Con-way Inc.
Form 10-Q
August 06, 2009

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

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from N/A to N/A
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COMMISSION FILE NUMBER 1-5046

Con-way Inc.

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

2855 Campus Drive, Suite 300, San Mateo, California 94403
Telephone Number (650) 378-5200

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (*232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes No
--- ---

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

Large accelerated filer X 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 X

Number of shares of Common Stock, $.625 par value,
outstanding as of July 31, 2009: 49,022,759

CON-WAY INC.
FORM 10-Q
Quarter Ended June 30, 2009

INDEX

PART I. FINANCIAL INFORMATION

	Page
Item 1. Financial Statements	
Consolidated Balance Sheets - June 30, 2009 and December 31, 2008	3
Statements of Consolidated Operations - Three and Six Months Ended June 30, 2009 and 2008	5
Statements of Consolidated Cash Flows - Six Months Ended June 30, 2009 and 2008	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3. Quantitative and Qualitative Disclosures about Market Risk	32
Item 4. Controls and Procedures	34

PART II. OTHER INFORMATION

Item 1. Legal Proceedings	35
Item 1A.Risk Factors	35
Item 4. Submission of Matters to a Vote of Security Holders	36
Item 6. Exhibits	37
Signatures	38

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	June 30, 2009	December 31, 2008
	(Unaudited)	
Current Assets		
Cash and cash equivalents	$ 248,314	$ 278,253
Marketable securities	149,212	--
Trade accounts receivable, net	502,173	516,910
Other accounts receivable	34,083	51,576
Operating supplies, at lower of average cost or market	21,664	24,102
Prepaid expenses and other assets	41,292	42,278
Deferred income taxes	35,451	37,963
Total Current Assets	1,032,189	951,082
Property, Plant and Equipment		
Land	194,963	194,330
Buildings and leasehold improvements	805,768	803,511
Revenue equipment	1,355,948	1,350,514
Other equipment	291,237	292,761
	2,647,916	2,641,116
Accumulated depreciation and amortization	(1,241,073)	(1,169,160)
Net Property, Plant and Equipment	1,406,843	1,471,956
Other Assets		
Deferred charges and other assets	41,761	43,012
Capitalized software, net	25,696	29,345
Marketable securities	7,182	6,712
Intangible assets, net	25,149	27,336
Goodwill	353,367	487,956
Deferred income taxes	--	54,308
	453,155	648,669
Total Assets	$ 2,892,187	$ 3,071,707

The accompanying notes are an integral part of these statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	June 30, 2009	December 31, 2008
	(Unaudited)	
Current Liabilities		
Accounts payable	$ 284,629	$ 273,784
Accrued liabilities	251,009	258,350
Self-insurance accruals	86,167	94,663
Short-term borrowings	10,975	7,480
Current maturities of long-term debt	206,309	23,800
Total Current Liabilities	839,089	658,077
Long-Term Liabilities		
Long-term debt and guarantees	718,047	926,224
Self-insurance accruals	155,171	152,435
Employee benefits	361,967	659,508
Other liabilities and deferred credits	46,271	49,871
Deferred income taxes	65,381	--
Total Liabilities	2,185,926	2,446,115
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Preferred stock, no par value; authorized 5,000,000 shares: Series B, 8.5% cumulative, convertible, $.01 stated value; designated 1,100,000 shares; issued zero and 523,911 shares, respectively	--	5
Additional paid-in capital, preferred stock	--	79,681
Deferred compensation, defined contribution retirement plan	--	(10,435)
Total Preferred Shareholders' Equity	--	69,251
Common stock, $.625 par value; authorized 100,000,000 shares; issued 62,382,176 and 62,379,868 shares,respectively	38,883	38,851
Additional paid-in capital, common stock	560,369	584,229
Retained earnings	884,269	1,020,930
Cost of repurchased common stock (13,717,277 and 16,522,563 shares, respectively)	(593,528)	(713,095)
Total Common Shareholders' Equity	889,993	930,915
Accumulated Other Comprehensive Income (Loss)	(183,732)	(374,574)
Total Shareholders' Equity	706,261	625,592
Total Liabilities and Shareholders' Equity	$ 2,892,187	$ 3,071,707

The accompanying notes are an integral part of these statements.

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

,	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$1,056,333	$1,339,685	$2,019,265	$2,541,266
Costs and Expenses				
Salaries, wages and other employee benefits	457,312	532,360	929,681	1,046,614
Purchased transportation	232,509	307,024	446,050	573,097
Fuel and fuel-related taxes	83,223	170,320	157,035	304,378
Other operating expenses	102,337	109,710	200,926	214,996
Depreciation and amortization	48,858	51,981	98,962	103,208
Maintenance	29,652	32,713	60,800	67,967
Rents and leases	22,458	23,129	45,954	46,530
Purchased labor	14,018	17,588	29,390	35,608
Loss from impairment of goodwill	--	--	134,813	--
	990,367	1,244,825	2,103,611	2,392,398
Operating Income (Loss)	65,966	94,860	(84,346)	148,868
Other Income (Expense)				
Investment income	709	1,113	1,492	2,670
Interest expense	(16,980)	(15,704)	(32,599)	(32,143)
Miscellaneous, net	(310)	722	(987)	1,395
	(16,581)	(13,869)	(32,094)	(28,078)
Income (Loss) before Income Tax Provision	49,385	80,991	(116,440)	120,790
Income Tax Provision	16,346	32,185	2,870	47,872
Income (Loss) from Continuing Operations	33,039	48,806	(119,310)	72,918
Discontinued Operations, net of tax				
Gain from Disposal	--	1,609	--	1,609
	--	1,609	--	1,609

Net Income (Loss)	33,039	50,415	(119,310)	74,527
Preferred Stock Dividends	1,572	1,717	3,189	3,373
Net Income (Loss) Applicable to Common Shareholders	$ 31,467	$ 48,698	$ (122,499)	$ 71,154
Net Income (Loss) From Continuing Operations Applicable to Common Shareholders	$ 31,467	$ 47,089	$ (122,499)	$ 69,545
Weighted-Average Common Shares Outstanding				
Basic	46,171,511	45,371,033	46,067,761	45,300,860
Diluted	50,778,937	48,226,467	46,067,761	48,203,635
Earnings (Loss) per Common Share				
Basic				
Net Income (Loss) from Continuing Operations	$ 0.68	$ 1.04	$ (2.66)	$ 1.54
Gain from Disposal	--	0.03	--	0.03
Net Income (Loss) Applicable to Common Shareholders	$ 0.68	$ 1.07	$ (2.66)	$ 1.57
Diluted				
Net Income (Loss) from Continuing Operations	$ 0.64	$ 0.98	$ (2.66)	$ 1.45
Gain from Disposal	--	0.04	--	0.04
Net Income (Loss) Applicable to Common Shareholders	$ 0.64	$ 1.02	$ (2.66)	$ 1.49

The accompanying notes are an integral part of these statements.

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

	Six Months Ended June 30,	
	2009	2008
Cash and Cash Equivalents, Beginning of Period	$ 278,253	$ 176,298
Operating Activities		
Net income (Loss)	(119,310)	74,527

Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations, net of tax	--	(1,609)
Depreciation and amortization, net of accretion	95,530	100,795
Non-cash compensation and employee benefits	26,634	10,693
Increase in deferred income taxes	937	6,284
Provision for uncollectible accounts	4,257	3,160
Loss from impairment of goodwill	134,813	--
Loss from sales of property and equipment, net	5,164	2,135
Changes in assets and liabilities:		
Receivables	6,621	(137,850)
Prepaid expenses	972	2,989
Accounts payable	9,439	45,344
Accrued incentive compensation	(4,646)	(11,464)
Accrued liabilities, excluding accrued incentive compensation and employee benefits	13,241	66,746
Self-insurance accruals	(5,760)	7,895
Accrued income taxes	18,770	9,739
Employee benefits	(5,729)	(25,337)
Deferred charges and credits	297	(6,385)
Other	2,730	(9,991)
Net Cash Provided by Operating Activities	183,960	137,671
Investing Activities		
Capital expenditures	(37,707)	(108,087)
Software expenditures	(3,133)	(6,749)
Proceeds from sales of property and equipment	8,210	3,879
Proceeds from sale-leaseback transaction	--	40,380
Net decrease (increase) in marketable securities	(149,198)	22,501
Net Cash Used in Investing Activities	(181,828)	(48,076)
Financing Activities		
Repayment of debt and guarantees	(22,700)	(22,704)
Net proceeds from short-term borrowings	3,484	1,014
Proceeds from exercise of stock options	--	5,206
Excess tax benefit from stock-option exercises	4	444
Payments of common dividends	(9,249)	(9,113)
Payments of preferred dividends	(3,507)	(3,747)
Net Cash Used in Financing Activities	(31,968)	(28,900)
Net Cash Provided by (Used in) Continuing Operations	(29,836)	60,695
Discontinued Operations		
Net Cash Used in Operating Activities	(103)	(516)
Net Cash Used in Discontinued Operations	(103)	(516)
Increase (Decrease) in Cash and Cash Equivalents	(29,939)	60,179
Cash and Cash Equivalents, End of Period	$ 248,314	$ 236,477
Supplemental Disclosure		
Cash paid (refunded) for income taxes, net	$ (13,739)	$ 31,211

Cash paid for interest, net of amounts capitalized	$ 34,674	$ 19,907
Non-cash Financing Activities		
Repurchased common stock issued under defined contribution plan	$ 7,846	$ --
Repurchased common stock issued for payment of preferred dividends	$ 3,189	$ --

The accompanying notes are an integral part of these statements.

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

1. Principal Accounting Policies

Organization

Con-way Inc. and its consolidated subsidiaries ("Con-way") provide transportation, logistics and supply-chain management services for a wide range of manufacturing, industrial and retail customers. Con-way's business units operate in regional and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, multimodal freight brokerage and trailer manufacturing. As more fully discussed in Note 5, "Segment Reporting," for financial reporting purposes, Con-way is divided into four reporting segments: Freight, Logistics, Truckload and Other.

Basis of Presentation

These interim financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and Rule 10-01 of Regulation S-X, and should be read in conjunction with Con-way's 2008 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been omitted.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, including normal recurring adjustments, necessary to present fairly Con-way's financial condition, results of operations and cash flows for the interim dates and periods presented. Results for the interim periods presented are not necessarily indicative of annual results.

New Accounting Standards

In April 2009, the FASB issued three Staff Positions ("FSPs") that are intended to provide additional application guidance and enhance disclosures about fair-value measurements and impairments of securities. FSP SFAS 157-4 clarifies the objective and method of fair-value measurement when there has been a significant decrease in market activity for the asset being measured. FSP SFAS 115-2 and SFAS 124-2 establishes a new model for measuring other-than-temporary impairments for debt securities, including establishing criteria for when to recognize impairments in earnings or other comprehensive income. FSP SFAS 107-1 and APB 28-1 expands the fair-value disclosures required for all financial instruments within the scope of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," to interim periods. Con-way's adoption of these FSPs in the second quarter of 2009 did not have a material effect on its financial statements.

In May 2009, the FASB issued SFAS 165, "Subsequent Events," which establishes standards of accounting and reporting for events occurring after the balance sheet date but before financial statements are issued and provides largely the same guidance on subsequent events that previously existed only in auditing literature. This statement requires the disclosure of the date through which an entity has evaluated subsequent events and whether the date represents the date the financial statements were issued or were available to be issued. The effective date of SFAS 165 is for annual and interim periods ending after June 15, 2009, which for Con-way is the second quarter of 2009. Con-way has evaluated subsequent events for disclosure and recognition after the balance sheet date of June 30, 2009 through August 6, 2009, the date the financial statements were issued, and no subsequent events were identified.

In June 2009, the FASB issued SFAS 166, "Accounting for Transfers of Financial Assets - an amendment of SFAS 140" and SFAS 167, "Amendments to FASB Interpretation 46R." SFAS 166 modifies the accounting for transfers of financial assets, eliminates the concept of a qualifying special-purpose entity and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. SFAS 167 changes the accounting rules currently prescribed by FIN 46R, "Consolidation of Variable-Interest Entities," to improve financial reporting by enterprises involved with a variable-interest entity ("VIE"). Primarily, the statement eliminates an existing provision that excludes certain special-purpose entities from consolidation requirements and also establishes principles-based criteria for determining whether a VIE should be consolidated. Both statements are effective for the first fiscal year beginning after November 15, 2009 and for interim periods within that annual reporting period, which for Con-way is the first quarter of 2010. Con-way does not expect the adoption of SFAS 166 or SFAS 167 to have a material effect on its financial statements.

Also in June 2009, the FASB issued SFAS 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162." This statement establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative, nongovernmental U.S. generally accepted accounting principles ("GAAP"), along with rules and interpretive releases of the SEC as authoritative GAAP for SEC registrants. Although the Codification does not change GAAP, it substantially reorganizes the literature, which will require enterprises to revise GAAP references contained in financial statement disclosures. The effective date of SFAS 168 is for interim and annual periods ending after September 15, 2009, which for Con-way is the third quarter of 2009. Con-way does not expect the adoption of SFAS 168 to have a material effect on its financial statements.

Earnings (Loss) per Share ("EPS")

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

(Dollars in thousands except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Numerator:				
Continuing operations (after preferred stock				

dividends), as reported	$ 31,467	$ 47,089	$ (122,499)	$ 69,545
Add-backs:				
Dividends on Series B preferred stock, net of replacement funding	878	283	--	524
Continuing operations	32,345	47,372	(122,499)	70,069
Discontinued operations	--	1,609	--	1,609
Applicable to common shareholders	$ 32,345	$ 48,981	$ (122,499)	$ 71,678
Denominator:				
Weighted-average common shares outstanding	46,171,511	45,371,033	46,067,761	45,300,860
Stock options and nonvested stock	356,136	301,546	--	348,887
Series B preferred stock	4,251,290	2,553,888	--	2,553,888
	50,778,937	48,226,467	46,067,761	48,203,635
Anti-dilutive securities not included in denominator	1,964,043	1,386,029	6,447,419	1,386,029
Earnings (Loss) per Diluted Share:				
Continuing operations	$ 0.64	$ 0.98	$ (2.66)	$ 1.45
Discontinued operations	--	0.04	--	0.04
Applicable to common shareholders	$ 0.64	$ 1.02	$ (2.66)	$ 1.49

In the computation of diluted EPS, only potential common shares that are dilutive are included. Potential common shares are dilutive if they reduce earnings per share or increase loss per share. Options, nonvested stock and convertible preferred stock are not included in the computation if the result is antidilutive, such as when a loss applicable to common shareholders is reported.

In the first quarter of 2009, Con-way adopted FSP EITF 03-6-1, which requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be treated as participating securities in the computation of earnings per share pursuant to the two-class method described in SFAS No. 128, "Earnings Per Share." The adoption of this FSP did not have a material effect on Con-way's financial statements.

Property, Plant and Equipment

Con-way periodically evaluates whether changes to estimated useful lives or salvage values are necessary to ensure that these estimates accurately reflect the economic use of the assets. In January 2009, Con-way Freight increased the estimated useful life of most of its tractors to 8 years from 7 years. As a result of this change, net income available to common shareholders in the second quarter of 2009 increased by $1.5 million ($0.03 per diluted share), and in the first six months of 2009, the net loss applicable to common shareholders decreased by $3.5 million ($0.08 per diluted share).

Reclassifications and Revisions

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

2. Goodwill and Intangible Assets

Goodwill

Goodwill is recorded as the excess of an acquired entity's purchase price over the amounts assigned to assets acquired (including separately recognized intangible assets) and liabilities assumed. Goodwill is not amortized but is assessed for impairment on an annual basis in the fourth quarter, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The assessment requires the comparison of the fair value of a reporting unit to the carrying value of its net assets, including allocated goodwill. If the carrying value of the reporting unit exceeds its fair value, Con-way must then compare the implied fair value of the reporting-unit goodwill with the carrying amount of the goodwill. If the carrying amount of the reporting-unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

Con-way evaluated its goodwill for impairment prior to its annual measurement date due primarily to worsening truckload market conditions, lower profit projections for Con-way Truckload and a decline in Con-way's market capitalization during the first quarter of 2009. As of March 31, 2009, Con-way determined that the goodwill associated with Con-way Truckload was impaired and, as a result, Con-way Truckload recognized a $134.8 million impairment charge to reduce the carrying amount of the goodwill to its implied fair value. The first-quarter impairment was primarily due to lower projected revenues and operating income and a discount rate that reflected the economic and market conditions.

For the valuation of Con-way Truckload, Con-way applied two equally weighted methods: public-company multiples and a discounted cash flow model. The key assumptions used in the discounted cash flow model were cash flow projections involving forecasted revenues and expenses, capital expenditures and working capital changes. In addition, other key assumptions included the discount rate and terminal growth rate applied to projected future cash flows. The discount rate was equal to the estimated weighted-average cost of capital for the reporting unit. The terminal growth rate was based on inflation assumptions adjusted for factors that may impact future growth such as industry-specific expectations.

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

(Dollars in thousands)	Logistics	Truckload	Other	Total
Balances at December 31, 2007	$ 55,146	$ 471,573	$ 727	$ 527,446
Adjustments to fair value	(11,020)	(8,814)	--	(19,834)
Liabilities assumed	7,537	--	--	7,537
Adjustments to deferred taxes	2,755	1,839	--	4,594
Impairment charge	(31,822)	--	--	(31,822)
Direct transition costs	282	--	--	282
Change in foreign-currency exchange rates	(247)	--	--	(247)

Balances at December 31, 2008	$ 22,631	$ 464,598	$ 727	$ 487,956
Impairment charge	--	(134,813)	--	(134,813)
Change in foreign-currency exchange rates	224	--	--	224
Balances at June 30, 2009	$ 22,855	$ 329,785	$ 727	$ 353,367

Intangible Assets

The fair value of intangible assets is amortized on a straight-line basis over the estimated useful life. In the second quarter and first half of 2009, amortization expense related to intangible assets was $1.1 million and $2.3 million, respectively, compared to $1.3 million and $2.1 million in the same respective periods in 2008. Intangible assets consisted of the following:

		June 30, 2009		December 31, 2008	
(Dollars in thousands)	Weighted-Average Life (Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer relationships	9.4	$ 31,292	$ 6,506	$ 31,152	$ 4,714
Trademarks	2.0	2,550	2,187	2,550	1,652
		$ 33,842	$ 8,693	$ 33,702	$ 6,366

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 2009	$ 2,100
2010	3,500
2011	3,500
2012	3,100
2013	2,700
2014	2,700

3. Restructuring Activities

During 2007 and 2008, Con-way Freight initiated three restructuring activities: an operational restructuring, a network re-engineering and an economic workforce reduction. In connection with these restructuring activities, Con-way Freight recognized $1.6 million and $0.5 million of net adjustments that reduced expense in the second quarter and first half of 2009, respectively, due primarily to reductions in lease-related liabilities. In the first half of 2008, Con-way Freight recognized first-quarter restructuring charges of $2.6 million. Con-way reported the employee-separation costs in salaries, wages and other employee benefits, facility costs primarily in rents and leases, and asset-impairment charges in other operating expenses in the statements of consolidated operations. In addition to the restructuring charges, Con-way Freight recognized an additional $2.6 million in the first quarter of 2008 for other related costs, consisting primarily of consulting fees, which are reported as other operating expenses.

The remaining liability for amounts expensed but not yet paid was $6.1 million at June 30, 2009. The remaining liability relates primarily to operating lease commitments that are expected to be payable over several years.

Operational Restructuring

In August 2007, Con-way Freight began an operational restructuring to combine its three regional operating companies into one centralized operation to improve the customer experience and streamline its processes. The reorganization into a centralized entity was intended to improve customer service and efficiency through the development of uniform pricing and operational processes, and implementation of best practices. Con-way Freight completed the initiative in the first quarter of 2008.

The following table summarizes the effect of Con-way Freight's operational restructuring:

(Dollars in thousands)	Employee-Separation Costs	Facility and Lease-Termination Costs	Asset-Impairment Charges	Other	Total
Balance at December 31, 2008	$ --	$ 3,162	$ --	$ 40	$ 3,202
Cash payments	--	(512)	--	(40)	(552)
Balance at June 30, 2009	$ --	$ 2,650	$ --	$ --	$ 2,650
Total expense recognized to date	$ 7,119	$ 4,336	$ 2,401	$2,786	$ 16,642

Network Re-Engineering

In November 2008, Con-way Freight completed a major network re-engineering to reduce service exceptions, improve on-time delivery and bring faster transit times while deploying a lower-cost, more efficient service center network better aligned to customer needs and business volumes. The re-engineering did not change Con-way Freight's service coverage, but did involve the closure of 40 service centers, with shipment volumes from closing locations redistributed and balanced among more than 100 nearby service centers.

The following table summarizes the effect of the network re-engineering:

(Dollars in thousands)	Employee-Separation Costs	Facility and Lease-Termination Costs	Asset-Impairment Charges	Total
Balance at December 31, 2008	$ 259	$ 7,213	$ --	$ 7,472
2009 restructuring charges and net adjustments	324	(1,967)	22	(1,621)
Cash payments	(583)	(1,758)	--	(2,341)
Write-offs	--	--	(22)	(22)

Balance at June 30, 2009	$ --	$ 3,488	$ --	$ 3,488
Total expense recognized to date	$ 5,968	$ 5,781	$ 1,656	$13,405
Expected remaining expenses	700	--	--	700

The expected remaining expenses for the network re-engineering relate primarily to employee relocation and will be recognized when incurred.

Economic Workforce Reduction

In response to a decline in year-over-year business volumes that accelerated during the fourth quarter of 2008, Con-way Freight reduced its workforce by 1,450 positions in December 2008. In addition to reducing the workforce at operating locations, the reduction also eliminated positions at Con-way Freight's general office and administrative center, and included a realignment of its area and regional division structure to streamline management.

The following table summarizes the effect of the workforce reduction:

(Dollars in thousands)	Employee-Separation Costs
Balance at December 31, 2008	$ 1,742
2009 restructuring charges	1,114
Cash payments	(2,856)
Balance at June 30, 2009	$ --
Total expense recognized to date	$ 6,567

4. Discontinued Operations

Results of discontinued operations in the periods presented relate to the shut-down of Emery Worldwide Airlines, Inc. ("EWA") in December 2001. The results of operations, net liabilities, and cash flows of discontinued operations have been segregated from continuing operations. See Note 4, "Discontinued Operations," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 Annual Report on Form 10-K for additional discussion of results of operations and cash flows of discontinued operations in prior periods.

Results of discontinued operations are summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2009	2008	2009	2008
Gain from Disposal, net of tax				
EWA	$ --	$ 1,609	$ --	$ 1,609

	$ --	$ 1,609	$ --	$ 1,609

The $1.6 million gain (net of tax of $1.0 million) in the second quarter of 2008 was recognized to eliminate a previously recorded accrued liability associated with a legal contingency.

5. Segment Reporting

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

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

* Logistics. The Logistics segment consists of the operating results of the Menlo Worldwide Logistics business unit, which develops contract-logistics solutions, including the management of complex distribution networks and supply-chain engineering and consulting, and also provides multimodal freight brokerage services.

* Truckload. The Truckload segment consists of the operating results of the Con-way Truckload business unit. Con-way Truckload provides asset-based full-truckload freight services throughout North America.

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

Financial Data

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues from External Customers				
Freight	$ 637,951	$ 824,008	$1,197,684	$1,567,328
Logistics	326,955	377,138	643,432	718,598
Truckload	89,767	137,363	175,809	253,332
Other	1,660	1,176	2,340	2,008

	$1,056,333	$1,339,685	$ 2,019,265	$2,541,266
Inter-segment Revenues				
Freight	$ 11,398	$ 13,312	$ 25,480	$ 24,539
Logistics	667	15	667	23
Truckload	53,531	44,220	102,272	79,343
Other	2,877	12,325	8,186	23,547
	$ 68,473	$ 69,872	$ 136,605	$ 127,452
Revenues before Inter-segment Eliminations				
Freight	$ 649,349	$ 837,320	$ 1,223,164	$1,591,867
Logistics	327,622	377,153	644,099	718,621
Truckload	143,298	181,583	278,081	332,675
Other	4,537	13,501	10,526	25,555
Inter-segment Revenue Eliminations	(68,473)	(69,872)	(136,605)	(127,452)
	$1,056,333	$1,339,685	$2,019,265	$2,541,266
Operating Income (Loss)				
Freight	$ 48,994	$ 77,375	$ 25,607	$ 113,452
Logistics	7,799	4,954	12,773	11,217
Truckload	6,879	12,436	(125,799)	22,712
Other	2,294	95	3,073	1,487
	$ 65,966	$ 94,860	$ (84,346)	$ 148,868

	June 30, 2009	December 31, 2008
Assets		
Freight	$ 1,265,729	$ 1,297,197
Logistics	297,320	331,419
Truckload	751,767	911,835
Other	577,371	531,256
	$ 2,892,187	$ 3,071,707

6. 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

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	June 30, 2009			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	$ 229,046	$ 138,934	$ 90,112	$ --
Current marketable securities	149,212	--	149,212	--
Other marketable securities	7,182	--	--	7,182

	December 31, 2008			
(Dollars in thousands)	Total	Level 1	Level 2	Level 3
Cash equivalents	$ 264,946	$ 125,160	$ 139,786	$ --
Other marketable securities	6,712	--	--	6,712

Cash equivalents consist of short-term interest-bearing instruments (primarily money-market funds, commercial paper, and certificates of deposit) with maturities of three months or less at the date of purchase. Current marketable securities consist of interest-bearing instruments (primarily commercial paper, certificates of deposit and banker's acceptances) with maturities greater than three months at the date of purchase. At June 30, 2009, the weighted-average remaining maturity of the current marketable securities was less than two months.

Due to the lack of quoted market prices for identical instruments, commercial paper, certificates of deposit and banker's acceptances, are generally valued using published interest rates for instruments with similar terms and maturities, and accordingly, classified as Level 2 instruments within the fair-value hierarchy. Money-market funds reflect their net asset value and are classified as Level 1 instruments within the fair-value hierarchy. Based on their short maturities, the carrying amount of the cash equivalents and marketable securities approximates their fair value.

Con-way's other marketable security consists of one auction-rate security, which was valued with an income approach that utilized a discounted cash flow model.

The following table summarizes the change in fair values of Con-way's auction-rate security, which was valued using Level 3 inputs:

(Dollars in thousands)	Auction-rate security
Balance at December 31, 2007	$ --
Transfer in from Level 2	7,500
Unrealized loss	(788)
Balance at December 31, 2008	$ 6,712
Unrealized gain	495
Partial redemption	(25)
Balance at June 30, 2009	$ 7,182

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Due primarily to changes in interest-rate benchmarks, the fair value of Con-way's auction-rate security increased $0.5 million in the first six months of 2009. Con-way has recorded the cumulative $0.3 million decline in the carrying value of marketable securities with an equal and offsetting unrealized loss in accumulated other comprehensive income (loss). Con-way has evaluated the unrealized loss and concluded that the decline in fair value is temporary.

Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Effective January 1, 2009, Con-way adopted SFAS No. 157, "Fair-Value Measurements" for nonfinancial assets and liabilities that are measured at fair value on a non-recurring basis. In March 2009, Con-way measured the fair value of the Con-way Truckload reporting unit as part of a goodwill impairment test. The inputs used to measure the fair value of Con-way Truckload were within Level 3 of the fair-value hierarchy. The fair-value methods Con-way applied in the valuation of Con-way Truckload and the resulting goodwill impairment charge are more fully discussed in Note 2, "Goodwill and Intangible Assets."

Assets and Liabilities Disclosed at Fair Value, but Not Recognized at Fair Value

Con-way's long-term debt (including current maturities) of $924.4 million and $950.0 million at June 30, 2009 and December 31, 2008, respectively, had estimated fair values of $890 million and $900 million, respectively. Fair values were estimated based on current rates offered for debt with similar terms and maturities.

7. Employee Benefit Plans

In the periods presented, employees of Con-way and its subsidiaries in the U.S. were covered under several retirement benefit plans, including defined benefit pension plans, defined contribution retirement plans, and a postretirement medical plan. Con-way's defined benefit pension plans include "qualified" plans that are eligible for certain beneficial treatment under the Internal Revenue Code ("IRC"), as well as "non-qualified" plans that do not meet IRC criteria. See Note 12, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 Annual Report on Form 10-K for additional information concerning its retirement benefit plans. See "- Cost-Reduction Actions" below for a discussion of employee benefits changes that were effective in April 2009.

Defined Benefit Pension Plans

The following tables summarize the components of net periodic benefit expense (income) for Con-way's domestic defined benefit pension plans:

	Qualified Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2009	2008	2009	2008
Service cost - benefits earned during the period	$ 18	$ 27	$ 45	$ 54
Interest cost on benefit				

obligation	16,980	17,357	35,506	34,715
Expected return on plan assets	(14,207)	(24,246)	(30,650)	(48,493)
Net amortization and deferral	2,621	(793)	13,603	(1,587)
Net periodic benefit expense (income)	$ 5,412	$ (7,655)	$ 18,504	$ (15,311)

	Non-Qualified Pension Plans			
	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands)	2009	2008	2009	2008
Interest cost on benefit obligation	$ 952	$ 1,115	$ 2,038	$ 1,922
Net amortization and deferral	(94)	372	(2,413)	641
Net periodic benefit expense (income)	$ 858	$ 1,487	$ (375)	$ 2,563

Con-way expects to contribute $17.3 million to its qualified pension plans in 2009, including $5.0 million contributed in March 2009 and the remaining $12.3 million prior to September 15, 2009.

Defined Contribution Retirement Plans

Con-way's defined contribution retirement plans consist mostly of the primary defined contribution retirement plan (the "Primary DC Plan"), which covers non-contractual U.S. employees. The Primary DC Plan is a voluntary defined contribution plan with a leveraged employee stock ownership plan feature with salary deferral qualified under Section 401(k) of the IRC, as more fully discussed in Note 12, "Employee Benefit Plans," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 Annual Report on Form 10-K. Prior to the implementation of Con-way's cost-reduction actions, as more fully discussed below, Con-way made "matching" contributions equal to 50% of the first six percent of employees' eligible compensation and made additional discretionary contributions to employees' 401(k) accounts. The additional contributions, which were based on employees' years of service, consisted of a "basic" contribution that ranged from 3% to 5% of eligible compensation and a "transition" contribution that ranged from 1% to 3% of eligible compensation.

Con-way's expense under the Primary DC Plan was $8.3 million and $27.9 million in the second quarter and first six months of 2009, respectively, compared to $24.9 million and $46.9 million in the same respective periods of 2008. At June 30, 2009 and December 31, 2008, Con-way had recognized accrued liabilities of $8.9 million and $21.8 million, respectively, for its contributions related to the Primary DC Plan. In the periods presented, Con-way's contributions to the Primary DC Plan included allocations of Con-way preferred stock and contributions of cash and Con-way common stock. Effective in January 2009, contributions in the form of Con-way common stock were made with repurchased common stock (also referred to as treasury stock), rather than from open-market purchases from cash contributed by Con-way.

During the first six months of 2009, Con-way used 302,691 shares of repurchased common stock to fund $7.8 million of contributions to the Primary DC Plan.

In the second quarter of 2009, Con-way exercised its right to redeem all shares of its preferred stock that were outstanding on June 30, 2009. Each share of preferred stock was converted into common stock at a rate equal to the number of shares of common stock that could be purchased for $152.10. Accordingly, $93.8 million or 2,202,937 shares of repurchased common stock were issued to convert and redeem $75.0 million or 493,220 shares of outstanding preferred stock. The $18.8 million difference between the historical cost of the repurchased common stock and the converted preferred stock was recorded as a reduction to additional paid-in capital in common shareholder's equity. Also on the redemption date, $4.0 million or 93,636 shares of repurchased common stock were used to pay the common-stock equivalent of the then-accrued $3.2 million cash dividend on preferred stock, with the $0.8 million difference recorded as a reduction to additional paid-in capital in common shareholders' equity.

Postretirement Medical Plan

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Service cost - benefits earned during the period	$ 302	$ 521	$ 780	$ 1,141
Interest cost on benefit obligation	1,263	1,783	2,778	3,386
Net amortization and deferral	(306)	175	(611)	(24)
Net periodic benefit expense	$ 1,259	$ 2,479	$ 2,947	$ 4,503

Long-term Disability Plan

Con-way's expense associated with the long-term disability plan was $1.7 million and $5.5 million in the second quarter and first six months of 2009, respectively, compared to $2.6 million and $4.7 million in the same respective periods of 2008. In Con-way's consolidated balance sheets, the long-term and current portions of the long-term disability plan obligation are reported in employee benefits and accrued liabilities, respectively. At June 30, 2009, the long-term and current portions of the obligation were $32.2 million and $11.4 million, respectively, and at December 31, 2008, were $32.1 million and $13.6 million.

Cost-Reduction Actions

In response to economic conditions, Con-way announced in March 2009 several measures to reduce costs and conserve cash. These cost-reduction measures are in addition to the actions Con-way took in the fourth quarter of 2008. Actions in 2008 included workforce reductions, network re-engineering, suspension of merit-based pay increases, reductions in capital expenditures and other spending cuts. The measures announced in March 2009 substantially consist of the suspension or curtailment of employee benefits and a reduction in salaries and wages, as detailed below.

Salaries and Wages

Effective March 29, 2009, the salaries and wages of certain employees were reduced by 5%, including corporate and shared-services employees and those at the Con-way Freight and Road Systems business units. This reduction resulted in savings of approximately $13 million in the second quarter of 2009.

Compensated Absences

Effective April 1, 2009, a compensated-absences benefit was suspended at Con-way Freight. Prior to the suspension, employees' current-year service earned a compensated-absences benefit eligible for use in the subsequent year. During the period of suspension, no compensated-absences benefits will be earned for current-year service; however, employees may use previously vested benefits. This suspension of benefits resulted in savings of approximately $15 million in the second quarter of 2009. On April 1, 2010, the accrual for Freight's compensated-absences benefit will resume, as employees will begin to earn a compensated-absences benefit eligible for use in the year earned.

Also, effective March 8, 2009, Menlo Worldwide Logistics reduced its compensated-absences benefit by 25%. This reduction in benefits resulted in savings of approximately $0.5 million in the second quarter of 2009.

Defined Contribution Plan

Effective April 26, 2009, employer contributions to Con-way's Primary DC Plan, as more fully discussed above, were suspended or limited. The matching and transition contributions were suspended and the basic contribution was limited to no more than 3% of an employee's eligible compensation. In the second quarter of 2009, this suspension and/or limitation resulted in savings of approximately $6 million associated with the matching contribution and $5 million associated with the basic and transition contributions. Effective in July 2009, basic contributions were made with repurchased Con-way common stock.

Defined Benefit Pension Plan

Effective April 30, 2009, Con-way amended its primary defined benefit pension plan to permanently curtail benefits associated with future increases in employee compensation. Prior to the amendment, future retirement benefits considered participants' eligible compensation increases through 2016. In connection with the curtailment, Con-way re-measured its plan-related assets and liabilities as of April 30, 2009. Accordingly, as of the re-measurement date, Con-way recorded a $299.9 million decrease to employee benefits, a $116.9 million decrease in long-term deferred tax assets, and a $182.9 million net of tax increase to shareholders' equity (to reflect a reduction in the accumulated other comprehensive loss). The decline in Con-way's accrued pension liability was due primarily to an increase in the discount rate used to measure the present value of the pension obligation. The discount rate used at April 30, 2009 was 7.85% compared to a discount rate of 6.10% at December 31, 2008. The curtailment will not have a material effect on Con-way's 2009 net periodic benefit expense.

8. Comprehensive Income

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

(Dollars in thousands)	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Net income (loss)	$ 33,039	$ 50,415	$ (119,310)	$ 74,527
Other comprehensive income:				
Foreign currency translation adjustment	1,864	420	1,170	1,694
Unrealized gain on available-for-sale security, net of deferred tax of $504 and $193, respectively	789	--	302	--
Amortization of employee benefit plan amounts, net of deferred tax of $866 and $4,126, respectively	1,355	--	6,453	--
Employee benefit plan adjustments, net of deferred tax of $116,946	182,917	--	182,917	--
Comprehensive income	$ 219,964	$ 50,835	$ 71,532	$ 76,221

9. Share-Based Compensation

Under terms of the share-based compensation plans, Con-way grants various types of share-based compensation awards to employees and directors. The plans provide for awards in the form of stock options, nonvested stock (also known as restricted stock), and performance-share plan units. See Note 13, "Share-Based Compensation," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Salaries, wages and other employee benefits	$ 2,669	$ 2,321	$ 5,621	$ 5,508
Deferred income tax benefit	(1,025)	(895)	(2,160)	(2,120)
Net share-based compensation expense	$ 1,644	$ 1,426	$ 3,461	$ 3,388

10. Income Taxes

Con-way's second-quarter and year-to-date effective tax rates in 2009 were

33.1% and -2.5%, respectively. In the second quarter and first half of 2008, the effective tax rates were 39.7% and 39.6%, respectively. Excluding the effect of various tax adjustments, Con-way's second-quarter and year-to-date effective tax rates in 2009 were 37.0% and 37.9%, respectively, and in 2008 were 39.7% and 39.3%, respectively. The tax adjustments in 2009 relate primarily to the non-deductible goodwill impairment charge in the first quarter, as discussed more fully in Note 2, "Goodwill and Intangible Assets," and discrete tax items, including the reversal of a portion of Con-way's accrued liability for uncertain tax positions.

Other accounts receivable in the consolidated balance sheets include income tax receivables of $4.7 million and $24.0 million at June 30, 2009 and December 31, 2008, respectively.

11. Commitments and Contingencies

CFC

The cessation by Consolidated Freightways Corporation ("CFC") of its U.S. operations in connection with the filing of bankruptcy in 2002 was deemed to have resulted in CFC's "complete withdrawal" (within the meaning of applicable federal law) from certain multiemployer plans to which CFC was a party at the time Con-way completed the 100% spin-off of CFC to Con-way's shareholders in December 1996. These plans subsequently assessed claims for such "withdrawal liabilities" against CFC, demanding that CFC pay them for the approximately $400 million that they determined to be CFC's share of unfunded vested benefits obligations under those plans.

In 2008, Con-way was approached by the Central States, Southeast and Southwest Areas Pension Fund and the New York States Teamsters Conference Pension and Retirement Fund, seeking to impose withdrawal liability against Con-way for CFC's unpaid pension liabilities. Both matters have been settled as previously disclosed in Note 14, "Commitments and Contingencies," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 Annual Report on Form 10-K.

Con-way continues to believe that its actions in connection with the CFC spin-off were proper and will continue to vigorously defend itself from any claims brought against it by multiemployer pension funds seeking to hold Con-way responsible for CFC's withdrawal liabilities. However, there can be no assurance as to the outcome of any such litigation, given uncertainties inherent in such proceedings, including the possible application of adverse judicial decisions rendered in unrelated matters not involving Con-way.

EWA

In February 2002, a lawsuit was filed against EWA in the District Court for the Southern District of Ohio, alleging violations of the Worker Adjustment and Retraining Notification Act (the "WARN Act") in connection with employee layoffs and ultimate terminations due to the August 2001 grounding of EWA's airline operations and the shutdown of the airline operations in December 2001. The court subsequently certified the lawsuit as a class action on behalf of affected employees laid off between August 11 and August 15, 2001. The WARN Act generally requires employers to give 60-days notice, or 60-days pay and benefits in lieu of notice, of any shutdown of operations or mass layoff at a site of employment. The estimated range for potential loss on this matter is zero to approximately $9 million, plus accrued interest. The lawsuit was tried in early January 2009 and the parties are awaiting a decision from the court.

MWF

In 2004, Con-way and Menlo Worldwide, LLC sold to United Parcel Service, Inc. ("UPS") all of the issued and outstanding capital stock of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. Con-way agreed to indemnify UPS against certain losses that UPS may incur after the closing of the sale with certain limitations. Any losses related to these indemnification obligations will be recognized in future periods as an additional loss from disposal when and if incurred.

Other

Menlo Worldwide, LLC ("MW") has asserted claims against the sellers of Chic Holdings alleging inaccurate books and records, misstatement of revenue, and other similar matters related to the pre-sale financial performance of the Chic businesses and is pursuing all legal and equitable remedies available to MW. There currently exists a $9 million hold-back in escrow against which MW may apply any award for breach of warranty under the Share Purchase Agreement. The ultimate outcome of this matter is uncertain and any resulting award will not be recognized until received.

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.

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 and transcontinental less-than-truckload and full-truckload freight transportation, contract logistics and supply-chain management, multimodal freight brokerage and trailer manufacturing. For the periods presented, Con-way is divided into the following four reporting segments:

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

- * Logistics. The Logistics segment consists of the operating results of the Menlo Worldwide Logistics business unit, which develops contract-logistics solutions, including the management of complex distribution networks and supply-chain engineering and consulting, and also provides multimodal freight brokerage services.

- * Truckload. The Truckload segment consists of the operating results of the Con-way Truckload business unit. Con-way Truckload provides asset-based full-truckload freight services throughout North America.

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

The results of Con-way's primary business units generally depend on the number, weight and distance of shipments transported, the prices received on those shipments or services and the mix of services provided to customers, as well as the fixed and variable costs incurred by Con-way in providing the services and the ability to manage those costs under changing circumstances. Con-way's primary business units are affected by the timing and degree of fluctuations in fuel prices and their ability to recover incremental fuel costs through fuel-surcharge programs and/or cost-recovery mechanisms, as more fully discussed in Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Fuel."

Con-way Freight 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. Con-way Truckload transports shipments using a fleet of long-haul 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.

Results of Operations

The overview below provides a high-level summary of Con-way's results 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.

Continuing Operations

(Dollars in thousands except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues	$1,056,333	$1,339,685	$2,019,265	$2,541,266
Costs and expenses				
Loss from impairment of goodwill	--	--	134,813	--
Other operating expenses	990,367	1,244,825	1,968,798	2,392,398
	990,367	1,244,825	2,103,611	2,392,398
Operating income (loss)	65,966	94,860	(84,346)	148,868

Other expense	16,581	13,869	32,094	28,078
Income (loss) before income tax provision	49,385	80,991	(116,440)	120,790
Income tax provision	16,346	32,185	2,870	47,872
Net income (loss)	33,039	48,806	(119,310)	72,918
Preferred stock dividends	1,572	1,717	3,189	3,373
Net income (loss) from continuing operations applicable to common shareholders	$ 31,467	$ 47,089	$ (122,499)	$ 69,545
Diluted earnings (loss) per share	$ 0.64	$ 0.98	$ (2.66)	$ 1.45
Effective tax rate	33.1%	39.7%	(2.5%)	39.6%

Overview

Con-way's consolidated revenue for the second quarter of 2009 decreased 21.2% from the second quarter of 2008 and, in the first half of 2009, decreased 20.5% from the same prior-year period, reflecting recessionary economic conditions that contributed to lower revenue at Freight, Logistics and Truckload.

Con-way's second-quarter consolidated operating income decreased 30.5% to $66.0 million in 2009 from $94.9 million in 2008. In the year-to-date periods, Con-way's operating results consisted of an operating loss of $84.3 million in 2009 and operating income of $148.9 million in 2008, primarily reflecting Truckload's $134.8 million first-quarter goodwill-impairment in 2009. Excluding the impairment loss more fully discussed in Note 2, "Goodwill and Intangible Assets," of Item 1, "Financial Statements," consolidated second-quarter and first-half operating income in 2009 declined due primarily to the net effect of lower operating income at the Freight and Truckload segments partially offset by higher operating income at the Logistics and the Other segments. For the comparative periods presented, the effects of adverse economic conditions and increasingly competitive markets were partially mitigated by cost-reduction measures.

In the second quarter and first half of 2009, non-operating expense increased $2.7 million and $4.0 million, respectively, reflecting lower investment income, higher interest expense and foreign-exchange losses.

Con-way's second-quarter and year-to-date effective tax rates in 2009 were 33.1% and -2.5%, respectively. In the second quarter and first half of 2008, the effective tax rates were 39.7% and 39.6%, respectively. Excluding the effect of various tax adjustments, Con-way's second-quarter and year-to-date effective tax rates in 2009 were 37.0% and 37.9%, respectively, and in 2008 were 39.7% and 39.3%, respectively. The tax adjustments in 2009 relate primarily to the non-deductible goodwill impairment charge in the first quarter and discrete tax items, including the reversal of a portion of Con-way's accrued liability for uncertain tax positions.

In response to economic conditions, Con-way announced in March 2009 several measures to reduce costs and conserve cash. These measures substantially consist of the suspension or curtailment of employee benefits and a reduction in certain employees' salaries and wages, as detailed in Note 7, "Employee Benefit Plans," of Item 1, "Financial Statements." The measures are projected to save between $100 million to $130 million during 2009.

Approximately $39.5 million in savings were realized in the second quarter of 2009. Savings in periods beyond 2009 are expected to be lower, reflecting the reinstatement of suspended benefits and/or the reversal of salary and wage reductions. The timing for the possible reinstatement of suspended benefits and/or the reversal of salary and wage reductions will generally depend on economic conditions and Con-way's financial condition, results of operations and cash flows, except that Con-way Freight currently plans to reinstate its compensated-absences benefit effective on April 1, 2010. Additionally, the reinstatement of Con-way's basic and transition contributions to their prior levels is contingent upon the achievement of specified financial metrics in two consecutive quarters. These cost-reduction measures announced in March 2009 are in addition to the actions Con-way took in the fourth quarter of 2008. Actions in 2008 included workforce reductions, network re-engineering, suspension of merit-based pay increases, reduction in capital expenditures and other spending cuts.

Reporting Segment Review

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 June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Summary of Segment Operating Results				
Revenues	$ 637,951	$ 824,008	$1,197,684	$1,567,328
Operating Income	48,994	77,375	25,607	113,452
Operating Margin	7.7%	9.4%	2.1%	7.2%

	2009 vs. 2008	2009 vs. 2008
Selected Operating Statistics		
Revenue per day	-23.1	-23.0
Weight per day	-7.0	-9.5
Revenue per hundredweight ("yield")	-17.4	-14.9
Shipments per day ("volume")	-5.4	-9.0
Weight per shipment	-1.6	-0.7

Freight's revenue in the second quarter of 2009 decreased 22.6% from the same period of 2008 and, in the first half of 2009, decreased 23.6% from the same prior-year period. Revenue per day decreased 23.1% in the second quarter due to a 7.0% decline in weight per day and a 17.4% decrease in yield. The 7.0% decrease in weight per day reflects a 5.4% decline in shipments per day and a 1.6% decrease in weight per shipment. In the first half of 2009, revenue per day decreased 23.0% as a result of a 9.5% decline in weight per day, a 14.9% decrease in yield and a 1.5-day decline in the number of working days. The 9.5% decline in weight per day reflects a 9.0% decrease in shipments per day and a 0.7% decline in weight per shipment. In the second quarter and first half of 2009, the decline in yield was due primarily to decreases in fuel surcharges and base freight rates. Freight volumes and yield reflect the current adverse economic conditions, excess capacity in the less-than-truckload market and a competitive pricing environment.

Excluding fuel surcharges, yields in the second quarter and first half of 2009 decreased 6.7% and 5.6%, respectively. In the second quarter, Con-way Freight's fuel-surcharge revenue decreased to 9.4% of revenue in 2009 from 20.4% in 2008, and in the first six months, decreased to 9.3% of revenue in 2009 from 18.7% in 2008.

Freight's operating income in the second quarter of 2009 decreased 36.7% over the same period of 2008 and, in the first six months of 2009, decreased 77.4% from the same prior-year period. The decline in operating income resulted from revenue that declined at a faster rate than operating expenses, due in part to the high level of fixed costs in Freight's network, which is designed to provide geographic coverage and consistent on-time performance. However, 2009 results benefited from cost-reduction measures implemented in April, which resulted in approximately $35.3 million in savings related to salaries, wages and other employee benefits expenses. The cost-reduction measures are more fully discussed above in "- Overview."

In the second quarter and first half of 2009, expenses for salaries, wages and other employee benefits decreased 18.0% and 14.7%, from the same periods in 2008. Base compensation in the second quarter and first half of 2009 decreased 9.9% and 9.0%, respectively, due to a lower average employee count and the cost-reduction measures. In the second quarter of 2009, incentive compensation expense decreased $8.5 million and, in the first six months of 2009, decreased $10.8 million based on variations in performance measures relative to incentive-plan targets. Employee benefits expense decreased 28.9% and 21.6% in the second quarter and first half of 2009, respectively, due to lower expense for compensated absences, employer contributions to the defined contribution plan, workers' compensation claims and employee medical care, partially offset by increased pension expense for defined benefit pension plans. In 2009, lower expense for compensated absences and employer contributions to the defined contribution plan reflect Con-way's cost-reduction measures. In the first half of 2008, higher expenses for compensated absences were due in part to a non-recurring adjustment for a benefit plan change associated with a restructuring initiative.

Expenses for fuel and fuel-related taxes in the second quarter and first half of 2009 decreased 52.0% and 50.1%, respectively, due primarily to the decline in the cost of diesel fuel and, to a lesser extent, a decline in miles driven. Expense for purchased transportation decreased 12.9% and 11.8% in the second quarter and first half of 2009, respectively, due to fuel-related rate decreases and lower negotiated base rates, partially offset by an increase in freight transported by third-party providers.

Other operating expenses decreased 12.5% and 16.4% in the second quarter and first half of 2009, respectively, reflecting decreased corporate allocations and decreases in cargo-loss and damage expense. Lower corporate allocations in 2009 were due in part to cost-reduction measures.

Comparative operating results were affected by costs incurred for Freight's re-branding initiative and restructuring activities. Under the re-branding initiative, which was completed in the second quarter of 2008, Freight incurred $1.2 million and $4.9 million of costs in the second quarter and first half of 2008, respectively. In connection with its restructuring activities, Freight recognized $1.6 million and $0.5 million of net adjustments that reduced expense in the second quarter and first half of 2009, respectively, compared to $5.2 million of first-quarter charges in the first half of 2008. For additional information concerning Freight's restructuring activities see Note 3, "Restructuring Activities," in Item 1, "Financial Statements."

The sequential monthly declines in tonnage that Con-way experienced in the second half of 2008 abated in the first half of 2009. Weight per day increased sequentially from January through June as monthly volumes benefited from seasonal increases and focused sales initiatives. However, declines in fuel prices contributed to lower fuel-surcharge revenue and yields. Due to recent market conditions, the declines in fuel-surcharge revenue have not been offset by equivalent increases in base freight-rate revenue. Since its fuel-surcharge program has historically enabled Con-way Freight to more than recover increases in fuel costs and fuel-related increases in purchased transportation, these declines in fuel-surcharge revenue have had an adverse effect on operating results.

Logistics

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

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Summary of Segment Operating Results				
Revenue	$ 326,955	$ 377,138	$ 643,432	$ 718,598
Purchased transportation	(200,252)	(250,507)	(391,496)	(465,959)
Net revenue	126,703	126,631	251,936	252,639
Operating income	7,799	4,954	12,773	11,217
Operating margin on revenue	2.4%	1.3%	2.0%	1.6%
Operating margin on net revenue	6.2%	3.9%	5.1%	4.4%

Logistics' revenue in the second quarter and first half of 2009 decreased 13.3% and 10.5%, respectively, due to decreases in both carrier-management and warehouse-management services. In 2009, revenue from carrier-management services in the second quarter and first half decreased 17.0% and 13.9%, respectively, while revenue from warehouse-management services decreased 3.1% and 1.3%, respectively. Lower revenue at Logistics was due primary to recessionary economic conditions, partially offset by revenue from new customers, including the Defense Transportation Coordination Initiative ("DTCI") contract more fully discussed below.

Logistics' net revenue in the second quarter and first half of 2009 was essentially flat compared to the prior-year periods due to revenue declines, partially offset by lower purchased transportation expense that declined at a faster rate than revenue and an increase in the percentage of revenue derived from warehouse-management services. Purchased transportation expense declined 20.1% and 16.0% in the second quarter and first half of 2009, respectively.

Logistics' operating income in the second quarter and first half of 2009 increased 57.4% and 13.9%, respectively. Comparative operating results in 2009 benefited from cost-reduction measures, discussed more fully above under "- Overview," and two customer-specific issues settled during the second quarter of 2008 that increased 2008 expenses for cargo-loss claims and uncollectible accounts.

Salaries, wages and other employee benefits increased 4.9% and 0.2% in the second quarter and first half of 2009, reflecting increases in incentive compensation and higher costs for employee benefits, partially offset by lower expenses for other employee-related costs. In the second quarter, incentive compensation increased $2.4 million or 104.6% and, in the first half of 2009, increased $1.5 million or 31.6% based on variations in performance measures relative to incentive-plan targets. Employee benefits expense increased 10.2% and 9.8% in the second quarter and first half of 2009, respectively, due primarily to increased expenses related to Con-way's defined benefit pension plan and share-based compensation awards. In connection with the cost-reduction measures discussed above, Logistics realized savings of approximately $1.4 million related to reductions in benefits associated with the defined contribution plan and compensated absences. Other employee-related costs decreased 36.1% and 34.7% in the second quarter and first half of 2009, respectively, due primarily to lower travel costs.

Expenses for rents and leases increased 17.3% and 19.1% in the second quarter and first half of 2009, respectively, due primarily to the addition of new warehouse-management services customers and a sale-leaseback transaction in which two of Logistics' warehouses were sold in June 2008. In the second quarter and first half of 2009, other operating expenses declined 9.5% and 2.5%, respectively. Lower other operating expenses were due primarily to lower corporate allocations, a decline in warehouse supply costs, a decrease in cargo-loss claims expense and a lower provision for uncollectible accounts, partially offset by increases in the use of professional services (primarily related to legal matters). Lower corporate allocations in 2009 were due in part to cost-reduction measures, while lower warehouse supply costs reflect changes in customer needs. In the second quarter and first half of 2009, purchased labor decreased 19.1% and 16.7%, respectively, as labor levels were adjusted in response to declines in economic activity and customer needs.

Operations under the DTCI contract began on March 31, 2008 and approximately three-quarters of the distribution centers were operating as of June 30, 2009. The contract contributed revenue of $47.2 million and $83.7 million in the second quarter and first half of 2009, respectively, and $4.9 million in the second quarter and first half of 2008. The contract has not had a significant effect on Logistics' operating income during the implementation phase, which is expected to be completed in August when all distribution centers will be in operation.

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 as well as freight revenue, which represents revenue excluding fuel surcharges, inter-segment eliminations, and other non-trucking revenue. Truckload's management places emphasis on freight revenue as a meaningful measure to evaluate results from the core truckload freight operation. The table also includes operating income and operating margin excluding the loss from impairment of goodwill. Truckload's management believes these measures are relevant to evaluate its on-going operations.

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Summary of Operating Results				
Freight revenue	$ 126,632	$ 128,908	$ 246,850	$ 244,547
Fuel-surcharge revenue	13,620	49,247	25,686	81,045
Other revenue	3,046	3,428	5,545	7,083
Revenue before inter-segment eliminations	143,298	181,583	278,081	332,675
Inter-segment eliminations	(53,531)	(44,220)	(102,272)	(79,343)
Revenue from external customers	89,767	137,363	175,809	253,332
Operating income (loss)	6,879	12,436	(125,799)	22,712
Loss from impairment of goodwill	--	--	134,813	--
Operating income excluding impairment	6,879	12,436	9,014	22,712
Operating margin excluding impairment	7.7%	9.1%	5.1%	9.0%

	2009 vs. 2008	2009 vs. 2008
Change in Selected Operating Statistics		
Total Miles	0.0%	+3.0%
Freight Revenue per Total Mile	-1.7%	-1.9%

Truckload's revenue from external customers in the second quarter of 2009 decreased 34.6% from the same period of 2008, reflecting a 21.1% decline in revenue before inter-segment eliminations and a 21.1% increase in inter-segment eliminations. The 21.1% second-quarter decline in revenue before inter-segment eliminations was due primarily to a 72.3% decline in fuel-surcharge revenue and a 1.8% decline in freight revenue. The 1.8% decline in freight revenue reflects a 1.7% decline in revenue per mile and total miles that were relatively unchanged from the prior year period.

In the first half of 2009, Truckload's revenue from external customers decreased 30.6% from the same prior-year period, reflecting a 16.4% decline in revenue before inter-segment eliminations and a 28.9% increase in inter-segment eliminations. The 16.4% first-half decline in revenue before inter-segment eliminations was due primarily to a 68.3% decline in fuel-surcharge revenue partially offset by a 0.9% increase in freight revenue. The 0.9% increase in freight revenue reflects a 3.0% increase in total miles and a 1.9 % decline in revenue per mile.

Lower fuel-surcharge revenue was due primarily to lower fuel prices in 2009 compared to 2008. The declines in revenue per mile were the result of difficult economic conditions characterized by low demand for truckload services and excess capacity in the truckload market.

Truckload's operating loss of $125.8 million in the first half of 2009 was due to a $134.8 million charge for goodwill impairment. The impairment charge reflects lower projected revenue and operating income and a discount rate that reflected economic and market conditions, and is more fully discussed in

Note 2, "Goodwill and Intangible Assets," of Item 1, "Financial Statements."

Excluding the impairment charge, Truckload's operating income in the second quarter and first half of 2009 declined 44.7% and 60.3%, respectively, from the same prior-year periods due to revenue from external customers that declined at a faster rate than operating expenses. In the second quarter of 2009, expenses for salaries, wages and other employee benefits were essentially flat from the prior-year period. However, in the first half of 2009, expenses for salaries, wages and other employee benefits increased 4.9%, reflecting a 4.8% increase in base compensation and a 21.7% increase in employee benefits expense, partially offset by a 28.1% decline in other employee costs and a 21.7% decline in incentive compensation. Higher base compensation was due primarily to increased driver miles and increased mileage rates, which reflect an increase in driver tenure. Increased employee benefits expense was due primarily to workers' compensation and compensated absences, partially offset by lower costs for employee medical care.

In the second quarter and first half of 2009, other operating expenses increased 9.8% and 26.2% due primarily to losses on the disposition of equipment, higher corporate allocations and an adjustment to a tax-related receivable, partially offset by declines in vehicular insurance expense. Losses on the disposition of equipment include a $2.5 million second-quarter loss on 195 tractors as fleet capacity was realigned for market conditions. Higher corporate allocations were due in part to increased services provided by Con-way's shared-service center. Maintenance expenses increased 14.9% and 19.2% in the second quarter and first half of 2009, respectively, due to increases in the average number of tractors and the average age of the tractor fleet.

Expenses for fuel and fuel-related taxes declined 49.9% and 45.7% in the second quarter and first half of 2009, respectively, due primarily to lower fuel prices in 2009 compared to 2008. Purchased transportation decreased 28.2% and 30.1% in the second quarter and first half of 2009, respectively, due to lower utilization of contract drivers and fuel-related rate declines.

Other

The Other reporting segment consists of the operating results of Road Systems, a trailer manufacturer, and certain corporate activities for which the related income or expense has not been allocated to other reporting segments. Results in 2008 included expenses related to a variable-executive compensation plan to promote synergistic inter-segment activities. The table below summarizes the operating results for the Other reporting segment:

(Dollars in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues				
Road Systems	$ 1,660	$ 1,176	$ 2,340	$ 2,008
Operating Income (Loss)				
Road Systems	$ (504)	$ 393	$ (861)	$ 829
Con-way re-insurance activities	2,464	1,096	4,015	1,971
Con-way corporate properties	(159)	(151)	(326)	(307)

Variable-executive compensation	--	(772)	--	(1,141)
Other	493	(471)	245	135
	$ 2,294	$ 95	$ 3,073	$ 1,487

Discontinued Operations

Net income applicable to common shareholders includes the results of discontinued operations, which, in the periods presented, related to the shut-down of EWA, as more fully discussed in Note 4, "Discontinued Operations," of Item 1, "Financial Statements." Results of discontinued operations are presented below.

(Dollars in thousands except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Gain from Disposal, net of tax	$ --	$ 1,609	$ --	$ 1,609
Gain from Disposal - per diluted share	$ --	$ 0.04	--	0.04

Liquidity and Capital Resources

Con-way's combined balance of cash, cash equivalents and current marketable securities was $397.5 million at June 30, 2009 compared to $278.3 million at December 31, 2008.

Cash and cash equivalents declined to $248.3 million at June 30, 2009 from $278.3 million at December 31, 2008, as $181.8 million used in investing activities and $32.0 million used in financing activities exceeded $184.0 million provided by operating activities. However, cash used in investing activities primarily reflects a $149.2 million increase in marketable securities. Cash provided by operating activities came primarily from net income before non-cash items.

(Dollars in thousands)	Six Months Ended June 30,	
	2009	2008
Operating Activities		
Net income (loss)	$ (119,310)	$ 74,527
Non-cash adjustments		
Loss from impairment of goodwill	134,813	--
Other non-cash adjustments (1)	132,522	121,458
Net income before non-cash items	148,025	195,985
Changes in assets and liabilities	35,935	(58,314)

Net Cash Provided by Operating Activities	183,960	137,671
Net Cash Used in Investing Activities	(181,828)	(48,076)
Net Cash Used in Financing Activities	(31,968)	(28,900)
Net Cash Provided by (Used in) Continuing Operations	(29,836)	60,695
Net Cash Used in Discontinued Operations	(103)	(516)
Increase (Decrease) in Cash and Cash Equivalents	$ (29,939)	$ 60,179

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

Operating Activities

Cash flow from operating activities in the first six months of 2009 was $184.0 million, a $46.3 million increase from the first six months of 2008, as a decrease in net income before non-cash items was more than offset by cash provided from changes in assets and liabilities. In the first half of 2009, the decrease in net income before non-cash items reflects a $59.0 million decrease in net income after excluding a $134.8 million non-cash loss from the impairment of goodwill. In the first six months of 2009, changes in receivables, employee benefits and accrued income taxes increased operating cash flow when compared to the same prior-year period, while changes in accrued liabilities (excluding employee benefits and incentive compensation), accounts payable, and self-insurance accruals decreased operating cash flow.

In the first six months of 2009, receivables provided $6.6 million due primarily to decreased trade accounts receivable at the Logistics segment partially offset by increased trade accounts receivable at the Freight segment. In the first six months of 2008, receivables used $137.9 million due to increased trade accounts receivable at the Freight and Logistics segments.

Employee benefits used $5.7 million in the first half of 2009 compared to $25.3 million used in the first half of 2008. The variation in cash used by employee benefits reflects the recognition of net periodic benefit expense for qualified pension plans in the first six months of 2009, compared to net periodic benefit income earned in the same prior-year period. The decrease in cash used was partially offset by Con-way's $5.0 million first-quarter 2009 funding contribution to the qualified pension plans.

Accrued income taxes provided $18.8 million in the first six months of 2009, compared to $9.7 million in the same prior-year period, reflecting a $15.0 million refund of federal income taxes received in the first quarter of 2009 and variations in Con-way's income tax provision.

Cash provided by changes in accrued liabilities decreased to $13.2 million in the first half of 2009 from $66.7 million in the first half of 2008, due primarily to changes in accrued interest on the 7.25% Senior Notes issued in December 2007 and changes in the liability for compensated absences. In the first six months of 2009, the liability for compensated absences decreased as a result of the reduction in the compensated-absences benefits at Freight and Logistics and salary and wage reductions at the Freight and Other segments in connection with cost-reduction measures. In the first six months of 2008, the liability for compensated absences increased due to adjustments resulting from a benefit plan change intended to align the benefits as part of a restructuring initiative at the Freight segment.

Investing Activities

Cash used in investing activities increased to $181.8 million in the first half of 2009, compared to $48.1 million used in the first half of 2008 due primarily to purchases of marketable securities, partially offset by a decrease in capital expenditures. Capital expenditures in the first six months of 2009 decreased $70.4 million from the prior-year period due primarily to a lower 2009 capital-expenditure plan in connection with Con-way's cash-conservation efforts. The increase in cash used in investing activities also reflects a decrease in proceeds received from the sale of assets. The first six months of 2008 included $40.4 million of proceeds received from a sale-leaseback transaction in which two of Logistics' warehouses were sold.

Financing Activities

Financing activities used cash of $32.0 million in the first six months of 2009, compared to $28.9 million used in the same period of 2008. Significant financing activities in the periods presented primarily include repayment of debt obligations and dividend payments. Also, in the first half of 2008, Con-way received $5.2 million in proceeds from the exercise of options, while no options were exercised during the first half of 2009.

Con-way has a $400 million revolving credit facility that matures on September 30, 2011. The revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to $400 million. At June 30, 2009, no borrowings were outstanding under Con-way's revolving credit facility; however, $205.0 million of letters of credit were outstanding, with $195.0 million of available capacity for additional letters of credit or cash borrowings. The revolving facility is guaranteed by certain of Con-way's material domestic subsidiaries and contains two financial covenants: (i) a leverage ratio and (ii) a fixed-charge coverage ratio. At June 30, 2009, Con-way was in compliance with the revolving credit facility's financial covenants and expects to remain in compliance through December 31, 2009 and thereafter.

Con-way had other uncommitted unsecured credit facilities totaling $66.7 million at June 30, 2009, which are available to support borrowings, letters of credit, bank guarantees, and overdraft facilities. A total of $35.9 million was outstanding under these facilities at June 30, 2009, leaving $30.8 million of available capacity.

As detailed in Note 7, "Employee Benefit Plans," of Item 1, "Financial Statements," Con-way used repurchased common stock to fund $7.8 million in contributions to the defined contribution retirement plan and $3.2 million of preferred dividends.

At June 30, 2009, Con-way's $200 million 8 7/8% Notes due in May 2010 were classified as current liabilities in the consolidated balance sheets. Consistent with Con-way's objective to reduce its total debt balance, Con-way intends to retire these notes upon maturity with internally generated cash.

See "- Forward-Looking Statements" below and Item 1A, "Risk Factors," and Note 8, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2008 Annual Report on Form 10-K for additional information concerning Con-way's $400 million credit facility and its other debt instruments.

Contractual Cash Obligations

Con-way's contractual cash obligations as of December 31, 2008 are summarized in Item 7, "Management's Discussion and Analysis - Liquidity and Capital Resources - Contractual Cash Obligations," of Con-way's 2008 Annual Report on Form 10-K. In the first six months of 2009, there have been no material changes in Con-way's contractual obligations outside the ordinary course of business.

Other

In 2009, Con-way estimates capital and software expenditures between $60 million and $65 million, net of asset dispositions, primarily for the acquisition of tractor and trailer equipment. Con-way's actual 2009 capital expenditures may differ from the estimated amount depending on factors such as availability and timing of delivery of equipment.

Con-way's capital requirements relate primarily to the acquisition of revenue equipment to support growth and/or replacement of older equipment with newer equipment. In funding these capital expenditures and meeting working-capital requirements, Con-way utilizes various sources of liquidity and capital, including cash and cash equivalents, cash flow from operations, credit facilities and access to capital markets. Con-way may also manage its liquidity requirements and cash-flow generation by varying the timing and amount of capital expenditures and by implementing cost-reduction actions. In April 2009, Con-way implemented several measures to reduce costs and conserve cash. These measures are detailed in Note 7, "Employee Benefit Plans," of Item 1, "Financial Statements."

At June 30, 2009, 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 ratings of Con-way are on CreditWatch with negative implications due to the effects of the economic downturn and overcapacity in the less-than-truckload industry sector.

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 involve the most judgment and are the most material to the financial statements are those related to the following:

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

There have been no significant changes to the critical accounting policies and estimates disclosed in Con-way's 2008 Annual Report on Form 10-K, excepted as noted below.

Defined Benefit Pension Plans

Effective April 30, 2009, Con-way amended its primary defined benefit pension plan to permanently curtail benefits associated with future increases in employee compensation. Prior to the amendment, future retirement benefits considered participants' eligible compensation increases through 2016. In connection with the curtailment, Con-way re-measured its plan-related assets and liabilities as of April 30, 2009. Accordingly, as of the re-measurement date, Con-way recorded a $299.9 million decrease to employee benefits, a $116.9 million decrease in long-term deferred tax assets, and a $182.9 million net of tax increase to shareholders' equity (to reflect a reduction in the accumulated other comprehensive loss). The decline in Con-way's accrued pension liability was due primarily to an increase in the discount rate used to measure the present value of the pension obligation. The discount rate used at April 30, 2009 was 7.85% compared to a discount rate of 6.10% at December 31, 2008.

Con-way estimates that its defined benefit pension plans will result in annual expense of $28 million in 2009.

New Accounting Standards

Refer to Note 1, "Principal Accounting Policies," of Item 1, "Financial Statements," for a discussion of recently issued accounting standards for which the required adoption dates are in future periods.

Forward-Looking Statements

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

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

- any statements of estimates or belief and any statements or assumptions underlying the foregoing.

Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or the negative of those terms 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 2008 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Con-way enters into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of interest rate, commodity or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure. Con-way held no material derivative financial instruments at June 30, 2009.

Interest Rates

Con-way is subject to the effect of interest-rate fluctuations on the fair value of its long-term debt and on the amount of interest income earned on cash-equivalent investments and marketable securities, as more fully discussed in Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," of Con-way's 2008 Annual Report on Form 10-K.

Fuel

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

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

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

Although Con-way Freight's competitors in the less-than-truckload ("LTL") market also impose fuel surcharges, there is no LTL industry-standard fuel-surcharge formula. Con-way Freight's fuel-surcharge program, which is based on a published national index, constitutes only part of Con-way Freight's overall rate structure. Con-way Freight generally refers to "base freight rates" as the collective pricing elements that exclude fuel surcharges. Accordingly, changes to base freight rates reflect numerous factors such as length of haul, freight class and weight per shipment, as well as customer-negotiated adjustments. Ultimately, the total amount that Con-way Freight can charge for its services is determined by competitive pricing pressures and market factors.

Historically, its fuel-surcharge program has enabled Con-way Freight 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 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 the increase in its cost of fuel. In part, this is due to fuel costs that cannot be billed to customers, including costs such as those incurred in connection with empty and out-of-route miles or when engines are being idled during cold or warm weather. As with the LTL industry, there is no truckload industry-standard fuel-surcharge formula.

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 the programs and/or mechanisms utilized by Con-way Freight and Menlo Worldwide Logistics, as currently maintained or as modified in the future, will be sufficiently effective to offset increases in the price of fuel, or that the programs maintained by Con-way Truckload will enable Con-way Truckload to sufficiently minimize its exposure to fuel-related cost increases.

Foreign Currency

The assets and liabilities of Con-way's foreign subsidiaries are denominated in foreign currencies, which create exposure to changes in foreign-currency exchange rates. Con-way does not currently use derivative financial instruments to manage foreign-currency risk.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

Con-way's management, with the participation of Con-way's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Con-way's disclosure controls and procedures (as such term is defined in Rules

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

(b) Internal Control Over Financial Reporting

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Certain legal proceedings of Con-way are discussed in Note 11, "Commitments and Contingencies," of Item 1, "Financial Statements."

ITEM 1A. RISK FACTORS

There are no material changes to the risk factors previously disclosed in Part 1 Item 1A, "Risk Factors," of Con-way's 2008 Annual Report on Form 10-K.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Shareholders Meeting held May 19, 2009, the following proposals were presented with the indicated voting results:

For the purpose of electing members of the Board of Directors, the votes representing shares of common and preferred stock were cast as follows:

Nominee	For