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Con-way Inc.  
Form 10-Q  
November 07, 2011

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, 2011

OR

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

For the transition period from N/A to N/A

COMMISSION FILE NUMBER 1-5046

Con-way Inc.

Incorporated in the State of Delaware  
I.R.S. Employer Identification No. 94-1444798

2211 Old Earhart Road, Suite 100, Ann Arbor, Michigan 48105  
Telephone Number (734) 994-6600

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

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

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Number of shares of Common Stock, \$0.625 par value,  
outstanding as of October 31, 2011: 55,588,740

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CON-WAY INC.  
FORM 10-Q  
Quarter Ended September 30, 2011

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|  | September<br>30,<br>2011<br>(Unaudited) | December<br>31,<br>2010 |
|--|---|-------------------------|
| <b>ASSETS</b>  |   |                         |
| <b>Current Assets</b>                                  |   |                         |
| Cash and cash equivalents                              | \$ 439,084                              | \$ 421,420              |
| Marketable securities                                  | 11,230                                  | -                       |
| Trade accounts receivable, net                         | 635,972                                 | 539,849                 |
| Other accounts receivable                              | 51,356                                  | 79,065                  |
| Operating supplies, at lower of average cost or market | 24,397                                  | 23,868                  |
| Prepaid expenses                                       | 30,995                                  | 47,345                  |
| Deferred income taxes                                  | 50,174                                  | 8,530                   |
| <b>Total Current Assets</b>                            | <b>1,243,208</b>                        | <b>1,120,077</b>        |
| <b>Property, Plant and Equipment</b>                   |   |                         |
| Land   | 194,818                                 | 194,818                 |
| Buildings and leasehold improvements                   | 822,398                                 | 817,599                 |
| Revenue equipment                                      | 1,543,321                               | 1,480,561               |
| Other equipment  | 312,158                                 | 306,215                 |
|  | 2,872,695                               | 2,799,193               |
| Accumulated depreciation                               | (1,437,167)                             | (1,394,608)             |
| <b>Net Property, Plant and Equipment</b>               | <b>1,435,528</b>                        | <b>1,404,585</b>        |
| <b>Other Assets</b>                                    |   |                         |
| Deferred charges and other assets                      | 37,993                                  | 39,107                  |
| Capitalized software, net                              | 20,329                                  | 19,083                  |
| Marketable securities                                  | 5,568                                   | 6,039                   |
| Intangible assets, net                                 | 14,818                                  | 17,191                  |
| Goodwill   | 338,188                                 | 337,650                 |
|  | 416,896                                 | 419,070                 |
| <b>Total Assets</b>                                    | <b>\$ 3,095,632</b>                     | <b>\$ 2,943,732</b>     |

The accompanying notes are an integral part of these statements.

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CON-WAY INC.  
CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands except per share amounts)

| LIABILITIES AND SHAREHOLDERS' EQUITY   | September 30,<br>2011<br>(Unaudited) | December 31,<br>2010 |
|--|--------------------------------------|----------------------|
| <b>Current Liabilities</b>   |                                      |                      |
| Accounts payable   | \$ 363,525                           | \$ 304,176           |
| Accrued liabilities  | 232,500                              | 203,231              |
| Self-insurance accruals  | 100,726                              | 105,857              |
| Short-term borrowings  | 15,439                               | 18,552               |
| Current maturities of long-term debt and capital leases  | 19,623                               | 20,074               |
| <b>Total Current Liabilities</b>   | <b>731,813</b>                       | <b>651,890</b>       |
| <b>Long-Term Liabilities</b>   |                                      |                      |
| Long-term debt   | 718,305                              | 718,215              |
| Long-term obligations under capital leases   | 61,232                               | 75,735               |
| Self-insurance accruals  | 162,472                              | 169,311              |
| Employee benefits  | 348,773                              | 418,731              |
| Other liabilities and deferred credits   | 39,594                               | 41,789               |
| Deferred income taxes  | 135,171                              | 48,529               |
| <b>Total Liabilities</b>   | <b>2,197,360</b>                     | <b>2,124,200</b>     |
| <b>Commitments and Contingencies (Note 10)</b>   |                                      |                      |
| <b>Shareholders' Equity</b>  |                                      |                      |
| Common stock, \$0.625 par value; authorized 100,000,000 shares;<br>issued 63,057,046 and 62,750,994 shares, respectively | 39,389                               | 39,143               |
| Additional paid-in capital, common stock   | 594,346                              | 580,008              |
| Retained earnings  | 861,794                              | 821,187              |
| Cost of repurchased common stock<br>(7,468,659 and 7,884,597 shares, respectively)                                       | (322,454 )                           | (340,912 )           |
| <b>Total Common Shareholders' Equity</b>   | <b>1,173,075</b>                     | <b>1,099,426</b>     |
| Accumulated Other Comprehensive Loss   | (274,803 )                           | (279,894 )           |
| <b>Total Shareholders' Equity</b>  | <b>898,272</b>                       | <b>819,532</b>       |
| <b>Total Liabilities and Shareholders' Equity</b>  | <b>\$ 3,095,632</b>                  | <b>\$ 2,943,732</b>  |

The accompanying notes are an integral part of these statements.





CON-WAY INC.  
STATEMENTS OF CONSOLIDATED OPERATIONS  
(Unaudited)  
(Dollars in thousands except per share amounts)

|  | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|--|-------------------------------------|--------------|------------------------------------|--------------|
|  | 2011                                | 2010         | 2011                               | 2010         |
| Revenues   | \$ 1,377,079                        | \$ 1,270,183 | \$ 3,971,255                       | \$ 3,738,357 |
| <b>Costs and Expenses</b>                                    |                                     |              |                                    |              |
| Salaries, wages and employee benefits                        | 516,083                             | 517,221      | 1,516,597                          | 1,530,630    |
| Purchased transportation                                     | 365,306                             | 331,137      | 1,030,822                          | 952,817      |
| Fuel and fuel-related taxes                                  | 142,185                             | 112,863      | 428,322                            | 349,547      |
| Other operating expenses                                     | 145,298                             | 137,563      | 417,998                            | 411,505      |
| Depreciation and amortization                                | 50,814                              | 50,568       | 151,668                            | 143,532      |
| Maintenance  | 35,711                              | 30,640       | 97,692                             | 94,141       |
| Rents and leases   | 30,423                              | 29,622       | 86,944                             | 88,673       |
| Purchased labor  | 30,134                              | 31,654       | 83,226                             | 85,998       |
| Loss from impairment of goodwill and other intangible assets | -                                   | 16,414       | -                                  | 19,181       |
|  | 1,315,954                           | 1,257,682    | 3,813,269                          | 3,676,024    |
| Operating Income   | 61,125                              | 12,501       | 157,986                            | 62,333       |
| <b>Other Income (Expense)</b>                                |                                     |              |                                    |              |
| Investment income  | 163                                 | 352          | 712                                | 1,059        |
| Interest expense   | (13,909 )                           | (13,818 )    | (41,751 )                          | (44,906 )    |
| Miscellaneous, net   | 227                                 | (568 )       | (2,536 )                           | (2,622 )     |
|  | (13,519 )                           | (14,034 )    | (43,575 )                          | (46,469 )    |
| Income (Loss) before Income Tax Provision                    | 47,606                              | (1,533 )     | 114,411                            | 15,864       |
| Income Tax Provision   | 18,478                              | 6,695        | 48,939                             | 14,266       |
| Net Income (Loss) Applicable to Common Shareholders          | \$ 29,128                           | \$ (8,228 )  | \$ 65,472                          | \$ 1,598     |
| <b>Weighted-Average Common Shares Outstanding</b>            |                                     |              |                                    |              |
| Basic  | 55,535,074                          | 54,286,677   | 55,331,170                         | 51,780,610   |
| Diluted  | 56,117,334                          | 54,286,677   | 56,054,059                         | 52,410,846   |

Earnings (Loss) per Common Share

Basic

Net Income (Loss)

Applicable to Common

Shareholders

\$ 0.52

\$ (0.15 )

\$ 1.18

\$ 0.03

Diluted

Net Income (Loss)

Applicable to Common

Shareholders

\$ 0.52

\$ (0.15 )

\$ 1.17

\$ 0.03

The accompanying notes are an integral part of these statements.

CON-WAY INC.  
STATEMENTS OF CONSOLIDATED CASH FLOWS  
(Unaudited)  
(Dollars in thousands)

|   | Nine Months Ended<br>September 30, |            |
|---|------------------------------------|------------|
|   | 2011                               | 2010       |
| Cash and Cash Equivalents, Beginning of Period  | \$421,420                          | \$476,575  |
| <b>Operating Activities</b>   |                                    |            |
| Net income  | 65,472                             | 1,598      |
| Adjustments to reconcile net income to net cash provided<br>by operating activities:  |                                    |            |
| Depreciation and amortization, net of accretion                                       | 150,905                            | 140,619    |
| Non-cash compensation and employee benefits   | 17,668                             | 15,746     |
| Increase in deferred income taxes   | 42,049                             | 33,163     |
| Provision for uncollectible accounts  | 4,973                              | 5,519      |
| Loss from impairment of goodwill and other intangible assets                          | -                                  | 19,181     |
| Loss (Gain) from sales of property and equipment, net                                 | (1,923 )                           | 972        |
| Changes in assets and liabilities:  |                                    |            |
| Receivables   | (104,658 )                         | (108,590 ) |
| Prepaid expenses  | 16,350                             | 4,628      |
| Accounts payable  | 53,788                             | 57,052     |
| Accrued variable compensation   | 12,806                             | 7,873      |
| Accrued liabilities, excluding accrued variable compensation<br>and employee benefits | 15,172                             | (5,347 )   |
| Self-insurance accruals   | (11,970 )                          | 29,596     |
| Accrued income taxes  | 31,218                             | (31,021 )  |
| Employee benefits   | (51,430 )                          | (70,701 )  |
| Deferred charges and credits  | 1,508                              | (1,075 )   |
| Other   | (5,878 )                           | (3,940 )   |
| Net Cash Provided by Operating Activities   | 236,050                            | 95,273     |
| <b>Investing Activities</b>   |                                    |            |
| Capital expenditures  | (176,677 )                         | (119,989 ) |
| Software expenditures   | (7,280 )                           | (7,015 )   |
| Proceeds from sales of property and equipment   | 6,083                              | 3,258      |
| Purchases of marketable securities  | (11,230 )                          | (54,260 )  |
| Proceeds from sales of marketable securities  | 525                                | 28,460     |
| Net Cash Used in Investing Activities   | (188,579 )                         | (149,546 ) |
| <b>Financing Activities</b>   |                                    |            |
| Repayment of long-term debt and capital leases  | (14,884 )                          | (207,704 ) |
| Net proceeds from (repayments of) short-term borrowings                               | (3,732 )                           | 8,154      |
| Payment of debt issuance costs  | (661 )                             | -          |
| Proceeds from issuance of common stock  | -                                  | 143,325    |

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|   |             |            |
|---|-------------|------------|
| Proceeds from exercise of stock options                           | 5,374       | 1,148      |
| Excess tax benefit from stock-option exercises                    | 713         | 150        |
| Payments of common dividends                                      | (16,617 )   | (15,367 )  |
| Net Cash Used in Financing Activities                             | (29,807 )   | (70,294 )  |
| Increase (Decrease) in Cash and Cash Equivalents                  | 17,664      | (124,567 ) |
| Cash and Cash Equivalents, End of Period                          | \$439,084   | \$352,008  |
| Supplemental Disclosures  |             |            |
| Cash paid (refunded) for income taxes, net                        | \$(28,005 ) | \$16,988   |
| Cash paid for interest, net of amounts capitalized                | \$43,765    | \$51,878   |
| Non-cash Investing and Financing Activities                       |             |            |
| Capital lease incurred to acquire revenue equipment               | \$-         | \$35,104   |
| Revenue equipment acquired through partial non-monetary exchanges | \$25,708    | \$-        |
| Repurchased common stock issued under defined contribution plan   | \$17,307    | \$27,383   |

The accompanying notes 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 4, “Segment Reporting,” for financial reporting purposes, Con-way is divided into four reporting segments: Freight, Logistics, Truckload and Other.

## Basis of Presentation

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X, and should be read in conjunction with Con-way’s 2010 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been omitted.

In the opinion of management, the accompanying unaudited condensed 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 (Loss) per Share (“EPS”)

Basic EPS is computed by dividing reported earnings by the weighted-average common shares outstanding. Diluted EPS is calculated as follows:

| (Dollars in thousands except per share data)                            | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2011                                | 2010       | 2011                               | 2010       |
| Numerator:  |                                     |            |                                    |            |
| Net income (loss) applicable to common<br>shareholders, as reported     | \$29,128                            | \$(8,228 ) | \$65,472                           | \$1,598    |
| Denominator:  |                                     |            |                                    |            |
| Weighted-average common shares outstanding                              | 55,535,074                          | 54,286,677 | 55,331,170                         | 51,780,610 |
| Stock options and nonvested stock                                       | 582,260                             | --         | 722,889                            | 630,236    |
|   | 56,117,334                          | 54,286,677 | 56,054,059                         | 52,410,846 |
| Diluted earnings (loss) per share                                       | \$0.52                              | \$(0.15 )  | \$1.17                             | \$0.03     |
| Antidilutive securities excluded from the<br>computation of diluted EPS | 2,070,672                           | 3,582,653  | 1,838,289                          | 1,707,718  |

New Accounting Standards

In June 2011, the FASB issued Accounting Standards Update (“ASU”) 2011-05, “Presentation of Comprehensive Income.” This ASU, codified in the “Comprehensive Income” topic of the FASB Accounting Standards Codification, eliminates the option to present the components of other comprehensive income as part of the statement of shareholders’ equity. Instead, entities are required to present net income and other comprehensive income in either a single continuous statement or in two separate, but consecutive statements. In addition, items that are reclassified from other comprehensive income to net income must be presented on the face of the financial statements. The accounting guidance in ASU 2011-05 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 and requires full retrospective application. Con-way currently reports other comprehensive income in the statement of shareholders’ equity. Upon adoption, Con-way will be required to reclassify prior-period reported amounts and present net income, other comprehensive income and comprehensive income in accordance with the amended standards.

In September 2011, the FASB issued ASU 2011-08, "Testing Goodwill for Impairment." This ASU, codified in the "Intangibles – Goodwill and Other" topic of the FASB Accounting Standards Codification, allows an entity to first perform a qualitative assessment to determine whether it is necessary to perform the two-step goodwill impairment test required by the previous standard. An entity no longer will be required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The amendments are to be applied prospectively and will be effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption for fiscal year 2011 annual tests is permitted. Con-way does not believe that the standard will have a material effect on its financial statements.

## Reclassifications

Certain amounts in the prior-period financial statements have been reclassified to conform to the current-period presentation.

## 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      |
|---|-----------|------------|-------|------------|
| Balances at December 31, 2009             |           |            |       |            |
| Goodwill                                  | \$54,968  | \$464,598  | \$727 | \$520,293  |
| Accumulated impairment losses             | (31,822 ) | (134,813 ) | --    | (166,635 ) |
|   | 23,146    | 329,785    | 727   | 353,658    |
| Impairment charge                         |           |            |       |            |
|   | (16,414 ) | --         | --    | (16,414 )  |
| Change in foreign currency exchange rates |           |            |       |            |
|   | 406       | --         | --    | 406        |
| Balances 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 |           |            |       |            |
|   | 538       | --         | --    | 538        |
| Balances at September 30, 2011            |           |            |       |            |
| Goodwill                                  | 55,912    | 464,598    | 727   | 521,237    |
| Accumulated impairment losses             | (48,236 ) | (134,813 ) | --    | (183,049 ) |
|   | \$7,676   | \$329,785  | \$727 | \$338,188  |

In the third quarter of 2010, Con-way evaluated the goodwill associated with Chic Logistics due primarily to continued operating losses and lower-than-forecasted operating results at the Chic Logistics reporting unit. Con-way determined that the goodwill related to Chic Logistics was impaired and, as a result, Menlo Worldwide Logistics recognized a \$16.4 million impairment charge to reduce the carrying amount of the goodwill to zero. The impairment was primarily due to a decrease in projected operating income in future years. For the valuation of Chic Logistics, Con-way utilized a discounted cash flow model.





## Intangible Assets

The fair value of intangible assets is amortized on a straight-line basis over their estimated useful lives. In the third quarter and first nine months of 2011, amortization expense related to intangible assets was \$0.9 million and \$2.5 million, respectively, compared to \$0.8 million and \$2.5 million in the same respective periods of 2010. Intangible assets consisted of the following:

| (Dollars in thousands) | September 30, 2011    |                          | December 31, 2010     |                          |
|------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
|                        | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Customer relationships | \$27,863              | \$ 13,045                | \$27,530              | \$ 10,339                |

In the first quarter of 2010, Con-way evaluated the fair value of Chic Logistics' customer-relationship intangible asset due to lower projected revenues from customers comprising the customer relationship intangible asset. As a result, Menlo Worldwide Logistics recognized a \$2.8 million impairment loss to reduce the carrying amount of the intangible asset to zero.

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 2011 | \$ 800 |
| 2012                           | 2,600  |
| 2013                           | 2,400  |
| 2014                           | 2,400  |
| 2015                           | 2,400  |
| 2016                           | 2,400  |

### 3. Restructuring Activities

As more fully discussed below, Con-way recognized restructuring charges of \$0.1 million and \$1.8 million in the third quarter and first nine months of 2011, respectively, and expects to recognize \$0.3 million of additional expense in the last three months of 2011. In the third quarter and first nine months of 2010, Con-way recognized restructuring charges of \$2.4 million and \$3.8 million, respectively. Con-way reported the employee-separation costs in salaries, wages and employee benefits and all other costs in other operating expenses. Con-way's remaining liability for amounts expensed but not yet paid was \$0.1 million at September 30, 2011. The remaining liability relates to employee-separation costs that are expected to be paid through 2011.

#### Outsourcing Initiative

In 2009, as part of an ongoing effort to reduce costs and improve efficiencies, Con-way initiated a project to outsource a significant portion of its information-technology infrastructure function and a small portion of its administrative and accounting functions. Con-way does not expect to incur additional restructuring charges for the outsourcing initiative. There was not a remaining liability at September 30, 2011.

#### Consolidation of Executive Offices

In the third quarter of 2010, in an effort to more closely align corporate functions and better support the business, Con-way initiated a project to consolidate its executive offices located in San Mateo, California and Ann Arbor, Michigan. The consolidation was substantially completed in the second quarter of 2011 when the executive office in San Mateo closed. The remaining liability and expenses are expected to be settled in 2011.

The following table summarizes the effect of the initiative:

| (Dollars in thousands)           | Employee-Separation<br>Costs | Relocation<br>and<br>Other Costs | Total    |
|----------------------------------|------------------------------|----------------------------------|----------|
| Balance at December 31, 2010     | \$ 2,496                     | \$ --                            | \$ 2,496 |
| 2011 charges                     | 1,054                        | 774                              | 1,828    |
| Cash payments                    | (3,493 )                     | (774 )                           | (4,267 ) |
| Balance at September 30, 2011    | \$ 57                        | \$ --                            | \$ 57    |
| Total expense recognized to date | \$ 3,550                     | \$ 774                           | \$ 4,324 |
| Expected remaining expenses      | \$ --                        | \$ 276                           | \$ 276   |

#### 4. 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 (loss). Transactions between segments are generally based on negotiated prices.

| (Dollars in thousands)                        | Three Months Ended<br>September 30, |              | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|--------------|------------------------------------|--------------|
|   | 2011                                | 2010         | 2011                               | 2010         |
| Revenues before Inter-segment<br>Eliminations |                                     |              |                                    |              |
| Freight                                       | \$ 843,300                          | \$ 797,078   | \$ 2,450,870                       | \$ 2,339,046 |
| Logistics                                     | 417,142                             | 370,049      | 1,181,129                          | 1,111,007    |
| Truckload                                     | 158,705                             | 140,655      | 459,371                            | 426,725      |
| Other   | 12,160                              | 10,416       | 36,454                             | 36,274       |
| Inter-segment Revenue Eliminations            | (54,228 )                           | (48,015 )    | (156,569 )                         | (174,695 )   |
|   | \$ 1,377,079                        | \$ 1,270,183 | \$ 3,971,255                       | \$ 3,738,357 |
| Inter-segment Revenue Eliminations            |                                     |              |                                    |              |
| Freight                                       | \$ 13,205                           | \$ 12,741    | \$ 36,931                          | \$ 38,123    |
| Logistics                                     | 9,411                               | 5,447        | 24,216                             | 13,977       |
| Truckload                                     | 20,921                              | 20,854       | 63,291                             | 90,640       |
| Other   | 10,691                              | 8,973        | 32,131                             | 31,955       |
|   | \$ 54,228                           | \$ 48,015    | \$ 156,569                         | \$ 174,695   |

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| Revenues from External Customers |              |              |              |              |
|----------------------------------|--------------|--------------|--------------|--------------|
| Freight                          | \$ 830,095   | \$ 784,337   | \$ 2,413,939 | \$ 2,300,923 |
| Logistics                        | 407,731      | 364,602      | 1,156,913    | 1,097,030    |
| Truckload                        | 137,784      | 119,801      | 396,080      | 336,085      |
| Other                            | 1,469        | 1,443        | 4,323        | 4,319        |
|                                  | \$ 1,377,079 | \$ 1,270,183 | \$ 3,971,255 | \$ 3,738,357 |
| Operating Income (Loss)          |              |              |              |              |
| Freight                          | \$ 40,721    | \$ 13,062    | \$ 100,220   | \$ 27,135    |
| Logistics                        | 12,679       | (6,282 )     | 33,420       | 19,582       |
| Truckload                        | 7,867        | 5,475        | 25,273       | 13,582       |
| Other                            | (142 )       | 246          | (927 )       | 2,034        |
|                                  | \$ 61,125    | \$ 12,501    | \$ 157,986   | \$ 62,333    |

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5. 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

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

| (Dollars in thousands)        | Total     | September 30, 2011 |           |         |
|-------------------------------|-----------|--------------------|-----------|---------|
|                               |           | Level 1            | Level 2   | Level 3 |
| Cash equivalents              | \$402,306 | \$89,532           | \$312,774 | \$--    |
| Current marketable securities | 11,230    | --                 | 11,230    | --      |
| Other marketable securities   | 5,568     | --                 | --        | 5,568   |

| (Dollars in thousands)      | Total     | December 31, 2010 |           |         |
|-----------------------------|-----------|-------------------|-----------|---------|
|                             |           | Level 1           | Level 2   | Level 3 |
| Cash equivalents            | \$388,053 | \$118,763         | \$269,290 | \$--    |
| Other marketable securities | 6,039     | --                | --        | 6,039   |

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, 2011, 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.

Con-way holds one auction-rate security, which is valued with an income approach that utilizes a discounted cash flow model. The following table summarizes the change in fair values of Con-way's auction-rate security, which was valued using Level 3 inputs:

| (Dollars in thousands)        | Auction-rate security |
|-------------------------------|-----------------------|
| Balance at December 31, 2009  | \$ 6,691              |
| Unrealized gain               | 48                    |
| Partial redemption            | (700 )                |
| Balance at December 31, 2010  | \$ 6,039              |
| Unrealized gain               | 54                    |
| Partial redemption            | (525 )                |
| Balance at September 30, 2011 | \$ 5,568              |



## 6. 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, a postretirement medical plan and a long-term disability plan. See Note 11, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2010 Annual Report on Form 10-K for additional information concerning its employee benefit plans. See "Cost-Reduction Actions" below for a discussion of employee benefits changes that were effective in April 2009.

### 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,     |           |
|                                       | 2011                        | 2010      | 2011              | 2010      |
| Interest cost on benefit obligation   | \$17,827                    | \$17,284  | \$53,482          | \$51,852  |
| Expected return on plan assets        | (21,483 )                   | (18,760 ) | (64,451 )         | (56,279 ) |
| Amortization of net loss              | 2,636                       | 2,268     | 7,909             | 6,803     |
| Net periodic benefit expense (income) | \$(1,020 )                  | \$792     | \$(3,060 )        | \$2,376   |
|                                       |                             |           |                   |           |
| (Dollars in thousands)                | Non-Qualified Pension Plans |           |                   |           |
|                                       | Three Months Ended          |           | Nine Months Ended |           |
|                                       | September 30,               |           | September 30,     |           |
|                                       | 2011                        | 2010      | 2011              | 2010      |
| Interest cost on benefit obligation   | \$946                       | \$969     | \$2,840           | \$2,909   |
| Amortization of net loss              | 170                         | 113       | 509               | 339       |
| Net periodic benefit expense          | \$1,116                     | \$1,082   | \$3,349           | \$3,248   |

Con-way has made \$62.6 million in contributions to its Qualified Pension Plans in 2011, including \$3.5 million contributed in October 2011. Con-way does not anticipate making any further contributions to the plans in 2011.

### Defined Contribution Retirement Plans

Con-way's defined contribution retirement plans consist mostly of the primary defined contribution retirement plan (the "Primary DC Plan"). Con-way's expense under the Primary DC Plan was \$8.5 million and \$26.2 million in the third quarter and first nine months of 2011, respectively, compared to \$9.1 million and \$28.3 million in the same periods of 2010. In the first nine months of 2011 and 2010, Con-way used 461,151 shares and 826,504 shares, respectively, of repurchased common stock (also referred to as treasury stock), to fund \$17.3 million and \$27.4 million, respectively, of contributions to the Primary DC Plan. Effective in July 2011, Con-way's contributions to the Primary DC Plan were in the form of cash, rather than in treasury stock.





### 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 |         | Nine Months Ended |         |
|--------------------------------------|--------------------|---------|-------------------|---------|
|                                      | September 30,      |         | September 30,     |         |
|                                      | 2011               | 2010    | 2011              | 2010    |
| Service cost                         | \$360              | \$351   | \$1,081           | \$1,054 |
| Interest cost on benefit obligation  | 1,123              | 1,208   | 3,369             | 3,624   |
| Amortization of prior service credit | (303 )             | (301 )  | (909 )            | (902 )  |
| Net periodic benefit expense         | \$1,180            | \$1,258 | \$3,541           | \$3,776 |

### Cost-Reduction Actions

In response to economic conditions, in March 2009, Con-way announced several measures to reduce costs and conserve cash, as detailed below. The measures announced in March 2009 consisted of the suspension or curtailment of employee benefits and a reduction in salaries and wages.

#### Salaries and Wages

Effective in March 2009, the salaries and wages of certain employees were reduced by 5%, including corporate and shared-services employees and those at the Con-way Freight and Road Systems business units. Effective in January 2010, Con-way restored one-half of the salary and wage reductions. Con-way restored the remaining one-half of salary and wage reductions effective in January 2011.

#### Compensated Absences

Effective in April 2009, a compensated-absences benefit was suspended at Con-way Freight. During the period of suspension, no compensated-absences benefits were earned for current-year service; however, employees could use previously vested benefits. Also, effective in March 2009, Menlo Worldwide Logistics reduced its compensated-absences benefit by 25%. Effective in April 2010, Con-way Freight and Menlo Worldwide Logistics reinstated their compensated-absences benefits.

#### Defined Contribution Plan

Effective in April 2009, employer contributions to Con-way's Primary DC Plan were suspended or limited. The "matching" and "transition" contributions were suspended and the "basic" contribution was limited to no more than 3% of an employee's eligible compensation. Effective from the fourth quarter of 2011, Con-way prospectively reinstated the "basic" and "transition" contributions to their prior levels. The reinstated contributions, which are based on employees' years of service, will consist of a "basic" contribution that ranges from 3% to 5% of eligible compensation and a "transition" contribution that ranges from 1% to 3% of eligible compensation. The "matching" contributions have not been reinstated.

## 7. Shareholders' Equity

## Comprehensive Income

Comprehensive income, which is a measure of all changes in equity except those resulting from investments by owners and distributions to owners, was as follows:

| (Dollars in thousands)   | Three Months Ended |           | Nine Months Ended |         |
|--|--------------------|-----------|-------------------|---------|
|  | September 30,      |           | September 30,     |         |
|  | 2011               | 2010      | 2011              | 2010    |
| Net income (loss)  | \$29,128           | \$(8,228) | \$65,472          | \$1,598 |
| Other comprehensive income (loss):   |                    |           |                   |         |
| Foreign currency translation adjustment  | (1,226)            | 799       | 477               | (1,639) |
| Unrealized gain (loss) on available-for-sale security, net of deferred tax of \$7, \$5, \$21, and \$17, respectively | 12                 | (8)       | 33                | 26      |
| Employee benefit plans, net of deferred tax of \$976, \$812, \$2,928, and \$4,699, respectively                      | 1,527              | 1,268     | 4,581             | 6,058   |
| Comprehensive income (loss)  | \$29,441           | \$(6,169) | \$70,563          | \$6,043 |

## Common Stock Offering

In May 2010, Con-way sold 4,300,000 shares of repurchased common stock in an underwritten public offering at a price of \$35.00 per share. The net proceeds from the offering were \$143.3 million after deducting the underwriting discount and direct costs. The \$42.8 million difference between the net proceeds and the \$186.1 million historical cost of the repurchased common stock was recorded as a reduction to retained earnings in common shareholders' equity.

## 8. 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. The plans provide for awards in the form of stock options, nonvested stock (also known as restricted stock), performance-share plan units and stock appreciation rights ("SARs"). See Note 12, "Share-Based Compensation," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2010 Annual Report on Form 10-K for additional information concerning its share-based compensation awards.

The following expense was recognized for share-based compensation:

| (Dollars in thousands)                | Three Months Ended |         | Nine Months Ended |          |
|---------------------------------------|--------------------|---------|-------------------|----------|
|                                       | September 30,      |         | September 30,     |          |
|                                       | 2011               | 2010    | 2011              | 2010     |
| Salaries, wages and employee benefits | \$316              | \$4,224 | \$9,485           | \$11,119 |
| Deferred income tax benefit           | (89)               | (1,632) | (3,665)           | (4,289)  |
| Net share-based compensation expense  | \$227              | \$2,592 | \$5,820           | \$6,830  |

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The SARs are liability-classified awards and, as a result, Con-way re-measures the fair value of the awards each reporting period until the awards are settled. The decline in share-based compensation expense for 2011 reflects a decline in the fair value per SAR. At September 30, 2011 and December 31, 2010, Con-way had recognized accrued liabilities for cash-settled SARs of \$1.7 million and \$2.9 million, respectively, using a fair value per SAR of \$6.11 and \$16.41, respectively.

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## 9. Income Taxes

Con-way recognized a tax provision of \$18.5 million in the third quarter of 2011 and \$6.7 million in the same quarter of 2010. In the first nine months, Con-way recognized a tax provision of \$48.9 million in 2011 and \$14.3 million in 2010. The tax provision in 2011 included a \$1.1 million second-quarter income-tax benefit associated with the reversal of a portion of Con-way's accrued liability for uncertain tax positions and a \$5.9 million first-quarter charge due to the matter discussed below under "Uncertain Tax Positions." In 2010, the effective tax rate was affected by the non-deductible goodwill impairment charge in the third quarter of 2010. Excluding these items and other discrete adjustments, the third-quarter and year-to-date effective tax rates in 2011 were 37.4% and 37.5%, respectively, compared to 42.6% in both periods of 2010. The rates in 2011 declined from 2010 due primarily to a benefit associated with a fuel-related tax credit that was not in effect during 2010 until legislation was enacted in December 2010.

Other accounts receivable in the consolidated balance sheets include income tax receivables of \$8.3 million and \$41.2 million at September 30, 2011 and December 31, 2010, respectively.

### Uncertain Tax Positions

Con-way is subject to examination for federal income taxes for 2005 to 2010. The Internal Revenue Service ("IRS") issued a Revenue Agent's Report for tax years 2005 through 2007 proposing certain adjustments, one of which related primarily to the treatment of certain payments to retirees and former employees of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (collectively "MWF") by Con-way after the sale of MWF to United Parcel Service, Inc. in 2004. Con-way contested this proposed adjustment through the IRS administrative appeals process. Con-way met with the IRS Appeals Division, and following negotiations, the IRS requested an offer from Con-way in July 2011 to settle. In July 2011, the IRS accepted Con-way's offer to settle at an amount approximating the liability recognized in the first quarter of 2011.

Due primarily to the matter discussed above, Con-way's estimated liability for unrecognized tax benefits increased to \$18.7 million (including \$6.9 million of accrued interest and penalties) at September 30, 2011 from \$15.9 million (including \$6.1 million of accrued interest and penalties) at December 31, 2010.

## 10. 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 \$240 million between 2011 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, 2010, the termination fee would have been approximately \$39 million, compared to approximately \$34 million if Con-way elects to terminate the contract on December 31, 2011.

Menlo Worldwide, LLC

Menlo Worldwide, LLC (“MW”) has asserted claims against the sellers of Chic Holdings, which MW acquired in 2007, alleging inaccurate books and records, misstatement of revenue, and other similar matters related to the pre-sale financial performance of the Chic businesses. On October 17, 2011, MW and the sellers entered into an agreement in which the sellers agreed to pay MW \$10.0 million as an adjustment of the original purchase price to settle this dispute. In the fourth quarter of 2011, MW received essentially the entire settlement amount and will recognize a corresponding gain in the fourth quarter of 2011.

Emery Worldwide Airlines, Inc.

In February 2002, a lawsuit was filed against Emery Worldwide Airlines, Inc. (“EWA”) in the District Court for the Southern District of Ohio, alleging violations of the Worker Adjustment and Retraining Notification Act (the “WARN Act”) in connection with employee layoffs and ultimate terminations due to the August 2001 grounding of EWA’s airline operations and the shutdown of the airline operations in December 2001. The court subsequently certified the lawsuit as a class action on behalf of affected employees laid off between August 11 and August 15, 2001. The WARN Act generally requires employers to give 60-days notice, or 60-days pay and benefits in lieu of notice, of any shutdown of operations or mass layoff at a site of employment. The lawsuit was tried in early January 2009, and on September 28, 2009, the court issued its decision in favor of EWA. The Plaintiffs appealed the judgment and the District Court’s decision was affirmed on February 16, 2011. Plaintiffs’ petitions for rehearing of the appellate court’s decision were denied by orders dated March 4, 2011 and March 9, 2011. Plaintiffs filed a petition with the Supreme Court on June 7, 2011 arguing that the lower courts were wrong in ruling that there is no right to a jury trial in a WARN Act case. Plaintiffs contended that there was a split in the circuit courts on the issue and that the Supreme Court should review the case to resolve that split. Con-way filed its opposition to the petition on July 14, 2011. On October 3, 2011, the Supreme Court denied the plaintiff’s petition and this case has now been completed.

Con-way is a defendant in various other lawsuits 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.

## 11. Debt and Other Financing Arrangements

On August 2, 2011, Con-way amended its \$325 million revolving credit facility to extend the maturity date from November 4, 2014 to August 2, 2016. The amended facility also includes revised pricing that lowers Con-way's cost of utilizing the facility. The financial covenants and available credit provided to Con-way under the facility are unchanged by the amendment. See Note 7, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2010 Annual Report on Form 10-K for additional information concerning Con-way's \$325 million credit facility and its other debt instruments.

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## 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'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. 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."

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.

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## 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,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Revenues  | \$1,377,079           | \$1,270,183           | \$3,971,255           | \$3,738,357           |
| Costs and expenses                                  |                       |                       |                       |                       |
| Other costs and expenses                            | 1,315,954             | 1,241,268             | 3,813,269             | 3,656,843             |
| Loss from impairment of intangible assets           | ---                   | 16,414                | ---                   | 19,181                |
|   | 1,315,954             | 1,257,682             | 3,813,269             | 3,676,024             |
| Operating income                                    | 61,125                | 12,501                | 157,986               | 62,333                |
| Other non-operating expense                         | 13,519                | 14,034                | 43,575                | 46,469                |
| Income (loss) before income tax provision           | 47,606                | (1,533 )              | 114,411               | 15,864                |
| Income tax provision                                | 18,478                | 6,695                 | 48,939                | 14,266                |
| Net income (loss) applicable to common shareholders | \$29,128              | \$(8,228 )            | \$65,472              | \$1,598               |
| Diluted earnings (loss) per share                   | \$0.52                | \$(0.15 )             | \$1.17                | \$0.03                |

## Overview

Con-way's consolidated revenue for the third quarter of 2011 increased 8.4% from the third quarter of 2010 and, in the first nine months of 2011, increased 6.2% from the same prior-year period. The increases in revenue reflect higher revenue at all reporting segments.

Con-way's third-quarter consolidated operating income increased to \$61.1 million in 2011 from \$12.5 million in 2010. In the year-to-date periods, operating income increased to \$158.0 million in 2011 from \$62.3 million in 2010. With respect to both the third-quarter and year-to-date periods, the increases in operating income were due to improved operating results at Freight, Logistics and Truckload. Higher operating income at Freight and Truckload reflect increased pricing and improved operating efficiencies. Results at Logistics in the prior-year periods were adversely affected by a \$16.4 million goodwill-impairment charge in the third quarter of 2010.

Non-operating expense in the third quarter of 2011 decreased \$0.5 million from the third quarter of 2010 and, in the first nine months of 2011, decreased \$2.9 million from the same prior-year period. Lower non-operating expense in the third quarter of 2011 was due primarily to gains on certain financial instruments. Lower non-operating expense in the first nine months of 2011 was due primarily to lower interest expense, reflecting the repayment in the second quarter of 2010 of the \$200 million outstanding under Con-way's 8 7/8% Notes Due 2010.

Con-way recognized a tax provision of \$18.5 million in the third quarter of 2011 and \$6.7 million in the same quarter of 2010. In the first nine months, Con-way recognized a tax provision of \$48.9 million in 2011 and \$14.3 million in 2010. The tax provision in 2011 included a \$1.1 million second-quarter income-tax benefit associated with the reversal of a portion of Con-way's accrued liability for uncertain tax positions and a \$5.9 million first-quarter charge

due to the uncertain tax position discussed in Note 9, "Income Taxes," of Item 1, "Financial Statements." In 2010, the effective tax rate was affected by the non-deductible goodwill impairment charge in the third quarter of 2010. Excluding these items and other discrete adjustments, the third-quarter and year-to-date effective tax rates in 2011 were 37.4% and 37.5%, respectively, compared to 42.6% in both periods of 2010. The rates in 2011 declined from 2010 due primarily to a benefit associated with a fuel-related tax credit that was not in effect during 2010 until legislation was enacted in December 2010.

## 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 Note 6, "Employee Benefit Plans," of Item 1, "Financial Statements." Effective in January 2010, Con-way restored one-half of the salary and wage reductions, and effective in April 2010, Con-way reinstated the compensated-absences benefits. Con-way restored the remaining one-half of salary and wage reductions effective in January 2011. Effective from the fourth quarter of 2011, Con-way prospectively reinstated the "basic" and "transition" contributions to the defined contribution retirement plan to their prior levels. The "matching" contributions have not been reinstated. Any potential reinstatement of Con-way's "matching" contributions to the defined contribution retirement plan is based on a number of factors.

The table below compares the estimated cost savings from employee-related cost-reduction measures. The predominant amount of the reported cost savings relate to the Freight segment. Actual results may differ from the estimated amounts depending on factors such as employee count and turnover and assumptions related to employee retirement plan contributions.

| (Dollars in millions)        | Three Months Ended    |                       | Nine Months Ended     |                       |
|------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|                              | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Salaries and wages           | \$--                  | \$7                   | \$--                  | \$22                  |
| Compensated absences         | --                    | --                    | --                    | 15                    |
| Defined contribution plan    |                       |                       |                       |                       |
| Matching                     | 9                     | 9                     | 26                    | 26                    |
| Basic and transition         | 5                     | 5                     | 17                    | 17                    |
| Total estimated cost savings | \$14                  | \$21                  | \$43                  | \$80                  |

## 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 4, "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<br>September 30, |            | Nine Months Ended<br>September 30, |              |
|---|-------------------------------------|------------|------------------------------------|--------------|
|   | 2011                                | 2010       | 2011                               | 2010         |
| Revenue before inter-segment eliminations | \$ 843,300                          | \$ 797,078 | \$ 2,450,870                       | \$ 2,339,046 |
| Salaries, wages and employee benefits     | 382,545                             | 380,441    | 1,120,203                          | 1,126,366    |
| Purchased transportation                  | 138,520                             | 134,599    | 396,761                            | 392,923      |
| Fuel and fuel-related taxes               | 96,549                              | 76,995     | 293,003                            | 238,805      |
| Other operating expenses                  | 113,294                             | 119,213    | 336,789                            | 350,565      |
| Depreciation and amortization             | 27,562                              | 27,082     | 82,729                             | 75,341       |
| Maintenance                               | 25,546                              | 22,602     | 70,779                             | 66,473       |
| Rents and leases                          | 12,460                              | 13,078     | 35,235                             | 38,172       |
| Purchased labor                           | 6,103                               | 10,006     | 15,151                             | 23,266       |
| Total operating expenses                  | 802,579                             | 784,016    | 2,350,650                          | 2,311,911    |
| Operating income                          | \$ 40,721                           | \$ 13,062  | \$ 100,220                         | \$ 27,135    |
| Operating margin                          | 4.8 %                               | 1.6 %      | 4.1 %                              | 1.2 %        |
|   | 2011 vs.<br>2010                    |            | 2011 vs.<br>2010                   |              |
| <b>Selected Operating Statistics</b>      |                                     |            |                                    |              |
| Revenue per hundredweight ("yield")       | +12.0 %                             |            | +10.9 %                            |              |
| Weight per day                            | -5.5 %                              |            | -6.3 %                             |              |
| Shipments per day ("volume")              | -4.0 %                              |            | -7.5 %                             |              |
| Weight per shipment                       | -1.5 %                              |            | +1.3 %                             |              |

Freight's revenue in the third quarter of 2011 increased 5.8% from the third quarter of 2010 and, in the first nine months of 2011, increased 4.8% from the same prior-year period. Revenue increased in the third quarter due to a 12.0% increase in yield, partially offset by a 5.5% decline in weight per day. The 5.5% decline in weight per day reflects a 4.0% decrease in shipments per day and a 1.5% decrease in weight per shipment. In the first nine months of 2011, revenue increased due to a 10.9% increase in yield, partially offset by a 6.3% decline in weight per day. The

6.3% decline in weight per day reflects a 7.5% decrease in shipments per day and a 1.3% increase in weight per shipment.

Yield excluding fuel surcharges increased 6.7% in the third quarter and 6.1% for the first nine months of 2011. In the third quarter, Freight's fuel-surcharge revenue increased to 17.2% of revenue in 2011 from 13.0% in 2010, and in the first nine months, increased to 17.0% of revenue in 2011 from 13.0% in 2010. 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."

Con-way Freight's management believes that the variations in yield and weight per day were due in part to sales and pricing initiatives implemented in 2010 that increased base freight rates and moderated the amount of freight transported, and reflect improved pricing conditions in the less-than-truckload market.

Freight reported third-quarter operating income of \$40.7 million in 2011 compared to \$13.1 million in 2010 and, in the first nine months, \$100.2 million in 2011 compared to \$27.1 million in 2010. Improved operating results in 2011 were due largely to higher revenue on improved yields and reflect strategic efforts in the second and third quarters of 2010 to moderate the amount of freight transported to improve network efficiency and efforts to control costs. Operating results in the periods presented include the effect of the cost-reduction measures announced in March 2009; however, the 2011 periods included higher expenses than the 2010 periods due to the reinstatement in 2010 and 2011 of certain benefits previously curtailed under the cost-reductions measures. Results in 2010 were adversely affected by \$4.4 million of third-quarter expense for employee severance and the planned consolidation of Con-way's executive offices.

In the third quarter of 2011, expenses for salaries, wages and employee benefits increased 0.6% from the same period of 2010. Variable compensation expense increased \$6.8 million. Employee benefits expense increased 1.4%, reflecting higher expenses for employee medical claims, partially offset by lower expenses for workers' compensation claims. Higher expense for employee medical claims is due to an increase in the cost per claim, partially offset by a reduction in the number of claims. Salaries and wages, excluding variable compensation, decreased 2.3%.

In the first nine months of 2011, expenses for salaries, wages and employee benefits declined 0.5% from the same period of 2010. Salaries and wages, excluding variable compensation, decreased 2.3%. Employee benefits expense decreased 0.9% due primarily to decreases in expenses for workers' compensation claims and defined-benefit pension plans, partially offset by higher expenses for compensated absences, which increased \$17.9 million. The increase in the year-to-date expense for compensated-absences benefits was primarily due to the reinstatement of the benefit effective in April 2010. Variable compensation expense increased \$15.6 million.

In the periods presented, lower expense for salaries and wages, excluding variable compensation, was due primarily to a lower average employee count, partially offset by the restoration of salary and wage reductions, while higher variable compensation expense was based on variations in performance measures relative to variable-compensation plan targets. Lower expense for workers' compensation claims reflects a decrease in the number of claims, partially offset by an increase in the expense per claim.

Purchased transportation expense increased 2.9% in the third quarter of 2011 and 1.0% in the first nine months of 2011 due primarily to fuel-related rate increases, which were partially offset by declines in freight transported by third-party providers.

Expenses for fuel and fuel-related taxes increased 25.4% in the third quarter of 2011 and 22.7% in the first nine months of 2011 due primarily to the increase in the cost per gallon of diesel fuel, partially offset by lower fuel consumption due to fewer miles driven as a result of a moderation in shipment volumes.

Other operating expenses declined 5.0% and 3.9% in the third quarter and first nine months of 2011, respectively, due largely to decreases in self-insurance expense, particularly cargo claims, and lower marketing costs, partially offset by higher administrative corporate allocations for information-technology services. The decrease in cargo-claims expense reflects lower shipment volumes and improved freight handling, which was due in part to increased investment in training as well as the utilization of the SafeStack<sup>TM</sup> cargo loading system for trailers that was deployed during 2010.

## 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 third parties 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 consists largely of the third-party carriers' charges to Menlo Worldwide Logistics for transporting the shipments. The table also includes operating income and operating margin excluding the loss from impairment of intangible assets. Management believes these measures are relevant to evaluate its on-going operations.

| (Dollars in thousands)                                      | Three Months Ended |            | Nine Months Ended |             |   |
|---|--------------------|------------|-------------------|-------------|---|
|   | September 30,      |            | September 30,     |             |   |
|   | 2011               | 2010       | 2011              | 2010        |   |
| Revenue before inter-segment eliminations                   | \$417,142          | \$370,049  | \$1,181,129       | \$1,111,007 |   |
| Purchased transportation expense                            | (262,477 )         | (229,320 ) | (737,159 )        | (683,232 )  |   |
| Net revenue   | 154,665            | 140,729    | 443,970           | 427,775     |   |
| Salaries, wages and employee benefits                       | 58,913             | 54,770     | 168,883           | 161,287     |   |
| Fuel and fuel-related taxes                                 | 267                | 187        | 808               | 616         |   |
| Other operating expense                                     | 38,928             | 35,624     | 115,907           | 108,837     |   |
| Depreciation and amortization                               | 2,637              | 3,168      | 8,273             | 9,432       |   |
| Maintenance   | 788                | 642        | 2,209             | 1,807       |   |
| Rents and leases  | 17,067             | 15,391     | 48,454            | 47,142      |   |
| Purchased labor   | 23,386             | 20,815     | 66,016            | 59,891      |   |
| Loss from impairment of intangible assets                   | --                 | 16,414     | --                | 19,181      |   |
| Total operating expenses excluding purchased transportation | 141,986            | 147,011    | 410,550           | 408,193     |   |
| Operating income (loss)                                     | \$12,679           | \$(6,282 ) | \$33,420          | \$19,582    |   |
| Operating income excluding impairment                       | \$12,679           | \$10,132   | \$33,420          | \$38,763    |   |
| Operating margin on revenue                                 | 3.0                | % (1.7     | %) 2.8            | % 1.8       | % |
| Operating margin on net revenue                             | 8.2                | % (4.5     | %) 7.5            | % 4.6       | % |
| Operating margin on revenue excluding impairment            | 3.0                | % 2.7      | % 2.8             | % 3.5       | % |
| Operating margin on net revenue excluding impairment        | 8.2                | % 7.2      | % 7.5             | % 9.1       | % |

Logistics' revenue in the third quarter and first nine months of 2011 increased 12.7% and 6.3%, respectively, due to increases in revenue from both carrier-management and warehouse-management services. In 2011, revenue from carrier-management services in the third quarter and first nine months increased 15.1% and 7.8%, respectively, while revenue from warehouse-management services increased 7.0% and 2.8%, respectively. Higher revenue from carrier-management services was due primarily from growth at existing customers and increased freight-brokerage volumes. Increased revenue from warehouse-management services was due primarily to the addition of new customers.

Logistics' net revenue in the third quarter and first nine months of 2011 increased 9.9% and 3.8%, respectively, when compared to the prior-year periods. Purchased transportation expense increased 14.5% and 7.9% in the third quarter and first nine months of 2011, respectively, due primarily to increased carrier-management volumes.

Logistics reported operating income in the third quarter and first nine months of 2011 of \$12.7 million and \$33.4 million, respectively, compared to an operating loss of \$6.3 million in the third quarter of 2010 and operating income of \$19.6 million in the first nine months of 2010. As discussed more fully in Note 2, "Goodwill and Intangible Assets," of Item 1, "Financial Statements," Logistics recognized a \$16.4 million goodwill-impairment charge in the third quarter of 2010 and a \$2.8 million charge in the first quarter of 2010 for the impairment of a customer-relationship intangible asset. Excluding the impairments, Logistics' operating income in the third quarter of 2011 increased 25.1% and in the first nine months of 2011 declined 13.8%. Higher operating income in the third quarter of 2011 was due primarily to the growth in net revenue and improved margins from carrier-management services. Higher margins on carrier-management services were due largely to increased volumes on higher margin freight-brokerage services. The decline in operating income in the first nine months of 2011 primarily reflects lower margins on warehouse-management services. Lower margins on warehouse-management services were due largely to increased start-up costs associated with new customer contracts.



Salaries, wages and employee benefits increased 7.6% and 4.7% in the third quarter and first nine months of 2011, respectively. In the third quarter and first nine months, salaries and wages, excluding variable compensation, rose 10.4% and 8.3%, respectively, due to salary and wage rate increases and increased average employee counts. Employee benefits expense increased 8.2% and 6.2% in the third quarter and first nine months of 2011, respectively, due primarily to increased costs for international employee benefits as well as expenses related to Con-way's share-based compensation plans. Variable compensation expense decreased \$0.7 million or 12.7% in the third quarter of 2011 and \$3.7 million or 24.5% in first nine months of 2011 based on variations in performance measures relative to variable-compensation plan targets.

Other operating expenses increased 9.3% and 6.5% in the third quarter and first nine months of 2011, respectively. Increased other operating expenses reflect higher costs for information-technology projects (including corporate allocations of technology-related costs), and increased usage of outside services related to a customer contract.

Purchased labor expense increased 12.4% and 10.2% in the third quarter and first nine months of 2011, respectively, due to increased workload as the result of warehouse relocations and the start-up of new warehouse-management facilities.

#### 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,     |           |
|  | 2011               | 2010      | 2011              | 2010      |
| Freight revenue  | \$118,395          | \$113,457 | \$342,973         | \$346,157 |
| Fuel-surcharge revenue                                       | 35,829             | 23,211    | 103,298           | 68,995    |
| Other revenue  | 4,481              | 3,987     | 13,100            | 11,573    |
| Revenue before inter-segment eliminations                    | 158,705            | 140,655   | 459,371           | 426,725   |
| Salaries, wages and employee benefits                        | 54,142             | 53,199    | 156,562           | 158,827   |
| Purchased transportation                                     | 7,594              | 6,073     | 20,457            | 18,698    |
| Fuel and fuel-related taxes                                  | 45,234             | 35,640    | 134,199           | 109,971   |
| Other operating expenses                                     | 16,238             | 15,731    | 45,192            | 51,046    |
| Depreciation and amortization                                | 17,764             | 16,608    | 51,593            | 47,280    |
| Maintenance  | 9,280              | 7,334     | 24,435            | 25,635    |
| Rents and leases   | 282                | 257       | 815               | 737       |
| Purchased labor  | 304                | 338       | 845               | 949       |
| Total operating expenses                                     | 150,838            | 135,180   | 434,098           | 413,143   |
| Operating income   | \$7,867            | \$5,475   | \$25,273          | \$13,582  |
| Operating margin on revenue                                  | 5.0                | % 3.9     | % 5.5             | % 3.2     |
| Operating margin on revenue excluding fuel-surcharge revenue | 6.4                | % 4.7     | % 7.1             | % 3.8     |

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| Selected Operating Statistics   | 2011     |   | 2011     |   |
|---------------------------------|----------|---|----------|---|
|                                 | vs. 2010 |   | vs. 2010 |   |
| Freight revenue per loaded mile | +4.6     | % | +4.3     | % |
| Loaded miles                    | -0.2     | % | -5.0     | % |

Truckload's revenue increased 12.8% in the third quarter of 2011 from the same period of 2010, due to a 54.4% increase in fuel-surcharge revenue and a 4.4% increase in freight revenue. The 4.4% increase in freight revenue reflects a 4.6% increase in revenue per loaded mile, partially offset by a 0.2% decline in loaded miles. In the first nine months of 2011, Truckload's revenue increased 7.7% from the same prior-year period, reflecting a 49.7% increase in fuel-surcharge revenue, partially offset by a 0.9% decline in freight revenue. The 0.9% decline in freight revenue reflects a 5.0% decline in loaded miles, partially offset by a 4.3% increase in revenue per loaded mile. In the periods presented, higher fuel-surcharge revenue was due primarily to higher fuel prices in 2011 compared to 2010. The decrease in loaded miles was due primarily to a decline in the number of tractors operated by two-person teams, which resulted in lower miles per tractor, and a slightly smaller fleet.

For the third quarter, Truckload reported operating income of \$7.9 million in 2011 compared to \$5.5 million in 2010 and, in the first nine months, \$25.3 million in 2011 compared to \$13.6 million in 2010. Higher operating income includes the effect of improved fuel-surcharge recovery rates.

Salaries, wages and employee benefits increased 1.8% in the third quarter of 2011, reflecting a 23.2% increase in costs for employee benefits, partially offset by a 2.5% decline in salaries and wages, excluding variable compensation, and a \$0.3 million or 27.4% decline in variable compensation.

In the first nine months of 2011, salaries wages and employee benefits declined 1.4%, reflecting a 5.0% decline in salaries and wages, excluding variable compensation, partially offset by a \$2.5 million increase in variable compensation and a 5.5% increase in employee benefits. Salaries and wages, excluding variable compensation, declined 5.0%.

In the periods presented, lower expense for salaries and wages, excluding variable compensation, was due primarily to fewer miles driven. Changes in variable compensation expense were based on variations in performance measures relative to variable-compensation plan targets. Higher expense for employee benefits reflects increased costs for employee medical and workers' compensation claims due primarily to an increase in the severity of claims, partially offset by a decline in the number of claims.

Expenses for fuel and fuel-related taxes increased 26.9% and 22.0% in the third quarter and first nine months of 2011, respectively, due primarily to a higher fuel cost per gallon, partially offset by a decrease in miles driven.

Other operating expenses increased 3.2% in the third quarter of 2011 and decreased 11.5% in the first nine months of 2011. The increase in other operating expense in the third quarter of 2011 was due in part to an increase in vehicular self-insurance expense. The 11.5% decrease in other operating expenses in the first nine months of 2011 was due primarily to declines in vehicular self-insurance expense resulting from declines in the severity and number of claims. Vehicular self-insurance expense decreased \$5.9 million in the first nine months of 2011.

Depreciation and amortization expense increased 7.0% and 9.1% in the third quarter and first nine months of 2011, respectively, reflecting a tractor replacement program initiated in 2010.

#### 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,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Revenue                         |                       |                       |                       |                       |
| Road Systems                    | \$12,160              | \$10,416              | \$36,454              | \$36,274              |
| Operating income (loss)         |                       |                       |                       |                       |
| Road Systems                    | \$56                  | \$101                 | \$(23)                | \$83                  |
| Con-way re-insurance activities | 24                    | 782                   | 60                    | 3,200                 |
| Con-way corporate properties    | (351)                 | (412)                 | (1,081)               | (996)                 |

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|       |        |      |       |        |      |         |
|-------|--------|------|-------|--------|------|---------|
| Other | 129    | (225 | )     | 117    | (253 | )       |
|       | \$(142 | )    | \$246 | \$(927 | )    | \$2,034 |

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## Liquidity and Capital Resources

Cash and cash equivalents increased to \$439.1 million at September 30, 2011 from \$421.4 million at December 31, 2010, as \$236.1 million provided by operating activities exceeded \$188.6 million used in investing activities and \$29.8 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 payment of common dividends and repayment of capital leases.

| (Dollars in thousands)                           | Nine Months Ended |              |
|--|-------------------|--------------|
|  | 2011              | 2010         |
| Operating Activities                             |                   |              |
| Net income                                       | \$65,472          | \$1,598      |
| Non-cash adjustments (1)                         | 213,672           | 215,200      |
| Changes in assets and liabilities                | (43,094 )         | (121,525 )   |
| Net Cash Provided by Operating Activities        | 236,050           | 95,273       |
| Net Cash Used in Investing Activities            | (188,579 )        | (149,546 )   |
| Net Cash Used in Financing Activities            | (29,807 )         | (70,294 )    |
| Increase (Decrease) in Cash and Cash Equivalents | \$17,664          | \$(124,567 ) |

(1) “Non-cash adjustments” refer to depreciation, amortization, impairment charges, 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 2011, net income and non-cash adjustments collectively increased \$62.3 million from the same period of 2010.

Cash used from changes in assets and liabilities decreased \$78.4 million in the first nine months of 2011 compared to the same period of 2010. Comparative changes were primarily from accrued income taxes, accrued liabilities, employee benefits, and self-insurance accruals.

Accrued income taxes provided \$31.2 million in the first nine months of 2011, compared to \$31.0 million used in the same prior-year period due primarily to variations in income tax refunds and payments. In the first nine months of 2011, Con-way received \$28.0 million of net refunds, and in the first nine months of 2010, Con-way made net payments of \$17.0 million. During 2011, Con-way’s cash flows related to income taxes benefited from capital expenditure-related tax legislation enacted in December 2010. As a result of the legislation, Con-way will be able to deduct a substantial portion of its 2011 capital expenditures in the 2011 tax year.

Accrued liabilities provided \$15.2 million in the first nine months of 2011 compared to \$5.3 million used in 2010, due primarily to changes in the liability for compensated absences. As more fully discussed in Note 6, “Employee Benefit Plans,” of Item 1, “Financial Statements,” a compensated-absence benefit was suspended at Con-way Freight from April

2009 through April 2010. During the period of suspension, no compensated-absences benefits were earned. This suspension was not in effect at any point during 2011, resulting in increased compensated-absence benefits for the first nine months of 2011 compared to the first nine months of 2010.

Employee benefits used \$51.4 million in the first nine months of 2011, compared to \$70.7 million used in the same prior-year period due primarily to a decrease in funding contributions. In the first nine months of 2011, Con-way contributed \$59.1 million to its qualified pension plans, compared to \$92.6 million in the first nine months of 2010. The level of Con-way's annual contributions to its qualified pension plans is subject to variations in interest rates, asset returns, Pension Protection Act requirements and other factors.

Self-insurance accruals used \$12.0 million in the first nine months of 2011, compared to \$29.6 million provided in the first nine months of 2010. The cash used in the first nine months of 2011 was due primarily to decreases in the liabilities for vehicular and workers' compensation claims. The cash provided in the first nine months of 2010 was due primarily to increases in the liabilities for vehicular and cargo claims.

#### Investing Activities

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

In the first nine months, capital expenditures were \$176.7 million in 2011, compared to \$120.0 million in 2010. Increased capital expenditures in 2011 were due primarily to the acquisition of tractor equipment at Con-way Truckload. Higher capital expenditures at Con-way Truckload in the first nine months of 2011 reflect an accelerated fleet replacement program that was implemented in June 2010.

Proceeds from sales of property and equipment increased to \$6.1 million in the first nine months of 2011 compared to \$3.3 million in the first nine months of 2010 due primarily to the sale of tractors in connection with the tractor replacement program at Con-way Truckload.

Cash used as the result of the net investment in marketable securities declined to \$10.7 million in the first nine months of 2011 from \$25.8 million in the first nine months of 2010.

#### Financing Activities

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

Financing activities used cash of \$29.8 million in the first nine months of 2011, compared to \$70.3 million used in the same period of 2010. The first nine months of both 2011 and 2010 reflect payments of dividends and the repayment of capital leases, while the first nine months of 2010 also includes the \$200.0 million repayment of the amount outstanding under the 8 7/8% Notes Due 2010 and proceeds from the issuance of common stock. In the second quarter of 2010, Con-way issued repurchased common stock (also referred to as treasury stock) in a public offering and received net proceeds of \$143.3 million, as discussed more fully in Note 7, "Shareholders' Equity," of Item 1, "Financial Statements."

#### Contractual Cash Obligations

Con-way's contractual cash obligations as of December 31, 2010 are summarized in Item 7, "Management's Discussion and Analysis – Liquidity and Capital Resources – Contractual Cash Obligations," of Con-way's 2010 Annual Report on Form 10-K. In the first nine months of 2011, 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 and by implementing cost-reduction initiatives, as more fully discussed under “Results of Operations – Overview.”

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, 2011, no cash borrowings were outstanding under the credit facility; however, \$179.4 million of letters of credit were outstanding, leaving \$145.6 million of available capacity for additional letters of credit or cash borrowings. 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, 2011, Con-way was in compliance with the revolving credit facility’s financial covenants and expects to remain in compliance through December 31, 2011 and thereafter.



Con-way had other uncommitted unsecured credit facilities totaling \$64.3 million at September 30, 2011, which are available to support short-term borrowings, letters of credit, bank guarantees and overdraft facilities. At September 30, 2011, \$15.4 million of cash borrowings and \$27.6 million of other credit commitments were outstanding leaving \$21.3 million of available capacity.

See Item 1A, "Risk Factors," in Con-way's 2010 Annual Report on Form 10-K and Note 11, "Debt and Other Financing Arrangements," of Item 1, "Financial Statements," for additional information concerning Con-way's \$325 million credit facility.

In 2011, Con-way anticipates capital and software expenditures of approximately \$285 million, net of asset dispositions, primarily for the acquisition of tractor equipment. Con-way's actual 2011 capital expenditures may differ from the estimated amount depending on factors such as availability and timing of delivery of equipment.

In the first nine months of 2011 and 2010, Con-way used treasury stock to fund \$17.3 million and \$27.4 million, respectively, of contributions to the defined contribution retirement plan. Effective in July 2011, the contributions were in the form of cash contributed by Con-way, rather than in treasury stock.

At September 30, 2011, Con-way's senior unsecured debt was rated as investment grade by Standard and Poor's (BBB-), Fitch Ratings (BBB-), and Moody's (Baa3). Moody's assigned an outlook of "negative," while Standard and Poor's and Fitch Ratings 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

There have been no significant changes to the critical accounting policies and estimates disclosed in Con-way's 2010 Annual Report on Form 10-K.

### 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 2010 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. Con-way held no derivative financial instruments at September 30, 2011.

#### Interest Rates

Con-way is subject to the effect of interest-rate fluctuations on the fair value of its long-term debt and on the amount of interest income earned on cash-equivalent investments and marketable securities, as more fully discussed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of Con-way's 2010 Annual Report on Form 10-K.

#### Fuel

Con-way is subject to risks associated with the availability and price 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. In the LTL market, changes in base freight rates reflect numerous factors such as length of haul, freight class, weight per shipment and customer-negotiated adjustments. In the truckload market, changes in base freight rates primarily reflect differences in origin and destination location and customer-negotiated adjustments. 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 or return to historically high levels. 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. Con-way does not currently use 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 10, "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 2010 Annual Report on Form 10-K.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

## Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

Con-way has nothing to report under this Item.

## Issuer Purchases of Equity Securities

The following table provides information about Con-way's purchases of its common stock for each month during the quarterly period covered by this report:

| Period    | Total Number of Shares<br>(or Units) Purchased (1) | Average Price Paid<br>per Share (or Unit) | Total Number of Shares (or Units)<br>Purchased as Part of Publicly<br>Announced Plans or Programs | Maximum Number of<br>Approximate Dollar<br>Shares (or Units)<br>That Could Be Purchased Under<br>the Program |
|-----------|--|---|---|--|
| July      | --   | --  | --  | --   |
| August    | --   | --  | --  | --   |
| September | 2,156  | 25.13                                     | --  | --   |
| Total     | 2,156  | 25.13                                     | --  | --   |

(1) The shares were withheld to satisfy tax withholding obligations in connection with the vesting of restricted shares granted to Con-way employees.

ITEM 6. EXHIBITS

Exhibit No.

- (4) Instruments defining the rights of security holders, including debentures:
- 4.1 First Amendment to Credit Agreement and Subsidiary Guaranty Agreement dated August 2, 2011 (Exhibit 10.1 to Con-way's Report on Form 8-K filed on August 2, 2011).\*
- (31) Certification of Officers 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, 2011, filed on November 7, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Statements of Consolidated Operations, (iii) Statements of Consolidated Cash Flows, and (iv) Notes to Consolidated Financial Statements.

\* Previously filed with the Securities and Exchange Commission and incorporated herein by reference.



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.

Con-way Inc.  
(Registrant)

November 7, 2011

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

