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Con-way Inc.
Form 10-Q
July 31, 2013

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

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ___ to ___

Commission File Number: 1-05046

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

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

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

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

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

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

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act:

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of common stock outstanding as of June 30, 2013 was 56,495,252.

CON-WAY INC.
FORM 10-Q
Quarter Ended June 30, 2013

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
CON-WAY INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

ASSETS	June 30, 2013 (Unaudited)	December 31, 2012
Current Assets		
Cash and cash equivalents	\$433,387	\$429,784
Marketable securities	—	3,200
Trade accounts receivable, net	601,958	567,097
Other accounts receivable	56,276	43,912
Operating supplies, at lower of average cost or market	25,199	23,180
Prepaid expenses	49,525	49,681
Deferred income taxes	15,618	34,520
Total Current Assets	1,181,963	1,151,374
Property, Plant and Equipment		
Land	195,557	195,737
Buildings and leasehold improvements	846,729	840,966
Revenue equipment	1,761,947	1,746,816
Other equipment	331,065	329,730
	3,135,298	3,113,249
Accumulated depreciation	(1,546,217)	(1,526,648)
Net Property, Plant and Equipment	1,589,081	1,586,601
Other Assets		
Deferred charges and other assets	33,308	33,963
Capitalized software, net	19,979	20,365
Employee benefits	11,649	10,951
Intangible assets, net	9,818	10,997
Goodwill	337,943	338,164
	412,697	414,440
Total Assets	\$3,183,741	\$3,152,415

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

CON-WAY INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share amounts)

	June 30, 2013 (Unaudited)	December 31, 2012
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable	\$353,828	\$330,665
Accrued liabilities	231,204	253,209
Self-insurance accruals	105,708	100,828
Short-term borrowings	2,285	6,982
Current maturities of long-term debt and capital leases	14,950	16,008
Total Current Liabilities	707,975	707,692
Long-Term Liabilities		
Long-term debt	719,085	719,016
Long-term obligations under capital leases	25,040	30,355
Self-insurance accruals	141,348	143,735
Employee benefits	556,587	603,619
Other liabilities and deferred credits	41,247	32,201
Deferred income taxes	92,722	77,412
Total Liabilities	2,284,004	2,314,030
Commitments and Contingencies (Notes 8 and 10)		
Shareholders' Equity		
Common stock, \$0.625 par value; authorized 100,000,000 shares; issued 64,162,795 and 63,565,453 shares, respectively	40,080	39,701
Additional paid-in capital, common stock	631,809	614,334
Retained earnings	1,006,935	966,939
Cost of repurchased common stock (7,667,543 and 7,583,471 shares, respectively)	(328,988	) (326,128)
Accumulated other comprehensive loss	(450,099	) (456,461)
Total Shareholders' Equity	899,737	838,385
Total Liabilities and Shareholders' Equity	\$3,183,741	\$3,152,415

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues	\$1,381,370	\$1,446,096	\$2,717,534	\$2,812,257
Costs and Expenses				
Salaries, wages and employee benefits	539,556	544,624	1,057,397	1,067,094
Purchased transportation	329,021	400,200	677,544	768,251
Other operating expenses	147,117	138,529	304,814	275,044
Fuel and fuel-related taxes	135,547	140,354	272,959	284,185
Depreciation and amortization	57,235	53,442	113,163	105,284
Purchased labor	34,045	27,891	62,027	55,043
Rents and leases	31,136	28,242	60,986	56,942
Maintenance	31,414	32,671	60,746	64,581
	1,305,071	1,365,953	2,609,636	2,676,424
Operating Income	76,299	80,143	107,898	135,833
Other Income (Expense)				
Investment income	159	209	323	444
Interest expense	(13,659)	(13,738)	(27,164)	(27,532)
Miscellaneous, net	50	(1,917)	(1,433)	(2,626)
	(13,450)	(15,446)	(28,274)	(29,714)
Income before Income Tax Provision	62,849	64,697	79,624	106,119
Income Tax Provision	19,952	22,897	22,722	38,673
Net Income	\$42,897	\$41,800	\$56,902	\$67,446
Weighted-Average Common Shares Outstanding				
Basic	56,354,017	55,809,358	56,226,038	55,756,540
Diluted	56,960,738	56,439,845	56,860,095	56,377,198
Earnings per Common Share				
Basic	\$0.76	\$0.75	\$1.01	\$1.21
Diluted	\$0.75	\$0.74	\$1.00	\$1.20

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

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

	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2013	2012	2013	2012	
Net Income	\$42,897	\$41,800	\$56,902	\$67,446	
Other Comprehensive Income (Loss):					
Foreign currency translation adjustment	(182) (1,456) 258	(726)
Unrealized loss on available-for-sale security, net of deferred tax of \$0, \$82, \$0 and \$37, respectively	—	(127) —	(57)
Employee benefit plans					
Net loss included in net periodic benefit expense or income, net of deferred tax of \$1,859, \$2,019, \$3,781 and \$3,993, respectively	2,907	3,112	5,914	6,246	
Amortization of prior service cost or credit included in net periodic benefit expense or income, net of deferred tax of \$61, \$116, \$122 and \$232, respectively	95	(181) 190	(364)
	3,002	2,931	6,104	5,882	
Total Other Comprehensive Income	2,820	1,348	6,362	5,099	
Comprehensive Income	\$45,717	\$43,148	\$63,264	\$72,545	

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

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

	Six Months Ended	
	June 30,	
	2013	2012
Cash and Cash Equivalents, Beginning of Period	\$429,784	\$438,010
Operating Activities		
Net income	56,902	67,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	112,774	104,785
Non-cash compensation and employee benefits	18,275	17,250
Increase in deferred income taxes	26,911	41,139
Provision for uncollectible accounts	5,334	2,426
Gain from sales of property and equipment, net	(7,062)	(6,446)
Changes in assets and liabilities:		
Receivables	(37,987)	(90,218)
Prepaid expenses	4,797	596
Accounts payable	16,793	51,792
Accrued variable compensation	(33,902)	(14,251)
Accrued liabilities, excluding accrued variable compensation and employee benefits	29,570	35,496
Self-insurance accruals	(3,859)	(10,947)
Accrued income taxes	(8,358)	(7,676)
Employee benefits	(48,286)	(20,337)
Other	3,880	(9,154)
Net Cash Provided by Operating Activities	135,782	161,901
Investing Activities		
Capital expenditures	(129,273)	(148,669)
Software expenditures	(3,246)	(3,076)
Proceeds from sales of property and equipment	9,965	15,721
Purchases of marketable securities	—	(5,000)
Proceeds from sales of marketable securities	3,200	13,330
Net Cash Used in Investing Activities	(119,354)	(127,694)
Financing Activities		
Repayment of capital leases	(6,373)	(9,657)
Repayment of short-term borrowings	(4,698)	(312)
Payment of debt issuance costs	(543)	—
Proceeds from exercise of stock options	8,987	2,396
Excess tax benefit from share-based compensation	1,057	1,510
Payments of common dividends	(11,255)	(11,165)
Net Cash Used in Financing Activities	(12,825)	(17,228)
Increase in Cash and Cash Equivalents	3,603	16,979
Cash and Cash Equivalents, End of Period	\$433,387	\$454,989
Supplemental Disclosure		
Cash paid for income taxes, net	\$3,136	\$6,160

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Cash paid for interest	\$26,516	\$27,012
Non-cash Investing and Financing Activities		
Revenue equipment acquired through partial non-monetary exchanges	\$16,872	\$13,658

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

CON-WAY INC.
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. Principal Accounting Policies

Organization

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

Basis of Presentation

These unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and Rule 10-01 of Regulation S-X, and should be read in conjunction with Con-way's 2012 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been reduced or omitted. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary to present fairly Con-way's financial position, results of operations and cash flows for the periods presented. Results for the interim periods presented are not necessarily indicative of annual results.

Earnings per Share ("EPS")

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

(Dollars in thousands except per share data)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Numerator:				
Net income	\$42,897	\$41,800	\$56,902	\$67,446
Denominator:				
Weighted-average common shares outstanding	56,354,017	55,809,358	56,226,038	55,756,540
Stock options and nonvested stock	606,721	630,487	634,057	620,658
	56,960,738	56,439,845	56,860,095	56,377,198
Diluted Earnings per Share:	\$0.75	\$0.74	\$1.00	\$1.20
Anti-dilutive securities excluded from the computation of diluted EPS	1,119,661	1,721,576	1,119,661	1,813,188

New Accounting Standards

In March 2013, the FASB issued ASU 2013-05, "Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity." This ASU, codified in the "Foreign Currency Matters" topic of the FASB Accounting Standards Codification, resolves the differing views in practice about whether the deconsolidation guidance in the "Consolidation" topic of the FASB Accounting Standards Codification impacts the guidance in "Foreign Currency Matters" topic in regard to when to release the cumulative translation adjustment into earnings. Under this ASU, complete or substantially complete liquidation of the foreign entity is required to release the cumulative translation adjustment for transactions occurring within a foreign entity. However, for transactions impacting the parent's investments in a foreign entity, the cumulative translation adjustment should be released into earnings in a manner consistent with the deconsolidation guidance in the "Consolidation" topic. This accounting guidance in ASU 2013-05

will be applied prospectively and will be effective for fiscal years, and interim periods within those years,

beginning after December 15, 2013. 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:

(Dollars in thousands)	Logistics	Truckload	Corporate and Eliminations	Total
Balance at December 31, 2011				
Goodwill	\$55,440	\$464,598	\$727	\$520,765
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
	7,204	329,785	727	337,716
Change in foreign currency exchange rates	448	—	—	448
Balances at December 31, 2012				
Goodwill	55,888	464,598	727	521,213
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
	7,652	329,785	727	338,164
Change in foreign currency exchange rates	(221)	—	—	(221)
Balances at June 30, 2013				
Goodwill	55,667	464,598	727	520,992
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
	\$7,431	\$329,785	\$727	\$337,943

Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated useful life. In the second quarter and first six months of 2013, amortization expense related to intangible assets was \$0.6 million and \$1.2 million, respectively, compared to \$0.8 million and \$1.6 million in the same periods of 2012. Intangible assets consisted of the following:

(Dollars in thousands)	June 30, 2013		December 31, 2012	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	\$23,088	\$13,270	\$23,088	\$12,091

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

(Dollars in thousands)

Year ending December 31:	
Remaining six months of 2013	\$ 1,178
2014	2,356
2015	2,356
2016	2,356
2017	1,572
2018	—

3. Segment Reporting

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

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

Logistics. The Logistics segment consists of the operating results of the Menlo 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.

In prior periods, the Other reporting segment consisted of the operating results of Con-way's trailer manufacturer and certain corporate activities for which the related income or expense has not been allocated to other reporting segments. Beginning in the first quarter of 2013, the former Other segment was reported as Corporate and Eliminations in order to reconcile the segment results to the consolidated totals. All periods presented reflect this change to the reporting segment structure.

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. Beginning in the first quarter of 2013, defined benefit pension plan costs were no longer allocated from Corporate to the reporting segments. The amount of defined benefit pension cost retained in Corporate and Eliminations was \$0.4 million and \$1.5 million in the second quarter and first six months of 2013, respectively. For the same periods of 2012, the amount of defined benefit pension cost allocated from Corporate to the three reporting segments was \$2.4 million and \$4.8 million respectively. Inter-segment revenue and related operating income (loss) have been eliminated to reconcile to consolidated revenue and operating income. Transactions between segments are generally based on negotiated prices.

(Dollars in thousands)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Revenues from External Customers				
Freight	\$881,824	\$865,058	\$1,698,960	\$1,683,699
Logistics	353,528	436,207	732,256	845,008
Truckload	144,490	143,715	282,839	281,472
Corporate and Eliminations	1,528	1,116	3,479	2,078
	\$1,381,370	\$1,446,096	\$2,717,534	\$2,812,257
Revenues from Internal Customers				
Freight	\$10,451	\$13,466	\$20,851	\$25,872
Logistics	16,850	11,822	30,479	22,167
Truckload	17,314	19,205	35,968	38,771
Corporate and Eliminations	16,393	13,520	31,045	26,849
	\$61,008	\$58,013	\$118,343	\$113,659
Operating Income (Loss)				
Freight	\$54,689	\$53,429	70,713	87,931
Logistics	6,039	12,688	12,571	24,982
Truckload	10,873	14,619	20,828	25,169
Corporate and Eliminations	4,698	(593)	3,786	(2,249)
	\$76,299	\$80,143	\$107,898	\$135,833

4. Fair-Value Measurements

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

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

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

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

Financial Assets Measured at Fair Value on a Recurring Basis

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

(Dollars in thousands)	June 30, 2013			
	Total	Level 1	Level 2	Level 3
Cash equivalents	\$380,245	\$64,092	\$316,153	\$—
December 31, 2012				
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	\$378,266	\$70,488	\$307,778	\$—
Current marketable securities	3,200	—	3,200	—

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 June 30, 2013, the weighted-average remaining maturity of the cash equivalents was less than one month. Based on their short maturities, the carrying amount of the cash equivalents approximates their fair value.

5. Employee Benefit Plans

In the periods presented, certain employees of Con-way and its subsidiaries in the U.S. were covered under several retirement benefit plans, including defined benefit pension plans, defined contribution retirement plans and a postretirement medical plan. See Note 10, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2012 Annual Report on Form 10-K for additional information concerning its employee benefit plans.

Defined Benefit Pension Plans

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

(Dollars in thousands)	Qualified Pension Plans			
	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Interest cost on benefit obligation	\$17,422	\$17,582	\$35,011	\$35,084
Expected return on plan assets	(23,005)	(21,095)	(45,662)	(42,206)
Amortization of actuarial loss	4,486	4,889	9,136	9,716
Amortization of prior-service costs	417	4	835	7
Net periodic benefit expense (income)	\$(680)	\$1,380	\$(680)	\$2,601

(Dollars in thousands)	Non-Qualified Pension Plans			
	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Interest cost on benefit obligation	\$803	\$863	\$1,607	\$1,719
Amortization of actuarial loss	280	242	559	523
Amortization of prior-service costs	2	—	3	—
Net periodic benefit expense	\$1,085	\$1,105	\$2,169	\$2,242

Con-way expects to make contributions of \$55.3 million to its Qualified Pension Plans in 2013, including \$31.8 million contributed through June 2013. Con-way's estimate of its 2013 contribution is subject to change based on variations in interest rates, asset returns, Pension Protection Act requirements and other factors.

Defined Contribution Retirement Plans

Con-way's expense for defined contribution retirement plans was \$13.9 million and \$27.2 million in the second quarter and first six months of 2013, respectively, compared to \$12.7 million and \$25.6 million in the same periods of 2012.

Postretirement Medical Plan

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

(Dollars in thousands)	Postretirement Medical Plan			
	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Service cost	\$313	\$417	\$742	\$840
Interest cost on benefit obligation	848	1,138	1,739	2,159
Amortization of prior-service credit	(263)	(301)	(526)	(603)
Net periodic benefit expense	\$898	\$1,254	\$1,955	\$2,396

6. Share-Based Compensation

Under terms of its share-based compensation plans, Con-way grants various types of share-based compensation awards to employees and directors. The plans provide for awards in the form of nonvested stock (also known as restricted stock), performance-share plan units, stock options and stock appreciation rights ("SARs"). See Note 11, "Share-Based Compensation," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2012 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		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Salaries, wages and employee benefits	\$5,163	\$4,767	\$11,194	\$9,829
Deferred income tax benefit	(2,010)	(1,853)	(4,357)	(3,818)
Net share-based compensation expense	\$3,153	\$2,914	\$6,837	\$6,011

At June 30, 2013 and December 31, 2012, Con-way had recognized accrued liabilities for cash-settled SARs of \$5.8 million and \$3.6 million, respectively, using a weighted-average fair value per SAR of \$15.03 and \$7.43, respectively.

7. Income Taxes

Con-way's second-quarter and year-to-date effective tax rates in 2013 were 31.7% and 28.5%, respectively. In the second quarter and first half of 2012, the effective tax rates were 35.4% and 36.4%, respectively. Significant variations in the customary relationship between income tax expense and pretax income were largely due to discrete adjustments. In the second quarter and first half of 2013, the effective tax rates included discrete tax benefits of \$3.8 million and \$7.2 million, respectively. In the second quarter and first half of 2012, the effective tax rates included discrete tax benefits of \$2.3 million and \$2.5 million, respectively. In the second quarters of 2013 and 2012, the discrete items primarily related to the expiration of the statute of limitations on uncertain tax positions. The effective tax rate in 2013 also included a first-quarter benefit for the alternative-fuel tax credits for 2012 that were recognized in the first quarter of 2013 because of a retroactive change to tax laws.

Other accounts receivable in the consolidated balance sheets include income tax receivables of \$14.5 million and \$6.6 million at June 30, 2013 and December 31, 2012, respectively.

8. Commitments and Contingencies

Outsourcing Contracts

Con-way has agreements with third-party service providers to outsource a significant portion of its information-technology infrastructure function and a small portion of its administrative and accounting functions. The payments under the terms of the agreements are subject to change depending on the quantities and types of services 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.

California Wage and Hour

Con-way is a defendant in several class action lawsuits alleging violations of the state of California's wage and hour laws. Plaintiffs allege that Con-way failed to pay certain drivers for all compensable time and that certain other drivers were not provided with required meal breaks and rest breaks. Plaintiffs seek to recover unspecified monetary damages, penalties, interest and attorneys' fees. The two primary cases are Jorge R. Quezada v. Con-way Inc., dba Con-way Freight, (the "Quezada" case), and Jose Alberto Fonseca Pina, et al. v. Con-way Freight Inc., et al. (the "Pina" case). The Quezada case was initially filed in February 2009 in San Mateo County Superior Court, and was removed to the U.S. District Court of California, Northern District. The Pina case was initially filed in November 2009 in Monterey County Superior Court and was removed to the U.S. District Court of California, Northern District. By agreement of the parties, in March 2010, the Pina case and the Quezada case were deemed related and transferred to the same judge. On April 12, 2012, the Court granted Plaintiff's request for class certification in the Pina case as to a limited number of issues. On October 15, 2012, the Court granted Plaintiffs' request for class certification in the Quezada case and granted summary judgment as to certain issues. Con-way has denied any liability with respect to these claims and

intends to vigorously defend itself in this case. Con-way plans to appeal the class certification

and summary judgment rulings. Given the nature and status of the claims, Con-way cannot yet determine the amount or a reasonable range of potential loss, if any.

Menlo Worldwide Logistics Receivable Dispute

Menlo Worldwide Logistics ("Menlo") filed for and received an asset preservation order from the Ningxia High Court in China in April of 2013 in connection with an unpaid accounts receivable balance. The order secures the customer's assets for the equivalent unpaid accounts receivable balance. Following the customer's failure to pay \$6.1 million within agreed upon terms, Menlo, in the fourth quarter of 2012, became less confident of its ability to collect the full amount of the outstanding receivable balance. As a result, Menlo recorded an allowance of \$2.3 million in the fourth quarter of 2012. In connection with that, Menlo seized coal inventory and the customer provided two shareholders' personal guarantees to Menlo in the event the customer fails to pay any or all the unpaid accounts receivable balance after selling all its assets including the coal inventory. In the second quarter of 2013, new information came to Menlo's attention that caused Menlo to question whether it could continue to recognize any portion of the outstanding receivable balance, including information that raised uncertainty regarding Menlo's ability to realize value from the sale of secured assets of the customer. Accordingly, Menlo reserved for the remaining balance of the receivable in June 2013. Menlo's ability to realize proceeds from the sales of any customer assets will be recognized in future periods when and if they occur.

Other

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 condition, results of operations or cash flows.

9. Shareholders' Equity

Accumulated Other Comprehensive Loss

All changes in equity, except those resulting from investments by owners and distributions to owners, are reported in the statements of consolidated comprehensive income.

In the first quarter of 2013, Con-way adopted ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income." This ASU, codified in the "Comprehensive Income" topic of the FASB Accounting Standards Codification, requires additional disclosures about the amounts reclassified out of accumulated other comprehensive income (loss) and the changes in the balances for each component of comprehensive income (loss) included in accumulated other comprehensive income (loss). In 2012, Con-way adopted related "Comprehensive Income" standards by presenting the components of other comprehensive income (loss) in the statements of consolidated comprehensive income (loss), including separate disclosure of reclassification adjustments.

The following is a summary of the components of accumulated other comprehensive loss and the changes in accumulated other comprehensive loss:

	Foreign Currency Translation Adjustment	Unrealized Loss on Available-for-Sale Security	Employee Benefit Plans	Total
Balances at March 31, 2013	\$(855)	) \$—	\$(452,064)	) \$(452,919)
Other comprehensive loss before reclassifications	(182)	) —	—	(182)
Amounts reclassified from accumulated other comprehensive loss	—	—	3,002	3,002
Balances at June 30, 2013	\$(1,037)	) \$—	\$(449,062)	) \$(450,099)

	Foreign Currency Translation Adjustment	Unrealized Loss on Available-for-Sale Security	Employee Benefit Plans	Total
Balances at December 31, 2012	\$(1,295)	) \$—	\$(455,166)	) \$(456,461)
Other comprehensive income before reclassifications	258	—	—	258
Amounts reclassified from accumulated other comprehensive loss	—	—	6,104	6,104
Balances at June 30, 2013	\$(1,037)	) \$—	\$(449,062)	) \$(450,099)

	Foreign Currency Translation Adjustment	Unrealized Loss on Available-for-Sale Security	Employee Benefit Plans	Total
Balances at March 31, 2012	\$(1,046)	) \$(156)	) \$(433,483)	) \$(434,685)
Other comprehensive loss before reclassifications	(1,456)	) (127)	) —	(1,583)
Amounts reclassified from accumulated other comprehensive loss	—	—	2,931	2,931
Balances at June 30, 2012	\$(2,502)	) \$(283)	) \$(430,552)	) \$(433,337)

	Foreign Currency Translation Adjustment	Unrealized Loss on Available-for-Sale Security	Employee Benefit Plans	Total
Balances at December 31, 2011	\$(1,776)	) \$(226)	) \$(436,434)	) \$(438,436)
Other comprehensive loss before reclassifications	(726)	) (57)	) —	(783)
Amounts reclassified from accumulated other comprehensive loss	—	—	5,882	5,882
Balances at June 30, 2012	\$(2,502)	) \$(283)	) \$(430,552)	) \$(433,337)

See Note 5, "Employee Benefit Plans" for additional information concerning Con-way's employee benefit plans, including amounts reported for net periodic benefit expense.

10. Debt and Other Financing Arrangements

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On June 28, 2013, Con-way amended its \$325 million revolving credit facility to extend the maturity date from August 2, 2016 to June 28, 2018. 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 6, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2012

Annual Report on Form 10-K for additional information concerning Con-way's \$325 million credit facility and its other debt instruments.

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 three reporting segments:

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

Logistics. The Logistics segment consists of the operating results of the Menlo 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.

In prior periods, the Other reporting segment consisted of the operating results of Con-way's trailer manufacturer and certain corporate activities for which the related income or expense has not been allocated to other reporting segments. Beginning in the first quarter of 2013, the former Other segment was reported as Corporate and Eliminations in order to reconcile the segment results to the consolidated totals. All periods presented reflect this change to the reporting segment structure.

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 tractors and trailers.

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

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

Results of Operations

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

(Dollars in thousands except per share amounts)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues	\$1,381,370	\$1,446,096	\$2,717,534	\$2,812,257
Operating expenses	1,305,071	1,365,953	2,609,636	2,676,424
Operating income	76,299	80,143	107,898	135,833
Other non-operating expense	(13,450)	(15,446)	(28,274)	(29,714)
Income before income tax provision	62,849	64,697	79,624	106,119
Income tax provision	19,952	22,897	22,722	38,673
Net income	\$42,897	\$41,800	\$56,902	\$67,446
Diluted earnings per share	\$0.75	\$0.74	\$1.00	\$1.20

Overview

Con-way's consolidated revenue for the second quarter of 2013 decreased 4.5% from the second quarter of 2012 and, in the first half of 2013, decreased 3.4% from the same prior-year period. The declines in revenue were primarily the result of lower revenue from Logistics due to declines in volumes. Revenue at Truckload in the second quarter and first half of 2013 was essentially flat, reflecting lower volumes and improved revenue per mile. Revenue at Freight increased in the second quarter and first half of 2013 as the result of higher revenue per hundredweight, partially offset by lower volumes.

Con-way's consolidated operating income in the second quarter decreased 4.8% to \$76.3 million in 2013 from \$80.1 million in the same period of 2012, primarily the result of declines at the Logistics and Truckload reporting segments. In the year-to-date periods, operating income decreased 20.6% to \$107.9 million in 2013 from \$135.8 million in 2012 with lower income at all three reporting segments.

Non-operating expense in the second quarter of 2013 decreased \$2.0 million from the second quarter of 2012 and, in the first half of 2013, decreased \$1.4 million from the same prior-year period. Lower non-operating expense includes the effect of variations in foreign exchange gains and losses, and lower fees for letters of credit.

Con-way's second-quarter and year-to-date effective tax rates in 2013 were 31.7% and 28.5%, respectively. In the second quarter and first half of 2012, the effective tax rates were 35.4% and 36.4%, respectively. Both years included discrete tax adjustments that impacted the effective tax rate, as more fully discussed in Note 7, "Income Taxes," of Item 1, "Financial Statements."

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. Both revenue from external customers and revenue from internal customers are reported in Note 3, "Segment Reporting," of Item 1, "Financial Statements."

Freight

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

(Dollars in thousands)	Three Months Ended		Six Months Ended		
	June 30,		June 30,		
	2013	2012	2013	2012	
Revenue before inter-segment eliminations	\$892,275	\$878,524	\$1,719,811	\$1,709,571	
Salaries, wages and employee benefits	400,915	396,169	778,660	776,665	
Purchased transportation	152,985	148,987	298,899	287,262	
Other operating expenses	111,722	111,524	236,038	220,895	
Fuel and fuel-related taxes	93,474	95,957	187,318	194,262	
Depreciation and amortization	33,469	31,076	65,853	61,048	
Purchased labor	8,667	5,123	12,639	9,557	
Rents and leases	12,901	12,014	24,663	24,110	
Maintenance	23,453	24,245	45,028	47,841	
Total operating expenses	837,586	825,095	1,649,098	1,621,640	
Operating income	\$54,689	\$53,429	\$70,713	\$87,931	
Operating margin	6.1	% 6.1	% 4.1	% 5.1	%
	2013 vs. 2012		2013 vs. 2012		
Selected Operating Statistics					
Weight per day	-1.4	%	-1.3	%	
Revenue per hundredweight ("yield")	+2.7	%	+3.1	%	
Shipments per day ("volume")	-1.3	%	-1.5	%	
Weight per shipment	-0.2	%	+0.1	%	

Freight's revenue in the second quarter of 2013 increased 1.6% from the second quarter of 2012 and in the first half of 2013, increased 0.6% from 2012. The second quarter increase in revenue was due to a 2.7% increase in yield, partially offset by a 1.4% decrease in weight per day. The decrease in weight per day reflects a 1.3% decline in shipments per day and a 0.2% decline in weight per shipment. In the first half of 2013, the revenue increase was due to a 3.1% increase in yield, partially offset by one less working day and a 1.3% decrease in weight per day. The decrease in weight per day reflects a 1.5% decline in shipments, partially offset by a 0.1% increase in weight per shipment. Yield excluding fuel surcharges increased by 3.3% and 3.4%, respectively, in the second quarter and first half of 2013. In the second quarter, Freight's fuel-surcharge revenue decreased to 17.2% of revenue in 2013 from 17.6% in 2012, and in the first half, decreased to 17.5% of revenue in 2013 from 17.6% in 2012. Fuel surcharges are only one part of Con-way Freight's overall rate structure, and the total price that Con-way Freight receives from customers for its services is governed by market forces, as more fully discussed below in Item 3, "Quantitative and Qualitative Disclosures About Market Risk – Fuel."

Freight's operating income increased 2.4% in the second quarter of 2013 compared to the second quarter of 2012, and in the first half, decreased 19.6% from the prior-year period. The second-quarter increase in operating income reflects the effect of higher revenue and an operating margin that was unchanged from the second quarter of 2012. The first-half decrease in operating income was the result of reduced margins, largely driven by increased operating

expenses. Key initiatives under Freight's three-year plan to improve operating results consist of lane-based pricing and line-haul optimization. These initiatives are being implemented over the course of 2013 (the second year of the three-year plan), and the operating results in the second quarter and first half of 2013 reflect progress made under these strategic initiatives.

In the second quarter of 2013, expenses for salaries, wages and employee benefits increased 1.2% from the same period of 2012, due to a 1.7% increase in salaries and wages (excluding variable compensation), and a 2.9% increase in employee benefits, partially offset by a \$3.1 million or 23.5% decrease in variable compensation. In the first half of 2013, expenses for salaries, wages and employee benefits increased 0.3% from the same period of 2012 due to a 2.3% increase in salaries and wages (excluding variable compensation), partially offset by a \$7.5 million or 36.4% decrease in variable compensation and a 1.3% decrease in employee benefits. Increases in salaries and wages (excluding variable compensation) were largely due to annual salary and wage rate increases. Variable-compensation expense decreased in 2013 based primarily on variations in performance relative to variable-compensation plan targets. The 2.9% increase in employee benefits for the second quarter of 2013 was largely due to higher costs for workers' compensation claims, which increased as the result of an increase in expense per claim, partially offset by fewer claims.

Purchased transportation expense increased 2.7% in the second quarter of 2013 and 4.1% in the first half, primarily due to increased third-party miles.

Other operating expenses increased 0.2% in the second quarter of 2013, reflecting a decline in gains from the sale of property, partially offset by a decline in expenses for vehicular claims. The decrease in vehicular claims expense is primarily due to a decline in cost per claim. Other operating expenses increased 6.9% in the first half of 2013, and included higher expenses for information-technology services (including an early termination fee related to the transition to a new information-technology vendor) and a decline in gains from the sale of property. The 2012 periods included \$3.9 million in second-quarter gains from the sale of excess properties.

Expense for fuel and fuel-related taxes decreased 2.6% in the second quarter of 2013 and 3.6% in the first half of 2013, primarily due to lower fuel consumption, the result of decreased miles driven by company drivers and a lower cost per gallon of diesel fuel.

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

Depreciation and amortization expense increased 7.7% in the second quarter of 2013 compared to the second quarter of 2012, and increased 7.9% in the year-to-date period, primarily due to the replacement of older tractors with newer models. Newer models are more costly due in part to the inclusion of more expensive emissions-control and safety technology.

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).

Transportation-management revenue is attributable to contracts for which Menlo Worldwide Logistics manages the transportation of freight but subcontracts to carriers the actual transportation and delivery of products, which Menlo Worldwide Logistics refers to as purchased transportation. Menlo Worldwide Logistics' management places emphasis on net revenue as a meaningful measure of the relative importance of its principal services since revenue earned on most transportation-management services includes the carriers' charges to Menlo Worldwide Logistics for transporting the shipments.

(Dollars in thousands)	Three Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
Revenue before inter-segment eliminations	\$370,378	\$448,029	\$762,735	\$867,175	
Purchased transportation expense	(209,008)	(286,191)	(444,208)	(549,614)	
Net revenue	161,370	161,838	318,527	317,561	
Salaries, wages and employee benefits	62,140	66,776	127,470	129,798	
Other operating expenses	49,928	41,413	93,468	80,128	
Fuel and fuel-related taxes	171	206	322	443	
Depreciation and amortization	2,261	2,435	4,464	5,063	
Purchased labor	22,882	22,057	44,550	44,061	
Rents and leases	17,250	15,636	34,413	31,483	
Maintenance	699	627	1,269	1,603	
Total operating expenses excluding purchased transportation	155,331	149,150	305,956	292,579	
Operating income	\$6,039	\$12,688	\$12,571	\$24,982	
Operating margin on revenue	1.6	% 2.8	% 1.6	% 2.9	%
Operating margin on net revenue	3.7	% 7.8	% 3.9	% 7.9	%

In the second quarter of 2013, Logistics' revenue decreased 17.3% due to a 24.3% decrease in revenue from transportation-management services, partially offset by a 2.9% increase in revenue from warehouse-management services. In the first half of 2013, Logistics' revenue decreased 12.0% due to a 16.8% decrease in revenue from transportation-management services, partially offset by a 1.2% increase in revenue from warehouse-management services. In 2013, lower revenue from transportation-management services was primarily due to lower volumes, including the effect of changes to a large customer contract and the conclusion of work under other customer contracts. These declines were partially offset by increases from new business.

Logistics' net revenue in the second quarter and first half of 2013 was essentially flat, as purchased transportation expense decreased at a similar rate as revenue from transportation-management services.

In the second quarter, Logistics' operating income decreased 52.4% to \$6.0 million in 2013 from \$12.7 million in 2012. In the first half, Logistics' operating income decreased 49.7% to \$12.6 million in 2013 from \$25.0 million in 2012. Lower income was primarily due to increases in other operating expenses, including costs incurred during the start-up phase of certain warehouse-management contracts. Operating income was also adversely affected by the conclusion of work under certain customer contracts and an increase in the provision for uncollectible accounts receivable.

In the second quarter of 2013, expenses for salaries, wages and employee benefits decreased 6.9% from the same period of 2012, primarily due to a \$5.4 million decrease in variable compensation, partially offset by a 2.3% increase in salaries and wages (excluding variable compensation). In the first half of 2013, expenses for salaries, wages and employee benefits decreased 1.8% from the same period of 2012, primarily due to a \$6.9 million decrease in variable

compensation, partially offset by a 4.6% increase in salaries and wages (excluding variable compensation). Variable-compensation expense decreased in 2013 based primarily on variations in performance relative to variable-compensation plan targets. Increases in salaries and wages (excluding variable compensation) were largely due to increased average employee counts as the result of new and expanded warehouse-management business.

Other operating expenses increased 20.6% and 16.6% in the second quarter and first half of 2013, respectively, primarily due to higher costs for information-technology projects and infrastructure, an increase in the provision for uncollectible accounts receivable, and higher expenses for facilities, and warehouse-related packaging materials and supplies. The increase in the provision for uncollectible accounts receivable in 2013 was primarily due to an additional \$3.7 million reserve accrued in the second quarter that related to a single international customer, as more fully discussed in Note 8, "Commitments and Contingencies," of Item 1, "Financial Statements." Higher expenses for facilities and other warehouse-related costs were incurred primarily in support of new warehouse-management contracts.

In the second quarter and first half of 2013, expenses for rents and leases increased 10.3% and 9.3%, respectively, primarily due to increases in the number of leased warehouse facilities, including facilities to support customer contracts that were in the start-up phase during the second quarter and first half of 2013.

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		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Freight revenue	\$ 120,875	\$ 120,173	\$ 237,155	\$ 236,426
Fuel-surcharge revenue	35,876	38,016	71,958	74,422
Other revenue	5,053	4,731	9,694	9,395
Revenue before inter-segment eliminations	161,804	162,920	318,807	320,243