited)	December 31, 2013
(Dollars in thousands)		
Assets		
Current Assets		
Cash and cash equivalents	\$498,792	\$484,502
Trade accounts receivable, net	688,353	575,013
Other accounts receivable	50,130	51,063
Operating supplies, at lower of average cost or market	25,280	23,910
Prepaid expenses and other current assets	59,426	57,961
Deferred income taxes	23,598	15,332
Total Current Assets	1,345,579	1,207,781
Property, Plant and Equipment		
Land	192,070	193,364
Buildings and leasehold improvements	855,274	856,038
Revenue equipment	1,864,453	1,857,737
Other equipment	350,554	353,205
	3,262,351	3,260,344
Accumulated depreciation	(1,633,930 )	(1,603,511 )
Net Property, Plant and Equipment	1,628,421	1,656,833
Other Assets		
Deferred charges and other assets	32,808	32,200
Capitalized software, net	22,285	21,488
Employee benefits	15,688	15,018
Intangible assets, net	7,462	8,640
Goodwill	337,973	337,971
	416,216	415,317
Total Assets	\$3,390,216	\$3,279,931

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Con-way Inc.  
Consolidated Balance Sheets

	June 30, 2014	December 31, 2013
(Dollars in thousands, except per share data)		
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	\$402,604	\$390,537
Accrued liabilities	247,769	229,078
Self-insurance accruals	115,534	105,063
Short-term borrowings	2,388	1,588
Current maturities of capital leases	27,435	19,685
Total Current Liabilities	795,730	745,951
Long-Term Liabilities		
Long-term debt	719,228	719,155
Long-term obligations under capital leases	9,527	16,185
Self-insurance accruals	141,989	142,307
Employee benefits	206,477	240,171
Other liabilities and deferred credits	38,827	39,524
Deferred income taxes	267,844	237,949
Total Liabilities	2,179,622	2,141,242
Commitments and Contingencies (Note 8)		
Shareholders' Equity		
Common stock, \$0.625 par value; authorized 100,000,000 shares; issued 65,269,344 and 64,592,756 shares, respectively	40,781	40,349
Additional paid-in capital, common stock	677,278	653,487
Retained earnings	1,092,867	1,043,472
Cost of repurchased common stock (7,755,426 and 7,669,889 shares, respectively)	(332,530 )	(329,088 )
Accumulated other comprehensive loss	(267,802 )	(269,531 )
Total Shareholders' Equity	1,210,594	1,138,689
Total Liabilities and Shareholders' Equity	\$3,390,216	\$3,279,931

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Con-way Inc.  
 Statements of Consolidated Income  
 (Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenue	\$ 1,492,349	\$ 1,381,370	\$ 2,861,192	\$ 2,717,534
Costs and Expenses				
Salaries, wages and employee benefits	561,073	539,556	1,098,325	1,057,397
Purchased transportation	368,658	329,021	701,643	677,544
Other operating expenses	157,510	147,117	319,746	304,814
Fuel and fuel-related taxes	130,802	135,547	267,504	272,959
Depreciation and amortization	60,848	57,235	120,459	113,163
Purchased labor	42,334	34,045	84,554	62,027
Rents and leases	34,399	31,136	68,358	60,986
Maintenance	34,025	31,414	64,841	60,746
	1,389,649	1,305,071	2,725,430	2,609,636
Operating Income	102,700	76,299	135,762	107,898
Other Income (Expense)				
Investment income	175	159	336	323
Interest expense	(13,403 )	(13,659 )	(26,709 )	(27,164 )
Miscellaneous, net	1,296	50	601	(1,433 )
	(11,932 )	(13,450 )	(25,772 )	(28,274 )
Income before Income Tax Provision	90,768	62,849	109,990	79,624
Income Tax Provision	37,101	19,952	43,430	22,722
Net Income	\$ 53,667	\$ 42,897	\$ 66,560	\$ 56,902
Weighted-Average Common Shares Outstanding				
Basic	57,128,379	56,354,017	57,043,378	56,226,038
Diluted	57,694,691	56,960,738	57,577,373	56,860,095
Earnings per Common Share				
Basic	\$ 0.94	\$ 0.76	\$ 1.17	\$ 1.01
Diluted	\$ 0.93	\$ 0.75	\$ 1.16	\$ 1.00
Cash Dividends Declared per Common Share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Con-way Inc.  
 Statements of Consolidated Comprehensive Income  
 (Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
Net Income	\$53,667	\$42,897	\$66,560	\$56,902
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	(439	) (182	) (317	) 258
Employee benefit plans				
Amortization of net actuarial loss included in net periodic benefit expense or income, net of deferred tax of \$756, \$1,859, \$1,550 and \$3,781, respectively	1,182	2,907	2,425	5,914
Amortization of prior service cost or credit included in net periodic benefit expense or income, net of deferred tax of \$120, \$61, \$242 and \$122, respectively	(190	) 95	(379	) 190
	992	3,002	2,046	6,104
Total Other Comprehensive Income	553	2,820	1,729	6,362
Comprehensive Income	\$54,220	\$45,717	\$68,289	\$63,264

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Con-way Inc.  
 Statements of Consolidated Cash Flows  
 (Unaudited)

(Dollars in thousands)	Six Months Ended	
	June 30, 2014	2013
Cash and Cash Equivalents, Beginning of Period	\$484,502	\$429,784
Operating Activities		
Net income	66,560	56,902
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	120,223	112,774
Non-cash compensation and employee benefits	12,182	18,275
Increase in deferred income taxes	18,708	26,911
Provision for uncollectible accounts	1,402	5,334
Gain from sales of property and equipment, net	(5,375)	(7,062)
Changes in assets and liabilities:		
Receivables	(119,659)	(37,987)
Prepaid expenses	(2,946)	4,797
Accounts payable	34,658	16,793
Accrued variable compensation	(6,307)	(33,902)
Accrued liabilities, excluding accrued variable compensation and employee benefits	32,962	29,570
Self-insurance accruals	5,617	(3,859)
Accrued income taxes	3,164	(8,358)
Employee benefits	(39,132)	(48,286)
Other	(412)	3,880
Net Cash Provided by Operating Activities	121,645	135,782
Investing Activities		
Capital expenditures	(123,366)	(129,273)
Software expenditures	(5,613)	(3,246)
Proceeds from sales of property and equipment	22,391	9,965
Proceeds from sales of marketable securities	—	3,200
Net Cash Used in Investing Activities	(106,588)	(119,354)
Financing Activities		
Payment of capital leases	(6,141)	(6,373)
Net proceeds from (repayment of) short-term borrowings	801	(4,698)
Payment of debt issuance costs	—	(543)
Proceeds from exercise of stock options	13,573	8,987
Excess tax benefit from share-based compensation	2,413	1,057
Payments of common dividends	(11,413)	(11,255)
Net Cash Used in Financing Activities	(767)	(12,825)
Increase in Cash and Cash Equivalents	14,290	3,603
Cash and Cash Equivalents, End of Period	\$498,792	\$433,387
Supplemental Disclosure		
Cash paid for income taxes, net	\$19,169	\$3,136
Cash paid for interest	\$26,232	\$26,516
Non-cash Investing and Financing Activities		
Property, plant and equipment acquired through partial non-monetary exchanges	\$936	\$16,872



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Property, plant and equipment acquired through capital lease	\$7,233	\$—
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The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Con-way Inc.

Notes to Consolidated Financial Statements

(Unaudited)

## 1. Principal Accounting Policies

### Organization

Con-way Inc. and its consolidated subsidiaries (“Con-way”) provide transportation, logistics and supply-chain management services for a wide range of manufacturing, industrial and retail customers. Con-way’s business units operate in regional, inter-regional and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, multimodal freight brokerage, and trailer manufacturing. As more fully discussed in Note 3, “Segment Reporting,” for financial reporting purposes, Con-way is divided into three reporting segments: Freight, Logistics and Truckload.

### Basis of Presentation

These unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and Rule 10-01 of Regulation S-X, and should be read in conjunction with Con-way’s 2013 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been reduced or omitted. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary to present fairly Con-way’s financial position, results of operations and cash flows for the periods presented. Results for the interim periods presented are not necessarily indicative of annual results.

### Earnings per Share (“EPS”)

Basic EPS is computed by dividing net income by the weighted-average common shares outstanding during the period. Diluted EPS is calculated as follows:

(Dollars in thousands, except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Numerator:				
Net income	\$53,667	\$42,897	\$66,560	\$56,902
Denominator:				
Weighted-average common shares outstanding	57,128,379	56,354,017	57,043,378	56,226,038
Stock options and nonvested stock	566,312	606,721	533,995	634,057
	57,694,691	56,960,738	57,577,373	56,860,095
Diluted Earnings per Share	\$0.93	\$0.75	\$1.16	\$1.00
Anti-dilutive stock options excluded from the computation of diluted EPS	499,469	1,119,661	719,958	1,119,661

### Property, Plant and Equipment

Con-way periodically evaluates whether changes in estimated useful lives or salvage values are necessary to ensure that these estimates accurately reflect the economic use of the assets. In response to conditions in the used-trailer market, Con-way Truckload increased the estimated salvage values for certain of its trailers in the fourth quarter of 2013. The effect of the change in estimate decreased depreciation expense and increased operating income by \$1.6 million and \$3.4 million for the second quarter and first half of 2014, respectively. As a result of this change, net income in the second quarter of 2014 increased by \$1.0 million and basic and diluted EPS increased \$0.02 per share, and in the first half of 2014, net income increased by \$2.1 million and basic and diluted EPS increased \$0.04 per share.

### New Accounting Standards

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers.” This ASU, codified in the “Revenue Recognition” topic of the FASB Accounting Standards Codification, requires revenue to be recognized upon the transfer of promised goods or services

to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires disclosures sufficient to describe the nature, amount, timing, and uncertainty of revenue and cash flows

arising from these customer contracts. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and can be applied either retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the standard recognized on the date of adoption. Con-way plans to adopt this standard in the first quarter of 2017. Con-way is currently evaluating the method of application and the potential impact on the financial statements and related disclosures.

## 2. Goodwill and Intangible Assets

### Goodwill

The following table shows the changes in the gross carrying amounts of goodwill:

(Dollars in thousands)	Logistics	Truckload	Corporate and Eliminations	Total
Goodwill	\$55,888	\$464,598	\$727	\$521,213
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
Balances at December 31, 2012	7,652	329,785	727	338,164
Change in foreign currency exchange rates	(193 )	—	—	(193 )
Goodwill	55,695	464,598	727	521,020
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
Balances at December 31, 2013	7,459	329,785	727	337,971
Change in foreign currency exchange rates	2	—	—	2
Goodwill	55,697	464,598	727	521,022
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
Balances at June 30, 2014	\$7,461	\$329,785	\$727	\$337,973

### Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense was \$0.6 million and \$1.2 million for the second quarter and first half of 2014, respectively, compared to \$0.6 million and \$1.2 million for the same periods of 2013. Intangible assets consisted of the following:

(Dollars in thousands)	June 30, 2014		December 31, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$23,088	\$15,626	\$23,088	\$14,448

Con-way's customer-relationship intangible asset relates to the Con-way Truckload business unit. Estimated future amortization expense is presented in the following table:

(Dollars in thousands)

Years ending December 31:

Remaining six months of 2014	\$1,178
2015	2,356
2016	2,356
2017	1,572

### 3. Segment Reporting

Con-way discloses segment information in the manner in which the business units are organized for making operating decisions, assessing performance and allocating resources. For the periods presented, Con-way is divided into the following three reporting segments:

**Freight.** The Freight segment consists of the operating results of the Con-way Freight business unit, which provides regional, inter-regional and transcontinental less-than-truckload freight services throughout North America.

**Logistics.** The Logistics segment consists of the operating results of the Menlo Logistics ("Menlo") business unit, which develops contract-logistics solutions, including the management of complex distribution networks and supply-chain engineering and consulting, and also provides multimodal freight-brokerage services.

**Truckload.** The Truckload segment consists of the operating results of the Con-way Truckload business unit, which provides asset-based full-truckload freight services throughout North America.

#### Financial Data

Management evaluates segment performance primarily based on revenue and operating income (loss). Accordingly, investment income, interest expense and other non-operating items are not reported in segment results. Corporate expenses are generally allocated based on measurable services provided to each segment, or for general corporate expenses, based on segment revenue. Inter-segment revenue and related operating income (loss) have been eliminated to reconcile to consolidated revenue and operating income. Transactions between segments are generally based on negotiated prices.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Revenue from External Customers				
Freight	\$927,942	\$881,824	\$1,764,271	\$1,698,960
Logistics	413,830	353,528	803,202	732,256
Truckload	148,930	144,490	289,527	282,839
Corporate and Eliminations	1,647	1,528	4,192	3,479
	\$1,492,349	\$1,381,370	\$2,861,192	\$2,717,534
Revenue from Internal Customers				
Freight	\$12,561	\$10,451	\$24,259	\$20,851
Logistics	19,820	16,850	36,813	30,479
Truckload	15,134	17,314	30,547	35,968
Corporate and Eliminations	17,152	16,393	31,542	31,045
	\$64,667	\$61,008	\$123,161	\$118,343
Operating Income (Loss)				
Freight	\$83,021	\$54,689	101,586	70,713
Logistics	6,418	6,039	12,592	12,571
Truckload	13,499	10,873	19,879	20,828
Corporate and Eliminations	(238	) 4,698	1,705	3,786
	\$102,700	\$76,299	\$135,762	\$107,898

#### 4. Fair-Value Measurements

Assets and liabilities reported at fair value are classified in one of the following three levels within the fair-value hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable inputs that are not corroborated by market data

Financial Assets Measured at Fair Value on a Recurring Basis

The following table summarizes the valuation of financial instruments within the fair-value hierarchy:

	June 30, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	\$436,871	\$73,092	\$363,779	\$—
	December 31, 2013			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	\$441,199	\$99,092	\$342,107	\$—

Cash equivalents consist of short-term interest-bearing instruments (primarily certificates of deposit, commercial paper and money-market funds) with maturities of three months or less at the date of purchase.

Money-market funds reflect their published net asset value and are classified as Level 1 instruments. Commercial paper and certificates of deposit are generally valued using published interest rates for instruments with similar terms and maturities, and accordingly, are classified as Level 2 instruments. At June 30, 2014, the weighted-average remaining maturity of the cash equivalents was less than one month. Based on their short maturities, the carrying amount of the cash equivalents approximates their fair value.

#### 5. Employee Benefit Plans

In the periods presented, certain employees of Con-way and its subsidiaries in the U.S. were covered under several retirement benefit plans, including defined benefit pension plans, defined contribution retirement plans and a postretirement medical plan. See Note 9, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2013 Annual Report on Form 10-K for additional information concerning its employee benefit plans.

##### Defined Benefit Pension Plans

As a result of plan amendments in previous years, no additional benefits accrue under these plans and already-accrued benefits will not be adjusted for future increases in compensation. The following table summarizes the components of net periodic benefit expense (income) for Con-way's domestic defined benefit pension plans:

	Qualified Pension Plans			
	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
Interest cost on benefit obligation	\$18,767	\$17,422	\$37,638	\$35,011
Expected return on plan assets	(23,309 )	(23,005 )	(46,636 )	(45,662 )
Amortization of actuarial loss	2,375	4,486	4,850	9,136
Amortization of prior-service costs	405	417	809	835
Net periodic benefit income	\$(1,762 )	\$(680 )	\$(3,339 )	\$(680 )
	Non-Qualified Pension Plans			
	Three Months Ended		Six Months Ended	
(Dollars in thousands)	June 30,	June 30,	June 30,	June 30,
	2014	2013	2014	2013
Interest cost on benefit obligation	\$864	\$803	\$1,726	\$1,607
Amortization of actuarial loss	219	280	438	559
Amortization of prior-service costs	1	2	2	3
Net periodic benefit expense	\$1,084	\$1,085	\$2,166	\$2,169

