Con-way Inc.
Form 10-Q
October 29, 2014

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

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

For the transition period from ___ to___

Commission File Number: 1-05046

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

Delaware	94-1444798
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2211 Old Earhart Road, Suite 100, Ann Arbor, MI	48105
(Address of principal executive offices)	(Zip code)

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

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

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 ý No o

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 ý Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

The number of shares of common stock, $0.625 par value, outstanding as of September 30, 2014 was 57,919,964.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
Con-way Inc.
Consolidated Balance Sheets

(Dollars in thousands)	September 30, 2014 (Unaudited)	December 31, 2013
Assets		
Current Assets		
Cash and cash equivalents	$456,724	$484,502
Marketable securities	3,285	—
Trade accounts receivable, net	694,533	575,013
Other accounts receivable	50,099	51,063
Operating supplies, at lower of average cost or market	24,369	23,910
Prepaid expenses and other current assets	48,396	57,961
Deferred income taxes	6,770	15,332
Total Current Assets	1,284,176	1,207,781
Property, Plant and Equipment		
Land	188,909	193,364
Buildings and leasehold improvements	856,780	856,038
Revenue equipment	1,899,113	1,857,737
Other equipment	356,776	353,205
	3,301,578	3,260,344
Accumulated depreciation	(1,647,699)	(1,603,511)
Net Property, Plant and Equipment	1,653,879	1,656,833
Other Assets		
Deferred charges and other assets	35,888	32,200
Capitalized software, net	23,048	21,488
Employee benefits	16,024	15,018
Intangible assets, net	6,873	8,640
Goodwill	337,955	337,971
	419,788	415,317
Total Assets	$3,357,843	$3,279,931

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 data)	September 30, 2014 (Unaudited)	December 31, 2013
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable	$405,209	$390,537
Accrued liabilities	270,325	229,078
Federal and other income taxes	7,937	—
Self-insurance accruals	116,248	105,063
Short-term borrowings	1,489	1,588
Current maturities of capital leases	25,256	19,685
Total Current Liabilities	826,464	745,951
Long-Term Liabilities		
Long-term debt	719,265	719,155
Long-term obligations under capital leases	10,791	16,185
Self-insurance accruals	146,605	142,307
Employee benefits	93,970	240,171
Other liabilities and deferred credits	34,672	39,524
Deferred income taxes	262,045	237,949
Total Liabilities	2,093,812	2,141,242
Commitments and Contingencies (Note 8)		
Shareholders' Equity		
Common stock, $0.625 par value; authorized 100,000,000 shares; issued 65,767,105 and 64,592,756 shares, respectively	41,092	40,349
Additional paid-in capital, common stock	700,717	653,487
Retained earnings	1,126,884	1,043,472
Cost of repurchased common stock (7,847,141 and 7,669,889 shares, respectively)	(337,228)	(329,088)
Accumulated other comprehensive loss	(267,434)	(269,531)
Total Shareholders' Equity	1,264,031	1,138,689
Total Liabilities and Shareholders' Equity	$3,357,843	$3,279,931

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

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

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2014	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2014	Nine Months Ended September 30, 2013
Revenue	$1,504,150	$1,398,021	$4,365,342	$4,115,555
Costs and Expenses				
Salaries, wages and employee benefits	570,216	541,373	1,668,541	1,598,770
Purchased transportation	379,141	327,691	1,080,784	1,005,235
Other operating expenses	164,015	162,736	483,761	467,550
Fuel and fuel-related taxes	122,479	133,093	389,983	406,052
Depreciation and amortization	60,848	58,911	181,307	172,074
Purchased labor	46,219	38,750	130,773	100,777
Rents and leases	34,004	33,778	102,362	94,764
Maintenance	35,853	34,014	100,694	94,760
	1,412,775	1,330,346	4,138,205	3,939,982
Operating Income	91,375	67,675	227,137	175,573
Other Income (Expense)				
Investment income	185	150	521	473
Interest expense	(13,373)	(13,395)	(40,082)	(40,559)
Miscellaneous, net	(797)	(1,052)	(196)	(2,485)
	(13,985)	(14,297)	(39,757)	(42,571)
Income before Income Tax Provision	77,390	53,378	187,380	133,002
Income Tax Provision	31,807	22,821	75,237	45,543
Net Income	$45,583	$30,557	$112,143	$87,459
Weighted-Average Common Shares Outstanding				
Basic	57,692,508	56,714,423	57,262,132	56,390,621
Diluted	58,253,563	57,362,834	57,832,133	57,065,146
Earnings per Common Share				
Basic	$0.79	$0.54	$1.96	$1.55
Diluted	$0.78	$0.53	$1.94	$1.53
Cash Dividends Declared per Common Share	$0.20	$0.10	$0.50	$0.40

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Net Income	$45,583	$30,557	$112,143	$87,459
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	(891)	305	(1,208)	563
Employee benefit plans				
Amortization of net actuarial loss included in net periodic benefit expense or income, net of deferred tax of $925, $1,892, $2,475 and $5,672, respectively	1,447	2,956	3,872	8,871
Amortization of prior-service cost or credit included in net periodic benefit expense or income, net of deferred tax of $120, $61, $362 and $184, respectively	(188)	95	(567)	284
	1,259	3,051	3,305	9,155
Total Other Comprehensive Income	368	3,356	2,097	9,718
Comprehensive Income	$45,951	$33,913	$114,240	$97,177

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

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

(Dollars in thousands)	Nine Months Ended September 30, 2014	2013
Cash and Cash Equivalents, Beginning of Period	$484,502	$429,784
Operating Activities		
Net income	112,143	87,459
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	181,045	171,426
Non-cash compensation and employee benefits	18,312	27,797
Increase in deferred income taxes	28,966	46,784
Provision for uncollectible accounts	2,394	5,045
Gain from sales of property and equipment, net	(8,543)	(6,169)
Changes in assets and liabilities:		
Receivables	(130,766)	(34,563)
Prepaid expenses	11,611	14,334
Accounts payable	26,712	21,044
Accrued variable compensation	12,629	(22,896)
Accrued liabilities, excluding accrued variable compensation and employee benefits	36,217	29,675
Self-insurance accruals	9,845	758
Accrued income taxes	14,114	(7,344)
Employee benefits	(152,250)	(78,540)
Other	(1,769)	4,853
Net Cash Provided by Operating Activities	160,660	259,663
Investing Activities		
Capital expenditures	(214,329)	(212,549)
Software expenditures	(8,635)	(4,716)
Proceeds from sales of property and equipment	35,126	12,239
Purchases of marketable securities	(3,285)	—
Proceeds from sales of marketable securities	—	3,200
Net Cash Used in Investing Activities	(191,123)	(201,826)
Financing Activities		
Payment of capital leases	(9,544)	(9,598)
Repayment of short-term borrowings	(104)	(4,673)
Payment of debt issuance costs	—	(543)
Proceeds from exercise of stock options	33,420	19,757
Excess tax benefit from share-based compensation	3,075	2,486
Payments of common dividends	(20,051)	(16,930)
Repurchases of common stock	(4,111)	—
Net Cash Provided by (Used in) Financing Activities	2,685	(9,501)
Increase (Decrease) in Cash and Cash Equivalents	(27,778)	48,336
Cash and Cash Equivalents, End of Period	$456,724	$478,120
Supplemental Disclosure		
Cash paid for income taxes, net	$29,063	$3,692
Cash paid for interest	$42,040	$42,349
Non-cash Investing and Financing Activities		

Property, plant and equipment acquired through partial non-monetary exchanges	$6,849	$23,683
Property, plant and equipment acquired through capital lease	$9,721	$1,596
Property, plant and equipment acquired through increase in current liabilities	$12,377	$3,005
Repurchases of common stock included in current liabilities	$499	$—

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

Con-way Inc.
Notes to Consolidated Financial Statements
(Unaudited)
1. Principal Accounting Policies
Organization
Con-way Inc. and its consolidated subsidiaries ("Con-way") provide transportation, logistics and supply-chain management services for a wide range of manufacturing, industrial and retail customers. Con-way's business units operate in regional, inter-regional and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, multimodal freight brokerage, and trailer manufacturing. As more fully discussed in Note 3, "Segment Reporting," for financial reporting purposes, Con-way is divided into three reporting segments: Freight, Logistics and Truckload.
Basis of Presentation
These unaudited interim financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. for interim financial information and Rule 10-01 of Regulation S-X, and should be read in conjunction with Con-way's 2013 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been reduced or omitted. In the opinion of management, the accompanying unaudited consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary to present fairly Con-way's financial position, results of operations and cash flows for the periods presented. Results for the interim periods presented are not necessarily indicative of annual results.
Earnings per Share ("EPS")
Basic EPS is calculated by dividing net income by the weighted-average common shares outstanding during the period. Diluted EPS is calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
Numerator:				
Net income	$45,583	$30,557	$112,143	$87,459
Denominator:				
Weighted-average common shares outstanding	57,692,508	56,714,423	57,262,132	56,390,621
Stock options and nonvested stock	561,055	648,411	570,001	674,525
	58,253,563	57,362,834	57,832,133	57,065,146
Diluted EPS	$0.78	$0.53	$1.94	$1.53
Anti-dilutive stock options excluded from the calculation of diluted EPS	157,000	930,616	518,570	954,749

Property, Plant and Equipment
Con-way periodically evaluates whether changes in estimated useful lives or salvage values are necessary to ensure that these estimates accurately reflect the economic use of the assets. In response to conditions in the used-trailer market, Con-way Truckload increased the estimated salvage values for certain of its trailers in the fourth quarter of 2013. The effect of the change in estimate decreased depreciation expense and increased operating income by $1.5 million and $4.9 million for the third quarter and first nine months of 2014, respectively. As a result of this change, net income in the third quarter of 2014 increased by $0.8 million and basic and diluted EPS increased $0.01 per share, and in the first nine months of 2014, net income increased by $2.9 million and basic and diluted EPS increased $0.05 per share.
New Accounting Standards
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers." This ASU, codified in the "Revenue Recognition" topic of the FASB Accounting Standards Codification, requires revenue to be recognized upon the transfer of promised goods or services

to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard also requires disclosures sufficient to describe the nature, amount, timing, and uncertainty of revenue and cash flows arising from these customer contracts. This standard is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and can be applied either retrospectively to each prior reporting period presented or with the cumulative effect of initially applying the standard recognized on the date of adoption. Con-way plans to adopt this standard in the first quarter of 2017. Con-way is currently evaluating the method of application and the potential impact on the financial statements and related disclosures.

2. Goodwill and Intangible Assets

Goodwill

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

(Dollars in thousands)	Logistics	Truckload	Corporate and Eliminations	Total
Goodwill	$55,888	$464,598	$727	$521,213
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
Balances at December 31, 2012	7,652	329,785	727	338,164
Change in foreign currency exchange rates	(193)	—	—	(193)
Goodwill	55,695	464,598	727	521,020
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
Balances at December 31, 2013	7,459	329,785	727	337,971
Change in foreign currency exchange rates	(16)	—	—	(16)
Goodwill	55,679	464,598	727	521,004
Accumulated impairment losses	(48,236)	(134,813)	—	(183,049)
Balances at September 30, 2014	$7,443	$329,785	$727	$337,955

Intangible Assets

Intangible assets are amortized on a straight-line basis over their estimated useful lives. Amortization expense was $0.6 million and $1.8 million for the third quarter and first nine months of 2014, respectively, compared to $0.6 million and $1.8 million for the same periods of 2013. Intangible assets consisted of the following:

	September 30, 2014		December 31, 2013	
(Dollars in thousands)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	$23,088	$16,215	$23,088	$14,448

Con-way's customer-relationship intangible asset relates to the Con-way Truckload business unit. Estimated future amortization expense is presented for the years ended December 31, in the following table:

(Dollars in thousands)	
Remaining three months of 2014	$589
2015	2,356
2016	2,356
2017	1,572

3. Segment Reporting

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

- Freight. The Freight segment consists of the operating results of the Con-way Freight business unit, which provides regional, inter-regional and transcontinental less-than-truckload freight services throughout North America.
- Logistics. The Logistics segment consists of the operating results of the Menlo Logistics business unit, which develops contract-logistics solutions, including the management of complex distribution networks and supply-chain engineering and consulting, and also provides multimodal freight-brokerage services.
- Truckload. The Truckload segment consists of the operating results of the Con-way Truckload business unit, which provides asset-based full-truckload freight services throughout North America.

Financial Data

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Revenue from External Customers				
Freight	$934,313	$888,508	$2,698,584	$2,587,468
Logistics	422,645	362,830	1,225,847	1,095,086
Truckload	145,320	144,583	434,847	427,422
Corporate and Eliminations	1,872	2,100	6,064	5,579
	$1,504,150	$1,398,021	$4,365,342	$4,115,555
Revenue from Internal Customers				
Freight	$11,993	$10,746	$36,252	$31,597
Logistics	21,300	17,719	58,113	48,198
Truckload	13,866	17,596	44,413	53,564
Corporate and Eliminations	18,367	18,410	49,909	49,455
	$65,526	$64,471	$188,687	$182,814
Operating Income (Loss)				
Freight	$71,889	$51,570	$173,475	$122,283
Logistics	7,602	8,178	20,194	20,749
Truckload	10,694	8,971	30,573	29,799
Corporate and Eliminations	1,190	(1,044)	2,895	2,742
	$91,375	$67,675	$227,137	$175,573

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:

	September 30, 2014			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	$412,388	$79,092	$333,296	$—
Marketable securities	$3,285	$—	$3,285	$—

	December 31, 2013			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	$441,199	$99,092	$342,107	$—

Cash equivalents consist of short-term interest-bearing instruments (primarily certificates of deposit, commercial paper and money-market funds) with maturities of three months or less at the date of purchase. 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, 2014, the weighted-average remaining maturity of the cash equivalents was less than one month. Based on their short maturities, the carrying amount of the cash equivalents approximates their fair value.

5. Employee Benefit Plans

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

Defined Benefit Pension Plans

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

	Qualified Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Interest cost on benefit obligation	$18,820	$17,506	$56,458	$52,517
Expected return on plan assets	(23,319)	(22,831)	(69,955)	(68,493)
Amortization of actuarial loss	2,424	4,568	7,274	13,704
Amortization of prior-service costs	405	418	1,214	1,253
Net periodic benefit income	$(1,670)	$(339)	$(5,009)	$(1,019)

	Non-Qualified Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Interest cost on benefit obligation	$862	$803	$2,588	$2,410
Amortization of actuarial loss	219	280	657	839
Amortization of prior-service costs	2	1	4	4
Net periodic benefit expense	$1,083	$1,084	$3,249	$3,253

Con-way expects to make contributions of approximately $142 million to its qualified pension plans in 2014, including $137.2 million contributed through September 2014.

Defined Contribution Retirement Plans

Con-way’s cost for defined contribution retirement plans was $14.1 million and $41.8 million in the third quarter and first nine months of 2014, respectively, compared to $14.1 million and $41.3 million in the same periods of 2013.

Postretirement Medical Plan

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Service cost	$170	$370	$712	$1,112
Interest cost on benefit obligation	708	869	2,051	2,608
Amortization of actuarial gain	(271)	—	(1,584)	—
Amortization of prior-service credit	(715)	(263)	(2,147)	(789)
Net periodic benefit expense (income)	$(108)	$976	$(968)	$2,931

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 10, “Share-Based Compensation,” of Item 8, “Financial Statements and Supplementary Data,” in Con-way’s 2013 Annual Report on Form 10-K for additional information concerning its share-based compensation awards. The following expense was recognized for share-based compensation:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Salaries, wages and employee benefits	$3,375	$5,505	$14,351	$16,699
Deferred income tax benefit	(1,317)	(2,144)	(5,597)	(6,501)
Net share-based compensation expense	$2,058	$3,361	$8,754	$10,198

At September 30, 2014 and December 31, 2013, Con-way had recognized accrued liabilities for cash-settled SARs of $2.2 million and $4.3 million, respectively, using a weighted-average fair value per SAR of $19.75 and $15.13, respectively.

7. Income Taxes

Con-way's effective tax rates for the third quarter and first nine months of 2014 were 41.1% and 40.2%, respectively. The effective tax rates for the third quarter and first nine months of 2013 were 42.8% and 34.2%, respectively. The customary relationship between income tax expense and pretax income was affected by discrete adjustments. The effective tax rates in the third quarter and first nine months of 2014 included discrete tax charges of $0.7 million and $0.1 million, respectively. The effective tax rates in the third quarter and first nine months of 2013 included a discrete tax charge of $1.0 million and a discrete tax benefit of $6.2 million, respectively. In the first nine months of 2013, the discrete tax items included a second-quarter benefit related to the expiration of the statute of limitations on uncertain tax positions. The effective tax rate in the first nine months of 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; this credit is not expected to be available for 2014.

Other accounts receivable in the consolidated balance sheets include income tax receivables of $10.6 million at December 31, 2013. At September 30, 2014, Con-way had a $7.9 million current income tax liability.

8. Commitments and Contingencies

Service Contracts

Con-way has agreements with vendors to provide certain information-technology, administrative and accounting services. 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 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. The class certification rulings do not address whether Con-way will ultimately be held liable.

Con-way challenged the certification of the class in both cases, and further contends that plaintiffs' claims are preempted by federal law and not substantiated by the facts. Con-way has denied any liability with respect to these claims and intends to vigorously defend itself in these cases. There are multiple factors that prevent Con-way from being able to estimate the amount of potential loss, if any, in excess of its accrued liability that may result from this matter, including: (1) Con-way is vigorously defending itself and believes that it has a number of meritorious legal defenses; and (2) at this stage in the cases, there are unresolved questions of fact that could be important to the resolution of these matters. Trial was scheduled in the Quezada case for late August, however that date has been adjourned. As a result of facilitated discussions regarding a negotiated resolution in the Quezada matter, the parties have reached terms of a settlement and on October 3, 2014, the Court issued an order granting preliminary approval of the class action settlement. Notice of the settlement will be provided to class members and a final approval hearing is set for January 9, 2015. Con-way believes it has adequately accrued for this matter.

Unclaimed-Property Audits

Con-way is currently being audited by several states, primarily the State of Delaware, for compliance with unclaimed-property laws. The property subject to review in this audit process generally includes unclaimed securities and unclaimed payments and refunds to employees, shareholders, vendors and customers. State and federal escheat laws generally require companies to report and remit unclaimed property to the states. Con-way believes it has procedures in place to comply with these laws. The audits of Con-way securities and payments were completed in the third quarter of 2013 and the second quarter of 2014, respectively, with no material findings. The remaining audit of refunds will continue into 2015. Given the current stage of the remaining audit, Con-way cannot estimate the amount or range of potential loss.

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

(Dollars in thousands)	Foreign Currency Translation Adjustment	Employee Benefit Plans	Total
Balances at June 30, 2014	$(741)	$(267,061)	$(267,802)
Other comprehensive loss before reclassifications	(891)	—	(891)
Amounts reclassified from accumulated other comprehensive loss	—	1,259	1,259
Balances at September 30, 2014	$(1,632)	$(265,802)	$(267,434)

(Dollars in thousands)	Foreign Currency Translation Adjustment	Employee Benefit Plans	Total
Balances at December 31, 2013	$(424)	$(269,107)	$(269,531)
Other comprehensive loss before reclassifications	(1,208)	—	(1,208)
Amounts reclassified from accumulated other comprehensive loss	—	3,305	3,305
Balances at September 30, 2014	$(1,632)	$(265,802)	$(267,434)

(Dollars in thousands)	Foreign Currency Translation Adjustment	Employee Benefit Plans	Total
Balances at June 30, 2013	$(1,037)	$(449,062)	$(450,099)
Other comprehensive income before reclassifications	305	—	305
Amounts reclassified from accumulated other comprehensive loss	—	3,051	3,051
Balances at September 30, 2013	$(732)	$(446,011)	$(446,743)

(Dollars in thousands)	Foreign Currency Translation Adjustment	Employee Benefit Plans	Total
Balances at December 31, 2012	$(1,295)	$(455,166)	$(456,461)
Other comprehensive income before reclassifications	563	—	563
Amounts reclassified from accumulated other comprehensive loss	—	9,155	9,155
Balances at September 30, 2013	$(732)	$(446,011)	$(446,743)

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

Common Stock Repurchase Program and Cash Dividend

In June 2014, Con-way's Board of Directors authorized the repurchase of up to $150 million of Con-way's common stock in open market purchases or privately negotiated transactions from time to time in such amounts as management determines. As of September 30, 2014, Con-way repurchased a total of 90,000 shares at a cost of $4.6 million.

On July 29, 2014, Con-way's Board of Directors increased the quarterly dividend to be paid to shareholders from 10 cents per common share to 15 cents per common share. On September 12, 2014, the quarterly dividend of 15 cents per common share was paid to shareholders of record on August 15, 2014. Each quarterly dividend payment is subject to review and approval by Con-way's Board of Directors.

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
- New Accounting Standards
- 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. Con-way’s business units operate in regional, inter-regional and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, multimodal freight brokerage, and trailer manufacturing. For financial reporting purposes, Con-way is divided into three reporting segments: Freight, Logistics and Truckload.

Con-way Freight primarily transports shipments utilizing a network of freight service centers combined with a fleet of company-operated linehaul and pickup-and-delivery tractors and trailers. Menlo Logistics ("Menlo") 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. Except as otherwise specified, comparisons throughout "Results of Operations" are between the third quarter of 2014 and the third quarter of 2013, or between the first nine months of 2014 and the first nine months of 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands, except per share data)	2014	2013	2014	2013
Revenue	$1,504,150	$1,398,021	$4,365,342	$4,115,555
Operating expenses	1,412,775	1,330,346	4,138,205	3,939,982
Operating income	91,375	67,675	227,137	175,573
Other income (expense)	(13,985)	(14,297)	(39,757)	(42,571)
Income before income tax provision	77,390	53,378	187,380	133,002
Income tax provision	31,807	22,821	75,237	45,543
Net income	$45,583	$30,557	$112,143	$87,459
Diluted earnings per common share	$0.78	$0.53	$1.94	$1.53

Overview

Con-way's consolidated revenue increased 7.6% in the third quarter and 6.1% in the first nine months of 2014, due to increased revenue from Logistics and Freight. Revenue at Logistics increased from growth in both transportation-management and warehouse-management services. Revenue at Freight increased primarily due to higher revenue per hundredweight.

Con-way's consolidated operating income increased 35.0% in the third quarter and 29.4% in the first nine months of 2014, primarily due to higher operating income at Freight and Truckload, partially offset by lower operating income at Logistics.

Con-way's effective tax rates for the third quarter and first nine months of 2014 were 41.1% and 40.2%, respectively. The effective tax rates for the third quarter and first nine months of 2013 were 42.8% and 34.2%, respectively. Both years included discrete tax adjustments that impacted the effective tax rates, 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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Revenue before inter-segment eliminations	$946,306	$899,254	$2,734,836	$2,619,065
Salaries, wages and employee benefits	419,930	397,089	1,216,196	1,175,749
Purchased transportation	153,478	153,325	444,973	452,224
Other operating expenses	128,782	124,199	371,902	360,237
Fuel and fuel-related taxes	84,415	89,161	270,152	276,479
Depreciation and amortization	37,905	34,701	112,317	100,554
Purchased labor	12,405	11,246	37,050	23,885
Rents and leases	11,128	12,576	34,440	37,239
Maintenance	26,374	25,387	74,331	70,415
Total operating expenses	874,417	847,684	2,561,361	2,496,782
Operating income	$71,889	$51,570	$173,475	$122,283
Operating margin	7.6 %	5.7 %	6.3 %	4.7 %

	2014 vs. 2013	2014 vs. 2013
Selected Operating Statistics		
Weight per day	-0.6 %	+0.4 %
Revenue per hundredweight ("yield")	+5.3 %	+4.0 %
Shipments per day	-0.7 %	-1.5 %
Weight per shipment	+0.1 %	+1.9 %

Freight's revenue increased 5.2% in the third quarter and 4.4% in the first nine months of 2014. The third-quarter increase was due to a 5.3% increase in yield and half-day increase in the number of working days, partially offset by a 0.6% decrease in weight per day. The decrease in weight per day reflects a 0.7% decrease in shipments per day, partially offset by a 0.1% increase in weight per shipment. In the first nine months of 2014, the revenue increase was due to a 4.0% increase in yield and a 0.4% increase in weight per day. The increase in weight per day reflects a 1.9% increase in weight per shipment, partially offset by a 1.5% decrease in shipments per day. Improved yields benefited from revenue-management initiatives, including lane-based pricing, intended to increase operating margins by improving the composition of freight in the network. Higher yields also include the effect of a general rate increase that was effective on March 31. In the prior year, the general rate increase was effective on June 24, 2013. Freight implemented an additional general rate increase effective on October 27, 2014. These general rate increases apply to customers with pricing governed by Con-way Freight's standard tariff, which accounts for approximately 25% of Freight's business. Competitive and other factors impact the extent to which general rate increases are retained over time.

Yield excluding fuel surcharges increased 5.3% in the third quarter and 3.9% in the first nine months of 2014. In the third quarters of 2014 and 2013, Freight's fuel-surcharge revenue was 17.3% of revenue, and in the first nine months of 2014, increased to 17.5% of revenue from 17.4% in 2013. 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 39.4% in the third quarter and 41.9% in the first nine months of 2014. Operating income benefited from revenue-management and linehaul-optimization initiatives.

In the third quarter, expenses for salaries, wages and employee benefits increased 5.8% due to a 5.7% increase in salaries and wages (excluding variable compensation), a $3.6 million or 39.2% increase in variable compensation and a 3.2% increase in employee benefits. In the first nine months, expenses for salaries, wages and employee benefits increased 3.4% due to a 2.4% increase in salaries and wages (excluding variable compensation), a 4.2% increase in employee benefits and a $7.2 million or 32.2% increase in variable compensation. In the third quarter and first nine months, increases in salaries and wages (excluding variable compensation) were largely due to increased miles driven by company drivers and annual salary and wage rate increases. Variable compensation increased primarily due to variations in performance relative to variable-compensation plan targets. Higher expense for employee benefits resulted primarily from increased expense from employee medical claims, which reflected an increase in the number of claims, partially offset by a decrease in the expense per claim. Higher expense for employee benefits in the first nine months was also impacted by increased expense from workers' compensation claims, which reflected an increase in the number of claims, partially offset by a decrease in the expense per claim. Comparative changes in year-to-date expenses for salaries, wages and employee benefits were also affected by the timing of salary and wage rate increases; in 2014, those increases were effective in July compared to 2013, when the increases were effective in April. In January 2015, Con-way Freight expects to implement wage rate increases for drivers that will include adjustments to ensure Con-way Freight's pay structures are competitive and market based. The overall amount and timing of the increase are also designed to improve Con-way Freight's ability to attract and retain professional drivers in the context of an industry-wide driver shortage. As a result of these adjustments, management expects 2015 expense for driver wages and benefits to increase $60 million over 2014. In recent years, the comparable year-over-year impact of an annual driver wage increase has been approximately half this amount.

Purchased transportation expense was essentially flat in the third quarter due to a higher cost per mile, partially offset by a decrease in the number of third-party miles. Purchased transportation expense decreased 1.6% in the first nine months due to decreased third-party miles, partially offset by a higher cost per mile. The decrease in third-party miles is the result of Con-way Freight's ongoing linehaul-optimization initiative.

Other operating expenses increased 3.7% in the third quarter and 3.2% in the first nine months primarily due to increased cargo loss and damage claims and higher expenses for information-technology services, partially offset by increased gains from the sale of property and decreased vehicular claims. Cargo loss and damage claims increased in 2014 due to increases in the cost per claim and the number of claims. The increases in information-technology expenses were primarily due to higher costs for network infrastructure upgrades and electronic onboard technologies. Gains from the sale of property are related to the sale of excess properties. Vehicular claims decreased in 2014 due to decreases in the cost per claim and the number of claims.

Expense for fuel and fuel-related taxes decreased 5.3% in the third quarter and 2.3% in the first nine months of 2014 due to decreased cost per gallon of diesel fuel and lower fuel consumption as a result of improved miles per gallon.

Depreciation and amortization expense increased 9.2% in the third quarter and 11.7% in the first nine months of 2014, 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.

Purchased labor expense increased 10.3% in the third quarter primarily due to increases for clerical functions. In the first nine months, purchased labor expense increased 55.1% due to more of this source of labor being used for freight-handling mainly in the first two quarters of 2014.

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 manages the transportation of freight but subcontracts to carriers the actual transportation and delivery of products, which Menlo refers to as purchased transportation. Menlo's 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 for transporting the shipments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Revenue before inter-segment eliminations	$443,945	$380,549	$1,283,960	$1,143,284
Purchased transportation	(256,008)	(207,712)	(726,846)	(651,920)
Net revenue	187,937	172,837	557,114	491,364
Salaries, wages and employee benefits	73,402	67,485	220,085	194,955
Other operating expenses	48,082	48,569	149,326	142,037
Fuel and fuel-related taxes	316	242	907	564
Depreciation and amortization	3,248	2,350	9,157	6,814
Purchased labor	31,832	24,985	88,190	69,535
Rents and leases	22,623	20,264	66,760	54,677
Maintenance	832	764	2,495	2,033
Total operating expenses excluding purchased transportation	180,335	164,659	536,920	470,615
Operating income	$7,602	$8,178	$20,194	$20,749
Operating margin on revenue	1.7%	2.1%	1.6%	1.8%
Operating margin on net revenue	4.0%	4.7%	3.6%	4.2%

Logistics' revenue increased 16.7% in the third quarter of 2014 primarily due to a 19.8% increase in revenue from transportation-management services and a 10.6% increase in revenue from warehouse-management services. In the first nine months of 2014, Logistics' revenue increased 12.3% primarily due to a 9.8% increase in revenue from transportation-management services and a 17.6% increase in revenue from warehouse-management services. Increased revenue from transportation-management and warehouse-management are primarily related to new contracts and increased volumes at existing customers, partially offset by termination of certain customer contracts.

Logistics' net revenue increased 8.7% in the third quarter and 13.4% in the first nine months of 2014. Growth in net revenue resulted primarily from increased revenue from warehouse-management services. Purchased transportation expense increased 23.3% in the third quarter and 11.5% in the first nine months of 2014 as a result of increased revenue from transportation-management services.

Logistics' operating income decreased 7.0% in the third quarter and 2.7% in the first nine months of 2014. Decreased operating income was largely due to increased operating expenses primarily from an increase in variable-compensation expense. Also in 2014, Logistics’ operating margin on net revenue decreased due to an increase in the proportion of net revenue earned from warehouse-management services, which generally have a lower margin on net revenue than transportation-management services.

Expenses for salaries, wages and employee benefits increased 8.8% in the third quarter due largely to a $2.8 million increase in variable compensation, a 4.4% increase in salaries and wages (excluding variable compensation) and a 5.6% increase in employee benefits. In the first nine months, expenses for salaries, wages and employee benefits increased 12.9% due largely to a 10.1% increase in salaries and wages (excluding variable compensation), a $7.5 million increase in variable compensation and a 6.5% increase in employee benefits. Salaries and wages (excluding variable compensation) increased primarily due to increased headcount to support new business from warehouse-management services. In the third quarter and first nine months of 2013, a minimal amount of variable-compensation expense was recognized as the result of low performance relative to variable-compensation plan targets, while the comparable periods in 2014 reflected more typical variable-compensation expense. Increased employee benefits reflect higher costs for workers' compensation claims and employee medical benefits. In the third quarter, workers' compensation claims increased due to an increase in expense per claim. In the first nine months, workers' compensation claims increased due to an increase in expense per claim, partially offset by a decrease in the number of new claims. During 2014, employee medical benefits expense increased as a result of an increase in the cost per claim, partially offset by a decrease in the number of new claims.

Other operating expenses increased 5.1% in the first nine months primarily due to increased expenses for facilities and increased information-technology service costs, partially offset by a decline in the provision for uncollectible accounts receivable. Higher expenses for facilities were incurred to support increased volumes relating to warehouse-management contracts. The increases in information-technology expenses were primarily due to higher costs for network infrastructure and end-user computing upgrades. The decline in the provision for uncollectible accounts receivable was primarily due to a $3.7 million reserve accrued in the second quarter of 2013 that related to a single international customer.

Purchased labor expense increased 27.4% in the third quarter and 26.8% in the first nine months primarily due to new warehouse-management contracts.

Expenses for rents and leases increased 11.6% in the third quarter and 22.1% in the first nine months primarily due to new warehouse-management contracts.

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. The table also includes operating income and operating margin excluding fuel-surcharge revenue. Truckload’s management believes these measures are relevant to evaluate its on-going operations.

	Three Months Ended September 30,				Nine Months Ended September 30,			
(Dollars in thousands)	2014		2013		2014		2013	
Freight revenue	$119,388		$121,336		$355,555		$358,491	
Fuel-surcharge revenue	34,040		35,985		105,225		107,943	
Other revenue	5,758		4,858		18,480		14,552	
Revenue before inter-segment eliminations	159,186		162,179		479,260		480,986	
Salaries, wages and employee benefits	51,118		51,063		153,277		152,678	
Purchased transportation	16,518		12,442		46,917		33,700	
Other operating expenses	15,061		16,373		47,870		49,712	
Fuel and fuel-related taxes	37,727		43,665		118,854		128,924	
Depreciation and amortization	16,983		19,169		51,314		56,328	
Purchased labor	197		282		719		835	
Rents and leases	302		361		1,075		1,103	
Maintenance	10,586		9,853		28,661		27,907	
Total operating expenses	148,492		153,208		448,687		451,187	
Operating income	$10,694		$8,971		$30,573		$29,799	
Operating margin on revenue	6.7	%	5.5	%	6.4	%	6.2	%
Operating margin on revenue excluding fuel-surcharge revenue	8.5	%	7.1	%	8.2	%	8.0	%

	2014 vs. 2013		2014 vs. 2013	
Selected Operating Statistics				
Freight revenue per loaded mile	+2.5	%	+1.4	%
Loaded miles	-4.0	%	-2.2	%

Truckload's revenue decreased 1.8% in the third quarter of 2014 primarily due to a 1.6% decrease in freight revenue and a 5.4% decrease in fuel-surcharge revenue. The decrease in freight revenue is due to a 4.0% decrease in loaded miles, partially offset by a 2.5% increase in revenue per loaded mile. In the first nine months of 2014, Truckload's revenue decreased 0.4% primarily due to a 0.8% decrease in freight revenue and a 2.5% decrease in fuel-surcharge revenue. The decrease in freight revenue is due to a 2.2% decrease in loaded miles, partially offset by a 1.4% increase in revenue per loaded mile. The decreases in loaded miles resulted from lower fleet utilization, partially offset by increases in the size of the tractor fleet, which grew as a result of increases in the number of owner-operator units. Lower fleet utilization was due in part to increases in the number of unassigned tractors, which reflects the driver shortage being experienced by the truckload industry. The decreases in fuel-surcharge revenue were due to a decrease in the price per gallon of diesel fuel. The decreases in freight revenue and fuel-surcharge revenue were partially offset by increases in other revenue. Increases in other revenue include additional revenue recognized from detention loads and increased logistics revenue.

Truckload's operating income increased 19.2% in the third quarter and 2.6% in the first nine months of 2014 reflecting a decrease in operating expenses, which include declines in depreciation expense and increased gains from the sale of equipment.

Expenses for salaries, wages and employee benefits were essentially flat in the third quarter primarily due to a 19.3% increase in employee benefits, partially offset by a 4.9% decrease in salaries and wages (excluding variable compensation). In the first nine months, expenses for salaries, wages and employee benefits increased 0.4% primarily due to a 20.4% increase in employee benefits, partially offset by a 4.1% decrease in salaries and wages (excluding variable compensation). Increased employee benefits reflect higher costs for workers' compensation claims and employee medical benefits. In the third quarter, workers' compensation claims increased due to an increase in expense per claim, partially offset by a decrease in the number of claims. In the first nine months, workers' compensation claims increased primarily due to an increase in expense per claim. In 2014, employee medical benefits increased due to increases in expense per claim and the number of claims. Salaries and wages (excluding variable compensation) decreased as miles driven by company drivers decreased.

Purchased transportation expense increased 32.8% in the third quarter and 39.2% in the first nine months due to increased miles driven by the owner-operator fleet, which grew during 2014.

Other operating expenses decreased 8.0% in the third quarter and 3.7% in the first nine months primarily due to increased gains from the sale of retired trailers.

Expenses for fuel and fuel-related taxes decreased 13.6% in the third quarter and 7.8% in the first nine months due to lower fuel consumption primarily from fewer miles driven by company drivers and lower cost per gallon of diesel fuel.

Depreciation and amortization expense decreased 11.4% in the third quarter and 8.9% in the first nine months reflecting the change in estimated salvage value of certain trailers. This change in estimate is more fully discussed in Note 1, “Principal Accounting Policies,” of Item 1, “Financial Statements.”

Corporate and Eliminations

Corporate and Eliminations consists of the operating results of Con-way's trailer manufacturer, certain corporate activities for which the related income or expense was not allocated to other reporting segments, and eliminations. The first nine months of 2013 includes a $5.6 million second-quarter gain from sales of corporate properties. Other corporate costs include expense or income associated with Con-way's defined benefit pension plans. Con-way expects to incur an estimated $16 million charge in the fourth-quarter of 2014 as the result of the termination of a small defined benefit pension plan. The table below summarizes components of Corporate and Eliminations other than inter-segment revenue eliminations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013	2014	2013
Revenue before inter-segment eliminations				
Trailer manufacturing	$20,239	$20,510	$55,973	$55,034
Operating income (loss)				
Trailer manufacturing	19	97	(110)	68
Reinsurance activities	937	103	2,585	1,202
Corporate properties	(335)	(480)	(1,099)	3,752
Other corporate costs	569	(764)	1,519	(2,280)
	$1,190	$(1,044)	$2,895	$2,742

Liquidity and Capital Resources

Cash and cash equivalents decreased to $456.7 million at September 30, 2014 from $484.5 million at December 31, 2013, as the $191.1 million used in investing activities exceeded the $160.7 million and $2.7 million provided by operating activities and financing activities, respectively. Cash used in investing activities primarily reflects capital expenditures, partially offset by proceeds from sales of property and equipment. Cash provided by operating activities reflects adjustments for non-cash items and net income, partially offset by changes in assets and liabilities. Cash provided by financing activities primarily reflects the proceeds from exercise of stock options, mostly offset by payments of common dividends and capital leases.

	Nine Months Ended September 30,	
(Dollars in thousands)	2014	2013
Operating Activities		
Net income	$112,143	$87,459
Non-cash adjustments [1]	222,174	244,883
Changes in assets and liabilities	(173,657)	(72,679)
Net Cash Provided by Operating Activities	160,660	259,663
Net Cash Used in Investing Activities	(191,123)	(201,826)
Net Cash Provided by (Used in) Financing Activities	2,685	(9,501)
Increase (Decrease) in Cash and Cash Equivalents	$(27,778)	$48,336

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

Operating Activities

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

In the first nine months of 2014, changes in assets and liabilities used $101.0 million more cash, partially offset by $2.0 million more cash provided collectively by net income and non-cash adjustments compared to the same prior-year period. Significant comparative changes include receivables, employee benefits, accrued variable compensation, and accrued income taxes.

Receivables used $130.8 million during the first nine months of 2014 compared to $34.6 million used during the same prior-year period. Variations in receivables were largely due to variations in average collection periods and increased revenue.

Employee benefits used $152.3 million in the first nine months of 2014, compared to $78.5 million used in the same prior-year period primarily due to increased funding contributions to the qualified defined benefit pension plans, partially offset by a decrease in expense for retirement benefits and a decrease in benefit payments for long-term disability. In the first nine months of 2014, Con-way contributed $137.2 million to its qualified pension plans, compared to $55.3 million in the first nine months of 2013.

Accrued variable compensation provided $12.6 million in the first nine months of 2014, compared to $22.9 million used in the same prior-year period. Improved performance relative to variable-compensation plan targets resulted in lower variable-compensation payments and higher expense in the first nine months of 2014 when compared to the same prior-year period.

Accrued income taxes provided $14.1 million in the first nine months of 2014, compared to $7.3 million used in the same prior-year period reflecting an increase in the income tax provision, partially offset by higher income tax payments.

Investing Activities

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

Proceeds from sales of property and equipment during the first nine months of 2014 provided $35.1 million in cash compared to $12.2 million of cash provided in the same prior-year period. Variations were primarily due to increased proceeds from the sale of equipment at Truckload and from the sale of excess property at Freight.

Capital expenditures during the first nine months of 2014 used $214.3 million in cash compared to $212.5 million of cash used in the same prior-year period. Capital expenditures in both periods related primarily to the acquisition of revenue equipment.

Financing Activities
The most significant items affecting the comparison of Con-way's financing cash flows for the periods presented are summarized below:
Proceeds from the exercise of stock options during the first nine months of 2014 provided $33.4 million in cash compared to $19.8 million of cash provided in the same prior-year period primarily due to increases in proceeds per share exercised and the number of shares exercised.
In June 2014, Con-way's Board of Directors authorized the repurchase of up to $150 million of Con-way's common stock in open market purchases or in privately negotiated transactions from time to time in such amounts as management determines. In the third quarter of 2014, Con-way used $4.1 million of cash to repurchase shares of Con-way common stock.
Contractual Cash Obligations
Con-way's contractual cash obligations as of December 31, 2013 are summarized in Item 7, "Management's Discussion and Analysis – Liquidity and Capital Resources – Contractual Cash Obligations," of Con-way's 2013 Annual Report on Form 10-K. In the first nine months of 2014, 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 replacement of older equipment with newer equipment. In funding these capital expenditures and meeting working-capital requirements, Con-way may utilize various sources of liquidity and capital, including cash and cash equivalents, cash flow from operations, credit facilities, and access to capital markets. Con-way may also manage its liquidity requirements and cash-flow generation by varying the timing and amount of capital expenditures.
Con-way has a $325 million unsecured revolving credit facility that matures on June 28, 2018. The revolving facility is available for cash borrowings and issuance of letters of credit. At September 30, 2014, no cash borrowings were outstanding under the credit facility; however, $106.9 million of letters of credit were outstanding, leaving $218.1 million of available capacity for additional letters of credit or cash borrowings, subject to compliance with financial covenants and other customary conditions of borrowing. At September 30, 2014, Con-way was in compliance with the revolving credit facility's financial covenants and expects to remain in compliance.
Con-way had other uncommitted unsecured credit facilities totaling $60.6 million at September 30, 2014, which are available to support short-term borrowings, letters of credit, bank guarantees and overdraft facilities. At September 30, 2014, $1.5 million of cash borrowings and $22.3 million in other credit commitments were outstanding leaving $36.8 million of available capacity.
See "Forward-Looking Statements" below and Item 1A, "Risk Factors," and Note 5, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2013 Annual Report on Form 10-K for additional information concerning Con-way's $325 million credit facility.
In 2014, Con-way anticipates capital and software expenditures of approximately $275 million, net of proceeds from asset dispositions, which compares to $275.1 million in 2013. During the first nine months of 2014, Con-way had $187.8 million of capital and software expenditures, net of proceeds from asset dispositions. Con-way's actual 2014 capital expenditures may differ from the estimated amount depending on factors such as availability and timing of delivery of equipment.
In 2014, Con-way contributed $142 million to its qualified pension plans, including a $5 million contribution made in October. This compares to total contributions made of $55.3 million in 2013. The increased level of pension funding in 2014 is intended to strengthen Con-way's balance sheet by reducing its liabilities and is expected to reduce funding requirements in the future.
On July 29, 2014, Con-way's Board of Directors increased the quarterly dividend to be paid to shareholders from 10 cents per common share to 15 cents per common share. On September 12, 2014, the quarterly dividend of 15 cents per common share was paid to shareholders of record on August 15, 2014. Each quarterly dividend payment is subject to review and approval by Con-way's Board of Directors.
At September 30, 2014, Con-way's senior unsecured debt was rated as investment grade by Standard and Poor's (BBB-), Fitch Ratings (BBB-), and Moody's (Baa3). Standard and Poor's, Fitch Ratings, and Moody's assigned an

outlook of "stable."

Critical Accounting Policies and Estimates

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

- Defined Benefit Pension Plans
- Goodwill
- Income Taxes
- Property, Plant and Equipment and Other Long-Lived Assets
- Revenue Recognition
- Self-Insurance Accruals

There have been no significant changes to the critical accounting policies and estimates disclosed in Con-way’s 2013 Annual Report on Form 10-K.

New Accounting Standards

Refer to Note 1, “Principal Accounting Policies,” of Item 1, “Financial Statements,” for a discussion of recently issued accounting standards that Con-way has not yet adopted.

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, revenue, 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 regarding the payment of future dividends;
- any statements as to the adequacy of reserves;
- any statements regarding the outcome of any legal, administrative and other claims and proceedings that may be brought by or 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 c 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 2013 Annual Report on Form 10-K. Any forward-looking statements speak only as of the date the statement is made and are subject to change. Con-way does not undertake any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

Interest Rates

Con-way invests in cash-equivalent investments and marketable securities that earn investment income. For the periods presented, the amount of investment income earned on Con-way's investments was not material.

Based on the fixed interest rates and maturities of its long-term debt, fluctuations in market interest rates would not significantly affect Con-way's operating results or cash flows.

As discussed more fully in "Critical Accounting Policies and Estimates," of Con-way's 2013 Annual Report on Form 10-K, the amounts recognized as pension expense and the accrued pension liability for Con-way's defined benefit pension plans depend upon a number of assumptions and factors, including the discount rate used to measure the present value of the pension obligations.

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

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

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

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

Foreign Currency

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

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors previously disclosed in Item 1A, “Risk Factors,” of Con-way’s 2013 Annual Report on Form 10-K.

ITEM 2. UNREGISTERD SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information on shares of common stock repurchased by Con-way during the quarter ended September 30, 2014:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares (or Units) Purchased [1]	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [1]	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs [1]
July 1, 2014 - July 31, 2014	—	$—	—	$150,000,000
August 1, 2014 - August 31, 2014	40,000	50.57	40,000	147,977,200
September 1, 2014 - September 30, 2014	50,000	51.70	50,000	145,392,200
	90,000	$51.19	90,000	$145,392,200

[1] On July 30, 2014, Con-way announced that its Board of Directors had authorized a program to repurchase up to $150 million of Con-way's common stock in open market purchases or in privately negotiated transactions from time to time in such amounts as management determines.

ITEM 6. EXHIBITS

Exhibit No.

(31)	Certification of Officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002:	
	31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
	31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
(32)	Certification of Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	
(101)	Interactive Data File:	
	101.INS	XBRL Instance Document
	101.SCH	XBRL Taxonomy Extension Schema Document
	101.CAL	XBRL Taxonomy Calculation Linkbase Document
	101.DEF	XBRL Taxonomy Definition Linkbase Document
	101.LAB	XBRL Taxonomy Extension Label Linkbase Document
	101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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)

Date: October 29, 2014

By: /s/ Stephen L. Bruffett
Stephen L. Bruffett
Executive Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial Officer)