

Con-way Inc.  
Form 10-Q  
November 02, 2012

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 September 30, 2012

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 organization)	(I.R.S. Employer Identification No.)

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 ☐

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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:

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 ☒

Number of shares of Common Stock, \$0.625 par value,  
outstanding as of October 31, 2012: 55,968,995

CON-WAY INC.  
FORM 10-Q  
Quarter Ended September 30, 2012

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

CON-WAY INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$442,021	\$438,010
Marketable securities	3,200	13,255
Trade accounts receivable, net	629,370	577,522
Other accounts receivable	53,196	43,849
Operating supplies, at lower of average cost or market	25,674	22,822
Prepaid expenses	38,564	48,369
Deferred income taxes	17,069	46,563
Total Current Assets	1,209,094	1,190,390
Property, Plant and Equipment		
Land	189,319	194,078
Buildings and leasehold improvements	829,231	827,910
Revenue equipment	1,709,507	1,613,806
Other equipment	328,304	318,313
	3,056,361	2,954,107
Accumulated depreciation	(1,509,860)	(1,458,074)
Net Property, Plant and Equipment	1,546,501	1,496,033
Other Assets		
Deferred charges and other assets	34,957	36,743
Capitalized software, net	20,941	19,829
Marketable securities	—	5,354
Intangible assets, net	11,586	13,951
Goodwill	338,041	337,716
	405,525	413,593
Total Assets	\$3,161,120	\$3,100,016

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

## CON-WAY INC.

## CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)

	September 30, 2012 (Unaudited)	December 31, 2011
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable	\$361,489	\$345,489
Accrued liabilities	255,472	235,146
Self-insurance accruals	104,272	104,328
Short-term borrowings	10,639	14,481
Current maturities of long-term debt and capital leases	12,745	24,026
<b>Total Current Liabilities</b>	<b>744,617</b>	<b>723,470</b>
<b>Long-Term Liabilities</b>		
Long-term debt	718,983	718,336
Long-term obligations under capital leases	36,765	51,902
Self-insurance accruals	148,903	158,889
Employee benefits	555,070	610,850
Other liabilities and deferred credits	34,814	39,120
Deferred income taxes	71,581	38,195
<b>Total Liabilities</b>	<b>2,310,733</b>	<b>2,340,762</b>
<b>Commitments and Contingencies (Note 8)</b>		
<b>Shareholders' Equity</b>		
Common stock, \$0.625 par value; authorized 100,000,000 shares; issued 63,550,965 and 63,065,931 shares, respectively	39,692	39,394
Additional paid-in capital, common stock	611,094	595,992
Retained earnings	955,141	884,758
Cost of repurchased common stock (7,581,970 and 7,468,869 shares, respectively)	(326,088)	(322,454)
Accumulated other comprehensive loss	(429,452)	(438,436)
<b>Total Shareholders' Equity</b>	<b>850,387</b>	<b>759,254</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$3,161,120</b>	<b>\$3,100,016</b>

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 amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues	\$1,404,113	\$1,377,079	\$4,216,370	\$3,971,255
Costs and Expenses				
Salaries, wages and employee benefits	534,011	516,083	1,601,105	1,516,597
Purchased transportation	384,312	365,306	1,152,563	1,030,822
Other operating expenses	145,660	145,298	420,704	417,998
Fuel and fuel-related taxes	136,011	142,185	420,196	428,322
Depreciation and amortization	55,403	50,814	160,687	151,668
Maintenance	33,893	35,711	98,474	97,692
Rents and leases	29,654	30,423	86,596	86,944
Purchased labor	29,956	30,134	84,999	83,226
	1,348,900	1,315,954	4,025,324	3,813,269
Operating Income	55,213	61,125	191,046	157,986
Other Income (Expense)				
Investment income	204	163	648	712
Interest expense	(13,667)	(13,909)	(41,199)	(41,751)
Miscellaneous, net	(592)	227	(3,218)	(2,536)
	(14,055)	(13,519)	(43,769)	(43,575)
Income before Income Tax Provision	41,158	47,606	147,277	114,411
Income Tax Provision	15,854	18,478	54,527	48,939
Net Income	\$25,304	\$29,128	\$92,750	\$65,472
Weighted-Average Common Shares Outstanding				
Basic	55,906,636	55,535,074	55,806,937	55,331,170
Diluted	56,463,535	56,117,334	56,432,216	56,054,059
Earnings per Common Share				
Basic	\$0.45	\$0.52	\$1.66	\$1.18
Diluted	\$0.45	\$0.52	\$1.64	\$1.17

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

CON-WAY INC.  
 STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME  
 (Unaudited)  
 (Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net Income	\$25,304	\$29,128	\$92,750	\$65,472
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	674	(1,226	) (52	) 477
Unrealized gain on available-for-sale security, net of deferred tax of \$182, \$7, \$145 and \$21, respectively	283	12	226	33
Employee benefit plans				
Amortization of actuarial loss included in expense, net of deferred tax of \$1,872, \$976, \$5,633 and \$2,928, respectively	2,928 3,885	1,527 313	8,810 8,984	4,581 5,091
Comprehensive Income	\$29,189	\$29,441	\$101,734	\$70,563

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)

	Nine Months Ended September 30,	
	2012	2011
Cash and Cash Equivalents, Beginning of Period	\$438,010	\$421,420
Operating Activities		
Net income	92,750	65,472
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	159,936	150,905
Non-cash compensation and employee benefits	25,299	17,668
Increase in deferred income taxes	57,102	42,049
Provision for uncollectible accounts	3,267	4,973
Gain from sales of property, equipment and investment, net	(8,015)	(1,923)
Changes in assets and liabilities:		
Receivables	(54,586)	(104,658)
Prepaid expenses	9,805	16,350
Accounts payable	8,716	53,788
Accrued variable compensation	(4,742)	12,806
Accrued liabilities, excluding accrued variable compensation and employee benefits	25,153	15,172
Self-insurance accruals	(10,042)	(11,970)
Accrued income taxes	(8,949)	31,218
Employee benefits	(55,865)	(51,430)
Deferred charges and credits	(3,915)	1,508
Other	(6,211)	(5,878)
Net Cash Provided by Operating Activities	229,703	236,050
Investing Activities		
Capital expenditures	(213,217)	(176,677)
Software expenditures	(5,743)	(7,280)
Proceeds from sales of property and equipment	19,385	6,083
Purchases of marketable securities	(8,200)	(11,230)
Proceeds from sales of marketable securities	23,613	525
Net Cash Used in Investing Activities	(184,162)	(188,579)
Financing Activities		
Repayment of capital leases	(25,868)	(14,884)
Net repayments of short-term borrowings	(3,891)	(3,732)
Payment of debt issuance costs	—	(661)
Proceeds from exercise of stock options	3,357	5,374
Excess tax benefit from share-based compensation	1,632	713
Payments of common dividends	(16,760)	(16,617)
Net Cash Used in Financing Activities	(41,530)	(29,807)
Increase in Cash and Cash Equivalents	4,011	17,664
Cash and Cash Equivalents, End of Period	\$442,021	\$439,084
Supplemental Disclosure		



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Cash paid (refunded) for income taxes, net	\$7,260	\$(28,005)	)
Cash paid for interest, net of amounts capitalized	\$43,105	\$43,765	
Non-cash Investing and Financing Activities			
Revenue equipment acquired through partial non-monetary exchanges	\$23,974	\$25,708	
Repurchased common stock issued under defined contribution plan	\$—	\$17,307	
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 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 four reporting segments: Freight, Logistics, Truckload and Other.

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 2011 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		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
Numerator:				
Net income	\$25,304	\$29,128	\$92,750	\$65,472
Denominator:				
Weighted-average common shares outstanding	55,906,636	55,535,074	55,806,937	55,331,170
Stock options and nonvested stock	556,899	582,260	625,279	722,889
	56,463,535	56,117,334	56,432,216	56,054,059
Diluted Earnings per Share:	\$0.45	\$0.52	\$1.64	\$1.17
Anti-dilutive securities excluded from the computation of diluted EPS	1,818,992	2,070,672	1,779,609	1,838,289

New Accounting Standards

As of September 30, 2012, there are no material new accounting standards that have been issued but not yet adopted by Con-way.

## 2. Goodwill and Intangible Assets

## Goodwill

The following table shows the changes in the gross carrying amounts of goodwill attributable to each applicable segment:

(Dollars in thousands)	Logistics	Truckload	Other	Total
Balance at December 31, 2010				
Goodwill	\$55,374	\$464,598	\$727	\$520,699
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
	7,138	329,785	727	337,650
Change in foreign currency exchange rates	66	—	—	66
Balances at December 31, 2011				
Goodwill	55,440	464,598	727	520,765
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
	7,204	329,785	727	337,716
Change in foreign currency exchange rates	325	—	—	325
Balances at September 30, 2012				
Goodwill	55,765	464,598	727	521,090
Accumulated impairment losses	(48,236 )	(134,813 )	—	(183,049 )
	\$7,529	\$329,785	\$727	\$338,041

## Intangible Assets

Definite-lived intangible assets are amortized on a straight-line basis over their estimated useful lives. In the third quarter and first nine months of 2012, amortization expense related to intangible assets was \$0.8 million and \$2.4 million, respectively, compared to \$0.9 million and \$2.5 million in the same periods of 2011.

Intangible assets consisted of the following:

(Dollars in thousands)	September 30, 2012		December 31, 2011	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$23,098	\$11,512	\$27,570	\$13,619

Estimated amortization expense for the next five years is presented in the following table:

(Dollars in thousands)

Year ending December 31:	
Remaining three months of 2012	\$590
2013	2,356
2014	2,356
2015	2,356
2016	2,356

2017

1,571

9

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### 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 four 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 Worldwide Logistics 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.

**Other.** The Other reporting segment consists of the operating results of Road Systems, a trailer manufacturer, and certain corporate activities for which the related income or expense has not been allocated to other reporting segments.

#### 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.

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(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2012	2011	September 30, 2012	2011
Revenues before Inter-segment Eliminations				
Freight	\$858,276	\$843,300	\$2,567,847	\$2,450,870
Logistics	427,790	417,142	1,294,965	1,181,129
Truckload	160,094	158,705	480,337	459,371
Other	15,229	12,160	44,156	36,454
Inter-segment Revenue Eliminations	(57,276 )	(54,228 )	(170,935 )	(156,569 )
	\$1,404,113	\$1,377,079	\$4,216,370	\$3,971,255
Inter-segment Revenue Eliminations				
Freight	\$11,996	\$13,205	\$37,868	\$36,931
Logistics	12,625	9,411	34,792	24,216
Truckload	18,502	20,921	57,273	63,291
Other	14,153	10,691	41,002	32,131
	\$57,276	\$54,228	\$170,935	\$156,569
Revenues from External Customers				
Freight	\$846,280	\$830,095	\$2,529,979	\$2,413,939
Logistics	415,165	407,731	1,260,173	1,156,913
Truckload	141,592	137,784	423,064	396,080
Other	1,076	1,469	3,154	4,323
	\$1,404,113	\$1,377,079	\$4,216,370	\$3,971,255
Operating Income (Loss)				
Freight	\$34,441	\$40,721	\$122,372	\$100,220
Logistics	10,990	12,679	35,972	33,420
Truckload	11,273	7,867	36,442	25,273
Other	(1,491 )	(142 )	(3,740 )	(927 )
	\$55,213	\$61,125	\$191,046	\$157,986

#### 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:

(Dollars in thousands)	September 30, 2012			
	Total	Level 1	Level 2	Level 3
Cash equivalents	\$398,496	\$84,082	\$314,414	\$—
Current marketable securities	3,200	—	3,200	—
(Dollars in thousands)	December 31, 2011			
	Total	Level 1	Level 2	Level 3
Cash equivalents	\$398,450	\$84,872	\$313,578	\$—

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Current marketable securities	13,255	—	13,255	—
Other marketable securities	5,354	—	—	5,354



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

Money-market funds reflect their published net asset value and are classified as Level 1 instruments. Commercial paper, certificates of deposit and variable-rate demand notes are generally valued using published interest rates for instruments with similar terms and maturities, and accordingly, are classified as Level 2 instruments. At September 30, 2012, 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.

Level 3 investments consisted of one auction-rate security at December 31, 2010 and December 31, 2011, which was valued with an income approach that utilized a discounted cash flow model. This investment was sold during the three months ended September 30, 2012. The following table summarizes the change in fair value of Con-way's auction-rate security, which was valued using Level 3 inputs:

(Dollars in thousands)	Auction-rate security
Balance at December 31, 2010	\$6,039
Loss included in other comprehensive income	(10 )
Settlements	(675 )
Balance at December 31, 2011	\$5,354
Gains (Losses)	
Included in earnings	(367 )
Included in other comprehensive income	371
Settlements and Sales	
Settlements	(75 )
Sales	(5,283 )
Balance at September 30, 2012	\$—



## 5. Employee Benefit Plans

In the periods presented, 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 10, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2011 Annual Report on Form 10-K for additional information concerning its employee benefit plans, including changes to its defined contribution retirement 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		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest cost on benefit obligation	\$ 17,542	\$ 17,827	\$ 52,626	\$ 53,482
Expected return on plan assets	(21,102)	(21,483)	(63,308)	(64,451)
Amortization of net loss	4,862	2,636	14,585	7,909
Net periodic benefit expense (income)	\$ 1,302	\$ (1,020)	\$ 3,903	\$ (3,060)

	Non-Qualified Pension Plans			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in thousands)	2012	2011	2012	2011
Interest cost on benefit obligation	\$ 860	\$ 946	\$ 2,579	\$ 2,840
Amortization of net loss	240	170	763	509
Net periodic benefit expense	\$ 1,100	\$ 1,116	\$ 3,342	\$ 3,349

Con-way has made \$51.4 million in contributions to its Qualified Pension Plans in 2012, including \$8.4 million contributed in October 2012. Con-way does not anticipate making any further contributions to the plans in 2012.

### Defined Contribution Retirement Plans

Con-way's expense for defined contribution retirement plans was \$12.0 million and \$37.6 million in the third quarter and first nine months of 2012, respectively, compared to \$8.4 million and \$26.2 million in the same periods of 2011. In the periods presented, Con-way's contributions included cash and Con-way common stock. From January 2009 through June 2011, the common stock contributions were made with repurchased common stock (also referred to as treasury stock). In 2011, Con-way used 461,151 shares of treasury stock to fund \$17.3 million of contributions.

## Postretirement Medical Plan

The following table summarizes the components of net periodic benefit expense for the postretirement medical plan:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Service cost	\$419	\$360	\$1,259	\$1,081
Interest cost on benefit obligation	1,080	1,123	3,239	3,369
Amortization of prior service credit	(302)	(303)	(905)	(909)
Net periodic benefit expense	\$1,197	\$1,180	\$3,593	\$3,541

## 6. Share-Based Compensation

Under terms of its share-based compensation plans, Con-way grants various types of share-based compensation awards to employees and directors. In addition to the awards described in Note 11, "Share-Based Compensation," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2011 Annual Report on Form 10-K, the plans also provide for awards in the form of performance-share plan units ("PSPUs"). The PSPUs vest three years from the grant date if certain performance criteria are achieved. The number of shares the award recipients ultimately receive depends upon the achievement of certain performance criteria and can range from 0% to 200% of the grant target. PSPUs are subject to forfeiture if an award recipient ceases to be an active full-time employee prior to the end of the three-year period, subject in some cases to early vesting upon specified events, including death or disability of the award recipient, or termination of employment following a change in control of Con-way. The PSPUs are valued at the market price of Con-way's common stock at the date of the award, reduced by the present value of the dividends not received during the three-year vesting period. The amount of expense recorded each period is based on Con-way's current estimate of the number of shares that will ultimately vest.

At September 30, 2012 and December 31, 2011, Con-way had recognized accrued liabilities for cash-settled Stock Appreciation Rights ("SARs") of \$3.6 million and \$3.1 million, respectively, using a weighted-average fair value per SAR of \$7.91 and \$10.85, respectively.

The following expense was recognized for share-based compensation:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Salaries, wages and employee benefits	\$1,542	\$316	\$11,371	\$9,485
Deferred income tax benefit	(596)	(89)	(4,414)	(3,665)
Net share-based compensation expense	\$946	\$227	\$6,957	\$5,820

## 7. Income Taxes

Con-way's third-quarter and year-to-date effective tax rates in 2012 were 38.5% and 37.0%, respectively. In the third quarter and first nine months of 2011, the effective tax rates were 38.8% and 42.8%, respectively. The year-to-date 2012 tax provision reflects a \$2.5 million benefit for discrete adjustments, including \$4.2 million of benefit in the second quarter for the release of reserves due to the expiration of the statute of limitations on uncertain tax positions, partially offset by a \$2.5 million second-quarter charge for a proposed Internal Revenue Service ("IRS") audit adjustment. The 2011 year-to-date tax provision reflects \$6.0 million of charges for discrete adjustments, including a \$5.9 million

first-quarter charge due to the matter discussed below under “Audit Settlement.” Excluding the effect of various discrete tax adjustments, the third-quarter and year-to-date 2012 effective tax rates were 38.4% and 38.7%, respectively. In the third quarter and first nine months of 2011, the effective tax rates, excluding discrete adjustments, were 37.4% and 37.5%, respectively. The rates in 2012 increased from 2011 primarily due to a 2011 benefit associated with a now-expired fuel-related tax credit.

Other accounts receivable in the consolidated balance sheets include income tax receivables of \$13.3 million and \$4.8 million at September 30, 2012 and December 31, 2011, respectively.

#### Audit Settlement

In 2011, Con-way settled a disputed issue with the IRS that arose in the 2005 to 2007 audit cycle. This issue primarily related to the treatment and character of certain payments Con-way made to retirees and former employees of Menlo Worldwide Forwarding, Inc. and its subsidiaries ("MWF") since the 2004 sale of MWF to United Parcel Service, Inc. Con-way and the IRS agreed in the settlement to re-characterize a portion of these payments as capital losses. The re-characterized portion may not be deducted and may be used only to offset capital gains.

#### 8. Commitments and Contingencies

##### Purchase Obligations

In connection with its outsourcing initiative, Con-way entered into agreements with third-party service providers in the first quarter of 2010. Payments to the third-party providers are estimated to be \$232 million between 2012 and 2016, when the agreements are expected to expire. The payments under the terms of the agreements are subject to change depending on the quantities and types of services consumed. The estimated payments reflect amounts based on projections of services expected to be consumed. The contracts also contain provisions that allow Con-way to terminate the contract at any time; however, Con-way would be required to pay additional fees if termination is for causes other than the failure of the service providers to perform. If Con-way had elected, for convenience, to terminate the contract for the outsourced information-technology services at December 31, 2011, the termination fee would have been approximately \$34 million, compared to approximately \$28 million if Con-way elects to terminate the contract on December 31, 2012.

##### Legal Matters

Con-way is a defendant in various legal matters incidental to its businesses. It is the opinion of management that the ultimate outcome of these actions will not have a material effect on Con-way's financial position, results of operations or cash flows.

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

### Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (referred to as "Management's Discussion and Analysis") is intended to assist in a historical and prospective understanding of Con-way's financial condition, results of operations and cash flows, including a discussion and analysis of the following:

- Overview of Business
- Results of Operations
- Liquidity and Capital Resources
- Critical Accounting Policies and Estimates
- Forward-Looking Statements

### Overview of Business

Con-way provides transportation, logistics and supply-chain management services for a wide range of manufacturing, industrial and retail customers through three primary business units: Con-way Freight, Menlo Worldwide Logistics and Con-way Truckload. These business units operate in regional and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, and multimodal freight brokerage. For financial reporting purposes, Con-way is divided into four 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 Worldwide Logistics 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.

• **Other.** The Other reporting segment consists of the operating results of Road Systems, a trailer manufacturer, and certain corporate activities for which the related income or expense has not been allocated to other reporting segments.

Con-way Freight primarily transports shipments utilizing a network of freight service centers combined with a fleet of company-operated line-haul and pickup-and-delivery tractors and trailers. Menlo Worldwide Logistics manages the logistics functions of its customers and primarily utilizes third-party transportation providers for the movement of customer shipments. Con-way Truckload primarily transports shipments using a fleet of company-operated long-haul tractors and trailers.

Con-way's primary business-unit results generally depend on the number, weight and distance of shipments transported, the prices received on those shipments or services and the mix of services provided to customers, as well as the fixed and variable costs incurred by Con-way in providing the services and the ability to manage those costs under changing circumstances. Due to Con-way Freight's cost structure, sudden or severe changes in shipment volumes can have a negative impact on management's ability to manage costs.

Con-way's primary business units are affected by the timing and degree of fluctuations in fuel prices and their ability to recover incremental fuel costs through fuel-surcharge programs and/or cost-recovery mechanisms, as more fully discussed in Item 3, "Quantitative and Qualitative Disclosures About Market Risk – Fuel."





## Results of Operations

The overview below provides a high-level summary of Con-way's results of operations for the periods presented and is intended to provide context for the remainder of the discussion on reporting segments. Refer to "Reporting Segment Review" below for more complete and detailed discussion and analysis.

(Dollars in thousands except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenues	\$1,404,113	\$1,377,079	\$4,216,370	\$3,971,255
Operating expenses	1,348,900	1,315,954	4,025,324	3,813,269
Operating income	55,213	61,125	191,046	157,986
Other non-operating expense	14,055	13,519	43,769	43,575
Income before income tax provision	41,158	47,606	147,277	114,411
Income tax provision	15,854	18,478	54,527	48,939
Net income	\$25,304	\$29,128	\$92,750	\$65,472
Diluted earnings per share	\$0.45	\$0.52	\$1.64	\$1.17

## Overview

Con-way's third-quarter consolidated revenue increased 2.0% in 2012 compared with 2011, and consolidated revenue on a year-to-date basis increased 6.2% from 2011 to 2012. The increases in consolidated revenue for both periods reflect higher revenue at all segments.

Con-way's consolidated operating income for the third quarter decreased 9.7% to \$55.2 million in 2012 from \$61.1 million in 2011, the result of declines in the Freight, Logistics and Other segments. The declines at Freight and Logistics were the result of reduced operating margins, while the decline in Other was due to reinsurance activities. In the year-to-date periods, operating income increased 20.9% to \$191.0 million in 2012 from \$158.0 million in 2011, primarily due to increases at the Freight and Truckload segments.

Con-way's third-quarter and year-to-date effective tax rates in 2012 were 38.5% and 37.0%, respectively. In the third quarter and first nine months of 2011, the effective tax rates were 38.8% and 42.8%, respectively. Both years included discrete tax adjustments that affected the effective tax rate, as more fully discussed in Note 7, "Income Taxes," of Item 1, "Financial Statements." Excluding the discrete tax adjustments, the third-quarter and year-to-date effective tax rates in 2012 were 38.4% and 38.7%, respectively, compared to 37.4% and 37.5%, respectively, in 2011. The rates in 2012 increased from 2011 primarily due to a 2011 benefit associated with a now-expired fuel-related tax credit.

## Cost-Reduction Actions

In response to economic conditions, in March 2009, Con-way announced several employee-related measures to reduce costs and conserve cash, as detailed in Item 7, "Management's Discussion and Analysis - Results of Operations - Overview," in Con-way's 2011 Annual Report on Form 10-K. For the periods presented, Con-way's comparative expenses were affected by the reinstatement of certain employer contributions to the defined contribution retirement plan in the fourth quarter of 2011. One of the suspended benefits, matching contributions to the defined contribution retirement plan, has not been reinstated. Any potential reinstatement of Con-way's matching contributions is based on a number of considerations.



## Reporting Segment Review

For the discussion and analysis of segment operating results, management utilizes revenue before inter-segment eliminations. Management believes that revenue before inter-segment eliminations, combined with the detailed operating expense information, provides the most meaningful analysis of segment results. Revenue before inter-segment eliminations is reconciled to revenue from external customers in Note 3, "Segment Reporting," of Item 1, "Financial Statements."

## Freight

The following table compares operating results, operating margins, and the percentage change in selected operating statistics of the Freight reporting segment:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Revenue before inter-segment eliminations	\$858,276	\$843,300	\$2,567,847	\$2,450,870	
Salaries, wages and employee benefits	393,509	382,545	1,170,174	1,120,203	
Purchased transportation	149,655	138,520	436,917	396,761	
Other operating expenses	113,153	113,294	334,048	336,789	
Fuel and fuel-related taxes	91,239	96,549	285,501	293,003	
Depreciation and amortization	31,576	27,562	92,624	82,729	
Maintenance	24,868	25,546	72,709	70,779	
Rents and leases	13,119	12,460	37,229	35,235	
Purchased labor	6,716	6,103	16,273	15,151	
Total operating expenses	823,835	802,579	2,445,475	2,350,650	
Operating income	\$34,441	\$40,721	\$122,372	\$100,220	
Operating margin	4.0	% 4.8	% 4.8	% 4.1	%
	2012 vs. 2011		2012 vs. 2011		
Selected Operating Statistics					
Weight per day	-0.2	%	+0.7	%	
Revenue per hundredweight ("yield")	+3.5	%	+4.2	%	
Shipments per day ("volume")	-2.8	%	-1.0	%	
Weight per shipment	+2.6	%	+1.8	%	

Freight's revenue in the third quarter of 2012 increased 1.8% from the third quarter of 2011, and in the first nine months of 2012, increased 4.8% from 2011. The third-quarter increase in revenue was due to a 3.5% increase in yield, partially offset by a 0.2% decrease in weight per day. The increase in yield was primarily due to an increase in base freight rates. The decrease in weight per day reflects a 2.8% decline in shipments per day, partially offset by a 2.6% increase in weight per shipment. In the first nine months of 2012, the revenue increase was due to a 4.2% increase in yield and a 0.7% increase in weight per day. The increase in yield was primarily due to an increase in base freight rates, while the increase in weight per day reflects a 1.8% increase in weight per shipment, partially offset by a 1.0% decrease in shipments per day. Freight's revenue was adversely affected by one less work day in the third quarter and first nine months of 2012 when compared to the same periods of 2011.

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After a 1.5% year-over-year increase in weight per day in the first quarter of 2012, the year-to-date increase in weight per day was 1.2% at June 2012 and 0.7% at September 2012. For October 2012 monthly activity, weight per day declined approximately 3% from October 2011.

Yield excluding fuel surcharges increased by 3.4% and 3.6%, respectively, in the third quarter and first nine months of 2012. In the third quarter, Freight's fuel-surcharge revenue increased to 17.3% of revenue in 2012 from 17.2% in 2011, and in the first nine months, increased to 17.5% of revenue in 2012 from 17.0% in 2011. The fuel surcharge is intended to compensate Con-

way Freight for the adverse effects of higher fuel costs and fuel-related increases in purchased transportation. Fuel surcharges are only one part of Con-way Freight's overall rate structure, and the total price that Con-way Freight receives from customers for its services is governed by market forces, as more fully discussed below in Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Fuel."

Freight's operating income decreased 15.4% in the third quarter of 2012 compared to the third quarter of 2011, and in the first nine months, increased 22.1% from the prior-year period. The third-quarter decrease in operating income was the result of reduced margins, as higher revenues from improved yields were more than offset by increased expenses, particularly for employee benefits. The increase in year-to-date operating income reflected revenue gains that were largely due to yield improvements.

In the third quarter and first nine months of 2012, expenses for salaries, wages and employee benefits increased 2.9% and 4.5%, respectively, from the same periods in 2011. Employee benefits expense increased 9.5% and 11.2%, respectively, when compared to the third quarter and first nine months of last year. Higher expenses for employee benefits in the third quarter and first nine months of 2012 were primarily due to higher costs for employee medical benefits and defined contribution retirement plans. Higher costs for employee medical benefits were largely due to increases in the number of claims. The increase in defined contribution retirement plan expense was mainly due to the restoration of benefits in the fourth quarter of 2011, as more fully discussed above in "Overview." Salaries and wages, excluding variable compensation, increased 1.5% and 1.6%, respectively, primarily due to salary and wage rate increases in the second quarter of 2012. Variable-compensation expense decreased \$3.3 million or 38.2% in the third quarter of 2012, but increased \$3.9 million or 17.9% in the first nine months of 2012 based primarily on variations in performance measures relative to variable-compensation plan targets.

Purchased transportation expense increased 8.0% in the third quarter of 2012, and 10.1% in the first nine months, due to increased third-party miles and higher carrier rates.

Expense for fuel and fuel-related taxes decreased 5.5% in the third quarter of 2012 and 2.6% in the first nine months of 2012, primarily due to lower fuel consumption as the result of fewer miles driven by company-operated tractors.

The increase in purchased transportation expense and the decrease in fuel expense are related. Both are largely due to a shift toward a higher proportion of miles driven by third-party carriers as opposed to company drivers. The increase in third-party miles is part of Con-way Freight's effort to reduce total linehaul costs by reducing empty miles. The increase in third-party miles was more than offset by the decrease in miles driven by company-operated tractors.

Depreciation and amortization expense increased 14.6% in the third quarter of 2012 compared to the third quarter of 2011, and increased 12.0% in the year-to-date period, primarily due to the replacement of older tractors with newer models.



## Logistics

The table below compares operating results and operating margins of the Logistics reporting segment. The table summarizes Logistics' revenue as well as net revenue (revenue less purchased transportation expense). Carrier-management revenue is attributable to contracts for which Menlo Worldwide Logistics manages the transportation of freight but subcontracts to carriers the actual transportation and delivery of products, which Menlo Worldwide Logistics refers to as purchased transportation. Menlo Worldwide Logistics' management places emphasis on net revenue as a meaningful measure of the relative importance of its principal services since revenue earned on most carrier-management services includes the carriers' charges to Menlo Worldwide Logistics for transporting the shipments.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenue before inter-segment eliminations	\$427,790	\$417,142	\$1,294,965	\$1,181,129
Purchased transportation expense	(268,031 )	(262,477 )	(817,645 )	(737,159 )
Net revenue	159,759	154,665	477,320	443,970
Salaries, wages and employee benefits	64,492	58,913	194,290	168,883
Other operating expenses	42,741	38,928	122,869	115,907
Fuel and fuel-related taxes	193	267	636	808
Depreciation and amortization	2,303	2,637	7,366	8,273
Maintenance	610	788	2,213	2,209
Rents and leases	15,872	17,067	47,355	48,454
Purchased labor	22,558	23,386	66,619	66,016
Total operating expenses excluding purchased transportation	148,769	141,986	441,348	410,550
Operating income	\$ 10,990	\$ 12,679	\$ 35,972	\$ 33,420
Operating margin on revenue	2.6	% 3.0	% 2.8	% 2.8
Operating margin on net revenue	6.9	% 8.2	% 7.5	% 7.5

In the third quarter of 2012, Logistics' revenue increased 2.6% due to a 4.7% increase in revenue from carrier-management services, partially offset by a 3.0% decrease in revenue from warehouse-management services. In the first nine months of 2012, Logistics' revenue increased 9.6% due to a 12.9% increase in revenue from carrier-management services and a 1.4% increase in revenue from warehouse-management services. In the third quarter of 2012, higher revenue from carrier-management services was primarily due to new customers, while lower revenue from warehouse-management services was primarily due to the closure of two warehouse facilities and to lower volumes. In the first nine months of 2012, higher revenue from carrier-management services was primarily due to new customers. In the same period, increased revenue from warehouse-management services was primarily due to growth at existing customers.

Logistics' net revenue in the third quarter and first nine months of 2012 increased 3.3% and 7.5%, respectively, when compared to the prior-year periods. Purchased transportation expense increased 2.1% and 10.9% in the third quarter and first nine months of 2012, respectively, primarily due to increased carrier-management volumes.

Logistics' operating income in the third quarter of 2012 decreased 13.3% from the same period of 2011, reflecting increases in salaries, wages and employee benefits expense, and higher other operating expenses. In the first nine months of 2012, Logistics' operating income increased 7.6% from the same period of 2011. Higher operating income

in the first nine months of 2012 reflects growth in net revenue, partially offset by increased operating expenses, particularly salaries, wages and employee benefits expense, and other operating expenses.

Salaries, wages and employee benefits increased 9.5% and 15.0% in the third quarter and first nine months of 2012, respectively. In the third quarter and first nine months, salaries and wages, excluding variable compensation, rose 11.6% and 15.8%, respectively, primarily due to increased average employee counts in response to growth from new and existing customers. Employee benefits expense increased 18.3% in the third quarter of 2012, primarily due to increased costs for employee medical benefits. In the first nine months of 2012, employee benefits expense increased 17.0%, primarily due to



increased costs for employee medical benefits and payroll taxes. Higher costs for employee medical benefits were largely due to increases in the number of claims. Increased expense for payroll taxes was primarily due to the increase in salaries and wages. Variable-compensation expense decreased \$1.6 million or 34.9% in the third quarter of 2012 based primarily on variations in performance measures relative to variable-compensation plan targets. In the first nine months of 2012, variable-compensation expense was relatively unchanged from 2011.

Other operating expenses increased 9.8% and 6.0% in the third quarter and first nine months of 2012, respectively, primarily due to increased expenses for warehouse-related packaging materials and supplies, amortization of set-up expenses related to carrier-management services, and higher costs for information-technology projects that support customer operations.

### Truckload

The table below compares operating results, operating margins and the percentage change in selected operating statistics of the Truckload reporting segment. The table summarizes the segment's revenue before inter-segment eliminations, including freight revenue, fuel-surcharge revenue and other non-freight revenue.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Freight revenue	\$119,409	\$118,395	\$355,835	\$342,973	
Fuel-surcharge revenue	35,628	35,829	110,050	103,298	
Other revenue	5,057	4,481	14,452	13,100	
Revenue before inter-segment eliminations	160,094	158,705	480,337	459,371	
Salaries, wages and employee benefits	52,604	54,142	159,196	156,562	
Purchased transportation	9,463	7,594	27,055	20,457	
Other operating expenses	15,477	16,238	47,297	45,192	
Fuel and fuel-related taxes	44,458	45,234	133,681	134,199	
Depreciation and amortization	17,904	17,764	51,595	51,593	
Maintenance	8,332	9,280	23,274	24,435	
Rents and leases	310	282	958	815	
Purchased labor	273	304	839	845	
Total operating expenses	148,821	150,838	443,895	434,098	
Operating income	\$11,273	\$7,867	\$36,442	\$25,273	
Operating margin on revenue	7.0	% 5.0	% 7.6	% 5.5	%
Operating margin on revenue excluding fuel-surcharge revenue	9.1	% 6.4	% 9.8	% 7.1	%
	2012 vs. 2011		2012 vs. 2011		
Selected Operating Statistics					
Freight revenue per loaded mile	+2.0	%	+2.7	%	
Loaded miles	-1.1	%	+1.0	%	

Truckload's revenue increased 0.9% in the third quarter of 2012 from the same period of 2011, primarily due to a 0.9% increase in freight revenue. The 0.9% increase in freight revenue was due to a 2.0% increase in revenue per loaded mile, partially offset by a 1.1% decrease in loaded miles. The decrease in loaded miles was due to lower miles per tractor, partially offset by an increase in the number of owner-operated units. In the first nine months of 2012, Truckload's revenue increased 4.6% from the same prior-year period, reflecting a 3.8% increase in freight revenue and

a 6.5% increase in fuel-surcharge revenue. The 3.8% increase in freight revenue was due to a 2.7% increase in revenue per loaded mile and a 1.0% increase in loaded miles. The increase in loaded miles was due to an increase in the number of owner-operated units, partially offset by lower miles per tractor. In the first nine months of 2012, higher fuel-surcharge revenue reflects higher fuel prices in 2012 compared to 2011 and an improved fuel-surcharge recovery rate.

Truckload's operating income increased 43.3% in the third quarter of 2012 compared to the third quarter of 2011, and in the first nine months, increased 44.2% from the prior-year period. Increased operating income in the third quarter of 2012 was primarily due to lower expenses for employee benefits and an increase in the rate per loaded mile. Higher operating income in the first nine months of 2012 was primarily due to an increase in the rate per loaded mile and an improved fuel-surcharge recovery rate.

Salaries, wages and employee benefits decreased 2.8% in the third quarter of 2012 and increased 1.7% in the first nine months of 2012. Employee benefits expense decreased 14.0% in the third quarter of 2012 primarily due to decreased costs for workers' compensation claims, partially offset by an increase in expense for employee medical benefits. Employee benefits expense increased 1.2% in the first nine months of 2012 primarily due to increases for employee medical benefits and defined contribution retirement plans, partially offset by a decrease in costs for workers' compensation claims. The decreases in expense for workers' compensation claims were due to decreases in expense per claim and the number of claims. The increases in expense for employee medical benefits were largely due to increases in the number of claims. The increase in expenses for defined contribution retirement plans was mainly due to the restoration of benefits in the fourth quarter of 2011. Variable-compensation expense increased \$1.0 million in the third quarter of 2012 and \$2.1 million in the first nine months of 2012 based on variations in performance measures relative to variable-compensation plan targets.

Purchased transportation expense increased 24.6% and 32.3% in the third quarter and first nine months of 2012, respectively, primarily due to growth in Truckload's owner-operator fleet.

Expense for fuel and fuel-related taxes decreased 1.7% and 0.4% in the third quarter and first nine months of 2012, respectively, primarily due to improved miles per gallon compared to the same periods of 2011.

Other operating expenses decreased 4.7% in the third quarter of 2012 and increased 4.7% in the first nine months of 2012. Lower other operating expenses in the third quarter of 2012 primarily reflect gains resulting from the disposition of equipment. Higher other operating expenses in the first nine months of 2012 were primarily due to increases for vehicular self-insurance and employee development expenses, partially offset by gains resulting from the disposition of equipment. The increase in expenses for vehicular self-insurance was due to an increase in expense per claim. Higher expenses for employee development relate to increased driver certification and training costs. The increases in gains from the disposition of equipment reflect improved conditions in the used-tractor market.

#### Other

The Other reporting segment consists of the operating results of Road Systems, a trailer manufacturer, and certain corporate activities for which the related income or expense has not been allocated to other reporting segments. The table below summarizes the operating results for the Other reporting segment:

(Dollars in thousands)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Revenue				
Road Systems	\$15,229	\$12,160	\$44,156	\$36,454
Operating income (loss)				
Road Systems	\$19	\$56	\$(106)	\$(23)
Con-way reinsurance activities	(1,166)	) 24	(2,594)	) 60
Con-way corporate properties	(319)	) (351)	) (999)	) (1,081)
Other	(25)	) 129	(41)	) 117

\$(1,491 ) \$(142 ) \$(3,740 ) \$(927 )

## Liquidity and Capital Resources

Cash and cash equivalents increased to \$442.0 million at September 30, 2012 from \$438.0 million at December 31, 2011, as \$229.7 million provided by operating activities exceeded \$184.2 million used in investing activities and \$41.5 million used in financing activities. Cash provided by operating activities came primarily from net income after adjustment for non-cash items. Cash used in investing activities primarily reflects capital expenditures. Cash used in financing activities primarily reflects the repayment of capital leases and payment of common dividends.

(Dollars in thousands)	Nine Months Ended September 30,	
	2012	2011
Operating Activities		
Net income	\$92,750	\$65,472
Non-cash adjustments (1)	237,589	213,672
Changes in assets and liabilities	(100,636 )	(43,094 )
Net Cash Provided by Operating Activities	229,703	236,050
Net Cash Used in Investing Activities	(184,162 )	(188,579 )
Net Cash Used in Financing Activities	(41,530 )	(29,807 )
Increase in Cash and Cash Equivalents	\$4,011	\$17,664

(1) “Non-cash adjustments” refer to depreciation, amortization, deferred income taxes, provision for uncollectible accounts, and other non-cash income and expenses.

## Operating Activities

The most significant items affecting the comparison of Con-way’s operating cash flows for the periods presented are summarized below:

In the first nine months of 2012, net income and non-cash adjustments collectively increased operating cash flows \$51.2 million over the same period of 2011. Changes in assets and liabilities decreased operating cash flow by \$57.5 million in the first nine months of 2012 compared to the same period of 2011. Significant comparative changes include accrued income taxes and accrued variable compensation.

Accrued income taxes used \$8.9 million in the first nine months of 2012, compared to \$31.2 million provided in the same prior-year period primarily due to variations in income tax payments and refunds. In the first nine months of 2012, Con-way made net payments of \$7.3 million, and in the first nine months of 2011 Con-way received \$28.0 million of net refunds.

Accrued variable compensation used \$4.7 million in the first nine months of 2012, compared to \$12.8 million provided in the same prior-year period. Variations in performance measures relative to variable-compensation plan targets resulted in a higher level of payments in the first nine months of 2012 when compared to the prior-year period.

## Investing Activities

The most significant item affecting the comparison of Con-way’s investing cash flows for the periods presented was the change in capital expenditures. In the first nine months, capital expenditures were \$213.2 million in 2012,

compared to \$176.7 million in 2011. Increased capital expenditures in 2012 were primarily due to increased acquisitions of tractor equipment at Con-way Freight.

Proceeds from sales of property and equipment increased to \$19.4 million in the first nine months of 2012 compared to \$6.1 million in the first nine months of 2011, primarily due to the sale of facilities in the Freight segment.

## Financing Activities

Cash used in financing activities increased to \$41.5 million in the first nine months of 2012 compared to \$29.8 million used in the same period of 2011 primarily due to the repayment of capital leases. Payments in the first nine months of 2012 included the repayment of certain capital leases previously scheduled to mature in December of 2012 and December 2013.

## Contractual Cash Obligations

Con-way's contractual cash obligations as of December 31, 2011 are summarized in Item 7, "Management's Discussion and Analysis – Liquidity and Capital Resources – Contractual Cash Obligations," of Con-way's 2011 Annual Report on Form 10-K. In the first nine months of 2012, there have been no material changes in Con-way's contractual obligations outside the ordinary course of business.

## Capital Resources and Liquidity Outlook

Con-way's capital requirements relate primarily to the acquisition of revenue equipment to support growth and/or replacement of older equipment with newer equipment. In funding these capital expenditures and meeting working-capital requirements, Con-way utilizes various sources of liquidity and capital, including cash and cash equivalents, cash flow from operations, credit facilities and access to capital markets. Con-way may also manage its liquidity requirements and cash-flow generation by varying the timing and amount of capital expenditures.

Con-way has a \$325 million unsecured revolving credit facility that matures on August 2, 2016. The revolving facility is available for cash borrowings and issuance of letters of credit. At September 30, 2012, no cash borrowings were outstanding under the credit facility; however, \$169.8 million of letters of credit were outstanding, leaving \$155.2 million of available capacity for additional letters of credit or cash borrowings, subject to compliance with financial covenants and other customary conditions of borrowing. The revolving facility is guaranteed by certain of Con-way's material domestic subsidiaries and contains two financial covenants: (i) a leverage ratio and (ii) a fixed-charge coverage ratio. At September 30, 2012, Con-way was in compliance with the revolving credit facility's financial covenants and expects to remain in compliance.

Con-way had other uncommitted unsecured credit facilities totaling \$67.7 million at September 30, 2012, which are available to support short-term borrowings, letters of credit, bank guarantees and overdraft facilities. At September 30, 2012, \$10.6 million of cash borrowings and \$27.3 million of other credit commitments were outstanding leaving \$29.8 million of available capacity.

See "– Forward-Looking Statements" below and Item 1A, "Risk Factors," and Note 6, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2011 Annual Report on Form 10-K for additional information concerning Con-way's \$325 million credit facility and its other debt instruments.

In 2012, Con-way anticipates capital and software expenditures of approximately \$300 million, net of asset dispositions, primarily for the acquisition of tractor equipment. Con-way's actual 2012 capital expenditures may differ from the estimated amount depending on factors such as availability and timing of delivery of equipment.

At September 30, 2012, Con-way's senior unsecured debt was rated as investment grade by Standard and Poor's (BBB-), Fitch Ratings (BBB-), and Moody's (Baa3). Standard and Poor's, Fitch Ratings, and Moody's assigned an outlook of "stable."





## Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to adopt accounting policies and make significant judgments and estimates. In many cases, there are alternative policies or estimation techniques that could be used. Con-way maintains a process to evaluate the appropriateness of its accounting policies and estimation techniques, including discussion with and review by the Audit Committee of its Board of Directors and its independent auditors. Accounting policies and estimates may require adjustment based on changing facts and circumstances and actual results could differ from estimates. Con-way believes that the accounting policies that are most judgmental and material to the financial statements are those related to the following:

Defined Benefit Pension Plans

Goodwill

Income Taxes

Property, Plant and Equipment and Other Long-Lived Assets

Revenue Recognition

Self-Insurance Accruals

Other than described below, there have been no significant changes to the critical accounting policies and estimates disclosed in Con-way's 2011 Annual Report on Form 10-K.

### Defined Benefit Pension Plans

#### Funding

Con-way periodically reviews the funded status of its qualified defined benefit pension plans and makes contributions from time to time as necessary to increase the funded status of the plans and to comply with the funding requirements of the Pension Projection Act ("PPA"). In determining the amount and timing of its pension contributions, Con-way considers its cash position, both the PPA- and GAAP-based measurements of funded status, and the tax deductibility of contributions, among other factors. In 2011, Con-way contributed \$62.6 million to its qualified defined benefit pension plans, and through October 31, Con-way contributed \$51.4 million to its qualified defined benefit pension plans in 2012. Con-way does not anticipate making any further contributions to the plans in 2012. In July 2012, the Moving Ahead for Progress in the 21st Century Act ("MAP-21") became law. Among other things, this legislation alters how PPA minimum funding requirements are determined. Although MAP-21 reduces Con-way's PPA minimum funding requirements, Con-way estimates that its 2013 contributions to its qualified defined benefit pension plans will be comparable to the amount contributed in 2012. The level of Con-way's annual contributions to its qualified pension plans is subject to change based on variations in interest rates, asset returns, PPA requirements and other factors.

## Forward-Looking Statements

Certain statements included herein constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to a number of risks and uncertainties, and should not be relied upon as predictions of future events. All statements other than statements of historical fact are forward-looking statements, including:

- any projections of earnings, revenues, weight, yield, volumes, income or other financial or operating items;
- any statements of the plans, strategies, expectations or objectives of Con-way's management for future operations or other future items;
- any statements concerning proposed new products or services;
- any statements regarding Con-way's estimated future contributions to pension plans;
- any statements as to the adequacy of reserves;
- any statements regarding the outcome of any legal and other claims and proceedings that may be brought against Con-way;
- any statements regarding future economic conditions or performance;
- any statements regarding strategic acquisitions; and
- any statements of estimates or belief and any statements or assumptions underlying the foregoing.

Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or the negative or other variations of those terms or comparable terminology or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data and methods that may be incorrect or imprecise and there can be no assurance that they will be realized. In that regard, certain important factors, among others and in addition to the matters discussed elsewhere in this document and other reports and documents filed by Con-way with the Securities and Exchange Commission, could cause actual results and other matters to differ materially from those discussed in such forward-looking statements. A detailed description of certain of these risk factors is included in Item 1A, "Risk Factors," of Con-way's 2011 Annual Report on Form 10-K. Any forward-looking statements speak only as of the date the statement is made, and Con-way does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Con-way is exposed to a variety of market risks, including the effects of interest rates, fuel prices and foreign currency exchange rates.

Con-way enters into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of interest rate, commodity or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure. For the periods presented, Con-way held no material derivative financial instruments.

#### Interest Rates

Con-way's exposure to interest-rate fluctuations is more fully discussed in Item 7, "Quantitative and Qualitative Disclosures About Market Risk," of Con-way's 2011 Annual Report on Form 10-K.

#### Fuel

Con-way is subject to risks associated with the price and availability of fuel, which are subject to political, economic and market factors that are outside of Con-way's control.

Con-way would be adversely affected by an inability to obtain fuel in the future. Although historically Con-way has been able to obtain fuel from various sources and in the desired quantities, there can be no assurance that this will continue to be the case in the future.

Con-way may also be adversely affected by the timing and degree of fluctuations in fuel prices. Currently, Con-way's business units have fuel-surcharge revenue programs or cost-recovery mechanisms in place with a majority of customers. Con-way Freight and Con-way Truckload maintain fuel-surcharge programs designed to offset or mitigate the adverse effect of rising fuel prices. Menlo Worldwide Logistics has cost-recovery mechanisms incorporated into most of its customer contracts under which it recognizes fuel-surcharge revenue designed to eliminate the adverse effect of rising fuel prices on purchased transportation.

Con-way's competitors in the less-than-truckload ("LTL") and truckload markets also impose fuel surcharges. Although fuel surcharges are generally based on a published national index, there is no industry-standard fuel-surcharge formula. As a result, fuel-surcharge revenue constitutes only part of the overall rate structure. Revenue excluding fuel surcharges (sometimes referred to as base freight rates) represents the collective pricing elements that exclude fuel surcharges. Ultimately, the total amount that Con-way Freight and Con-way Truckload can charge for their services is determined by competitive pricing pressures and market factors.

Historically, Con-way Freight's fuel-surcharge program has enabled it to more than recover increases in fuel costs and fuel-related increases in purchased transportation. As a result, Con-way Freight may be adversely affected if fuel prices fall and the resulting decrease in fuel-surcharge revenue is not offset by an equivalent increase in base freight-rate revenue. Although lower fuel surcharges may improve Con-way Freight's ability to increase the freight rates that it would otherwise charge, there can be no assurance in this regard. Con-way Freight may also be adversely affected if fuel prices increase. Customers faced with fuel-related increases in transportation costs often seek to negotiate lower rates through reductions in the base freight rates and/or limitations on the fuel surcharges charged by Con-way Freight, which adversely affect Con-way Freight's ability to offset higher fuel costs with higher revenue.

Con-way Truckload's fuel-surcharge program mitigates the effect of rising fuel prices but does not always result in Con-way Truckload fully recovering increases in its cost of fuel. The extent of recovery may vary depending on the amount of customer-negotiated adjustments and the degree to which Con-way Truckload is not compensated due to empty and out-of-route miles or from engine idling during cold or warm weather.

Con-way would be adversely affected if, due to competitive and market factors, its business units are unable to continue their current fuel-surcharge programs and/or cost-recovery mechanisms. In addition, there can be no assurance that these programs, as currently maintained or as modified in the future, will be sufficiently effective to offset increases in the price of fuel.

## Foreign Currency

The assets and liabilities of Con-way's foreign subsidiaries are denominated in foreign currencies, which create exposure to changes in foreign currency exchange rates. However, the market risk related to foreign currency exchange rates is not material to Con-way's financial condition, results of operations or cash flows. For the periods presented, Con-way used no material derivative financial instruments to manage foreign currency risk.

## ITEM 4. CONTROLS AND PROCEDURES

### (a) Disclosure Controls and Procedures

Con-way's management, with the participation of Con-way's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Con-way's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, Con-way's Chief Executive Officer and Chief Financial Officer have concluded that Con-way's disclosure controls and procedures are effective as of the end of such period.

### (b) Internal Control Over Financial Reporting

There have not been any changes in Con-way's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, Con-way's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain legal proceedings of Con-way are discussed in Note 8, "Commitments and Contingencies," of Item 1, "Financial Statements."

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors previously disclosed in Item 1A, "Risk Factors," of Con-way's 2011 Annual Report on Form 10-K.

ITEM 6. EXHIBITS

Exhibit No.

(10) Material Contracts:

- 10.1 Compliance Amendment 2012-1 to the Con-way Inc. 2005 Supplemental Excess Retirement Plan (Amended and Restated December 2008)#.
- 10.2 Form of Amendment No. 2 to Severance Agreement (Change in Control)#.
- 10.3 Form of Severance Agreement (Change in Control) for Saul Gonzalez#.
- 10.4 Form of Severance Agreement (Change in Control) for Stephen K. Krull#.
- 10.5 Form of Severance Agreement (Change in Control) for W. Gregory Lehmkuhl#.
- 10.6 Form of Severance Agreement (Change in Control) for C. Randal Mullett#.
- 10.7 Form of Amendment No. 2 to Amended and Restated Severance Agreement (Non-Change in Control)#.
- 10.8 Form of Severance Agreement (Non-Change in Control) for Saul Gonzalez#.
- 10.9 Form of Severance Agreement (Non-Change in Control) for Stephen K. Krull#.
- 10.10 Form of Severance Agreement (Non-Change in Control) for W. Gregory Lehmkuhl#.
- 10.11 Form of Non-Change in Control Severance Policy (Con-way Inc. and Con-way Enterprise Services, Inc.) #.
- 10.12 Form of Non-Change in Control Severance Policy (Con-way Affiliates)#.

(31) Certification of Officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

(32) Certification of Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(101) The following financial statements from Con-way's Form 10-Q for the quarter ended September 30, 2012, filed on November 2, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Statements of Consolidated Income, (iii) Statement of Consolidated Comprehensive Income, (iv) Statements of Consolidated Cash Flows, and (v) Notes to Consolidated Financial Statements.

# Designates a contract or compensation plan for Management or Directors.





SIGNATURES

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

November 2, 2012

Con-way Inc.  
(Registrant)

/s/ Stephen L. Bruffett  
Stephen L. Bruffett  
Executive Vice President and  
Chief Financial Officer