

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 (I.R.S. Employer Identification No.)
incorporation or 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

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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)

| ASSETS | September 30, 2012 (Unaudited) | December 31, 2011 |
|--|--------------------------------------|----------------------|
| 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)

| LIABILITIES AND SHAREHOLDERS' EQUITY | September 30, 2012 (Unaudited) | December 31, 2011 |
|--|--------------------------------------|----------------------|
| Current Liabilities | | |
| 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 |
| Total Current Liabilities | 744,617 | 723,470 |
| Long-Term Liabilities | | |
| 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 |
| Total Liabilities | 2,310,733 | 2,340,762 |
| Commitments and Contingencies (Note 8) | | |
| Shareholders' Equity | | |
| 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 |
| Total Shareholders' Equity | 850,387 | 759,254 |
| Total Liabilities and Shareholders' Equity | \$3,161,120 | \$3,100,016 |

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

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:

| (Dollars in thousands) | Qualified Pension Plans | | | |
|---------------------------------------|-------------------------|-----------|-------------------|-----------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 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) |

| (Dollars in thousands) | Non-Qualified Pension Plans | | | |
|-------------------------------------|-----------------------------|---------|-------------------|---------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 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 Conway'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 | | Nine Months Ended | | |
|---|--------------------|-----------|-------------------|-------------|---|
| | September 30, | | 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 | | Nine Months Ended | | |
|---|--------------------|-----------|-------------------|-------------|---|
| | September 30, | | 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

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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 | | Nine Months Ended | | |
|--|--------------------|------------|-------------------|------------|---|
| | September 30, | | 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, 2012 | 2011 | September 30, 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 |

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\$(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
- 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)
- (101) 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