Con-way Inc.
Form 10-K
February 27, 2009

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

FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From to

Commission File Number 1-5046
Con-way Inc.
(Exact name of registrant as specified in its charter)

Delaware	**94-1444798**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
2855 Campus Drive, Suite 300, San Mateo, CA	**94403**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (650) 378-5200
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock ($.625 par value)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
87/8% Notes due 2010
7.25% Senior Notes due 2018
6.70% Senior Debentures due 2034
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

Aggregate market value of the registrant s common stock held by persons other than Directors, Officers and those shareholders holding more than 5% of the outstanding voting stock, based upon the closing price per share on June 30, 2008: $1,417,216,528

Number of shares of common stock outstanding as of January 31, 2009: 46,161,026

DOCUMENTS INCORPORATED BY REFERENCE

Part III

Proxy Statement for Con-way s Annual Meeting of Shareholders to be held on May 19, 2009 (only those portions referenced specifically herein are incorporated in this Form 10-K).

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PART I

ITEM 1. *BUSINESS*

Overview

Con-way Inc. and its subsidiaries (Con-way or the Company) 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. Con-way Inc. was incorporated in Delaware in 1958, and in 2006, changed its name from CNF Inc. to Con-way Inc.

Information Available on Website

Con-way makes available, free of charge, on its website at www.con-way.com, under the headings Investors/Annual Reports & SEC Filings, copies of its annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and any amendments to those reports, in each case as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission.

In addition, Con-way makes available, free of charge, on its website at www.con-way.com, under the headings Investors/Corporate Governance, current copies of the following documents: (1) the charters of the Audit, Compensation, and Governance and Nominating Committees of its Board of Directors; (2) its Corporate Governance Guidelines; (3) its Code of Ethics for Chief Executive and Senior Financial Officers; (4) its Code of Business Conduct and Ethics for Directors; and (5) its Code of Ethics for Employees. Copies of these documents are also available in print to shareholders upon request, addressed to the Corporate Secretary at 2855 Campus Drive, Suite 300, San Mateo, California 94403.

None of the information on Con-way s website shall be deemed to be a part of this report.

Regulatory Certifications

In 2008, Con-way filed the written affirmations and Chief Executive Officer certifications required by Section 303A.12 of the NYSE Listing Manual and Section 302 of the Sarbanes-Oxley Act.

Reporting Segments

For financial reporting purposes, Con-way is divided into five reporting segments: Freight, Logistics, Truckload, Vector and Other. For financial information concerning Con-way s geographic and reporting-segment operating results, refer to Note 15, Segment Reporting, of Item 8, Financial Statements and Supplementary Data.

Freight

The Freight segment primarily consists of the operating results of the Con-way Freight business unit. Con-way Freight is a less-than-truckload (LTL) motor carrier that utilizes a network of freight service centers to provide regional, inter-regional and transcontinental less-than-truckload freight services throughout North America. The business unit

provides day-definite delivery service to manufacturing, industrial and retail customers.

LTL carriers transport shipments from multiple shippers utilizing a network of freight service centers combined with a fleet of linehaul and pickup-and-delivery tractors and trailers. Freight is picked up from customers and consolidated for shipment at the originating service center. The freight is then loaded into trailers and transferred to the destination service center providing service to the delivery area. From the destination service

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center, the freight is delivered to the customer. Typically, LTL shipments weigh between 100 and 15,000 pounds. In 2008, Con-way Freight s average weight per shipment was 1,190 pounds.

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 reorganization in 2008.

Former Freight Segment Businesses

In July 2006, Con-way sold the expedited-shipping portion of the former Con-way Expedite and Brokerage business. The remaining truckload-brokerage portion of that business was integrated with Menlo Worldwide Logistics in January 2007, as more fully discussed below.

In connection with the truckload acquisition discussed below, a new Truckload segment was created. Accordingly, the operating results of Con-way s former truckload operation are reported in the Truckload segment and prior periods have been reclassified to conform to the current presentation.

Competition

The LTL trucking environment is intensely competitive. Principal competitors of Con-way Freight include regional and national LTL companies, some of which are subsidiaries of global, integrated transportation service providers. Competition is based on freight rates, service, reliability, transit times and scope of operations.

Logistics

The Logistics segment consists of the operating results of the Menlo Worldwide Logistics business unit. Menlo Worldwide Logistics develops contract-logistics solutions, including the management of complex distribution networks and supply-chain engineering and consulting, and also provides multimodal freight brokerage services. The term supply chain generally refers to a strategically designed process that directs the movement of materials and related information from the acquisition of raw materials to the delivery of products to the end-user.

Menlo Worldwide Logistics supply-chain management offerings are primarily related to transportation-management and contract-warehousing services. Transportation management refers to the management of asset-based carriers and third-party transportation providers for customers inbound and outbound supply-chain needs through the use of logistics management systems to consolidate, book and track shipments. Contract warehousing refers to the optimization and operation of warehouse operations for customers using technology and warehouse-management systems to reduce inventory carrying costs and supply-chain cycle times. For several customers, contract-warehousing operations include light assembly or kitting operations. Menlo Worldwide Logistics ability to link these systems with its customers internal enterprise resource-planning systems is intended to provide customers with improved visibility to their supply chains. Compensation from Menlo Worldwide Logistics customers takes different forms, including cost-plus, gain-sharing, transactional, fixed-dollar and consulting-fee arrangements.

Menlo Worldwide Logistics provides its services using a customer- or project-based approach when the supply-chain solution requires customer-specific transportation management, single-client warehouses, and/or single-customer technological solutions. However, Menlo Worldwide Logistics increasingly utilizes a shared-resource, process-based approach that leverages a centralized transportation-management group, uses multi-client warehouses and creates technological solutions to benefit multiple customers. This approach allows Menlo Worldwide Logistics to provide

scalable services to a growing number of customers. Menlo Worldwide Logistics began increasing its focus on a shared-resource, process-based approach in 2005, when it segmented its business based on customer type. The industry-focused groups leverage the capabilities of personnel, systems and solutions throughout the organization to give customers expertise in specific automotive, high-tech, government and consumer-products sectors.

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Although Menlo Worldwide Logistics client base includes a growing number of customers, four customers collectively accounted for 41.1% of the revenue reported for the Logistics reporting segment in 2008, and each had a Standard & Poor s investment-grade credit rating. In 2008, Menlo Worldwide Logistics largest customer accounted for 4.3% of the consolidated revenue of Con-way.

Expansion in Asia

In September 2007, Menlo Worldwide (MW) acquired the outstanding common shares of Cougar Holdings Pte Ltd., and its primary subsidiary, Cougar Express Logistics (collectively, Cougar Logistics). Cougar Logistics is a warehousing, logistics, distribution-management and freight-forwarding company headquartered in Singapore.

In October 2007, MW acquired the outstanding common shares of Chic Holdings, Ltd. and its wholly owned subsidiaries, Shanghai Chic Logistics Co. Ltd. and Shanghai Chic Supply Chain Management Co. Ltd. (collectively, Chic Logistics). Chic Logistics is a provider of logistics and transportation-management services in China.

The acquisitions expand Menlo Worldwide Logistics operations in the important Asia-Pacific region and position Menlo Worldwide Logistics to capitalize on anticipated future growth in China s domestic economy.

Integration of Former Freight Segment Businesses

In recent years, Menlo Worldwide Logistics has integrated into its operations two supply-chain management businesses that were previously reported in the Freight reporting segment. In the second quarter of 2005, Menlo Worldwide Logistics integrated the former Con-Way Logistics business and, in January 2007, Menlo Worldwide Logistics integrated the truckload-brokerage business. The integration of Con-Way Logistics expanded its multi-client warehousing service model to Menlo Worldwide Logistics larger warehouse network. The integration of the truckload-brokerage business expanded logistics-services opportunities through access to truckload-brokerage customers and leveraged the shared expertise of the logistics and truckload-brokerage professionals. In August 2008, Con-way launched Con-way Multimodal to expand its brokerage services and succeed its former brokerage business. In addition to truckload brokerage, Con-way Multimodal also provides third-party brokerage services for various other transportation modes, including rail, flatbed, heavy-haul, less-than-truckload and intermodal freight transportation.

Competition

Competitors in the contract-logistics market are numerous and include domestic and foreign logistics companies, the logistics arms of integrated transportation companies and contract manufacturers. However, Menlo Worldwide Logistics primarily competes against a limited number of major competitors that have resources sufficient to provide services under large logistics contracts. Competition for projects is generally based on price and the ability to rapidly implement technology-based transportation and logistics solutions.

Truckload

The Truckload segment consists of the operating results of the Con-way Truckload business unit. Con-way Truckload provides asset-based, long-haul, full-truckload services throughout North America. On August 23, 2007, Con-way acquired the outstanding common shares of Transportation Resources, Inc. (TRI). TRI is the holding company for Contract Freighters, Inc. and other affiliated companies (collectively, CFI). Following the acquisition of CFI, the operating results of CFI are reported with the operating results of Con-way s former truckload operation in the Truckload reporting segment. In September 2007, Con-way integrated the former truckload operation with the CFI business unit. The name of the CFI business unit was changed to Con-way Truckload in January 2008.

The acquisition provides growth opportunities and an expanded service portfolio. In particular, Con-way Truckload offers through-trailer service into and out of Mexico through all major gateways in Texas, Arizona and California. This service, which eliminates the need for transfer and/or storage fees at the border, translates into faster delivery, reduced transportation costs and better product protection and security for customers doing business internationally. This service typically involves equipment-interchange operations with various Mexican motor

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carriers. For a shipment with an origin or destination in Mexico, Con-way Truckload provides transportation for the domestic portion of the freight move, and the Mexican carrier provides the pick-up, linehaul and delivery services within Mexico.

Con-way Truckload offers dry-van transportation services using a fleet of long-haul tractors and trailers. Con-way Truckload provides point-to-point service using single drivers as well as two-person driver teams over long-haul routes, with each trailer containing only one customer s goods. This origin-to-destination freight movement limits intermediate handling and is not dependent on the same network of locations utilized by LTL carriers.

Competition

The truckload market is fragmented with numerous carriers of varying sizes. Principal competitors of Con-way Truckload include other truckload carriers, logistics providers, railroads, private fleets, and to a lesser extent, LTL carriers. Competition is based on freight rates, service, reliability, transit times, and driver and equipment availability.

Vector

Vector SCM, LLC (Vector) was a joint venture formed with General Motors (GM) in 2000 for the purpose of providing logistics management services on a global basis for GM, and for customers in addition to GM. Although Con-way owned a majority interest in Vector, Con-way s portion of Vector s operating results were reported as an equity-method investment based on GM s ability to control certain operating decisions.

In June 2006, GM exercised its right to purchase Con-way s membership interest in Vector. In December 2006, an independent financial advisor established a fair value for Vector, and accordingly, Con-way recognized a $41.0 million sale-related gain in 2006, as more fully discussed in Note 5, Sale of Unconsolidated Joint Venture, of Item 8, Financial Statements and Supplementary Data.

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, including results related to corporate re-insurance activities and corporate properties. Road Systems primarily manufactures and refurbishes trailers for Con-way Freight and Con-way Truckload.

Discontinued Operations

Discontinued operations affecting the periods presented in Con-way s consolidated financial information reported in Item 8, Financial Statements and Supplementary Data, relate to (1) the closure of the freight forwarding business known as Con-way Forwarding in 2006, (2) the sale of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (collectively MWF) in 2004, (3) the shut-down of Emery Worldwide Airlines, Inc. (EWA) in 2001 and the termination of its Priority Mail contract with the U.S. Postal Service (USPS) in 2000, and (4) the spin-off of Consolidated Freightways Corporation (CFC) in 1996.

For more information, refer to Note 4, Discontinued Operations, and Note 14, Commitments and Contingencies, of Item 8, Financial Statements and Supplementary Data.

General

Employees

At December 31, 2008, Con-way had approximately 26,600 regular full-time employees. The approximate number of regular full-time employees by segment was as follows: Freight, 16,600; Logistics, 4,900; Truckload, 4,000; and Other, 1,100. The 1,100 employees included in the Other segment consist primarily of executive, technology, and administrative positions that support Con-way s operating subsidiaries.

Con-way s business units utilize other sources of labor that provide flexibility in responding to varying levels of economic activity and customer demand. In addition to regular full-time employees, Con-way Freight employs

associate, supplemental or part-time employees, while Menlo Worldwide Logistics utilizes non-employee, contract labor, primarily related to its warehouse-management services.

Cyclicality and Seasonality

Con-way s operations are affected, in large part, by conditions in the cyclical markets of its customers and on the U.S. and global economies, as more fully discussed in Item 1A, Risk Factors.

Con-way s operating results are also affected by seasonal fluctuations that change demand for transportation services. In the Freight segment, the months of September, October and November typically have the highest business levels while the months of December, January and February usually have the lowest business levels. In the Truckload segment, the months of September and October typically have the highest business levels while the months of December, January and February usually have the lowest business levels.

Price and Availability of Fuel

Con-way is exposed to the effects of changes in the price and availability of diesel fuel, as more fully discussed in Item 1A, Risk Factors.

Regulation

Ground Transportation

The motor-carrier industry is subject to federal regulation by the Federal Motor Carrier Safety Administration (FMCSA), the Pipeline and Hazardous Materials Safety Agency (PHMSA), and the Surface Transportation Board (STB), which are units of the U.S. Department of Transportation (DOT). The FMCSA promulgates and enforces comprehensive trucking safety regulations and performs certain functions relating to motor-carrier registration, cargo and liability insurance, extension of credit to motor-carrier customers, and leasing of equipment by motor carriers from owner-operators. The PHMSA promulgates and enforces regulations regarding the transportation of hazardous materials. The STB has authority to resolve certain types of pricing disputes and authorize certain types of intercarrier agreements.

Federal law allows all states to impose insurance requirements on motor carriers conducting business within their borders, and empowers most states to require motor carriers conducting interstate operations through their territory to make annual filings verifying that they hold appropriate registrations from FMCSA. Motor carriers also must pay state fuel taxes and vehicle registration fees, which normally are apportioned on the basis of mileage operated in each state.

In November 2008, the FMCSA made the interim regulations governing hours of service (HOS) for commercial truck drivers a final rule. The rule preserved existing HOS regulations that established the maximum number of hours that a commercial truck driver may work. Several advocacy groups have challenged the rule. Given the uncertainty in the status of the HOS rules, Con-way cannot predict whether the current rules will remain intact or whether the rules as finally adopted will materially affect its operations.

Environmental

Con-way s operations involve the storage, handling and use of diesel fuel and other hazardous substances. Con-way is subject to laws and regulations that (1) govern activities or operations that may have adverse environmental effects such as discharges to air and water, and the handling and disposal practices for solid and hazardous waste, and (2) impose liability for the costs of cleaning up, and certain damages resulting from sites of past spills, disposals, or

other releases of hazardous materials. Environmental liabilities relating to Con-way s properties may be imposed regardless of whether Con-way leases or owns the properties in question and regardless of whether such environmental conditions were created by Con-way or by a prior owner or tenant, and also may be imposed with respect to properties that Con-way may have owned or leased in the past. Con-way has provided for its estimate of remediation costs at these sites.

Homeland Security

Con-way is subject to compliance with various cargo-security and transportation regulations issued by the Department of Homeland Security (DHS), including regulation by the Transportation Security Administration (TSA) and the Bureau of Customs and Border Protection (CBP). Con-way believes that it will be able to comply with currently proposed DHS, TSA and CBP rules affecting cargo security requirements for the transportation of both domestic and international shipments.

ITEM 1A. *RISK FACTORS*

From time to time, Con-way makes forward-looking statements in an effort to inform its shareholders and the public about its businesses. Forward-looking statements generally relate to future events, anticipated results or operational aspects. These statements are not predictions or guarantees of future performance, circumstances or events as they are based on the facts and circumstances known to Con-way as of the date the statements are made. Item 7, Management s Discussion and Analysis Forward-Looking Statements, identifies the type of statements that are forward-looking. Various factors may cause actual results to differ materially from those discussed in such forward-looking statements.

Described below are those factors that Con-way considers to be most significant to its businesses. Although Con-way believes it has identified and discussed below the primary risks affecting its businesses, there may be additional factors that are not presently known or that are not currently believed to be significant that may adversely affect Con-way s future financial condition, results of operations or cash flows.

Business Interruption

Con-way and its business units rely on a centralized shared-service facility for the performance of shared administrative and technology services in the conduct of their businesses. Con-way s computer facilities and its administrative and technology employees are located at the shared-service facility.

Con-way is dependent on its automated systems and technology to operate its businesses and to increase employee productivity. Although Con-way maintains backup systems and has disaster-recovery processes and procedures in place, a sustained interruption in the operation of these facilities, whether due to terrorist activities, earthquakes, floods, transition to upgraded or replacement technology or any other reason, could have a material adverse effect on Con-way.

Capital Intensity

Con-way s primary businesses are capital-intensive. Con-way Freight and Con-way Truckload make significant investments in revenue equipment and Con-way Freight also makes significant investments in freight service centers. The amount and timing of capital investments depend on various factors, including anticipated volume levels, and the price and availability of appropriate-use property for service centers and newly manufactured tractors and diesel engines, which are subject to restrictive Environmental Protection Agency engine-design requirements. If anticipated service-center and/or fleet requirements differ materially from actual requirements, Con-way s capital-intensive business units may have too much or too little capacity. Con-way attempts to mitigate the risk associated with too much or too little revenue equipment capacity by adjusting capital expenditures and by utilizing short-term equipment rentals in order to match capacity with business volumes. Con-way s investments in revenue equipment and freight service centers depend on its ability to generate cash flow from operations and its access to debt and equity capital markets. A decline in the availability of these funding sources could adversely affect Con-way.

Capital Markets

The global capital markets have been experiencing significant disruption and volatility over the past year as evidenced by a lack of liquidity in the debt markets, significant write-offs in the financial services sector, the re-pricing of credit risk in the broadly syndicated credit market and failure of certain major financial institutions. Such market disruptions may increase Con-way s cost of borrowing or affect its ability to access debt and equity capital

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markets. Market conditions may affect Con-way s ability to refinance indebtedness as and when it becomes due. In addition, changes in Con-way s credit ratings could adversely affect its ability and cost to borrow funds. Con-way is unable to predict the effect the uncertainty in the capital markets may have on its financial condition, results of operations or cash flows.

Customer Concentration

Menlo Worldwide Logistics and many of its competitors in the logistics industry segment are subject to risk related to customer concentration because of the relative importance of their largest customers and the increased ability of those customers to influence pricing and other contract terms. Although Menlo Worldwide Logistics strives to broaden and diversify its customer base, a significant portion of its revenue is derived from a relatively small number of customers, as more fully discussed in Item 1, Business. Consequently, a significant loss of business from, or adverse performance by, any of Menlo Worldwide Logistics major customers, may have a material adverse effect on Con-way s financial condition, results of operations and cash flows. Similarly, the renegotiation of major customer contracts may also have an adverse effect on Con-way.

Cyclicality

Con-way s operating results are affected, in large part, by conditions in the cyclical markets of its customers and on the U.S. and global economies. While economic conditions affect most companies, the transportation industry is cyclical and susceptible to trends in economic activity. When individuals and companies purchase and produce fewer goods, Con-way s businesses transport fewer goods. In addition, Con-way Freight and Con-way Truckload are capital-intensive and Con-way Freight has a relatively high fixed-cost structure that is difficult to adjust to match shifting volume levels. Accordingly, any sustained weakness in demand or continued downturn or uncertainty in the economy generally would have an adverse effect on Con-way.

Employee Benefit Costs

Con-way maintains health-care plans, defined benefit pension plans and defined contribution retirement plans, and also provides certain other benefits to its employees. In recent years, health-care costs have risen dramatically. Lower interest rates and/or lower returns on plan assets may cause increases in the expense of, and funding requirements for, Con-way s defined benefit pension plans. Con-way amended its retirement benefit plans in 2006 and the resulting plan changes are generally expected to decrease the future financial-statement effect associated with the defined benefit pension plans and to increase the future financial-statement effect associated with the defined contribution retirement plans. Despite the changes to the retirement benefit plans, Con-way remains subject to volatility associated with interest rates, returns on plan assets, and funding requirements. As a result, Con-way is unable to predict the effect of continuing to provide these benefits to employees.

Employees

The workforce of Con-way and its subsidiaries is not affiliated with labor unions. Con-way believes that the non-unionized operations of its business units have advantages over comparable unionized competitors in providing reliable and cost-competitive customer services, including greater efficiency and flexibility. If current legislation, known as the Employee Free Choice Act, is passed by the United States Congress, it would, among other things, revise unionization procedures. There can be no assurance that Con-way s business units will be able to maintain their non-unionized status.

Con-way hires drivers primarily for Con-way Freight and Con-way Truckload. There is significant competition for qualified drivers in the transportation industry. As a result of driver shortages, these business units may be required to

increase driver compensation and benefits, or face difficulty meeting customer demands, all of which could adversely affect Con-way.

Government Regulation

Con-way is subject to compliance with many laws and regulations that apply to its business activities. These include regulations related to driver hours-of-service limitations, labor-organizing activities, stricter cargo-security

requirements, tax laws and environmental matters, including potential limits on carbon emissions under climate-change legislation. Con-way is not able to accurately predict how new governmental laws and regulations, or changes to existing laws and regulations, will affect the transportation industry generally, or Con-way in particular. Although government regulation that affects Con-way and its competitors may simply result in higher costs that can be passed to customers with no adverse consequences, there can be no assurance that this will be the case. As a result, Con-way believes that any additional measures that may be required by future laws and regulations or changes to existing laws and regulations could result in additional costs and could have an adverse effect on Con-way.

Price and Availability of 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 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 or if fuel prices return to historically high levels. Customers faced with fuel-related increases in transportation costs often seek to negotiate lower rates through reductions in the base 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.

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Other Factors

In addition to the risks identified above, Con-way s annual and quarterly operating results are affected by a number of business, economic, regulatory and competitive factors, including:

- increasing competition and pricing pressure;
- the creditworthiness of Con-way s customers and their ability to pay for services rendered;
- the effect of litigation, including the allegation that Con-way engaged in price-fixing of fuel surcharges in violation of Federal antitrust laws;
- the effects of the cessation of the air-carrier operations of EWA;
- the possibility that Con-way may, from time to time, be required to record impairment charges for goodwill, intangible assets, and other long-lived assets;
- the possibility of defaults under Con-way s $400 million credit agreement and other debt instruments (including without limitation defaults resulting from unusual charges);
- labor matters, including labor-organizing activities, work stoppages or strikes; and
- matters relating to Con-way s 1996 spin-off of CFC, including the possibility that CFC s multi-employer pension plans may assert claims against Con-way and that Con-way may not prevail in those proceedings.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

Con-way believes that its facilities are suitable and adequate, that they are being appropriately utilized and that they have sufficient capacity to meet current operational needs. Management continuously reviews anticipated requirements for facilities and may acquire additional facilities and/or dispose of existing facilities as appropriate.

Freight

At December 31, 2008, Con-way Freight operated 290 freight service centers, of which 149 were owned and 141 were leased. The service centers are strategically located to cover the geographic areas served by Con-way Freight and represent physical buildings and real property with dock, office and/or shop space. These facilities do not include meet-and-turn points, which generally represent small owned or leased real property with no physical structures. Con-way Freight owns only 51% of its service centers and these locations account for 70% of its door capacity. The total number of trucks, tractors and trailers utilized by Con-way Freight at December 31, 2008 was approximately 34,900. The headquarters for Con-way Freight are located in Ann Arbor, Michigan.

In November 2008, Con-way Freight completed a major network re-engineering as discussed more fully in Note 3, Restructuring Activities, of Item 8, Financial Statements and Supplementary Data. The re-engineering involved the closure of approximately 40 service centers, with shipment volumes from closing locations redistributed and balanced among more than 100 nearby service centers.

Logistics

At December 31, 2008, Menlo Worldwide Logistics operated 68 warehouses in North America, of which 46 were leased by Menlo Worldwide Logistics and 22 were leased or owned by clients of Menlo Worldwide Logistics. Outside of North America, Menlo Worldwide Logistics operated an additional 61 warehouses, of which 52 were leased by Menlo Worldwide Logistics and 9 were leased or owned by clients. At December 31, 2008, Menlo Worldwide Logistics owned and operated 263 trucks, tractors and trailers. The headquarters for Menlo Worldwide Logistics are located in San Mateo, California.

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Truckload

At December 31, 2008, Con-way Truckload operated five owned terminals that are strategically located to provide customers with efficient service. All five terminals have bulk fuel and tractor and trailer parking. Two terminals are equipped with wash bay facilities and two terminals have maintenance facilities. In addition to the five owned terminals, Con-way Truckload also utilizes various drop yards for temporary trailer storage throughout the United States. At December 31, 2008, Con-way Truckload owned and operated approximately 2,900 tractors and 8,200 trailers. The headquarters for Con-way Truckload are located in Joplin, Missouri.

Other

Principal properties of the Other segment included Con-way s leased executive offices in San Mateo, California and its owned shared-services center in Portland, Oregon. Road Systems owns and operates a manufacturing facility in Searcy, Arkansas.

ITEM 3. *LEGAL PROCEEDINGS*

Con-way, along with other companies engaged in the LTL trucking business, was named as a defendant in a purported class-action lawsuit filed on July 30, 2007 in the United States District Court for the Southern District of California. The named plaintiffs, Farm Water Technological Services Inc. d/b/a Water Tech. and C.B.J.T. d/b/a Agricultural Supply, allege that the defendants have conspired to fix fuel surcharges for LTL shipments in violation of Federal antitrust laws and are seeking treble damages, injunctive relief, attorneys fees and costs. After this lawsuit was filed, approximately 50 similar lawsuits were filed by other plaintiffs in various federal district courts, naming as defendants Con-way or Con-way Freight (or both), as well as other companies engaged in the LTL trucking business. In December 2007, these cases were consolidated for litigation in the Federal District Court for the Northern District of Georgia in Atlanta. Defendants filed a joint motion to dismiss plaintiffs complaint on the basis that the complaint did not state facts sufficient to support their claims. Defendants motion was granted on January 28, 2009. Plaintiffs have until March 16, 2009 to file an amended complaint in an attempt to assert a valid claim for antitrust violations.

Certain legal proceedings of Con-way are also discussed in Note 4, Discontinued Operations, and Note 14, Commitments and Contingencies, of Item 8, Financial Statements and Supplementary Data.

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

Con-way did not submit any matter to a vote of security holders during the fourth quarter of the fiscal year covered by this Annual Report.

EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Con-way, their ages at December 31, 2008, and their applicable business experience are as follows:

Douglas W. Stotlar, 48, president and chief executive officer of Con-way. Mr. Stotlar was named to his current position in April 2005. He previously served as president and chief executive officer of Con-way Freight and senior vice president of Con-way, a position he held since December 2004. Prior to this, he served as executive vice president and chief operating officer of Con-way Freight, a position he held since June 2002. From 1999 to 2002, he was executive vice president of operations for Con-way Freight. Prior to joining Con-way Freight s corporate office, Mr. Stotlar served as vice president and general manager of Con-way s expediting business. Mr. Stotlar joined Con-way Freight in 1985 as a freight operations supervisor. He subsequently advanced to management posts in Columbus, Ohio, and Fort Wayne, Indiana, where he was named regional manager. Mr. Stotlar earned his bachelor s degree in transportation and logistics from The Ohio State University.

Stephen L. Bruffett, 44, senior vice president and chief financial officer of Con-way. Mr. Bruffett was named to his current position in September 2008, when he joined Con-way. Mr. Bruffett started his trucking industry career in 1992 as director of finance of American Freightways. Six years later he joined YRC Worldwide, as director of financial planning and analysis. Over the next ten years he advanced through a series of positions with increasing responsibility, including management roles in finance and accounting, operations, investor relations, sales and marketing. In 2007, he was named YRC Worldwide s chief financial officer. Mr. Bruffett earned his bachelor s degree in finance and banking from the University of Arkansas and holds a master s degree in business administration from the University of Texas.

Jennifer W. Pileggi, 44, senior vice president, general counsel and corporate secretary of Con-way. Ms. Pileggi was named to her current position in December 2004. Ms. Pileggi joined Menlo Worldwide Logistics in 1996 as corporate counsel and was promoted to vice president in 1999. Ms. Pileggi is a graduate of Yale University and New York University School of Law, where she achieved a juris doctorate degree. Ms. Pileggi is a member of the American Bar Association and the California State Bar Association.

Robert L. Bianco Jr., 44, president of Menlo Worldwide Logistics and senior vice president of Con-way. Mr. Bianco was named senior vice president of Con-way in June 2005 and has served as the president of Menlo Worldwide Logistics since December 2001. He joined Con-way in 1989 as a management trainee and joined Menlo Worldwide Logistics in 1992 as a logistics manager. He subsequently advanced to vice president of operations for Menlo Worldwide Logistics in 1997. He earned a bachelor s degree in history from the University of California at Santa Barbara, and a master s degree from the University of San Francisco.

John G. Labrie, 42, president of Con-way Freight and senior vice president of Con-way. Prior to being named president of Con-way Freight in July 2007, Mr. Labrie was senior vice president of strategy and enterprise operations for Con-way. He previously served as executive vice president of operations for Con-way Freight, a position he held since January 2005. Prior to this, he served as president and chief executive officer for Con-way Freight-Western, a position he held since June 2002. From May 1998 to June 2002, he was vice president of operations for Con-way Freight-Western. He joined Con-way Freight in 1990 as a sales account manager. Mr. Labrie earned his bachelor s degree in finance from Central Michigan University. He holds a master s degree in business administration from Indiana Wesleyan University.

Herbert J. Schmidt, 53, president of Con-way Truckload and senior vice president of Con-way. Mr. Schmidt joined Con-way in August 2007 when Con-way acquired CFI. Mr. Schmidt was named president of CFI in 2000. After

joining CFI in 1984, he gained experience in the positions of vice president of administration, vice president of safety, senior vice president of operations, and senior vice president of sales and marketing. Mr. Schmidt began his career in the transportation industry with United Parcel Service in operations and industrial engineering. Mr. Schmidt graduated from Missouri Southern State University with a bachelor s degree in political science.

Kevin S. Coel, 50, vice president and corporate controller of Con-way. Mr. Coel joined Con-way in 1990 as Con-way s corporate accounting manager. In 2000, he was named corporate controller, and in 2002, was

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promoted to vice president. Mr. Coel holds a bachelor s degree in economics from the University of California at Davis and a master s degree in business administration from San Jose State University. Mr. Coel is also a member of the American Institute of CPAs.

Leslie P. Lundberg, 51, vice president, human resources of Con-way. Ms. Lundberg joined Con-way in February 2006. Prior to joining Con-way, Ms. Lundberg was the executive director of compensation, benefits and human resource information systems for a division of Sun Microsystems, a position she held since 2003. Ms. Lundberg holds a bachelor s degree in industrial psychology from the University of California, Berkeley, and a master s degree in industrial labor relations from the University of Wisconsin, Madison.

Kevin C. Schick, 57, vice president, operational accounting of Con-way. Mr. Schick was named to his current position in August 2008. Mr. Schick served as Con-way s chief financial officer from March 2005 until the time he assumed his current position. He previously served as vice president and controller of Con-way Freight, a position he held since 1989. Mr. Schick joined Con-way Freight in 1983 as controller for Con-way Freight-Central. Mr. Schick earned his bachelor s degree in finance from Marquette University and a master s degree in business administration from Northwestern University.

Mark C. Thickpenny, 56, vice president and treasurer of Con-way. Mr. Thickpenny joined Con-way in 1995 as treasury manager. In 1997, he was named director and assistant treasurer, and in 2000 was promoted to vice president and treasurer. Mr. Thickpenny holds a bachelor s degree in business administration from the University of Notre Dame and a master s degree in business administration from the University of Chicago Graduate School of Business.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES*

Con-way s common stock is listed for trading on the New York Stock Exchange (NYSE) under the symbol CNW.

See Note 16, Quarterly Financial Data, of Item 8, Financial Statements and Supplementary Data for the range of common stock prices as reported on the NYSE and common stock dividends paid for each of the quarters in 2008 and 2007. At January 31, 2009, Con-way had 7,004 common shareholders of record.

Performance Graph

The following performance graph compares Con-way s five-year cumulative return (assuming an initial investment of $100 and reinvestment of dividends), with the S&P Midcap 400 and Dow Jones Transportation average.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL SHAREHOLDER RETURN*
Con-way Inc., S&P Midcap 400 Index, Dow Jones Transportation Average

Cumulative Total Return

	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
Con-way Inc.	$ 100.0	$ 149.4	$ 168.0	$ 133.4	$ 126.9	$ 82.1
S&P Midcap 400	$ 100.0	$ 115.2	$ 128.1	$ 139.6	$ 149.0	$ 93.4
DJ Transportation Average	$ 100.0	$ 126.3	$ 139.5	$ 151.6	$ 152.0	$ 117.6

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Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2008, regarding compensation plans under which securities of Con-way are authorized for issuance.

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	2,028,593	$ 43.94	4,519,290
Equity compensation plans not approved by security holders			
Total	2,028,593	$ 43.94	4,519,290

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ITEM 6. *SELECTED FINANCIAL DATA*

The following table includes selected financial and operating data for Con-way as of and for the five years ended December 31, 2008. This information should be read in conjunction with Item 7, Management s Discussion and Analysis, and Item 8, Financial Statements and Supplementary Data.

Con-way Inc.
Five-Year Financial Summary

	2008	2007(a)	2006	2005	2004
	(Dollars in thousands except per share data)				
Operating Results					
Revenues	$ 5,036,817	$ 4,387,363	$ 4,221,478	$ 4,115,575	$ 3,658,564
Operating Income(b)	192,622	264,453	401,828	370,946	284,332
Income from Continuing Operations Before Income Tax Provision	134,917	242,646	392,309	352,356	248,775
Net Income from Continuing Operations Available to Common Shareholders(c)	58,635	146,815	265,177	222,647	143,432
Net Income (Loss) Applicable to Common Shareholders(c)(d)	66,961	145,952	258,978	214,034	(126,094)
Per Common Share					
Basic Earnings (Loss)					
Net Income from Continuing Operations	$ 1.29	$ 3.24	$ 5.42	$ 4.27	$ 2.84
Net Income (Loss) Applicable to Common Shareholders	1.47	3.22	5.29	4.10	(2.50)
Diluted Earnings (Loss)					
Net Income from Continuing Operations	1.23	3.06	5.09	3.98	2.59
Net Income (Loss) Applicable to Common Shareholders	1.40	3.04	4.98	3.83	(2.18)
Cash Dividends	0.40	0.40	0.40	0.40	0.40
Common Shareholders Equity	12.13	18.68	14.65	16.09	13.46
Market Price					
High	55.00	57.81	61.87	59.79	50.96
Low	20.03	38.05	42.09	41.38	30.50
Weighted-Average Common Shares Outstanding					
Basic	45,427,317	45,318,740	48,962,382	52,192,539	50,455,006
Diluted	48,619,292	48,327,784	52,280,341	56,213,049	56,452,629

Financial Position					
Cash and cash equivalents	$ 278,253	$ 176,298	$ 260,039	$ 514,275	$ 346,581
Total assets	3,071,707	3,009,308	2,291,042	2,451,399	2,469,357
Long-term debt and guarantees	926,224	955,722	557,723	581,469	601,344
Other Data at Year-End					
Number of shareholders	7,016	7,410	7,041	7,204	7,435
Approximate number of regular full-time employees	26,600	27,100	21,800	21,700	20,600

(a) Effective August 23, 2007, Con-way acquired Contract Freighters, Inc. and affiliated companies (collectively, CFI). Under purchase-method accounting, CFI s operating results are included only for periods subsequent to the acquisition.

(b) The comparability of Con-way s consolidated operating income was affected by the following:

Accounting events:

Effective January 1, 2006, Con-way adopted SFAS 123R under the modified-prospective method. Prior-period financial statements have not been adjusted.

Unusual income or expense:

Restructuring charges of $23.9 million in 2008, related to a reorganization initiative, network re-engineering and workforce reduction at Con-way Freight.

Charges of $37.8 million in 2008 for the impairment of goodwill and other intangible assets, $4.9 million for the write-down of an acquisition receivable and $4.2 million for acquisition-related integration and other costs at Menlo Worldwide Logistics in 2008.

Restructuring charges of $13.2 million in 2007, related to a reorganization initiative at Con-way Freight.

Gain of $6.2 million in 2006 from the sale of assets related to Con-way Expedite.

Gain of $41.0 million in 2006 from the sale of Con-way s membership interest in Vector.

(c) The comparability of Con-way s tax provision and net income was affected by the following:

Tax provision in 2008 reflects the non-deductible goodwill impairment charges and write-down of an acquisition-related receivable at Chic Logistics.

Tax benefits of $12.1 million in 2006 related to the settlement with the IRS of previous tax filings.

Tax benefits of $17.7 million in 2006 from the utilization of capital-loss carryforwards that offset tax of $2.9 million on the sale of Con-way Expedite and $14.8 million on the sale of Con-way s membership interest in Vector.

Tax benefits of $7.8 million in 2005 related to the settlement with the IRS of previous tax filings.

(d) Results in 2004 include a $276.3 million loss from discontinued operations related to the sale of MWF.

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ITEM 7. *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 financial reporting purposes, Con-way is divided into five reporting segments: Freight, Logistics, Truckload, Vector and Other.

Con-way s primary business-unit results generally depend on the number, weight and distance of shipments transported, the prices received on those shipments or services and the mix of services provided to customers, as well as the fixed and variable costs incurred by Con-way in providing the services and the ability to manage those costs under changing circumstances. Con-way s primary business units are affected by the timing and degree of fluctuations in fuel prices and their ability to recover incremental fuel costs through fuel-surcharge programs and/or cost-recovery mechanisms.

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.

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Results of Operations

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

Continuing Operations

	2008	2007	2006
	(Dollars in thousands except per share amounts)		
Revenues	$ 5,036,817	$ 4,387,363	$ 4,221,478
Operating income	$ 192,622	$ 264,453	$ 401,828
Other expense	57,705	21,807	9,519
Income from continuing operations before income tax provision	134,917	242,646	392,309
Income tax provision	69,494	88,871	119,978
Income from continuing operations	65,423	153,775	272,331
Preferred stock dividends	6,788	6,960	7,154
Net income from continuing operations available to common shareholders	$ 58,635	$ 146,815	$ 265,177
Diluted earnings per share	$ 1.23	$ 3.06	$ 5.09
Operating margin	3.8%	6.0%	9.5%
Effective tax rate	51.5%	36.6%	30.6%

Overview 2008 Compared to 2007

Con-way s consolidated revenue of $5.0 billion in 2008 increased 14.8% from $4.4 billion in 2007 due largely to acquisition-related revenue increases from Truckload and Logistics, complemented by organic growth. Excluding revenue from the companies acquired in the second half of 2007, Con-way s revenue in 2008 increased 5.8% due to increases at Freight and Logistics.

In 2008, consolidated operating income decreased 27.2% due primarily to lower operating income at Freight and an operating loss at Logistics, partially offset by higher operating income from Truckload. Lower operating income from Freight reflects increasingly adverse economic conditions and a competitive freight market, particularly in the second half of 2008, and includes expenses associated with restructuring activities. The operating loss at Logistics was due to asset impairment charges at one of its recently acquired companies. Increased operating income for Truckload was due to the acquisition of CFI. Excluding results from the acquired companies, Con-way s operating income declined 21.9%.

As more fully discussed in Note 3, Restructuring Activities, of Item 8, Financial Statements and Supplementary Data, Con-way incurred expenses associated with restructuring activities and other costs of $26.5 million in 2008 and

$14.7 million in 2007.

As more fully discussed in Note 2, Acquisitions, of Item 8, Financial Statements and Supplementary Data, Logistics recognized a $37.8 million charge for impairment of goodwill and other intangible assets related to Chic Logistics.

Non-operating expense increased $35.9 million due primarily to a $20.1 million increase in interest expense and a $13.3 million decline in investment income. Variations in interest expense and interest income were due primarily to acquisitions in the second half of 2007, which were financed with proceeds from new debt financing and the use of existing cash resources. Non-operating expense also reflects variations in foreign exchange transactions, which lowered comparative operating results by $1.8 million.

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Con-way s effective tax rate in 2008 was 51.5% compared to 36.6% in 2007. The tax provision in 2008 was adversely affected primarily by the non-deductible goodwill impairment charge and write-down of an acquisition-related receivable, and by lower income before income taxes, which increases the percentage effect of permanent and discrete items.

Con-way s net income from continuing operations available to common shareholders in 2008 decreased 60.1% due primarily to lower operating income and higher non-operating expenses.

Overview 2007 Compared to 2006

Con-way s consolidated revenue of $4.4 billion in 2007 increased 3.9% from $4.2 billion in 2006 due primarily to the acquisition of CFI on August 23, 2007. Excluding the acquisition of CFI, Con-way s 2007 revenues were essentially flat compared to 2006, reflecting higher revenues at Freight and a revenue decline at Logistics.

In 2007, Con-way s consolidated operating income decreased 34.2% due largely to lower operating income from Freight and from Vector. Operating income at Freight decreased 26.8% due primarily to a higher-volume, lower-yield mix of revenue, higher employee expenses, and cost increases associated with a rebranding initiative and restructuring charges. In 2007, operating income included a $2.7 million loss for the write-off of a receivable related to the Vector sale, while 2006 operating income from Vector was $52.6 million, including a $41.0 million gain from the sale of Con-way s membership interest in Vector.

Non-operating expense increased $12.3 million in 2007 due primarily to an $8.6 million increase in interest expense and a $5.8 million decline in investment income, partially offset by a $1.7 million increase in foreign exchange gains. Variations in interest expense and interest income were due primarily to acquisitions in the second half of 2007, which were financed with proceeds from new debt financing and the use of existing cash resources.

Con-way s effective tax rate in 2007 was 36.6% compared to 30.6% in 2006. The tax provision in 2006 benefited from the utilization of capital-loss carryforwards, which offset tax of $2.9 million on the sale of Con-way Expedite and $14.8 million on the sale of Con-way s membership interest in Vector. In addition, Con-way s effective tax rate in 2006 reflects the effect of $12.1 million in net tax credits that were primarily related to the settlement with the IRS of previous tax filings.

Con-way s net income from continuing operations available to common shareholders in 2007 decreased 44.6%, reflecting lower operating income and higher non-operating expense. In the same period, Con-way s diluted earnings per share from continuing operations decreased 39.9%, as lower net income was partially offset by the accretive effect of Con-way s share repurchase program, which concluded in June 2007. Primarily as the result of share repurchases, Con-way s average diluted shares outstanding declined to 48.3 million shares in 2007 from 52.3 million shares in 2006.

Reporting Segment Review

Freight

The table below compares operating results, operating margins, and the percentage change in selected operating statistics of the Freight reporting segment for the years ended December 31:

	2008	2007	2006
		(Dollars in thousands)	

Summary of Operating Results			
Revenues	$ 3,015,959	$ 2,904,543	$ 2,852,909
Operating Income	165,169	235,060	321,204
Operating Margin	5.5%	8.1%	11.3%

	2008 vs. 2007	2007 vs. 2006
Percentage Change in Selected Operating Statistics		
Revenue per day	+5.7%	+2.8%
Weight per day	0.0	+3.3
Revenue per hundredweight (yield)	+5.7	(0.5)
Shipments per day (volume)	(2.9)	+4.5
Weight per shipment	+2.9	(1.2)

2008 Compared to 2007

The Freight segment s revenue in 2008 increased 3.8% from 2007 due primarily to a 5.7% increase in yield and weight per day that was unchanged from 2007. Weight per day in 2008 reflects a 2.9% increase in weight per shipment and a 2.9% decline in shipments per day.

Yield increases in 2008 primarily reflect increases in fuel surcharges and average length of haul. Commensurate with higher transportation costs, shipments with longer lengths of haul generally have higher yields. Yields in both periods also reflect general rate increases. Con-way Freight implemented a general rate increase of 5.5% on January 28, 2008 compared to a 4.9% increase on March 19, 2007. These general rate increases were applied to customers with pricing governed by Con-way Freight s standard tariff; however, the effects of the increases were diminished in part by the competitive pricing environment and a declining percentage of customers with pricing governed by Con-way Freight s standard tariff. Yields in 2008 were also adversely affected by the increase in weight per shipment.

Excluding fuel surcharges, yield in 2008 increased 0.2%. Like other LTL carriers, Con-way Freight assesses many of its customers with a fuel surcharge. The fuel surcharge is intended to compensate Con-way Freight for higher fuel costs and fuel-related increases in purchased transportation. Fuel surcharges are only one part of the overall rate structure, and the total price received from customers is governed by market forces, as more fully discussed in Item 1A, Risk Factors. Freight s fuel-surcharge revenue increased to 18.4% of revenue in 2008 from 13.5% in 2007.

Freight s operating income in 2008 decreased 29.7% when compared to 2007. Operating income was adversely affected primarily by higher fuel and purchased transportation expense, which collectively rose more than revenue, and by increases in restructuring charges and other operating expenses, partially offset by lower re-branding expenses. In 2008, expenses for fuel and fuel-related taxes increased 28.0% due almost entirely to an increase in the cost of diesel fuel. During the same period, purchased transportation expense increased 22.0%, reflecting an increase in freight transported by third-party providers and fuel-related rate increases. Other operating expenses increased 7.6% reflecting increases in cargo-loss and damage expense, increased corporate allocations due to information-technology projects, increased expense for uncollectible accounts, and higher expenses for sales and marketing activities, including sales promotions and the use of consultants.

Expenses associated with Freight s restructuring activities increased to $26.5 million in 2008 from $13.2 million in 2007. Freight s restructuring activities are discussed more fully in Note 3, Restructuring Activities, of Item 8, Financial Statements and Supplementary Data.

Comparative operating results were affected by costs incurred under Freight s re-branding initiative, which was completed in the second quarter of 2008. Under the initiative, Freight incurred $4.9 million of costs in 2008, compared to $14.3 million in 2007. The re-branding costs were for expenses related primarily to the conversion of tractors and trailers to the new Con-way graphic identity.

Operating results benefited from a 0.2% decline in expenses for salaries, wages and other employee benefits due primarily to a $39.1 million or 93.0% decrease in incentive compensation. Lower incentive compensation reflects variations in performance measures relative to incentive-plan targets. Base compensation increased 2.3% due primarily to wage and salary rate increases, and increases in over-time pay, partially offset by a lower average employee count. Employee benefits expense increased 1.9% due primarily to higher costs associated with workers compensation claims, partially offset by a decline in expenses for compensated absences. In both 2008 and 2007,

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expenses for compensated absences include non-recurring first-quarter adjustments for benefit plan changes associated with the business-transformation and operational-restructuring initiatives. Employee benefits expense in 2008 also reflects an $8.9 million increase in costs associated with long-term disability benefits that was offset by a decline in expense associated with a retiree-health savings plan.

Freight s revenue and operating income trends in the second half of 2008 reflected increasingly adverse economic conditions and a competitive freight market. Revenue per day declined sequentially from July through December as declining economic output contributed to successive monthly declines in freight demand, which resulted in decreasing tonnage. Further, successive monthly declines in fuel prices contributed to decreasing fuel-surcharge revenue and yields. In current market conditions, the sequential monthly declines in fuel-surcharge revenue were not 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 income. Primarily as a result of these conditions, fourth-quarter revenue in 2008 decreased 13.4% from the prior-year quarter. Excluding fourth-quarter restructuring charges of $21.3 million and $7.7 million in 2008 and 2007, respectively, Con-way Freight s fourth-quarter operating income decreased 81.1% to $11.9 million in 2008 from $62.9 million in 2007.

2007 Compared to 2006

In 2007, Freight s revenue increased 1.8%, reflecting increases at Con-way Freight that more than offset declines due to the sale of the expedited-shipping portion of its former Con-way Expedite and Brokerage business in July 2006 and to the transfer of the remaining truckload-brokerage operations out of Con-way Freight and into Menlo Worldwide Logistics in January 2007. Revenue per day for Con-way Freight increased 2.8% on a 3.3% increase in weight per day, partially offset by a 0.5% decline in yield. The 3.3% increase in weight per day was achieved through a 4.5% increase in shipments per day, partially offset by a 1.2% decline in weight per shipment. The increase in weight per day and volume of freight transported was achieved despite an increasingly price-sensitive and competitive freight market, due in part to targeted sales initiatives.

Yields declined in 2007 due primarily to lower pricing associated with new business generated under Con-way Freight s sales initiatives and to an increasingly price-sensitive and competitive freight market that required defensive pricing for certain customer relationships, partially offset by the effect of higher fuel-surcharge revenue. Excluding fuel surcharges, yields in 2007 decreased 1.2%. In 2007, Con-way s sales initiatives contributed to increased business levels from large customers who typically command lower rates on a higher quantity of freight. In 2007, Freight s fuel-surcharge revenue increased to 13.5% of LTL revenue from 12.9% in 2006.

Freight s operating income in 2007 decreased 26.8% due primarily to a higher-volume, lower-yield mix of revenue that required increased freight handling. Due largely to the change in the mix of revenue, expenses for salaries, wages and other employee benefits in 2007 increased 6.2% from the same period in 2006. Base compensation rose 6.7%, reflecting additional freight-handling requirements, wage and salary rate increases, and an increase in driver count during the period in response to increases in actual and anticipated freight volumes. Employee benefits expense increased 4.8% in 2007 due primarily to increased costs for compensated absences, which were due in part to a conversion from a sick-pay benefit to a paid-time-off benefit, which included $10.4 million of non-recurring expense in the first year of the plan. Incentive compensation increased $10.0 million or 31.4% based on variations in revenue, operating income and cargo loss and damage claims relative to incentive-plan targets.

In 2007, expenses for fuel and fuel-related taxes increased 10.2% from 2006 due to higher average diesel fuel prices and to increases in driver miles. During the same comparative periods, purchased transportation expense decreased 5.8% due to lower transportation requirements following the sale of the expedited-shipping portion of the former Con-way Expedite and Brokerage business and to the transfer of the remaining truckload-brokerage operations into

Menlo Worldwide Logistics that more than offset increases at Con-way Freight.

Operating income was also negatively affected by costs incurred under Con-way s re-branding initiative, operational restructuring charges and increases in vehicular self-insurance costs. Under Con-way s re-branding initiative announced in April 2006, Freight incurred $14.3 million of costs in 2007 compared to $0.5 million in

2006. As more fully discussed in Note 3, Restructuring Activities, of Item 8, Financial Statements and Supplementary Data, Freight incurred $13.2 million in expense related to its operational restructuring in 2007. Vehicular self-insurance expense increased 24.2% in 2007, due primarily to an $8.0 million loss related to a significant claim in the second quarter of 2007.

Comparative operating results for the Freight segment reflect the sale of the expedited-shipping portion of its former Con-way Expedite and Brokerage business in July 2006. In connection with the sale, Con-way recognized a $6.2 million gain in 2006.

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

	2008	2007	2006
		(Dollars in thousands)	
Summary of Operating Results			
Revenues	$ 1,511,611	$ 1,297,056	$ 1,355,301
Purchased Transportation Expense	(1,001,775)	(851,366)	(963,044)
Net Revenues	509,836	445,690	392,257
Operating Income (Loss)	$ (23,683)	$ 25,599	$ 25,649
Operating Margin on Revenues	(1.6)%	2.0%	1.9%
Operating Margin on Net Revenues	(4.6)%	5.7%	6.5%

2008 Compared to 2007

Logistics revenue in 2008 increased 16.5%, reflecting organic growth and the contribution from the acquisitions of Chic Logistics and Cougar Logistics in the second half of 2007. Logistics net revenue in 2008 increased 14.4% reflecting a 17.7% increase in purchased transportation expense.

Logistics operating loss of $23.7 million in 2008 was attributed to the companies acquired in the second half of 2007, including a $51.4 million operating loss at Chic Logistics and a $1.5 million loss at Cougar Logistics. The operating loss at Chic Logistics reflects charges of $31.8 million for goodwill impairment, $6.0 million for the impairment of a customer-relationship intangible asset, $4.9 million for the write-down of an acquisition-related receivable, and $4.2 million for integration and other costs. In addition, Chic Logistics operating loss reflects other factors that had detrimental effects on results, such as severe winter weather and flooding, earthquakes, and transportation constraints associated with the 2008 Beijing Olympics. The impairment charges at Chic Logistics reflect lower projected revenues (including reduced revenue from a significant customer), decreased actual and projected operating income, and a higher discount rate that reflects current economic and market conditions.

The following discussion of revenue, net revenue, operating income and percentage changes in expense categories excludes Chic Logistics and Cougar Logistics.

Logistics revenue in 2008 increased 11.2% due primarily to a 12.1% increase in revenue from carrier-management services and a 9.0% increase in revenue from warehouse-management services. Increased revenue from carrier-management services includes revenue from the Defense Transportation Coordination Initiative contract, as more fully discussed below. Logistics net revenue in 2008 increased 8.5% reflecting a 12.6% increase in purchased transportation expense, which resulted from higher carrier-management volumes and fuel surcharges.

Logistics operating income in 2008 increased 13.2%, reflecting improved margins on warehouse-management services partially offset by lower margins on carrier-management services. Improved margins were due in part to salaries, wages and other employee benefits expense that rose at a lower rate than revenue. Lower margins on carrier-management services reflect purchased transportation expense that increased at a higher rate than revenue. Salaries, wages and other employee benefits collectively increased 1.8%, reflecting increases in base compensation, partially offset by lower incentive compensation. Base compensation rose 5.4% due primarily to increased headcount and to a lesser extent, wage and salary rate increases. Incentive compensation decreased $6.7 million or 64.5% based on variations in performance measures relative to incentive-plan targets.

Other operating expenses, costs for rents and leases, and purchased labor expense increased due primarily to increased warehouse-management volumes associated with new customers and growth with existing customers. Other operating expenses increased 13.4% due primarily to increases in the use of professional services, cargo-loss and damage claims, facilities expenses and corporate allocations (primarily related to information-technology projects). In 2008, other operating expenses include two separate customer-specific charges that increased expenses for cargo-loss claims and uncollectible accounts. In 2008, expenses for rents and leases increased 22.9% and expenses for purchased labor increased 5.6%.

Menlo Worldwide Logistics provides contract-logistics services to the Department of Defense (DOD) in connection with the Defense Transportation Coordination Initiative (DTCI), a logistics program directed by the DOD. The contract has a three-year base period with an estimated $525 million in transportation expenditures. The contract may be extended to seven years. Implementation of the initiative is being rolled out over a 25-month period. The first distribution center began operations on March 31, 2008 and there were approximately one-quarter of the distribution centers operating as of December 31, 2008. The contract contributed revenue of $53.2 million in 2008; however, the contract did not have a significant effect on Logistics operating income.

2007 Compared to 2006

Logistics revenue in 2007 decreased 4.3% due to a 9.8% decrease in carrier-management services partially offset by an 11.8% increase in warehouse-management services. Logistics net revenue in 2007 increased 13.6% and reflects increases in net revenue from both warehouse-management and carrier-management services. In 2007, purchased transportation costs decreased 11.6%, due primarily to decreases in carrier-management volumes and lower carrier rates.

Logistics operating income in 2007 was essentially flat as higher net revenue from carrier-management and warehouse-management services was almost equally offset by increases in salaries, wages and other employee benefits, other operating expenses, and expenses for rents and leases Expenses for salaries, wages and other employee benefits increased 16.5% in 2007 reflecting increases in base compensation and employee benefits. Base compensation rose 14.2% due primarily to growth in headcount and, to a lesser extent, wage and salary rate increases. Employee benefits expense increased 25.4% due principally from higher health-care benefits, which were affected by a large claim, and higher costs for retirement benefits. Other operating expense increased 17.6% due primarily to an increase in allocated corporate costs and self-insurance expense for cargo claims. Expenses for rents and leases increased 18.0% in 2007 as a result of warehouse customer space requirements and facilities expansion with existing customers as well as rent expense related to acquisitions.

Corporate administrative costs allocated to the Logistics segment in 2007 increased by $11.5 million due primarily to the allocation of costs associated with corporate information-technology personnel who were retained by Con-way following the sale of Vector to GM in December 2006. The associated costs of these employees were allocated to Vector prior to its sale, but were allocated to Logistics subsequent to the sale. The retained employees are utilized in providing information-technology services to GM for which Logistics was compensated, as more fully discussed in

Note 5, Sale of Unconsolidated Joint Venture, of Item 8, Financial Statements and Supplementary Data. The retained employees are also utilized to provide services on other Menlo Worldwide Logistics information-technology initiatives.

In addition, 2007 operating income reflects a decline in costs incurred during the DTCI contract-bid process, as more fully discussed above. Costs incurred in connection with the contract decreased to $0.2 million in 2007 from $1.3 million in 2006.

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Truckload

The following table compares revenues and operating income of the Truckload reporting segment:

	2008	2007	2006
	(Dollars in thousands)		
Summary of Operating Results			
Revenues	$ 505,201	$ 172,674	$ 7,145
Operating Income	52,395	8,803	2,267

Increased revenue and operating income at the Truckload reporting segment was due to the acquisition of CFI. For periods prior to the acquisition of CFI in August 2007, the operating results of the Truckload segment consist only of the pre-acquisition truckload business unit, which reported a loss of $10.0 million in 2007, including $1.5 million of costs incurred in the integration of the two truckload business units, as more fully discussed in Note 3, Restructuring Activities, of Item 8, Financial Statements and Supplementary Data.

In all periods presented, segment revenue is reported after the elimination of revenue recognized for truckload services provided by Con-way Truckload to Con-way Freight and Menlo Worldwide Logistics. Accordingly, the Truckload segment s revenue is reported net of inter-segment revenue of $160.5 million in 2008, $87.0 million in 2007 and $71.1 million in 2006.

Vector

In December 2006, Con-way recognized the sale to GM of Con-way s membership interest in Vector. The sale of Vector did not qualify as a discontinued operation due to its classification as an equity-method investment, and accordingly, Vector s income or losses are reported in net income from continuing operations. In 2007, segment results reported from Con-way s equity investment in Vector included a $2.7 million loss compared to income of $52.6 million in 2006. In 2007, the loss was due to the write-off of a receivable related to the Vector sale, while 2006 operating income from Vector included a $41.0 million gain from the sale of Con-way s membership interest in Vector.

Vector s operating results and Con-way s sale of its membership interest in Vector are more fully discussed in Note 5, Sale of Unconsolidated Joint Venture, of Item 8, Financial Statements and Supplementary Data.

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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 include expenses related to a variable executive-compensation plan that promotes synergistic inter-segment activities. The table below summarizes the operating results for the Other reporting segment:

	2008	2007	2006
	(Dollars in thousands)		
Revenues			
Road Systems	$ 4,046	$ 13,090	$ 6,123
Operating Income (Loss)			
Road Systems	$ 775	$ 667	$ 1,215
Unallocated corporate operating income (loss)			
Re-insurance activities	1,231	(480)	(705)
Corporate properties	(631)	(2,538)	(1,382)
Sales of non-operating assets			1,260
Variable executive compensation	(2,616)		
Other	(18)	41	(279)
	$ (1,259)	$ (2,310)	$ 109

Discontinued Operations

Net income available to common shareholders in the periods presented includes the results of discontinued operations, which related to the closure of Con-way Forwarding, the sale of MWF, the shut-down of EWA and its terminated Priority Mail contract with the USPS, and to the spin-off of CFC, as more fully discussed in Note 4, Discontinued Operations, of Item 8, Financial Statements and Supplementary Data. The table below summarizes results of discontinued operations for the years ended December 31:

	2008	2007	2006
	(Dollars in thousands except per share amounts)		
Discontinued Operations, net of tax			
Loss from Discontinued Operations	$	$	$ (1,929)
Gain (Loss) from Disposal	8,326	(863)	(4,270)
	$ 8,326	$ (863)	$ (6,199)
Earnings (Loss) per diluted share			
Loss from Discontinued Operations	$	$	$ (0.03)
Gain (Loss) from Disposal	0.17	(0.02)	(0.08)

	$ 0.17	$ (0.02)	$ (0.11)

Liquidity and Capital Resources

Cash and cash equivalents rose to $278.3 million at December 31, 2008 from $176.3 million at December 31, 2007, as $304.5 million provided by operating activities exceeded $172.9 million used in investing activities and $38.7 million used in financing activities. Cash provided by operating activities came primarily from net income before non-cash items while cash used in investing and financing activities primarily reflects capital expenditures and the repayment of debt, respectively.

	2008	2007	2006
		(Dollars in thousands)	
Operating Activities			
Net income	$ 73,749	$ 152,912	$ 266,132
Discontinued operations	(8,326)	863	6,199
Non-cash adjustments(1)	320,487	222,928	109,693
Net income before non-cash items	385,910	376,703	382,024
Changes in assets and liabilities	(81,424)	(2,830)	51,676
Net Cash Provided by Operating Activities	304,486	373,873	433,700
Net Cash Used in Investing Activities	(172,942)	(757,166)	(274,160)
Net Cash Provided by (Used in) Financing Activities	(38,696)	295,239	(378,489)
Net Cash Provided by (Used in) Continuing Operations	92,848	(88,054)	(218,949)
Net Cash Provided by (Used in) Discontinued Operations	9,107	4,313	(35,287)
Increase (Decrease) in Cash and Cash Equivalents	$ 101,955	$ (83,741)	$ (254,236)

(1) Non-cash adjustments refer to depreciation, amortization, impairment charges, restructuring activities, deferred income taxes, provision for uncollectible accounts, loss or income from equity-method investment, and other non-cash income and expenses.

Continuing Operations

Operating Activities

Cash flow from operating activities in 2008 was $304.5 million, a $69.4 million decrease from 2007, as an increase in net income before non-cash items was more than offset by an increase in the use of cash due to changes in assets and liabilities. In 2008, the increase in net income before non-cash items reflects a $79.2 million decrease in net income and a $9.2 million change in discontinued operations that were more than offset by a $97.6 million increase in non-cash adjustments. The increase in non-cash adjustments in 2008 was due primarily to increased depreciation following the acquisition of CFI in the second half of 2007, and asset impairment charges. In 2008, changes in accrued income taxes, accrued incentive compensation, employee benefits and receivables reduced operating cash flow when compared to the prior year, partially offset by an increase in operating cash flow associated with accrued liabilities (excluding employee benefits and incentive compensation) and self-insurance accruals.

In 2008, accrued income taxes used $19.2 million compared to $23.4 million provided in 2007 due primarily to tax refunds received in 2007.

Accrued incentive compensation used $19.7 million in 2008, compared to $4.8 million provided in 2007. Changes in accrued incentive compensation reflect Con-way s payment schedule for its employee incentive plans, under which total incentive compensation earned in an award year is typically paid to employees with a partial payment in December of the award year and a final payment in February of the next award year. In 2008, payments for incentive compensation exceeded expense accruals, while in 2007, expense accruals exceeded payments.

Employee benefits used $41.4 million in 2008 compared to $19.4 million used in 2007. The variation in cash used by employee benefits reflects the effect of defined contribution plan amendments effective on January 1, 2007,

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which resulted in a $20.4 million increase in the plan-related liability for 2007. In both periods, the use of cash associated with the changes in employee benefit assets and liabilities also reflects net benefit income earned from the qualified pension plans, funding contributions to the defined benefit pension plans and benefit payments associated with non-qualified pension plans, partially offset by expense recognized from the non-qualified plans.

In 2008, receivables used $26.5 million, compared to $8.3 million used in 2007 due to increased receivables at the Logistics segment as a result of increased revenues.

The increase in accrued liabilities provided $22.2 million in 2008 compared to $10.7 million in 2007. Increases in accrued liabilities (excluding accrued incentive compensation and employee benefits) primarily reflect increases in accrued interest on the 7.25% Senior Notes issued in December 2007, unearned revenue related to a logistics contract, and accrued costs related to Con-way Freight s restructuring activities, partially offset by a decline in wages and salaries payable.

Cash flow from operating activities in 2007 was $373.9 million, a $59.8 million decrease from 2006, due to a decrease in net income before non-cash items and a net use of cash due to changes in assets and liabilities, primarily receivables. In 2007, receivables used $8.3 million, compared to $89.0 million provided in 2006. The significant cash provided by receivables in 2006 was primarily related to Logistics receivables, which declined from the preceding year due to a decrease in the average collection period. Cash provided by income taxes increased to $23.4 million in 2007 from $14.8 million in the same prior-year period, due primarily to tax refunds received in March 2007. In 2007, deferred charges and credits used cash of $3.3 million compared to $12.2 million provided in 2006, primarily due to the sale of Con-way s membership interest in Vector. In 2006, cash provided by deferred charges and credits reflects variations in Con-way s affiliate payable to Vector.

Investing Activities

Cash used in investing activities decreased to $172.9 million in 2008 compared to $757.2 million used in 2007 due primarily to $752.3 million used to purchase CFI, $28.6 million used to purchase Cougar Logistics and $59.0 million used to purchase Chic Logistics. The decrease in cash used in investing activities also reflects an increase in capital expenditures, a decrease in cash provided from the conversion of marketable securities, and a decrease in proceeds received from the sale of assets. In 2006, investing activities used cash of $274.2 million.

Capital expenditures in 2008 increased $95.0 million from 2007 due primarily to increased tractor and trailer expenditures at the Truckload segment. Capital expenditures in 2007 decreased $159.8 from 2006, due primarily to fewer tractor and trailer expenditures at the Freight and Truckload segments. Capital expenditures in 2006 included an above-average number of tractors acquired in advance of new governmental emission standards.

Cash provided by changes in marketable securities decreased to $22.5 million in 2008 from $154.5 million in 2007, primarily due to the conversion in August 2007 of marketable securities to partially fund the acquisition of CFI. Cash provided by changes in marketable securities was $17.8 million in 2006.

Con-way received sale-related proceeds of $49.2 million in 2008, $79.7 million in 2007 and $16.1 million in 2006. Proceeds in 2008 consist primarily of $40.4 million from the sale of two Logistics warehouses, as more fully discussed in Note 9, Leases, of Item 8, Financial Statements and Supplementary Data, while 2007 primarily includes $51.9 million of proceeds received from the sale of Con-way s membership interest in Vector. Sales proceeds in 2006 include $8.0 million received from the expedited-shipping portion of the former Con-way Expedite and Brokerage business.

Financing Activities

Financing activities used cash of $38.7 million in 2008 compared to $295.2 million provided in 2007 and $378.5 million used in 2006. Significant financing activities in the periods presented primarily include acquisition-related financing transactions, the repayment of other debt obligations, common-stock repurchases and dividend payments. In August 2007, Con-way entered into a bridge-loan facility and borrowed $425.0 million to partially fund the acquisition of CFI. In December 2007, Con-way issued $425 million of 7.25% Senior Notes due 2018 and used the net proceeds and cash on hand to repay the amounts outstanding under the bridge-loan facility. Common

stock repurchases of $89.9 million in 2007 and $350.2 million in 2006 were made under repurchase programs authorized by Con-way s Board of Directors.

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 December 31, 2008, no borrowings were outstanding under Con-way s revolving credit facility; however, $208.1 million of letters of credit were outstanding, with $191.9 million of available capacity for additional letters of credit or cash borrowings. Con-way had other uncommitted unsecured credit facilities totaling $74.0 million at December 31, 2008, which are available to support borrowings, letters of credit, bank guarantees and overdraft facilities. A total of $30.3 million was outstanding under these facilities at December 31, 2008, leaving $43.7 million of available capacity.

See Note 8, Debt and Other Financing Arrangements, of Item 8, Financial Statements and Supplementary Data, for additional information concerning Con-way s $400 million credit facility and its other debt instruments.

Contractual Cash Obligations

The table below summarizes contractual cash obligations for Con-way as of December 31, 2008. Some of the amounts in the table are based on management s estimates and assumptions about these obligations, including their duration, the possibility of renewal, and other factors. Because of these estimates and assumptions, the actual future payments may vary from those reflected in the table. Certain liabilities, including those related to self-insurance accruals, are reported in Con-way s consolidated balance sheets but not reflected in the table below due to the absence of stated due dates.

	Payments Due by Period (Dollars in thousands)				
	Total	**2009**	**2010-2011**	**2012-2013**	**2014 & Thereafter**
Long-term debt and guarantees	$ 1,781,725	$ 93,498	$ 310,699	$ 101,824	$ 1,275,704
Operating leases	227,797	69,655	90,546	36,688	30,908
Employee benefit plan payments	136,427	12,100	25,295	26,544	72,488
Total	$ 2,145,949	$ 175,253	$ 426,540	$ 165,056	$ 1,379,100

As presented above, contractual obligations on long-term debt and guarantees represent principal and interest payments. The amounts representing principal and a portion of interest payable in 2009 are reported in the consolidated balance sheets.

Contractual obligations for operating leases represent the payments under the lease arrangements. In accordance with accounting principles generally accepted in the U.S. (GAAP), future operating lease payments are not included in Con-way s consolidated balance sheets.

The employee benefit plan payments in the table represent estimated payments under Con-way s non-qualified defined benefit pension plans and postretirement medical plan through December 31, 2018. Expected benefit payments for Con-way s qualified defined benefit pension plans are not included in the table, as these benefits will be satisfied by the use of plan assets. Con-way expects to make a minimum contribution of $23.8 million to its qualified defined benefit pension plans in 2009; however, this could change based on changes in interest rates, asset returns and Employee Retirement Income Security Act (ERISA) requirements.

In 2009, Con-way anticipates capital and software expenditures of approximately $70 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. The planned expenditures do not represent contractual obligations at December 31, 2008.

The contractual obligations reported above exclude Con-way s liability of $25.3 million for unrecognized tax benefits. In the next 12 months, it is reasonably possible that the total of unrecognized tax benefits will decrease in the range of $1.8 million to $2.4 million due to settlement agreements Con-way expects to reach with various states.

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Letters of credit outstanding under Con-way s credit facilities, as described above under Financing Activities, are generally required under self-insurance programs and do not represent additional liabilities as the underlying self-insurance accruals are already included in Con-way s consolidated balance sheets.

For further discussion, see Note 8, Debt and Other Financing Arrangements, Note 9, Leases, Note 10, Income Taxes, and Note 12, Employee Benefit Plans, of Item 8, Financial Statements and Supplementary Data.

Capital Resources and Liquidity Outlook

Con-way s capital requirements relate primarily to the acquisition of revenue equipment to support growth and/or replacement of older equipment with newer late-model 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. In addition, Con-way may also manage its liquidity requirements and cash-flow generation by varying the timing and amount of capital expenditures, as more fully discussed above under Contractual Cash Obligations, and by implementing cost-reduction initiatives. In addition to already-implemented cost-reduction initiatives related to restructuring activities at Con-way Freight and to changes in Con-way s defined-benefit pension and defined-contribution retirement plans (as more fully discussed in Note 3, Restructuring Activities, and Note 12, Employee Benefit Plans, of Item 8, Financial Statements and Supplementary Data, respectively), Con-way also has the ability to implement additional cost-reduction initiatives in the future, including but not limited to reductions in certain discretionary employee-compensation arrangements and benefit plans. The nature, timing and extent of these initiatives depend largely on future market conditions and Con-way s financial condition, results of operations, and cash flows.

As described above under Financing Activities, Con-way has a $400 million revolving credit facility that matures on September 30, 2011. 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 December 31, 2008, 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. As more fully discussed under Reporting Segment Review Freight, adverse economic conditions and the competitive freight market have contributed to material declines in revenue and operating income at Con-way Freight, particularly in the second half of 2008. A worsening of these trends could adversely affect Con-way s ability to remain in compliance with the revolving credit facility s financial covenants.

At December 31, 2008, Con-way s senior unsecured debt was rated as investment grade by Standard and Poor s (BBB-), Fitch Ratings (BBB), and Moody s (Baa3). On February 27, 2009, Fitch Ratings changed its rating of Con-way to BBB-.

Discontinued Operations

Discontinued operations in the periods presented relate to the closure of Con-way Forwarding, the sale of MWF, the shut-down of EWA and its terminated Priority Mail contract with the USPS, and to the spin-off of CFC, as more fully discussed in Note 4, Discontinued Operations, of Item 8, Financial Statements and Supplementary Data. The cash flows from discontinued operations have been segregated from continuing operations and reported separately as discontinued operations.

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Critical Accounting Policies and Estimates

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

Defined Benefit Pension Plans

Self-Insurance Accruals

Income Taxes

Revenue Recognition

Property, Plant and Equipment and Other Long-Lived Assets

Goodwill

Disposition and Restructuring Activities

Defined Benefit Pension Plans

In the periods presented, employees of Con-way and its subsidiaries in the U.S. were covered under several retirement benefit plans, including several qualified and non-qualified defined benefit pension plans and defined contribution retirement plans. In October 2006, Con-way s Board of Directors approved changes to Con-way s retirement benefits plans that are intended to preserve the retirement benefits earned by existing employees under Con-way s primary qualified defined benefit pension plan (the Primary DB Plan) and its primary non-qualified supplemental defined benefit pension plan (the Supplemental DB Plan), while expanding benefits earned under its primary defined contribution plan (the Primary DC Plan) and a new supplemental defined contribution plan (the Supplemental DC Plan). The major provisions of the plan amendments, which increase expense related to the Primary DC Plan and eliminate the future service cost associated with the Primary DB Plan and the Supplemental DB Plan, were effective on January 1, 2007.

Significant assumptions

The amount recognized as pension expense (income) and the accrued pension asset (liability) for Con-way s defined benefit pension plans depend upon a number of assumptions and factors, the most significant being the discount rate used to measure the present value of pension obligations and the expected rate of return on plan assets for the funded qualified plans. Con-way assesses its plan assumptions for the discount rate, expected rate of return on plan assets, and other significant assumptions on a periodic basis, but concludes on those assumptions at the actuarial plan measurement date. Con-way s most significant assumptions used in determining pension expense (income) for the periods presented and for 2009 are summarized below.

	2009	2008	2007	2006
Weighted-average assumptions:				
Discount rate on plan obligations	6.10%	6.60%	5.95%	6.00%
Expected long-term rate of return on plan assets	8.50%	8.50%	8.50%	8.50%

Discount Rate. In determining the appropriate discount rate, Con-way is assisted by actuaries who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better by Moody s rating service) with cash flows that match Con-way s expected benefit payments in future years. Con-way s discount rate is equal to the yield on the portfolio of bonds, which will typically exceed the Moody s Aa corporate bond index due to the long duration of expected benefit payments from Con-way s plans. If all other factors were held constant, a 0.25% decrease (increase) in the discount rate would result in an estimated $47 million increase (decrease) in the

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cumulative unrecognized actuarial loss at December 31, 2008, and the related loss or credit would be amortized to future-period earnings as described below.

Rate of Return on Plan Assets. For its qualified funded defined benefit pension plans, Con-way adjusts its expected rate of return on plan assets based on current market expectations and historical returns. The rate of return is based on an expected 20-year return on the current asset allocation and the effect of actively managing the plan, net of fees and expenses. Using year-end plan asset values, a 0.25% decrease (increase) in the expected rate of return on plan assets would result in an estimated $2 million increase (decrease) in 2009 annual pension expense.

Actuarial gains and losses

Differences between the expected and actual rate of return on plan assets and/or changes in the discount rate may result in cumulative unrecognized actuarial gains or losses. For Con-way s defined benefit pension plans, accumulated unrecognized actuarial losses increased to $645.4 million at December 31, 2008 from $53.2 million at December 31, 2007. The increase in these amounts primarily reflects investment losses due to declines in equity markets. Any portion of the unrecognized actuarial gain (loss) outside of a corridor amount must be amortized and recognized as expense (income). Prior to 2007, the amount would have been amortized over the average remaining service period of approximately 10.7 years. Following the plan amendments on January 1, 2007, participants are no longer active; as a result, the amount will be amortized and recognized as expense (income) over the estimated average remaining life expectancy of 32.7 years for the inactive plan participants as discussed below.

Effect on operating results

Plan amendments effective January 1, 2007 resulted in the elimination of substantially all of the future service cost for the Primary DB Plan and the Supplemental DB Plan, and no material service cost is recognized under Con-way s other defined benefit pension plans. Accordingly, the post-amendment effect of the defined benefit pension plans on Con-way s operating results consist primarily of the net effect of the interest cost on plan obligations for the qualified and non-qualified defined benefit pension plans, the expected return on plan assets for the funded qualified defined benefit pension plans and the amortization of unrecognized actuarial gain or loss in excess of the corridor. On January 26, 2009, Con-way issued an earnings release announcing 2008 fourth quarter and annual results and on January 27, 2009 held a conference call for the investment community to discuss those results. In the call, Con-way disclosed that it expected to record $55 million of pension expense in 2009. The estimated $55 million of pension expense was derived using an amortization assumption of 10.7 years, based on the service period applicable when Con-way employees were actively participating in the plan. However, since plan participants became inactive in 2007 (when the plan was amended to provide for no further accruals based on credited service), an amortization period of 32.7 years should be used, based on the average life expectancy of plan participants. Using the amortization period of 32.7 years, Con-way estimates that the defined benefit pension plans will result in annual expense of $27.9 million in 2009. For its defined benefit pension plans, Con-way recognized annual income of $23.1 million in 2008 and $24.8 million in 2007.

Funding

Con-way periodically reviews the funded status of its qualified defined benefit pension plans and makes contributions from time to time as necessary to comply with the funding requirements of ERISA. In determining the amount and timing of its pension contributions, Con-way considers both the ERISA- and GAAP-based measurements of funded status as well as the tax deductibility of contributions. Con-way made contributions of $10.0 million and $12.7 million to its defined benefit pension plans in 2008 and 2007, respectively, and in 2009, expects to make a minimum contribution of $23.8 million. Con-way s estimate of its defined benefit plan contribution is subject to variation based on changes in interest rates, asset returns and ERISA requirements.

Con-way s funding practice for its defined benefit pension plans is unchanged by recent plan amendments. Con-way expects to make additional future contributions to the defined benefit pension plans as needed. The plan changes are expected to reduce funding of the Primary DB Plan that otherwise would have been required without the plan amendments. However, recent significant declines in asset values may require contribution levels larger than previously anticipated.

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Self-Insurance Accruals

Con-way uses a combination of purchased insurance and self-insurance programs to provide for the costs of medical, casualty, liability, vehicular, cargo and workers compensation claims. The long-term portion of self-insurance accruals relates primarily to workers compensation and vehicular claims that are expected to be payable over several years. Con-way periodically evaluates the level of insurance coverage and adjusts insurance levels based on risk tolerance and premium expense.

The measurement and classification of self-insured costs requires the consideration of historical cost experience, demographic and severity factors, and judgments about the current and expected levels of cost per claim and retention levels. These methods provide estimates of undiscounted liability associated with claims incurred as of the balance sheet date, including claims not reported. Con-way believes its actuarial methods are appropriate for measuring these highly judgmental self-insurance accruals. However, the use of any estimation method is sensitive to the assumptions and factors described above, based on the magnitude of claims and the length of time from incurrence of the claims to ultimate settlement. Accordingly, changes in these assumptions and factors can materially affect actual costs paid to settle the claims and those amounts may be different than estimates.

Income Taxes

In establishing its deferred income tax assets and liabilities, Con-way makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. Con-way periodically evaluates the need for a valuation allowance to reduce deferred tax assets to realizable amounts. The likelihood of a material change in Con-way s expected realization of these assets is dependent on future taxable income, future capital gains, its ability to use tax loss and credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax-planning strategies in the various relevant jurisdictions.

Effective on January 1, 2007, Con-way adopted the provisions of FIN 48, Accounting for Uncertainty in Income Taxes, as more fully discussed in Note 10, Income Taxes, of Item 8, Financial Statements and Supplementary Data. Con-way assesses its income tax positions and records tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting date. For those positions where it is more likely than not that a tax benefit will be sustained, Con-way has recorded the largest amount of tax benefit with a greater-than-50-percent likelihood of being realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. For those income tax positions that do not meet the more-likely-than-not criteria, no tax benefit has been recognized in the financial statements.

Revenue Recognition

Con-way Freight recognizes revenue between reporting periods based on relative transit time in each period and recognizes expense as incurred. Con-way Truckload recognizes revenue and related direct costs when the shipment is delivered. Menlo Worldwide Logistics recognizes revenue in accordance with contractual terms as services are provided.

Critical revenue-related policies and estimates for Con-way Freight and Con-way Truckload include those related to revenue adjustments, uncollectible accounts receivable and in-transit shipments. Critical revenue-related policies and estimates for Menlo Worldwide Logistics include those related to uncollectible accounts receivable