Con-way Inc.
Form 10-K
February 28, 2007

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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, 2006

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
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. o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Aggregate market value of voting 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, 2006: $2,204,814,815

Number of shares of Common Stock outstanding as of January 31, 2007: 46,549,567

DOCUMENTS INCORPORATED BY REFERENCE
Part III

Proxy Statement for Con-way s Annual Meeting of Shareholders to be held on April 17, 2007 (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 principal component companies operate in regional and transcontinental less-than-truckload and full-truckload freight transportation, truckload brokerage, global logistics management, and trailer manufacturing.

Con-way Inc. was incorporated in Delaware in 1958. In April 2006, shareholders approved management s proposal to change the Company s name from CNF Inc. to Con-way Inc. The corporate name change marks the launch of a strategy to bring the Company s operations under a single master brand. Company management and the Board of Directors believe that the corporate name change and the re-branding initiative will result in better understanding of the Company s core businesses, operating strengths, corporate culture and values, thereby enabling the Company to compete more effectively in the markets it serves. Included in the initiative is a new Con-way logo and graphic identity. Con-way s re-branding initiative is more fully discussed in Note 12, Segment Reporting, of Item 8, Financial Statements and Supplementary Data.

Information Available on Website

Con-way makes available, free of charge, on its website at www.con-way.com, under the headings Investor Relations/Annual Report, Proxy and Other 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 Investor Relations/Corporate Governance, current copies of the following documents: (1) the charters of the Audit, Compensation, and Director Affairs 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 2006, Con-way filed the written affirmations and Chief Executive Officer certifications required by Section 303A.12(a) of the NYSE Listing Manual and Section 302 of the Sarbanes-Oxley Act.

Reporting Segments

For financial reporting purposes, Con-way Inc. is divided into three reporting segments: Con-way Freight and Transportation, Menlo Worldwide, and Con-way Other. For financial information concerning Con-way s geographic and reporting segment operating results, refer to Note 12, Segment Reporting, of Item 8, Financial Statements and Supplementary Data.

Con-way Freight and Transportation

Con-way Freight and Transportation includes the combined operating results of Con-way Freight and Con-way Transportation. Collectively, Con-way Freight and Transportation primarily provides regional next-day, second-day, and transcontinental freight trucking throughout the U.S., and in Canada, Puerto Rico, and Mexico.

Con-way Freight

Con-way Freight consists of regional less-than-truckload (LTL) motor carriers that operate a combined network of freight service centers to provide market coverage in North America. The regional carriers provide day-definite delivery service to manufacturing, industrial, and retail customers, and consist of Con-way Freight-Western, which serves 13 Western states, including Hawaii and Alaska; Con-way Freight-Central, which serves 25 central and eastern states; Con-way Freight-Southern, which serves 12 southeastern states, the District of Columbia and Puerto Rico; Con-way Canada, which serves 9 Canadian provinces; and Con-way Mexico, which began operations in July 2005 to facilitate the movement of cross-border freight as well as freight between points in Mexico. In 2006, Con-way Freight accounted for 97.3% of Con-way Freight and Transportation s revenue.

Typically, LTL carriers transport shipments weighing between 100 and 15,000 pounds 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 center, the freight is delivered to the customer.

In September 2006, Con-way Freight partnered with APL Logistics to introduce a time-definite less-than-container-load cargo service that provides overseas freight transportation to customers seeking port-to-door delivery from originating ports in Asia to destinations in the U.S. This service was offered in response to customer demand for a cost-effective alternative to more-expensive air freight services.

Con-way Transportation

Con-way Transportation s business units consist of Con-way Truckload, an asset-based regional and transcontinental full-truckload carrier, Con-way Brokerage, a provider of brokerage services for domestic truckload and intermodal shipments, and Road Systems, a trailer manufacturer. Con-way Truckload serves Con-way Freight by providing linehaul service on full loads of LTL shipments moving in transcontinental lanes and also offers regional and transcontinental services to other customers. The formation of Con-way Truckload was intended to reduce linehaul expense and protect service with inter-company operations that operate in conjunction with current truckload vendors. Con-way Truckload utilizes Con-way Freight and Transportation s existing infrastructure and administrative support services to minimize the capital employed. Road Systems primarily manufactures and refurbishes trailers for Con-way Freight and Transportation.

Under the new master-brand initiative, the Company s expediting and brokerage operations were made part of Con-way Transportation and were renamed, collectively, Con-way Expedite and Brokerage. The expedited-shipping portion of that business was sold in July 2006 and the remaining truckload-brokerage operation was merged into Con-way Truckload. As more fully discussed below under Menlo Worldwide Logistics, the truckload-brokerage operation was combined with Menlo Worldwide Logistics effective in January 2007.

Competition

The trucking and truck-brokerage industry segments are intensely competitive. Principal competitors of Con-way Freight and Transportation include global, integrated transportation service providers and regional and national LTL and truckload companies. Competition in the trucking industry segment is based on freight rates, service, reliability, transit times and scope of operations.

Menlo Worldwide

Menlo Worldwide consists of the operating results of Menlo Worldwide Logistics (Logistics) and a proportionate share of the net income from Vector SCM, LLC (Vector), a joint venture with General Motors

(GM). Prior to GM s purchase of the membership interest of Menlo Worldwide, LLC (MW) in Vector on June 23, 2006, Vector served as the lead logistics manager for GM.

Menlo Worldwide Logistics

The global supply-chain and logistics-services market has grown significantly since the formation of Logistics in 1990, based on the complexity of customers supply chains and the need for innovative solutions. The outsourcing of distribution and other non-core functions has become more commonplace as businesses increasingly evaluate overall logistics costs. The ability to access information through computer networks increases the value of capturing real-time logistics information to track inventories, shipments, and deliveries. Logistics specializes in developing and managing complex regional, national and global supply chains. 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. 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 state-of-the-art logistics management systems to consolidate, book and track shipments. Contract warehousing refers to the optimization 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. 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 Logistics customers takes different forms, including cost-plus, gain-sharing, transactional, fixed-dollar, and consulting-fee arrangements.

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, 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 is expected to leverage Logistics resources to provide scaleable services to a growing number of middle-market customers. Logistics began growing its 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, and consumer-products sectors.

Although Logistics client base includes a growing number of middle-market companies, Logistics primary customers are Fortune 200 businesses. Four customers collectively accounted for 47.8% of the revenue reported for the Logistics reporting segment in 2006, and each had a Standard & Poor s investment-grade credit rating. In 2006, Logistics largest customer accounted for 5.3% of the consolidated revenue of Con-way. The loss of significant revenue from any of Logistics major customers by termination of the customer relationship for any reason, including the business failure of the customer, may have a material adverse effect on Con-way s financial condition, results of operations, and cash flows.

Integration of Former Con-way Transportation Businesses

In recent years, Logistics has integrated into its operations two supply-chain management businesses that were previously reported in the Con-way Freight and Transportation reporting segment. In the second quarter of 2005, Logistics integrated the former Con-Way Logistics business and, in January 2007, Logistics integrated the truckload-brokerage business.

The integration of Con-Way Logistics was intended to provide an enterprise solution offering for Logistics customers that want to use Con-way Freight as a primary transportation provider in addition to those customers that want a vendor-neutral transportation solution. The integration also expanded Con-Way Logistics multi-client warehousing service model to Logistics larger warehouse network. Effective in January 2007, Logistics integrated into its operations the truckload-brokerage business. The move is expected to leverage Logistics significant procurement of purchased transportation to improve both the value to customers and to improve the margin earned

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on the services provided. The integration of the truckload-brokerage business is also expected to expand logistics-services opportunities through access to truckload-brokerage customers and to leverage the shared expertise of the logistics and truckload-brokerage professionals.

Competition

The supply-chain management and logistics-services industry segment is intensely competitive. Competition for larger projects is generally based on the ability to rapidly implement technology-based transportation and logistics solutions, while competition for projects with middle-market customers is more influenced by price. Competitors in the logistics segment are numerous and include domestic and foreign logistics companies, the logistics arms of integrated transportation companies, and contract manufacturers. However, Logistics primarily competes against a limited number of major competitors that have resources sufficient to provide services under large logistics contracts.

Menlo Worldwide Vector

Vector was a joint venture formed with GM in December 2000 for the purpose of providing logistics management services on a global basis for GM, and for customers in addition to GM. Although MW owned a majority interest in Vector, MW s proportionate share of Vector s net income has been reported as an equity-method investment based on GM s ability to control certain operating decisions.

GM Exercise of Call Right

On June 23, 2006, GM exercised its right to purchase MW s membership interest in Vector (Call Right). On December 11, 2006, an independent third-party advisor established a fair value for Vector, and accordingly, Con-way recognized a $41.0 million sale-related gain in December 2006, as more fully discussed in Note 3, Investment in Unconsolidated Joint Venture, of Item 8, Financial Statements and Supplementary Data. Following exercise of the Call Right, Menlo Worldwide Logistics assumed all contracts for which Vector was providing services to non-GM entities.

Con-way Other

The Con-way Other reporting segment consists of certain corporate activities for which the related income or expense has not been allocated to other reporting segments, including results from corporate re-insurance activities and operating costs on corporate properties.

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 June 2006, (2) the sale of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (collectively MWF) in December 2004, (3) the shut-down of Emery Worldwide Airlines, Inc. (EWA) in November 2000, and (4) the spin-off of Consolidated Freightways Corporation (CFC) in 1996.

For more information, refer to Note 2, Discontinued Operations, and Note 11, Commitments and Contingencies, of Item 8, Financial Statements and Supplementary Data.

General

Employees

At December 31, 2006, Con-way had approximately 21,800 regular full-time employees. The approximate number of regular full-time employees by segment was as follows: Con-way Freight and Transportation, 18,170; Menlo Worldwide Logistics, 2,720; Con-way Other, 910. The 910 employees included in the Con-way Other segment consist primarily of executive, technology, and administrative positions that support Con-way s operating subsidiaries.

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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.

Price and Availability of Fuel

Con-way is exposed to the effects of changes in the availability and price 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 such matters as 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.

At the state level, federal preemption of economic regulation does not prevent the states from regulating motor-vehicle safety on their highways. In addition, 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 April 2003, the FMCSA issued a final rule to change the regulations governing hours of service (HOS) for commercial truck drivers. The rule increased the total consecutive off-duty hours a driver must take prior to driving in interstate commerce and reduced the total daily consecutive driving and on-duty hours allowed. In July 2004, the United States Court of Appeals for the District of Columbia voided the HOS rules that were issued by the FMCSA. However, the United States Congress extended the existing HOS rules until September 2005. In October 2005, a final rule issued by FMCSA became effective. The new rule changed the way that drivers utilizing sleeper berths may split their off-duty time, raising concern that the efficiency of sleeper-team truckload operations similar to those utilized by Con-way Truckload may be adversely affected.

The same advocacy groups that challenged the 2003 FMCSA HOS rules, along with the International Brotherhood of Teamsters (IBT) and the Owner Operators Independent Driver s Association (OOIDA), have mounted another challenge to the rules that became effective in October 2005. 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 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, as well as 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.

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Con-way s operations involve the storage, handling, and use of diesel fuel and other hazardous substances. In particular, Con-way is subject to environmental laws and regulations dealing with fuel storage tanks and the transportation of hazardous materials.

Homeland Security

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

Con-way s regional carriers, as well as certain other subsidiaries, are approved by the CBP to participate in the voluntary Customs-Trade Partnership Against Terrorism program (C-TPAT). The C-TPAT program was designed in 2002 to provide a process to facilitate the efficient release of goods and provide resolution of any outstanding issues affecting CBP processing of cross-border shipments. As participants of C-TPAT, these subsidiaries have developed security measures that continue to evolve along with the C-TPAT program requirements. These subsidiary C-TPAT security plans have been reviewed and certified by the CBP.

C-TPAT does not provide a sector category for third-party logistics companies; as a result, Logistics cannot obtain C-TPAT certification. To address this issue, Logistics has voluntarily adopted C-TPAT Importer requirements into its security plan, which incorporates regulatory DHS requirements, and also voluntarily participates in non-regulatory DHS programs that secure customer and international supply chains against terrorism and theft.

Menlo Worldwide Logistics Government Services, LLC, a subsidiary of Menlo Logistics, Inc., has been approved by TSA as an Indirect Air Carrier (IAC), and has developed security measures that have been reviewed and certified by the TSA. TSA is expected to release new IAC rules in the near future. Con-way cannot predict the impact the new rules might have on its IAC operations but does not believe that the rules as finally adopted will materially affect its operations.

ITEM 1A. *RISK FACTORS*

Business Interruption

Con-way and its subsidiaries 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. 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 or otherwise, could have a material adverse effect on Con-way s financial condition, results of operations, and cash flows.

Customer Concentration

Menlo Worldwide Logistics and many of its competitors in the third-party logistics segments 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 Logistics continues to broaden and diversify its customer base, a significant portion of its revenue and operating results are 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 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 Transportation has a relatively high fixed-cost structure, which 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 s businesses.

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 subsidiaries have advantages over comparable unionized competitors in providing reliable and cost-competitive customer services, including greater efficiency and flexibility. There can be no assurance that Con-way s subsidiaries will be able to maintain their non-unionized status.

Con-way hires drivers primarily for its Con-way Freight and Transportation business segment. There is significant competition for qualified drivers in the transportation industry. As a result of driver shortages, Con-way Freight and Transportation may be required to increase driver compensation, utilize lower-quality drivers or face difficulty meeting customer demands, all of which could adversely affect Con-way s results of operations.

Employee Benefit Costs

Con-way maintains health-care plans and defined benefit pension plans, and provides certain other benefits to its employees. In recent years, health-care costs have risen dramatically. The combination of lower interest rates and weak returns on plan assets may cause increases in the expense of, and funding requirements for, Con-way s defined benefit pension plans. As more fully discussed in Item 7, Management s Discussion and Analysis, 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. 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 on Con-way s financial condition, results of operations, and cash flows.

Government Regulation

Con-way is subject to compliance with many laws and regulations that apply to its business activities. These include regulations relating to hours of service for its drivers, and cargo security and transportation regulations issued by the Department of Homeland Security and the Department of Transportation. 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 security and other 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 its ability to serve customers and on its financial condition, results of operations, and cash flows.

Capital Intensity

Con-way s primary business is capital-intensive. Con-way Freight and Transportation makes significant investments in revenue equipment and 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 fleet requirements differ materially from actual requirements, Con-way Freight and Transportation may have too much or too little capacity. 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 s reinvestment activities.

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Price and Availability of Fuel

Con-way is exposed to the effects of changes in the availability and price of diesel fuel. Generally, fuel can be obtained from various sources and in the desired quantities. However, an inability to obtain fuel could have a material adverse effect on Con-way. Con-way Freight and Transportation is subject to the risk of price fluctuations. Like other LTL carriers, Con-way Freight assesses many of its customers with a fuel surcharge. The fuel surcharge is a part of Con-way Freight s overall rate structure for customers and is intended to compensate Con-way Freight for the adverse effects of higher fuel costs. As fuel prices have risen, the fuel surcharge has increased Con-way Freight s yields and revenue, and Con-way Freight has more than recovered higher fuel costs and fuel-related increases in purchased transportation. At times, in the interest of its customers, Con-way Freight has temporarily capped the fuel surcharge at a fixed percentage. Following a sharp increase in fuel costs in the aftermath of hurricanes in the U.S., Con-way Freight imposed a temporary cap on its fuel surcharge in 2005 that was in effect from August 29 through October 24. Con-way cannot predict the future movement of fuel prices, Con-way Freight s ability to recover higher fuel costs through fuel surcharges, or the effect that changes in fuel surcharges may have on Con-way Freight s overall rate structure. Con-way Freight s operating income may be adversely affected by a decline in fuel prices as lower fuel surcharges would reduce its yield and revenue. Whether fuel prices increase, decrease, or remain constant, Con-way s operating income may be adversely affected if competitive pressures limited Con-way Freight s ability to assess its fuel surcharges.

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.

Con-way Freight and Transportation

At December 31, 2006, Con-way Freight operated 346 freight service centers, of which 155 were owned and 191 were leased. The service centers, which are strategically located to cover the geographic areas served by Con-way Freight, 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. The total number of trucks, tractors, and trailers utilized by Con-way Freight at December 31, 2006 was approximately 33,800.

At December 31, 2006, Con-way Truckload operated approximately 1,335 tractors and trailers. Based on projected LTL and truckload volume levels and driver availability, Con-way Truckload in 2007 intends to transfer to Con-way Freight approximately 81 new tractors that have not yet been placed in operation due to driver shortages.

Road Systems owns and operates a manufacturing facility in Searcy, Arkansas.

Menlo Worldwide Logistics

At December 31, 2006, Logistics operated 56 warehouses in North America, of which 41 were leased by Logistics and 15 were leased or owned by clients of Logistics. Outside of North America, Logistics operated an additional 29 warehouses, of which 17 were leased by Logistics and 12 were leased or owned by clients.

At December 31, 2006, Logistics owned and operated approximately 69 trucks, tractors, and trailers.

Con-way Other

Principal properties of the Con-way Other segment included Con-way s leased executive offices in San Mateo, California, and its owned shared-services center in Portland, Oregon.

ITEM 3. *LEGAL PROCEEDINGS*

Certain legal proceedings of Con-way are also discussed in Note 2, Discontinued Operations, and Note 11, Commitments and Contingencies, of Item 8, Financial Statements and Supplementary Data.

In 2003, prior to the sale of MWF to United Parcel Service, Inc. (UPS), Con-way became aware of information that Emery Transnational, a Philippines-based joint venture in which MWF, Inc. may be deemed to be a controlling partner, may have made certain payments in violation of the Foreign Corrupt Practices Act. Con-way promptly notified the Department of Justice and the Securities and Exchange Commission of this matter, and MWF, Inc. instituted policies and procedures in the Philippines designed to prevent such payments from being made in the future. Con-way was subsequently advised by the Department of Justice that it is not pursuing an investigation of this matter. Con-way conducted an internal investigation of approximately 40 other MWF, Inc. international locations and has shared the results of the internal investigation with the SEC. The internal investigation revealed that Menlo Worldwide Forwarding (Thailand) Limited, a Thailand-based joint venture, also may have made certain payments in violation of the Foreign Corrupt Practices Act. MWF, Inc. made certain personnel changes and instituted policies and procedures in Thailand designed to prevent such payments from being made in the future. In December 2004, Con-way completed the sale of its air freight forwarding business (including the stock of MWF, Inc., Emery Transnational and Menlo Worldwide Forwarding (Thailand) Limited) to an affiliate of UPS. In connection with that sale, Con-way agreed to indemnify UPS for certain losses resulting from violations of the Foreign Corrupt Practices Act. Con-way is currently unable to predict whether it will be required to make payments under the indemnity or whether the SEC will impose fines or other penalties directly on Con-way as of result of the actions of Emery Transnational.

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, 2006, and their applicable business experience are as follows:

Douglas W. Stotlar, 46, 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 Transportation 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 and Transportation, a position he held since June 2002. From 1999 to 2002, he was Executive Vice President of Operations for Con-way Freight and Transportation. Prior to joining Con-way Freight and Transportation s corporate office, Mr. Stotlar served as Vice President and General Manager of the former Con-Way NOW. Mr. Stotlar joined the Con-way organization in 1985 as a Freight Operations Supervisor for Con-way Freight-Central. 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 Ohio State University.

Kevin C. Schick, 55, Senior Vice President and Chief Financial Officer of Con-way. Mr. Schick was named to his current position in March 2005. He previously served as Vice President and Controller of Con-way Freight and Transportation, a position he held since 1989. Mr. Schick joined the Con-way organization 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.

Jennifer W. Pileggi, 42, 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. She was promoted to Vice President and Corporate Counsel of Menlo Worldwide in 2003. 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.

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David S. McClimon, 51, President of Con-way Freight, and Senior Vice President of Con-way. Mr. McClimon was named to his current position in June 2005. He previously served as President and Chief Executive Officer for two of Con-way s regional trucking companies: Con-way Freight-Central from 2002 to 2005, and Con-way Freight-Western from 2000 to 2002. He was Vice President of Sales for Con-way Freight-Central from 1997 to 2000. Prior to this, he was Vice President of National Sales for Con-way Freight, from 1993 to 1997. Mr. McClimon joined the Con-way organization in 1983 as a day-one employee of Con-way Freight-Central and subsequently was promoted to a variety of sales and operations positions. Mr. McClimon earned his bachelor s degree in marketing from Miami University in Ohio.

John G. Labrie, 40, President of Con-way Transportation and Senior Vice President of Con-way. Mr. Labrie was promoted in February 2007 to Senior Vice President of Con-way, in charge of Strategy and Enterprise Operations. Mr. Labrie was named President of Con-way Transportation in June 2005. 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 the Con-way organization 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.

Robert L. Bianco Jr., 42, President of Menlo Worldwide and Senior Vice President of Con-way. Mr. Bianco was promoted in February 2007 to Senior Vice President of Con-way and was named President of Menlo Worldwide in June 2005. He previously served as President of Menlo Worldwide Logistics, a position he held since December 2001. He joined the Con-way organization in 1989 as a management trainee and joined Menlo in 1992 as a logistics manager. He subsequently advanced to Vice President of Operations for Menlo Worldwide Logistics in 1997. He is a graduate of the University of California at Santa Barbara and earned a master s degree from the University of San Francisco.

Jackie Barretta, 45, Vice President and Chief Information Officer of Con-way. Ms. Barretta was named to her current position in February 2005. She previously served as Vice President of Information Services for Con-way Freight and Transportation, a position she held since August 2000. Prior to this, she served as Director of Information Services, a position she held since 1997. She joined Con-way as a systems analyst in 1996. Ms. Barretta earned her bachelor s degree in Computer Science from the University of North Carolina.

Mark C. Thickpenny, 54, 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.

Kevin S. Coel, 48, 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 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.

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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 14, 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 2006 and 2005. At January 31, 2007, Con-way had 7,065 common shareholders of record.

The following table provides a summary of share repurchases made by Con-way during the quarter ended December 31, 2006:

	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Maximum Dollar Value of Shares that May yet be Purchased Under the Program(1)
October 1, 2006 October 31, 2006	300,000	$ 46.28	300,000	$ 120,741,324
November 1, 2006 November 30, 2006	529,000	47.51	529,000	95,606,682
December 1, 2006 December 31, 2006	120,000	43.93	120,000	90,335,383
Total	949,000	$ 46.67	949,000	$ 90,335,383

(1) In April 2006, the Board of Directors authorized the repurchase of up to $400 million in Con-way s common stock through open-market transactions and privately negotiated transactions from time to time in such amounts as management deems appropriate through June 30, 2007.

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The following performance graph compares Con-way s stockholder return (assuming reinvestment of dividends) for the fiscal year-ends from 2001 through 2006, with the S&P Midcap 400 and the Dow Jones Transportation Average.

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