

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

FORM 10-Q

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

For the quarterly period ended September 30, 2002

OR

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

For the transition period from N/A to N/A

COMMISSION FILE NUMBER 1-5046

CNF Inc.

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

3240 Hillview Avenue, Palo Alto, California 94304
Telephone Number (650) 494-2900

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Number of shares of Common Stock, \$.625 par value,
outstanding as of October 31, 2002: 49,273,140

CNF INC.
FORM 10-Q
Quarter Ended September 30, 2002

INDEX

PART I. FINANCIAL INFORMATION	Page
Item 1. Financial Statements	
Consolidated Balance Sheets - September 30, 2002 and December 31, 2001	3
Statements of Consolidated Operations - Three and Nine Months Ended September 30, 2002 and 2001	5
Statements of Consolidated Cash Flows - Nine Months Ended September 30, 2002 and 2001	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	18
Item 4. Controls and Procedures	35
 PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	37
Item 6. Exhibits and Reports on Form 8-K	38
Signatures	39
Certification of Officers pursuant to Section 302 of Sarbanes-Oxley Act of 2002	40

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	<u>September 30,</u> <u>2002</u>	<u>December 31,</u> <u>2001</u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 338,250	\$ 400,763
Trade accounts receivable, net	713,605	677,684
Other accounts receivable	108,358	56,860
Operating supplies, at lower of average cost or market	19,993	20,244
Prepaid expenses	42,635	46,948
Deferred income taxes	124,114	125,347
Total Current Assets	<u>1,346,955</u>	<u>1,327,846</u>
Property, Plant and Equipment, at Cost		
Land	151,041	149,499
Buildings and leasehold improvements	773,136	739,197
Revenue equipment	616,970	618,329
Other equipment	395,317	411,546
	<u>1,936,464</u>	<u>1,918,571</u>
Accumulated depreciation and amortization	(901,497)	(848,042)
	<u>1,034,967</u>	<u>1,070,529</u>
Other Assets		
Deferred charges and other assets (Note 2)	251,034	224,605
Capitalized software, net	76,675	79,891
Goodwill, net (Note 1)	240,567	240,523
Deferred income taxes	-	46,626
	<u>568,276</u>	<u>591,645</u>
Total Assets	<u>\$ 2,950,198</u>	<u>\$ 2,990,020</u>

The accompanying notes are an integral part of these statements.

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands except per share amounts)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>September 30, 2002</u>	<u>December 31, 2001</u>
Current Liabilities		
Accounts payable	\$ 351,989	\$ 338,730
Accrued liabilities (Note 2)	386,635	307,676
Accrued claims costs	161,411	126,981
Accrued aircraft leases and return provision	140,560	77,483
Current maturities of long-term debt and capital leases	10,152	11,765
Income taxes payable	-	21,501
Total Current Liabilities	1,050,747	884,136
Long-Term Liabilities		
Long-term debt and guarantees	453,897	436,055
Long-term obligations under capital leases	110,522	129,760
Accrued claims costs	114,857	122,273
Employee benefits	228,209	275,764
Other liabilities and deferred credits (Note 3)	123,560	120,858
Accrued aircraft leases and return provision	5,170	258,087
Deferred income taxes	26,579	-
Total Liabilities	2,113,541	2,226,933
Commitments and Contingencies (Note 10)		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures of the Company (Note 8)	125,000	125,000
Shareholders' Equity		
Preferred stock, no par value; authorized 5,000,000 shares: Series B, 8.5% cumulative, convertible, \$.01 stated value; designated 1,100,000 shares; issued 787,775 and 805,895 shares, respectively	8	8
Additional paid-in capital, preferred stock	119,813	122,568
Deferred compensation, Thrift and Stock Plan	(67,622)	(73,320)
Total Preferred Shareholders' Equity	52,199	49,256
Common stock, \$.625 par value; authorized 100,000,000 shares; issued 55,841,675 and 55,559,909 shares, respectively	34,901	34,725
Additional paid-in capital, common stock	338,428	332,066
Retained earnings	489,800	432,918
Deferred compensation, restricted stock	(611)	(1,013)
Cost of repurchased common stock (6,581,986 and 6,669,393 shares, respectively)	(162,287)	(164,441)
	700,231	634,255
Accumulated Other Comprehensive Loss (Note 5)	(40,773)	(45,424)
Total Common Shareholders' Equity	659,458	588,831
Total Shareholders' Equity	711,657	638,087
Total Liabilities and Shareholders' Equity	\$ 2,950,198	\$ 2,990,020

The accompanying notes are an integral part of these statements.

CNF INC.
STATEMENTS OF CONSOLIDATED OPERATIONS
(Dollars in thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
REVENUES	\$ 1,230,147	\$ 1,184,959	\$ 3,483,494	\$ 3,720,032
Costs and Expenses				
Operating expenses	1,030,236	1,033,337	2,903,608	3,209,398
General and administrative expenses	121,612	117,495	345,833	366,298
Depreciation	34,774	39,497	106,255	127,434
Restructuring charges (Note 4)	-	-	-	340,531
	<u>1,186,622</u>	<u>1,190,329</u>	<u>3,355,696</u>	<u>4,043,661</u>
OPERATING INCOME (LOSS)	43,525	(5,370)	127,798	(323,629)
Other Income (Expense)				
Investment income	1,221	470	4,506	1,840
Interest expense	(5,813)	(6,608)	(17,336)	(21,635)
Dividend requirement on preferred securities of subsidiary trust (Note 8)	(1,563)	(1,563)	(4,689)	(4,689)
Miscellaneous, net	(3,527)	(143)	(7,330)	1,166
	<u>(9,682)</u>	<u>(7,844)</u>	<u>(24,849)</u>	<u>(23,318)</u>
Income (Loss) before Taxes	33,843	(13,214)	102,949	(346,947)
Income Tax Benefit (Provision)	11,801	4,889	(15,150)	128,370
INCOME (LOSS) FROM CONTINUING OPERATIONS	<u>45,644</u>	<u>(8,325)</u>	<u>87,799</u>	<u>(218,577)</u>
Gain (Loss) from Discontinuance, net of tax (Note 2)	<u>(10,139)</u>	<u>38,975</u>	<u>(10,139)</u>	<u>38,975</u>
Net Income (Loss)	35,505	30,650	77,660	(179,602)
Preferred Stock Dividends	<u>2,002</u>	<u>2,052</u>	<u>6,050</u>	<u>6,171</u>
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	<u>\$ 33,503</u>	<u>\$ 28,598</u>	<u>\$ 71,610</u>	<u>\$ (185,773)</u>
Weighted-Average Common Shares Outstanding (Note 7)				
Basic shares	49,226,241	48,778,789	49,077,089	48,728,252
Diluted shares	56,755,010	48,778,789	56,700,280	48,728,252
Earnings (Loss) per Common Share (Note 7)				
Basic				
Net Income (Loss) from Continuing Operations	\$ 0.89	\$ (0.21)	\$ 1.67	\$ (4.61)
Gain (Loss) from Discontinuance, net of tax	<u>(0.21)</u>	<u>0.80</u>	<u>(0.21)</u>	<u>0.80</u>
Net Income (Loss) Applicable to Common Shareholders	<u>\$ 0.68</u>	<u>\$ 0.59</u>	<u>\$ 1.46</u>	<u>\$ (3.81)</u>
Diluted				
Net Income (Loss) from Continuing Operations	\$ 0.79	\$ (0.21)	\$ 1.51	\$ (4.61)
Gain (Loss) from Discontinuance, net of tax	<u>(0.18)</u>	<u>0.80</u>	<u>(0.18)</u>	<u>0.80</u>
Net Income (Loss) Applicable to Common Shareholders	<u>\$ 0.61</u>	<u>\$ 0.59</u>	<u>\$ 1.33</u>	<u>\$ (3.81)</u>

The accompanying notes are an integral part of these statements.

CNF INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Dollars in thousands)

	Nine Months Ended September 30,	
	2002	2001
Cash and Cash Equivalents, Beginning of Period	\$ 400,763	\$ 104,515
Operating Activities		
Net income (loss)	77,660	(179,602)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Loss (Gain) from discontinuance, net of tax	10,139	(38,975)
Restructuring charges	-	340,531
Loss from business failure of a customer	-	37,905
Depreciation and amortization	120,833	149,819
Increase (Decrease) in deferred income taxes	82,057	(139,898)
Amortization of deferred compensation	6,513	5,523
Provision for uncollectible accounts	11,921	6,578
Losses (Gains) from sales of property and equipment	(12,713)	2,150
Changes in assets and liabilities:		
Receivables	(93,172)	100,021
Prepaid expenses	4,313	(1,726)
Accounts payable	15,971	(58,019)
Accrued liabilities	80,171	(28,921)
Accrued claims costs	5,714	30,817
Income taxes	(21,501)	(15,771)
Employee benefits	(47,555)	14,296
Accrued aircraft leases and return provision	(189,840)	(14,457)
Deferred charges and credits	(3,470)	72,349
Other	2,163	(13,060)
Net Cash Provided by Operating Activities	49,204	269,560
Investing Activities		
Capital expenditures	(67,416)	(166,743)
Software expenditures	(10,354)	(14,268)
Proceeds from sales of property, net	12,017	5,291
Net Cash Used in Investing Activities	(65,753)	(175,720)
Financing Activities		
Repayments of long-term debt, guarantees and capital leases	(30,951)	(7,592)
Proceeds from exercise of stock options	5,500	2,358
Payments of common dividends	(14,728)	(14,637)
Payments of preferred dividends	(10,484)	(10,709)
Net Cash Used in Financing Activities	(50,663)	(30,580)
Net Cash Provided by (Used in) Continuing Operations	(67,212)	63,260
Net Cash Used in Discontinued Operations	4,699	227,233
Increase (Decrease) in Cash and Cash Equivalents	(62,513)	290,493
Cash and Cash Equivalents, End of Period	\$ 338,250	\$ 395,008

The accompanying notes are an integral part of these statements.

CNF INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Pursuant to the rules and regulations of the Securities and Exchange Commission, the accompanying consolidated financial statements of CNF Inc. and its wholly owned subsidiaries (CNF) have been prepared by CNF, without audit by independent public accountants. In the opinion of management, the consolidated financial statements include all normal recurring adjustments necessary to present fairly the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, should be read in conjunction with the consolidated financial statements included in CNF's 2001 Annual Report to Shareholders.

On December 5, 2001, CNF announced effective January 1, 2002, the formation of a new global supply chain services company called Menlo Worldwide, which for financial reporting purposes includes the operating results of Emery Forwarding, Menlo Worldwide Logistics, Menlo Worldwide Technologies, and Vector SCM. Refer to Note 6, "Business Segments," for a description of CNF's reporting segments.

New Accounting Standards

Effective January 1, 2002, CNF adopted SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 specifies that goodwill and some intangible assets will no longer be amortized but instead will be subject to an annual fourth-quarter impairment test. Pursuant to SFAS 142, CNF has evaluated whether its goodwill is impaired and has determined that, as of January 1, 2002, CNF was not required to make an adjustment to the carrying value of the assets. Effective January 1, 2002, CNF ceased goodwill amortization associated with the Emery Forwarding segment. Prior to adoption of SFAS 142, CNF amortized goodwill of \$2.6 million and \$8.1 million, respectively, in the third quarter and first nine months of last year.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations," which will be effective for CNF on January 1, 2003. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. CNF is in the process of evaluating the financial statement impact of adoption of SFAS 143.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements, by rescinding SFAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. Additionally, SFAS 145 amends SFAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Finally, SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. CNF adopted the provisions of SFAS 145 that amended SFAS 13 for transactions occurring after May 15, 2002 in its consolidated financial statements with no material impact. CNF will adopt all other provisions of SFAS 145, as required, effective January 1, 2003. CNF is evaluating the financial statement impact of adopting these other provisions of SFAS 145.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146, once adopted, nullifies EITF Issue No. 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be

recognized when the liability is incurred, whereas EITF No. 94-3 had allowed for recognition of the liability at the commitment date to an exit plan. CNF is in the process of evaluating the financial statement impact of adoption of SFAS 146.

Reclassification

Certain amounts in prior-year financial statements have been reclassified to conform to current-year presentation.

2. Discontinued Operations

Priority Mail Contract

On November 3, 2000, Emery Worldwide Airlines (EWA) and the U.S. Postal Service (USPS) announced an agreement (the "Termination Agreement") to terminate their contract for the transportation and sortation of Priority Mail (the "Priority Mail contract"). As described below, all claims relating to amounts owed to EWA under the Priority Mail contract have been settled.

The Priority Mail contract was originally scheduled to terminate in the first quarter of 2002, subject to renewal options. Under the terms of the Termination Agreement, the USPS on January 7, 2001 assumed operating responsibility for services covered under the Priority Mail contract, except certain air transportation and related services, which were terminated effective April 23, 2001.

The USPS agreed to reimburse EWA for Priority Mail contract termination costs, including costs of contract-related equipment, inventory, and operating lease commitments, up to \$125.0 million (the "Termination Liability Cap"). On January 7, 2001, the USPS paid EWA \$60.0 million toward the termination costs. The Termination Agreement provided for this provisional payment to be adjusted if actual termination costs were greater or less than \$60.0 million, in which case either the USPS would be required to make an additional payment with interest or EWA would be required to return a portion of the provisional payment with interest. On July 3, 2002, EWA received a \$6.0 million payment from the USPS, in addition to the \$60.0 million provisional payment on January 7. The additional \$6.0 million payment fully settled EWA's Priority Mail contract termination costs and resulted in a 2002 third-quarter gain from discontinuance of \$2.9 million, net of \$1.8 million of income taxes.

On September 26, 2001, EWA entered into an agreement with the USPS to settle claims relating to the underpayment of amounts owed to EWA under the Priority Mail contract with the USPS (the "Settlement Agreement"). Under the Settlement Agreement, EWA received a \$235.0 million payment from the USPS on September 28, 2001 to settle all non-termination claims under the Priority Mail contract. These claims were to recover costs of operating under the contract as well as profit and interest thereon. The Priority Mail Termination Agreement described above was unaffected by the Settlement Agreement.

As a result of the termination of the Priority Mail contract, the results of operations, and cash flows of the Priority Mail operations have been segregated and classified as discontinued operations. Net non-current assets of the discontinued Priority Mail operations of \$3.1 million at December 31, 2001 were included in Deferred Charges and Other Assets in the Consolidated Balance Sheets. Net current liabilities of discontinued Priority Mail operations of \$4.4 million and \$5.6 million at September 30, 2002 and December 31, 2001, respectively, were included in Accrued Liabilities.

The Priority Mail contract provided for an annual re-determination of prices paid to EWA. Because of disputes between the USPS and EWA, these prices never were re-determined and, as a result, EWA did not receive any additional payments to which it would have been entitled upon a favorable re-determination. Accordingly, beginning in the third quarter of 1999 until January 7, 2001, EWA recognized as "unbilled revenue" under the Priority Mail contract, an amount of revenue sufficient only to cover costs of operating under the contract. As a result, no operating profit has been recognized in connection with the

Priority Mail contract since the third quarter of 1999, when EWA filed a claim for re-determined higher prices. Prior to the January 7, 2001 settlement, CNF recorded revenues in amounts up to the costs incurred.

As a result of the Settlement Agreement, this unbilled revenue was fully recovered and EWA in the third quarter of 2001 recognized a gain from discontinuance of \$39.0 million, net of \$24.9 million of income taxes.

In the first quarter of 2001, revenue of \$10.2 million was recognized for the period prior to the USPS assuming operating responsibility for services covered under the Priority Mail contract on January 7, 2001. Subsequent to January 7, 2001, no revenue was recognized under the Priority Mail contract.

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation ("CFC") to CNF's shareholders. In connection with the spin-off of CFC, CNF agreed to indemnify certain states, insurance companies and sureties against the failure of CFC to pay certain workers' compensation, tax and public liability claims that were pending as of September 30, 1996. In some cases, these indemnities are supported by letters of credit and surety bonds under which CNF is liable to the issuing bank or the surety company.

In September 2002, CFC filed for bankruptcy and announced that it will cease most U.S. operations. Following the commencement of its bankruptcy proceeding, CFC ceased making payments with respect to these workers' compensation and public liability claims. CNF has taken over payment of some of these claims, and expects that demands for payment will likely be made against it with respect to the remaining claims. CNF estimates the aggregate amount of all of these claims, plus related costs, to be \$21.3 million. As a result, CNF accrued additional reserves of \$21.3 million in Accrued Claims Costs in the Consolidated Balance Sheets and recognized a \$13.0 million loss from discontinuance, net of \$8.3 million of income taxes, in the third quarter of 2002. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of these claims, although there can be no assurance that CNF will be successful in recovering all or any portion of such payments.

In addition, CFC was, at the time of the spin-off, and remains a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations will result in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it will become obligated, under federal law, to pay its share of any unfunded vested benefits under those plans. It is possible that the trustees of CFC's multiemployer pension plans may assert claims that CNF is liable for amounts owing to the plans as a result of CFC's withdrawal from those plans. For further detailed discussion of this matter, see "Liquidity and Capital Resources - Spin-Off of CFC" under "Management's Discussion and Analysis."

3. Express Mail Contract

Under the Settlement Agreement described above under "Discontinued Operations - Priority Mail Contract", on September 28, 2001, EWA received a \$70.0 million provisional payment from the USPS to provisionally pay for termination costs and other claims related to EWA's Express Mail contract, which was terminated by the USPS "for convenience" effective August 26, 2001. The Settlement Agreement provides for the provisional payment to be adjusted if actual termination costs and other agreed-upon claims related to the Express Mail contract are greater or less than \$70.0 million, in which case either the USPS will be required to make an additional payment with interest, subject to the limitation described in the following paragraph, or EWA will be required to return a portion of the provisional payment with interest.

As of September 30, 2002 and December 31, 2001, the \$70.0 million provisional payment was included in Deferred Credits in CNF's Consolidated Balance Sheets. This amount will continue to be included in Deferred Credits until it is used to retire the remaining \$80.0

million in assets included in Deferred Charges related to the Express Mail contract. The Settlement Agreement provides that the total amount payable by the USPS for termination costs and other claims relating to the Express Mail contract, including the \$70.0 million provisional payment, may not exceed \$150.0 million. On December 14, 2001, EWA filed a termination settlement proposal with the USPS for recovery of EWA's costs of providing service under the terminated Express Mail contract as well as costs incurred by EWA's subcontractors for performing services under the Express Mail contract. Any recovery of such costs would be offset in whole or in part by the \$70.0 million provisional payment received in 2001.

Results of the former Express Mail contract are included in the Emery Forwarding reporting segment.

4. Restructuring Charges

In June 2001, Emery began an operational restructuring to align it with management's estimates of future business prospects for domestic heavy air freight and address changes in market conditions, which deteriorated due to a slowing domestic economy, loss of EWA's contracts with the USPS to transport Express Mail and Priority Mail and, to a lesser extent, loss of business to ground transportation providers.

The \$340.5 million restructuring charge recognized in the second quarter of 2001 consisted primarily of non-cash impairment charges, including the write-off of \$184.2 million for unamortized aircraft maintenance and \$89.7 million for aircraft operating supplies, equipment and other assets. Asset impairment charges were based on an evaluation of airfreight operations and, for certain assets, independent appraisals. Also included in the restructuring charge was \$66.6 million for estimated future cash expenditures related primarily to the return to the lessors of certain grounded aircraft leased to Emery and the termination of the related leases.

As described in "Menlo Worldwide-Emery Forwarding-Regulatory Matters" under "Management's Discussion and Analysis," the Federal Aviation Administration (FAA) required EWA to suspend its air carrier operations on August 13, 2001. In response to the FAA suspension, as well as the September 11, 2001 terrorist actions described below in Note 10, "Commitments and Contingencies - Terrorist Attacks," the growing unpredictability and uncertainty of the FAA's requalification process, and a worsening global economic downturn, Emery re-evaluated its restructuring plan. CNF announced on December 5, 2001 that Emery in 2002 would become part of CNF's new Menlo Worldwide group of supply chain services providers and would continue to provide full North American forwarding services utilizing aircraft operated by other air carriers instead of EWA's fleet of aircraft, and that EWA would cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Emery recognized additional restructuring charges of \$311.7 million for the planned disposal of leased aircraft, cessation of EWA's remaining operations, employee separation costs for 157 Emery employees, and other costs.

The restructuring charges in 2001 were based in part on significant estimates and assumptions made by Emery's management as to the amount and timing of aircraft rental payments and the costs of returning those aircraft upon expiration or early termination of the leases. The \$311.7 million restructuring charge recognized in the fourth quarter of 2001 includes primarily accruals for scheduled undiscounted rental payments for aircraft leased to Emery and estimated costs of returning those aircraft upon expiration or early termination of the related leases. Actual costs may differ from those estimates (due, among other things, to Emery's efforts to negotiate the early termination of aircraft leases and potential defaults under aircraft leases) and that difference would be recognized as additional expense or income in the period when and if that determination can be made. In the first nine months of 2002, Emery paid \$189.8 million for aircraft leases and return costs, primarily due to the negotiated early return of aircraft. At September 30, 2002, \$140.6 million of accrued aircraft leases and return costs were classified as current liabilities in the Consolidated Balance Sheets based primarily on Emery's intention to negotiate the early termination of those aircraft leases. See Note 10, "Commitments and Contingencies-Restructuring Charges and Regulatory Matters."

The following table represents the cumulative activity related to Emery's 2001 restructuring plan:

(In Millions)	Total Charges	Cumulative Cash Usage	Charged Against Assets	Reserves at September 30, 2002
	-----	-----	-----	-----
Employee separations	\$ 6.1	\$ (3.9)	\$ --	\$ 2.2
Asset impairments	278.0	--	(278.0)	--
Aircraft and other costs	368.1	(197.0)	--	171.1
	-----	-----	-----	-----
	\$ 652.2	\$ (200.9)	\$ (278.0)	\$ 173.3
	=====	=====	=====	=====

In October 2002, Emery paid an additional \$38.6 million in connection with the negotiated early return of 3 additional aircraft. As of October 31, 2002, Emery had returned 26 of EWA's fleet of 37 parked aircraft to lessors, leaving 11 unreturned aircraft.

There can be no assurance that Emery will not be required to incur additional charges or expend additional amounts in the future in connection with matters relating to the cessation of EWA's air carrier operations or the termination of EWA's aircraft leases, particularly if one or more of the events described in Note 10, "Commitments and Contingencies" were to occur, which could have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

5. Comprehensive Income (Loss)

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Net income (loss)	\$ 35,505	\$ 30,650	\$ 77,660	\$ (179,602)
Other comprehensive income (loss)				
Cumulative effect of accounting change, net of tax (Note 9)	--	--	--	3,005
Change in fair value of cash flow hedges (Note 9)	(16)	(2,210)	1,064	(4,831)
Foreign currency translation adjustment	472	494	3,587	(4,076)
	456	(1,716)	4,651	(5,902)
Comprehensive income (loss)	\$ 35,961	\$ 28,394	\$ 82,311	\$ (185,504)

The following is a summary of the components of Accumulated Other Comprehensive Loss:

(Dollars in thousands)	September 30, 2002	December 31, 2001
Cumulative effect of accounting change, net of tax (Note 9)	\$ --	\$ 3,005
Accumulated change in fair value of cash flow hedges (Note 9)	(479)	(4,548)
Accumulated foreign currency translation adjustments	(29,195)	(32,782)
Minimum pension liability adjustment	(11,099)	(11,099)
Accumulated other comprehensive loss	\$ (40,773)	\$ (45,424)

6. Business Segments

Selected financial information for CNF's continuing operations is shown below. CNF evaluates performance of the segments based on several factors. However, the primary measurement focus is based on segment operating results, excluding significant non-recurring and/or unusual items.

On December 5, 2001, CNF announced effective January 1, 2002, the formation of a new global supply chain services company called Menlo Worldwide, which for financial reporting purposes includes the operating results of Emery Forwarding, Menlo Worldwide Logistics, Menlo Worldwide Technologies, and Vector SCM.

Consistent with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," CNF discloses segment information in the manner in which the components are organized for making operating decisions, assessing performance and allocating resources. Accordingly, operating results are reported along CNF's three lines of business: Con-Way Transportation Services, Menlo Worldwide, and CNF Other. Within the Menlo Worldwide group, Emery Forwarding, Menlo Worldwide Logistics and Menlo Worldwide Other individually represent separate segments for financial reporting purposes. The Emery Forwarding reporting segment consists of Emery Forwarding and Emery Worldwide Airlines ("EWA"), a separate subsidiary of CNF that ceased its air carrier operations in December 2001. The Menlo Worldwide Other reporting segment consists of Menlo Worldwide Technologies and Vector SCM. The CNF Other reporting segment includes the operating results of Road Systems and certain CNF corporate activities. Operating results in the prior period have been reclassified to conform to the current-year reporting segment presentation.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Revenues Including Intersegment				
Con-Way Transportation Services	\$ 527,804	\$ 491,296	\$ 1,486,700	\$ 1,449,883
Menlo Worldwide				
Emery Forwarding	446,851	471,540	1,281,496	1,585,035
Menlo Worldwide Logistics	258,357	224,694	723,350	687,632
	<u>705,208</u>	<u>696,234</u>	<u>2,004,846</u>	<u>2,272,667</u>
CNF Other	3,273	6,986	9,968	23,906
	<u>1,236,285</u>	<u>1,194,516</u>	<u>3,501,514</u>	<u>3,746,456</u>
Intersegment Revenue Eliminations				
Con-Way Transportation Services	(115)	(145)	(312)	(569)
Menlo Worldwide				
Emery Forwarding	(54)	(55)	(151)	(194)
Menlo Worldwide Logistics	(3,335)	(2,976)	(10,208)	(8,816)
	<u>(3,389)</u>	<u>(3,031)</u>	<u>(10,359)</u>	<u>(9,010)</u>
CNF Other	(2,634)	(6,381)	(7,349)	(16,845)
	<u>(6,138)</u>	<u>(9,557)</u>	<u>(18,020)</u>	<u>(26,424)</u>
Revenues				
Con-Way Transportation Services	527,689	491,151	1,486,388	1,449,314
Menlo Worldwide				
Emery Forwarding	446,797	471,485	1,281,345	1,584,841
Menlo Worldwide Logistics	255,022	221,718	713,142	678,816
	<u>701,819</u>	<u>693,203</u>	<u>1,994,487</u>	<u>2,263,657</u>
CNF Other	639	605	2,619	7,061
	<u>\$ 1,230,147</u>	<u>\$ 1,184,959</u>	<u>\$ 3,483,494</u>	<u>\$ 3,720,032</u>
Operating Income (Loss)				
Con-Way Transportation Services	\$ 41,618	\$ 42,617	\$ 110,454	\$ 121,783
Menlo Worldwide				
Emery Forwarding	(4,979)	(46,975)	(16,600)	(423,964)
Menlo Worldwide Logistics	8,371	1,004	23,183	(13,078)
Menlo Worldwide Other	2,638	117	13,267	(6,178)
	<u>6,030</u>	<u>(45,854)</u>	<u>19,850</u>	<u>(443,220)</u>
CNF Other	(4,123)	(2,133)	(2,506)	(2,192)
	<u>\$ 43,525</u>	<u>\$ (5,370)</u>	<u>\$ 127,798</u>	<u>\$ (323,629)</u>

Unusual and/or Non-recurring Items Included in Operating Income (Loss) for the Periods Presented:

Con-Way Transportation Services -				
Net gain from the sale of property	\$ -	\$ -	\$ 8,675	\$ -
Menlo Worldwide -				
Emery Forwarding -				
Net gain from a payment under the Air Transportation Safety and System Stabilization Act	-	-	9,895	-
Loss from restructuring charge	-	-	-	(340,531)
Loss from a legal settlement on returned aircraft	-	-	-	(4,696)
Goodwill amortization	-	(2,570)	-	(8,055)
Express Mail operating income	-	1,795	-	5,433
Menlo Worldwide Logistics -				
Net gain from a contract termination	-	-	1,850	-
Loss from the business failure of a customer	-	(6,300)	-	(37,905)
CNF Other -				
Loss from the business failure of CFC	(3,595)	-	(3,595)	-
Net gain from the sale of property	-	-	2,367	-

7. Earnings Per Common Share

Basic earnings (loss) per common share (EPS) from continuing operations was computed by dividing net income (loss) from continuing operations (after preferred stock dividends) by the weighted-average common shares outstanding. The calculation for diluted EPS was calculated as shown below.

(Dollars in thousands except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Earnings (Loss):				
Net income (loss) from continuing operations	\$ 43,642	\$ (10,377)	\$ 81,749	\$ (224,748)
Add-backs:				
Dividends on preferred stock, net of replacement funding	278	-	871	-
Dividends on preferred securities of subsidiary trust, net of tax	954	-	2,862	-
	<u>\$ 44,874</u>	<u>\$ (10,377)</u>	<u>\$ 85,482</u>	<u>\$ (224,748)</u>
Shares:				
Basic shares (weighted-average common shares outstanding)	49,226,241	48,778,789	49,077,089	48,728,252
Stock options	627,607	-	722,029	-
Series B preferred stock	3,776,162	-	3,776,162	-
Preferred securities of subsidiary trust	3,125,000	-	3,125,000	-
	<u>56,755,010</u>	<u>48,778,789</u>	<u>56,700,280</u>	<u>48,728,252</u>
Diluted earnings (loss) per common share	<u>\$ 0.79</u>	<u>\$ (0.21)</u>	<u>\$ 1.51</u>	<u>\$ (4.61)</u>

For the three and nine months ended September 30, 2001, convertible securities and stock options were anti-dilutive. As a result, the assumed shares and related add-back to net income (loss) from continuing operations under the if-converted method have been excluded from the calculation of diluted EPS. If the securities were dilutive, the assumed shares under the if-converted method would have been as follows for the three months ended September 30, 2001: stock options - 409,344 shares, series B preferred stock - 4,427,742 shares, preferred securities of subsidiary trust - 3,125,000 shares. For the nine months ended September 30, 2001, the shares would have been as follows: stock options - 472,440 shares, series B preferred stock - 4,427,742 shares, preferred securities of subsidiary trust - 3,125,000 shares.

8. Preferred Securities of Subsidiary Trust

On June 11, 1997, CNF Trust I (the Trust), a Delaware business trust wholly owned by CNF, issued 2,500,000 of its \$2.50 Term Convertible Securities, Series A (TECONS) to the public for gross proceeds of \$125 million. The combined proceeds from the issuance of the TECONS and the issuance to CNF of the common securities of the Trust were invested by the Trust in \$128.9 million aggregate principal amount of 5% convertible subordinated debentures due June 1, 2012 (the Debentures) issued by CNF. The Debentures are the sole assets of the Trust.

Holder of the TECONS are entitled to receive cumulative cash distributions at an annual rate of \$2.50 per TECONS (equivalent to a rate of 5% per annum of the stated liquidation amount of \$50 per TECONS). CNF has guaranteed, on a subordinated basis, distributions and other payments due on the TECONS, to the extent the Trust has funds available therefore and subject to certain other limitations (the Guarantee). The Guarantee, when taken together with the obligations of CNF under the Debentures, the Indenture pursuant to which the Debentures were issued, and the Amended and Restated Declaration of Trust of the Trust, including its obligations to pay costs, fees, expenses, debts and other obligations of the Trust (other than with respect to the TECONS and the common securities of the Trust), provide a full and unconditional guarantee of amounts due on the TECONS.

The Debentures are redeemable for cash, at the option of CNF, in whole or in part, on or after June 1, 2000, at a price equal to 103.125% of the principal amount, declining annually to par if redeemed on or after June 1, 2005, plus accrued and unpaid interest. In certain circumstances relating to federal income tax matters, the Debentures may be redeemed by CNF at 100% of the principal plus accrued and unpaid interest. Upon any redemption of the Debentures, a like aggregate liquidation amount of TECONS will be redeemed. The TECONS do not have a stated maturity date, although they are subject to mandatory redemption upon maturity of the Debentures on June 1, 2012, or upon earlier redemption.

Each TECONS is convertible at any time prior to the close of business on June 1, 2012, at the option of the holder into shares of CNF's common stock at a conversion rate of 1.25 shares of CNF's common stock for each TECONS, subject to adjustment in certain circumstances.

9. Derivative Instruments and Hedging Activities

Effective January 1, 2001, CNF adopted SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138. SFAS 133 establishes accounting and reporting standards requiring that every derivative instrument, as defined, be recorded on the balance sheet as either an asset or liability measured at fair value and that changes in fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Qualifying hedges allow a derivative's gain or loss to offset related results on the hedged item in the income statement or be deferred in Other Comprehensive Income (Loss) until the hedged item is recognized in earnings.

CNF is exposed to a variety of market risks, including the effects of interest rates, commodity prices, foreign currency exchange rates and credit risk. CNF's policy is to enter into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to the related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure.

CNF formally documents its hedge relationships, including identifying the hedge instruments and hedged items, as well as its risk management objectives and strategies for entering into the hedge transaction. At hedge inception and at least quarterly thereafter, CNF assesses whether the derivatives are effective in offsetting changes in either the cash flows or fair value of the hedged item. If a derivative ceases to be a highly effective hedge, CNF will discontinue hedge accounting, and any gains or losses on the derivative instrument would be recognized in earnings during the period it no longer qualifies for hedge accounting.

For derivatives designated as cash flow hedges, changes in the derivative's fair value are recognized in Other Comprehensive Income (Loss) until the hedged item is recognized in earnings. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings. For derivatives designated as fair value hedges, changes in the derivative's fair value are recognized in earnings and offset by changes in the fair value of the hedged item, which are recognized in earnings to the extent that the derivative is effective.

CNF's cash flow hedges include interest rate swap derivatives designated to mitigate the effects of interest rate volatility on floating-rate operating lease payments. Fair value hedges include interest rate swap derivatives designated to mitigate the effects of interest rate volatility on the fair value of fixed-rate long-term debt. CNF's current interest rate swap derivatives qualify for hedge treatment under SFAS 133.

In accordance with the transition provisions of SFAS 133, in the first quarter of 2001 CNF recorded in Other Assets a transition adjustment of \$20.6 million to recognize the estimated fair value of interest rate swap derivatives, a \$4.9 million (\$3.0 million after tax) transition adjustment in Accumulated Other Comprehensive Income (Loss) to recognize the estimated fair value of interest rate swap derivatives designated as cash flow hedges, and a \$15.7 million transition adjustment in Long-Term Debt to recognize the estimated effect of interest rate changes on the fair value of fixed-rate debt, which is hedged with interest rate swap derivatives designated as fair value hedges.

In the third quarter and the first nine months of 2002, the estimated fair value of CNF's fair value hedges increased \$20.5 million and \$27.9 million respectively, and offset an equal increase in the estimated fair value of CNF's fixed-rate long-term debt attributable to interest rate changes. Cash flow hedges were essentially unchanged in the third quarter of 2002, while cash flow hedges in the first nine months of 2002 increased \$1.7 million (\$1.1 million after tax).

10. Commitments and Contingencies

IRS Matters

In August 2002, CNF entered into settlement agreements with the IRS, pursuant to which the parties settled an aircraft maintenance issue for the years 1987 through 2000, and all other open issues under IRS examinations for the years 1987 through 1996. Accordingly, CNF eliminated the related tax liabilities and recognized a \$25.0 million tax benefit in the third quarter of 2002. As a result of the settlement agreements, CNF was not required to make any additional payments to the IRS over and above a \$93.4 million payment made in respect to these issues in the third quarter of 2000. Certain issues remain open for the years 1997 through 2000, but management does not believe that the resolution of those issues is likely to have a material adverse effect on CNF's financial condition, cash flows, or results of operations.

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation ("CFC") to CNF's shareholders. In September 2002, CFC filed for bankruptcy and announced that it will cease most U.S. operations. CNF in the third quarter of 2002 accrued additional reserves of \$21.3 million in Accrued Claims Costs in the Consolidated Balance Sheets and recognized a \$13.0 million loss from discontinuance, net of \$8.3 million of income taxes, in connection with CNF's indemnities against the failure of CFC to pay certain workers' compensation and public liability claims that were pending as of September 30, 1996. For further detailed discussion of this matter, see Note 2, "Discontinued Operations."

In addition, CFC was, at the time of the spin-off, and remains a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations will result in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it will become obligated, under federal law, to pay its share of any unfunded vested benefits under those plans. It is possible that the trustees of CFC's multiemployer pension plans may assert claims that CNF is liable for amounts owing to the plans as a result of CFC's withdrawal from those plans. For further detailed discussion of this matter, see "Liquidity and Capital Resources - Spin-Off of CFC" under "Management's Discussion and Analysis."

Restructuring Charges and Regulatory Matters

Due in large part to the fourth-quarter 2001 restructuring charge incurred in connection with the cessation of EWA's air carrier operations as described in Note 4, "Restructuring Charges," CNF was required to obtain amendments to its bank revolving credit facility, which provide for the pledge of collateral by CNF and its principal subsidiaries upon specified downgrades of CNF's senior unsecured long-term debt securities. The restructuring charges recognized by Emery during 2001 reflect CNF's estimate of the costs of terminating EWA's air carrier operations, returning leased aircraft and restructuring Emery's business and related matters. Although CNF believes that the estimate is adequate to cover these costs based on information currently available and assumptions management believes are reasonable under the circumstances, Emery will be required to recognize additional charges or credits if actual results differ from management's estimates. Additional charges could result in defaults under CNF's bank revolving credit facility and other debt instruments and under aircraft leases. For further discussion of these matters, see "Results of Operations - Menlo Worldwide - Emery Forwarding - Regulatory Matters" and "Liquidity and Capital Resources - Restructuring Charges and Regulatory Matters" under "Management's Discussion and Analysis."

As a result of the matters discussed above and in "Management's Discussion and Analysis," CNF can provide no assurance that these matters will not have a material adverse effect on CNF's financial condition, cash flows, or results of operations in the future.

Terrorist Attacks

Operating results at Emery were adversely affected by the terrorist attacks on September 11, 2001. Contractors providing air carrier service to Emery were grounded on September 11 and 12 and did not resume service until the evening of September 13, which adversely affected Emery's results of operations.

In response to the terrorist attacks, the U.S. Congress passed the Air Transportation Safety and System Stabilization Act (the "Act"), a \$15 billion emergency economic assistance package intended to mitigate financial losses in the air carrier industry. The legislation provides for \$5 billion in direct loss reimbursement and \$10 billion in federal loan guarantees and credits, expands war risk insurance coverage for air carriers, and provides some government assistance for short-term increases in insurance premiums. In March 2002, Emery received an \$11.9 million payment under the Act, resulting in the recognition of a \$9.9 million first-quarter net gain in 2002. The payment made to Emery under the Act is subject to audit. Emery is seeking additional payments under the Act.

Emery is not able to accurately quantify how the events of September 11, or any subsequent terrorist activities, will affect the global economy, governmental regulation, the air transportation industry, Emery's costs of providing airfreight services and the demand for Emery's airfreight services. However, Emery believes that any additional security measures that may be required by future regulations could result in additional costs and could have an adverse effect on its operations and service.

Other

CNF is a defendant in various other lawsuits incidental to its businesses. It is the opinion of management that the ultimate outcome of these actions will not have a material impact on CNF's financial condition, cash flows, or results of operations.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

On December 5, 2001, CNF announced effective January 1, 2002, the formation of a new global supply chain services company called Menlo Worldwide, which for financial reporting purposes includes the operating results of Emery Forwarding, Menlo Worldwide Logistics, Menlo Worldwide Technologies, and Vector SCM.

Consistent with SFAS 131, "Disclosures about Segments of an Enterprise and Related Information," CNF discloses segment information in the manner in which the components are organized for making operating decisions, assessing performance and allocating resources. Accordingly, operating results are reported along CNF's three lines of business: Con-Way Transportation Services, Menlo Worldwide, and CNF Other. Within the Menlo Worldwide group, Emery Forwarding, Menlo Worldwide Logistics and Menlo Worldwide Other individually represent separate segments for financial reporting purposes. The Emery Forwarding reporting segment consists of Emery Forwarding and Emery Worldwide Airlines ("EWA"), a separate subsidiary of CNF that ceased its air carrier operations in December 2001. The Menlo Worldwide Other reporting segment consists of Menlo Worldwide Technologies and Vector SCM. The CNF Other reporting segment includes the operating results of Road Systems and certain CNF corporate activities. Operating results in the prior periods have been reclassified to conform to the current-year reporting segment presentation.

As used in Management's Discussion and Analysis, all references to CNF, "the Company," "we," "us," and "our" and all similar references mean CNF Inc. and its subsidiaries, unless otherwise expressly stated or the context otherwise requires.

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Estimates and Critical Accounting Policies
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CNF makes estimates and assumptions when preparing the financial statements in conformity with accounting principles generally accepted in the United States. These estimates and assumptions affect the amounts reported in the accompanying financial statements and notes thereto. Actual results could differ from those estimates. CNF's most critical accounting policies upon which management bases estimates are those relating to self-insurance reserves, income taxes, restructuring reserves and defined benefit pension plan costs.

Self-Insurance Reserves

CNF uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for medical, casualty, liability, vehicular, cargo and workers' compensation claims. Liabilities associated with the risks that are retained by CNF are estimated, in part, by considering historical claims experience, demographic factors, severity factors and other assumptions. The estimated accruals for these liabilities could be significantly affected if actual costs differ from these assumptions and historical trends.

Income Taxes

In establishing its deferred income tax assets and liabilities, CNF makes judgments and interpretations based on the enacted tax laws and published tax guidance that are applicable to its operations. CNF records deferred tax assets and liabilities and periodically evaluates the need for valuation allowances to reduce the deferred tax assets to realizable amounts. The likelihood of a material change in CNF's expected realization of these assets is dependent on future taxable income, its ability to use foreign tax credit carryforwards and carrybacks, final U.S. and foreign tax settlements, and the effectiveness of its tax planning strategies in the various relevant jurisdictions. CNF is also subject to examination of its income tax returns for multiple years by the Internal Revenue Service and other tax authorities. CNF periodically assesses the

likelihood of adverse outcomes resulting from these examinations to determine the adequacy of its provision and related accruals for income taxes.

Restructuring Reserves

 The restructuring charges recognized in 2001 were based on significant estimates and assumptions made by management. Refer to the "Menlo Worldwide - Emery Forwarding - Restructuring Charges" section under "Results of Operations" below for a description of some of the assumptions used and to Note 4 to the Consolidated Financial Statements, "Restructuring Charges" for the cumulative activity related to Emery's 2001 restructuring plan.

Defined Benefit Pension Plan

 CNF has a defined benefit pension plan that covers non-contractual employees in the United States. The amount recognized as pension expense depends upon a number of assumptions and factors including (i) the discount rate used to measure the present value of pension obligations and (ii) the actual rate of return on plan assets compared to the assumed rate of return. CNF adjusts its discount rate periodically to reflect market conditions, taking into account a number of factors including the advice of its outside actuaries. Rates of return on plan assets are affected by economic conditions and market fluctuations. CNF's assumed rate of return on plan assets, which has been unchanged since 1995, is based on the expected long-term rate of return on plan assets since inception of the plan.

In 2001, CNF reduced its discount rate to 7.25% from 7.75%. Actual returns on plan assets were a loss of approximately 4.9% compared to the assumed rate of return on plan assets of 9.5%. The decline in discount rate and asset values at December 31, 2001, the measurement date for estimating 2002 pension expense, increased estimated annual pension expense in 2002 by approximately \$7 million. However, the estimate is subject to assumptions and uncertainties and the actual change in 2002 pension expense could be different. If market trends continue, pension expense in 2003 may also increase over 2002. The Employee Retirement Income Security Act (ERISA) governs plan funding requirements, which are determined independently from pension expense. See "Liquidity and Capital Resources."

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RESULTS OF OPERATIONS

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Net income available to CNF common shareholders was \$33.5 million (\$0.61 per diluted share) in the third quarter of 2002 and \$71.6 million (\$1.33 per diluted share) in the first nine months of 2002 compared to \$28.6 million (\$0.59 per diluted share) for the third quarter of last year and a \$185.8 million net loss applicable to common shareholders (\$3.81 per diluted share) in the first nine months of last year. As described below under "Discontinued Operations", net income (loss) applicable to common shareholders for the third quarter and first nine months of 2002 included a \$10.1 million after-tax net loss (\$0.18 per diluted share) from discontinued operations, while the same periods of the prior year included a \$39.0 million after-tax gain (\$0.80 per diluted share) from discontinued operations.

Net income from continuing operations (Income from continuing operations after preferred stock dividends) in the third quarter and first nine months of 2002 was \$43.6 million (\$0.79 per diluted share) and \$81.7 million (\$1.51 per diluted share), respectively, compared to net losses from continuing operations of \$10.4 million (\$0.21 per diluted share) and \$224.7 million (\$4.61 per diluted share) in the same periods last year. Continuing operations in the first nine months of 2002 and 2001 included unusual and/or non-recurring items, as summarized below, while the third quarter of 2002 also included a \$25.0 million tax benefit from the settlement of aircraft maintenance and other matters under IRS examinations as described under "Liquidity and Capital Resources - IRS Matters".

Pre-tax Income (Expense) from unusual and/or non-recurring items:

(Thousands of dollars)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
Con-Way Transportation Services -				
Net gain from the sale of property	\$ -	\$ -	\$ 8,675	\$ -
Menlo Worldwide -				
Emery Forwarding -				
Net gain from a payment under the Air Transportation Safety and System Stabilization Act	-	-	9,895	-
Loss from restructuring charge	-	-	-	(340,531)
Loss from a legal settlement on returned aircraft	-	-	-	(4,696)
Goodwill amortization	-	(2,570)	-	(8,055)
Express Mail operating income	-	1,795	-	5,433
Menlo Worldwide Logistics -				
Net gain from a contract termination	-	-	1,850	-
Loss from the business failure of a customer	-	(6,300)	-	(37,905)
CNF Other -				
Loss from the business failure of CFC	(3,595)	-	(3,595)	-
Net gain from the sale of property	-	-	2,367	-

CONTINUING OPERATIONS

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 CNF's third-quarter revenue in 2002 rose 3.8% from the same period last year while revenue for the first nine months of 2002 fell 6.4% from the same period last year. In the third quarter of 2002, higher revenue from Con-Way and Menlo Worldwide Logistics was partially offset by lower revenue from Emery Forwarding. In the comparative nine-month period in 2002, higher revenue from Con-Way and Menlo Worldwide Logistics was more than offset by the decline in Emery Forwarding's revenue.

Operating income in the third quarter and first nine months of 2002 was \$43.5 million and \$127.8 million, respectively, compared to operating losses of \$5.4 million and \$323.6 million in the respective periods last year. Excluding the net effect of the above unusual and/or non-recurring items in 2002 and 2001, operating income in the third quarter of 2002 would have been \$47.1 million compared to \$1.7 million in the third quarter of 2001, and operating income in the first nine months of 2002 would have been \$108.6 million compared to \$62.1 million in the same period last year due primarily to a decline in Emery Forwarding's operating losses.

Other net expense in the third quarter and first nine months of 2002 rose 23.4% and 6.6%, respectively, compared to the same periods last year. Other net expense in the third quarter and first nine months of 2002 was positively affected by lower interest expense on long-term debt, which was effectively converted from fixed-rate to floating-rate with interest rate swaps. Declines in the cash surrender value of corporate-owned life insurance policies adversely affected other net expense in the third quarter and first nine months of 2002 compared to the same periods last year, which benefited from gains on those policies.

The effective tax benefit rate of 34.9% for the third quarter of 2002 and the effective tax rate of 14.7% for the first nine months of 2002 reflects the \$25.0 million tax benefit

recognized in the third quarter of 2002 upon settlement of IRS matters described under "Liquidity and Capital Resources - IRS Matters". Last year's third-quarter effective tax rate was 39.0%, while the tax benefit rate for the first nine months of 2001 was 37.0%, which resulted primarily from the significant unusual charges recognized in June 2001.

Con-Way Transportation Services

Revenue for Con-Way Transportation Services (Con-Way) in the third quarter and first nine months of 2002 increased 7.4% and 2.6%, respectively, from the same periods last year due to higher revenue from Con-Way's regional carriers and from Con-Way's emerging businesses, including Con-Way NOW (NOW), Con-Way Logistics (CLI) and Con-Way Air Express (CAX). In the third quarter and first nine months of 2002, the collective revenue of NOW, CLI and CAX increased \$5.7 million and \$16.6 million, respectively, over the same periods last year. The regional carriers' revenue per day in the third quarter of 2002 increased 4.9% over last year's third quarter on a 4.5% increase in revenue per hundredweight (yield) and a 0.4% increase in total and less-than-truckload (LTL) weight per day (weight). Regional-carrier revenue per day in the first nine months of 2002 increased 1.7% over the same period last year as total and LTL weight increased 0.9% and yield rose 0.8%. The slight weight increases in the third quarter and first nine months of 2002 were achieved despite the loss of a major customer in the first quarter of 2002, which customer accounted for minimal profit on an estimated \$75 million of annual revenue in 2001. However, the loss of this customer had a positive effect on yield in the quarter and nine months ended September 30, 2002 compared to the same periods in the prior year. Yield in the third quarter and first nine months of 2002 was also positively affected by a higher percentage of interregional joint services, which typically command higher rates on longer lengths of haul. Management believes that weight in the third quarter benefited slightly from the bankruptcy of a competitor in September 2002. Yield in the first nine months of 2002 also benefited from higher fuel surcharges compared to the nine-month period last year.

Con-Way's third-quarter operating income in 2002 fell 2.3% from 2001 to \$41.6 million and operating income in the first nine months of 2002 declined 9.3% from last year to \$110.5 million. Excluding an unusual first-quarter 2002 net gain of \$8.7 million from the sale of excess property, operating income in the third quarter and first nine months of 2002 fell 2.3% and 16.4%, respectively, from the same periods last year due primarily to higher employee compensation, variable compensation, and benefits expense, which collectively increased 12.2% and 8.6% over the respective periods last year. The third quarter and first nine months of both 2002 and 2001 were adversely affected by operating losses from Con-Way Air Express, which began operations in May 2001, and Con-Way Logistics.

In July 2002, Con-Way announced the formation of Extended Service Lanes (ESLs), which added next-day and second-day delivery service to over six thousand cities within the Con-Way LTL network. ESLs utilize special sleeper-team operations that are intended to replace two-day service with next-day service in a large number of markets as well as expand the coverage of second-day service. In September 2002, Con-Way began offering Con-Way Deferred, a shipping option to move transcontinental shipments for price-sensitive customers under the Con-Way Value Zone brand. Con-Way Deferred is the second lower-cost shipping option introduced by Con-Way in 2002. In January 2002, Con-Way opened Con-Way Full Load, a full truckload brokerage operation.

Menlo Worldwide

Emery Forwarding

Operating Results

Third-quarter revenue for Emery Forwarding (Emery) in 2002 declined 5.2% from the same period last year due primarily to the termination by the United States Postal Service (the "USPS") of EWA's contract to transport Express Mail, effective August 26, 2001, as described below under " - Express Mail Contract." Revenue for the first nine months of

2002 declined 19.1% from the same period last year, due primarily to the termination of the Express Mail contract and to a decline in North American revenue from the same period last year. In the third quarter and first nine months of last year, Emery recognized revenue of \$24.5 million and \$113.8 million, respectively, from the Express Mail contract. Emery's third quarter of 2002 included one more working day than the same quarter of last year while the nine months of 2002 included the same number of working days as the same period of 2001.

Average international airfreight revenue per day in the third quarter of 2002, including fuel surcharges, increased 2.5% from the same quarter of last year as international average pounds transported per day (weight) increased 2.4% and revenue per pound (yield) increased 0.2%. International airfreight revenue per day in the first nine months of 2002 decreased 6.3% from the first nine months of last year due primarily to a 5.8% drop in yield and a 0.6% decline in weight. Emery's management believes that weight in the third quarter of 2002 reflects an improving freight market in international regions served by Emery, particularly the Asian region, while weight in the third quarter and first nine months of last year was adversely affected by the September 11, 2001 terrorist incident described below under " - Terrorist Attacks." International yields in the third quarter and first nine months of 2002 were negatively affected by a decline in fuel surcharges from the same periods last year.

Average North American airfreight revenue per day in the third quarter of 2002, including surcharges, fell 6.2% from the third quarter of 2001 due to a 10.4% decline in yield, partially offset by a 4.6% increase in weight. Average North American airfreight revenue per day in the first nine months of 2002, including surcharges, fell 19.7% due to a decline in weight per day of 10.2% and a decline in yield of 10.7%. Emery's management believes weight in the first three quarters of 2002 was negatively affected by weaker U.S. economic conditions, a reduction in the number of aircraft routes and domestic markets served by Emery, lower fuel surcharges, and a loss of business to ground transportation providers, while the same periods last year were adversely affected by lost business from the September 11, 2001 terrorist attacks. Emery's management also believes that lower yield in the third quarter and first nine months of last year was due in part to Emery's efforts to increase second-day and economy service, which contributed to a higher percentage of lower-yield service offerings and a lower percentage of higher-yielding next-day service.

Emery's operating loss for the third quarter and first nine months of 2002 was \$5.0 million and \$16.6 million, respectively, compared to operating losses of \$47.0 million and \$424.0 million in the third quarter and first nine months of last year. The first quarter of 2002 included a \$9.9 million net gain from a payment under the Air Transportation Safety and System Stabilization Act. The third quarter and first nine months of last year included several unusual and/or non-recurring items, including a \$340.5 million restructuring charge; a \$4.7 million loss from a legal settlement; \$8.1 million of goodwill amortization, which was eliminated upon the adoption of SFAS 142, "Goodwill and Other Intangible Assets," effective January 1, 2002; and \$5.4 million of operating income from the Express Mail contract with the USPS, which was terminated effective August 26, 2001. Excluding unusual and/or non-recurring items, Emery would have had an operating loss of \$5.0 million in the third quarter of 2002 compared to an operating loss of \$46.2 million in the third quarter of 2001, and an operating loss of \$26.5 million in the first nine months of 2002 compared to an operating loss of \$76.1 million in the first nine months of 2001. Despite lower revenues, operating losses in the third quarter and first nine months of 2002 were reduced from the same periods last year, in each case after excluding unusual and/or non-recurring items, primarily through decreases in airhaul costs, which in the third quarter of last year included approximately \$17 million of additional net expense as a result of the suspension of EWA's carrier operations; employee compensation and benefits, which declined 15.5% and 21.4% from the respective periods last year; and depreciation, aircraft rentals and other aircraft-related expenses.

Restructuring Charges

In June 2001, Emery began an operational restructuring to align it with management's estimates of future business prospects for domestic heavy air freight and address changes

in market conditions, which deteriorated due to a slowing domestic economy, loss of EWA's contracts with the USPS to transport Express Mail and Priority Mail and, to a lesser extent, loss of business to ground transportation providers.

The \$340.5 million restructuring charge recognized in the second quarter of 2001 consisted primarily of non-cash impairment charges, including the write-off of \$184.2 million for unamortized aircraft maintenance and \$89.7 million for aircraft operating supplies, equipment and other assets. Asset impairment charges were based on an evaluation of airfreight operations and, for certain assets, independent appraisals. Also included in the restructuring charge was \$66.6 million for estimated future cash expenditures related primarily to the return to the lessors of certain grounded aircraft leased to Emery and the termination of the related leases.

As described below under "—Regulatory Matters," the Federal Aviation Administration (FAA) required EWA to suspend its air carrier operations on August 13, 2001. In response to the FAA action, as well as the September 11, 2001 terrorist actions described below under " - Terrorist Attacks," the growing unpredictability and uncertainty of the FAA's requalification process, and a worsening global economic downturn, Emery re-evaluated its restructuring plan. As described above, CNF announced on December 5, 2001 that Emery in 2002 would become part of CNF's new Menlo Worldwide group of supply chain services providers and would continue to provide full North American forwarding services utilizing aircraft operated by other air carriers instead of EWA's fleet of aircraft, and that EWA would cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Emery recognized additional restructuring charges of \$311.7 million for the planned disposal of leased aircraft, cessation of EWA's remaining operations, employee separation costs for 157 Emery employees, and other costs.

The restructuring charges in 2001 were based in part on significant estimates and assumptions made by Emery's management as to the amount and timing of aircraft rental payments and the costs of returning those aircraft upon expiration or early termination of the leases. The \$311.7 million restructuring charge recognized in the fourth quarter of 2001 includes primarily accruals for scheduled undiscounted rental payments for aircraft leased to Emery and estimated costs of returning those aircraft upon expiration or early termination of the related leases. Actual costs may differ from those estimates (due, among other things, to Emery's efforts to negotiate the early termination of aircraft leases and potential defaults under aircraft leases) and that difference would be recognized as additional expense or income in the period when and if that determination can be made. In the first nine months of 2002, Emery paid \$189.8 million for aircraft leases and return costs, primarily due to the negotiated early return of aircraft. At September 30, 2002, \$140.6 million of accrued aircraft leases and return costs were classified as current liabilities in the Consolidated Balance Sheets based primarily on Emery's intention to negotiate the early termination of those aircraft leases. In October 2002, Emery paid an additional \$38.6 million in connection with the negotiated early return of 3 additional aircraft. As of October 31, 2002, Emery had returned 26 of EWA's fleet of 37 parked aircraft to lessors, leaving 11 unreturned aircraft. See "—Regulatory Matters" and "Liquidity and Capital Resources—Restructuring Charges and Regulatory Matters" below.

Refer to Note 4 to the Consolidated Financial Statements, "Restructuring Charges," for the cumulative activity related to Emery's 2001 restructuring plan.

Regulatory Matters

Internationally, Emery operates as an air freight forwarder using mostly commercial airlines to transport freight. Prior to the suspension and subsequent cessation of EWA's air carrier operations in 2001, Emery provided air transportation services in North America using owned and leased aircraft operated by EWA and aircraft operated by third parties.

Until August 13, 2001, EWA operated as an airline. Although EWA has ceased air carrier operations, EWA still has an air carrier certificate issued by the FAA and is subject to maintenance, operating and other safety-related regulations promulgated by the FAA and is

subject to FAA inspections. Based on issues identified during inspections conducted by the FAA, on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA. On December 5, 2001, CNF announced that EWA was ceasing its air carrier operations. Since EWA's suspension of its air carrier operations on August 13, 2001, Emery has been providing services to its customers in North America by utilizing aircraft operated by other air carriers. This resulted in substantial additional expense during 2001, partially offset by savings resulting from the furlough of approximately 800 EWA employees as described in the next paragraph. Emery intends to continue to use aircraft operated by third parties to provide service to its customers in North America, which will result in Emery continuing to pay both the ongoing lease payments and other costs associated with EWA's remaining fleet of grounded aircraft in addition to the cost of having other air carriers provide service to Emery's North American customers. However, for financial reporting purposes, Emery's operating expenses will continue to include the cost of aircraft operated by other carriers but will not include the scheduled rental payments relating to EWA's remaining fleet of grounded aircraft and the costs of returning those aircraft upon expiration or early termination of the related leases, except to the extent that those rental payments and the costs of returning those aircraft upon expiration or early termination of the related leases differ from the corresponding amounts already accrued as part of the 2001 restructuring charges.

As a result of EWA's suspension of its air carrier operations on August 13, 2001, EWA furloughed approximately 400 pilots and crewmembers. Those pilots and crewmembers are represented by the Air Line Pilots Association (ALPA) union under a collective bargaining agreement and ALPA filed a grievance on their behalf protesting the furlough. The grievance sought pay during the course of the suspension and was subject to binding arbitration. In October 2002, the arbitrator ruled in favor of EWA, holding that EWA was excused from compliance with the "no-furlough" provision of the collective bargaining agreement, and holding that pilots and crewmembers were entitled only to two weeks' severance pay.

On December 5, 2001, EWA announced that it would cease operating as an air carrier, and in connection therewith terminated the employment of all of its pilots and crewmembers, bringing the total number of terminated employees in 2001 to 800. Subsequently, ALPA filed a grievance on behalf of the pilots and crewmembers protesting the cessation of EWA's air carrier operations and Emery's use of other air carriers. Some aspects of the ALPA matters may be subject to binding arbitration. Based on CNF's current evaluation, management believes that it has addressed its estimated exposure related to the ALPA matters. However, there can be no assurance in this regard as CNF cannot predict with certainty the ultimate outcome of these matters.

In a final settlement agreement with the FAA entered into on September 17, 2001, EWA agreed to pay a \$1 million civil penalty related to alleged operations, avionics, and maintenance irregularities. The final settlement agreement was first amended on December 4, 2001 as a result of Emery's decision to terminate EWA's air carrier operations. Under the first amended settlement agreement, the FAA agreed not to take action to revoke EWA's air carrier certificate until, at the earliest, May 15, 2002. The FAA agreed on May 13, 2002 to an extension of the certificate until December 4, 2002. Under a second amended settlement agreement, the FAA agreed not to take action to suspend or revoke the air carrier certificate until December 4, 2002, and EWA agreed to surrender the certificate not later than December 4, 2002. Based on current circumstances, management believes that there is a reasonable possibility that EWA will be able to complete negotiations relating to the early termination of leases of substantially all of its aircraft on acceptable terms before December 4, 2002, although there can be no assurance in this regard. While the matter is not free from doubt, if EWA has not terminated all of its aircraft leases before it surrenders its certificate on December 4, 2002, the surrender of EWA's certificate may constitute a default under leases pursuant to which EWA leases some of its remaining aircraft. However, management believes that any lease defaults that might result from EWA's surrender of its certificate would not have a material adverse effect on CNF's financial condition or results of operations. As of October 31, 2002, approximately \$15 million of scheduled rental payments accrued in connection with Emery's restructuring charges relate to leases for which management believes the surrender of EWA's certificate

may constitute a default. See "Liquidity and Capital Resources—Restructuring Charges and Regulatory Matters" for further discussion.

Due in large part to the fourth-quarter 2001 restructuring charge incurred in connection with the cessation of EWA's air carrier operations, CNF was required to obtain amendments to its bank revolving credit agreement in December 2001 in order to remain in compliance with the financial covenants in that agreement. CNF can provide no assurance that events relating to the cessation of EWA's air carrier operations will not result in a future breach of the financial covenants under CNF's revolving credit facility. See "Liquidity and Capital Resources—Restructuring Charges and Regulatory Matters" for further discussion.

Terrorist Attacks

Operating results at Emery were adversely affected by the terrorist attacks on September 11, 2001. Contractors providing air carrier service to Emery were grounded on September 11 and 12 and did not resume service until the evening of September 13, which adversely affected Emery's results of operations.

In response to the terrorist attacks, the U.S. Congress passed the Air Transportation Safety and System Stabilization Act (the "Act"), a \$15 billion emergency economic assistance package intended to mitigate financial losses in the air carrier industry. The legislation provides for \$5 billion in direct loss reimbursement and \$10 billion in federal loan guarantees and credits, expands war risk insurance coverage for air carriers, and provides some government assistance for short-term increases in insurance premiums. In March 2002, Emery received an \$11.9 million payment under the Act, resulting in the recognition of a \$9.9 million first-quarter net gain in 2002. The payment made to Emery under the Act is subject to audit. Emery is seeking additional payments under the Act.

Emery is not able to accurately quantify how the events of September 11, or any subsequent terrorist activities, will affect the global economy, governmental regulation, the air transportation industry, Emery's costs of providing airfreight services and the demand for Emery's airfreight services. However, Emery believes that any additional security measures that may be required by future regulations could result in additional costs and could have an adverse effect on its operations and service.

Express Mail Contract

In January 2001, the USPS and Federal Express Corporation (FedEx) announced an exclusive agreement under which FedEx will transport Express Mail and Priority Mail. EWA transported Express Mail and other classes of mail for the USPS under a contract (the "Express Mail contract"), which was originally scheduled to expire in January 2004; however, the USPS terminated the Express Mail contract "for convenience" effective August 26, 2001.

On September 26, 2001, EWA entered into an agreement with the USPS to settle claims relating to its Priority Mail contract with the USPS (the "Settlement Agreement"), which is described below under "Discontinued Operations." Under the Settlement Agreement, EWA received a \$235.0 million payment from the USPS on September 28, 2001 to settle all non-termination claims under the Priority Mail contract and a \$70.0 million provisional payment from the USPS for termination costs and other claims related to the Express Mail contract. The Settlement Agreement provides for the provisional payment to be adjusted if actual termination costs and other agreed-upon claims relating to the Express Mail contract are greater or less than \$70.0 million, in which case either the USPS will be required to make an additional payment with interest, subject to the limitation described in the following paragraph, or EWA will be required to return a portion of the provisional payment with interest.

As of September 30, 2002 and December 31, 2001, the \$70.0 million provisional payment was included in Deferred Credits in CNF's Consolidated Balance Sheets. This amount will continue to be included in Deferred Credits until it is used to retire the remaining \$80.0 million in assets related to the Express Mail contract. The Settlement Agreement provides

that the total amount payable by the USPS for termination costs and other claims relating to the Express Mail contract, including the \$70.0 million provisional payment, may not exceed \$150.0 million. On December 14, 2001, EWA filed a termination settlement proposal with the USPS for recovery of EWA's costs of providing service under the terminated Express Mail contract as well as costs incurred by EWA's subcontractors for performing services under the Express Mail contract. Any recovery of such costs would be offset in whole or in part by the \$70.0 million provisional payment received in 2001.

Outlook

Under the new Menlo Worldwide group, management will continue Emery's focus on expanding its variable-cost-based international operations and actively renegotiating airhaul rates and customer pricing in an effort to improve international operating margins. In North America, management will continue to position Emery as a freight forwarder utilizing aircraft operated by other carriers. As a result, management strategy is to implement a more flexible variable-cost-based operating structure in North America with an increase in revenue from second-day and deferred services and a decline in revenue from next-day freight services, although there can be no assurance this will occur. Management will continue its efforts to reduce Emery's costs by initiatives intended to reduce the cost structure of the North American service center and hub network and administrative costs.

Menlo Worldwide Logistics

Third-quarter 2002 revenue of \$255.0 million for Menlo Worldwide Logistics increased 15.0% over the same quarter last year, while revenue of \$713.1 million in the first nine months of 2002 rose 5.1% from the first nine months of last year due primarily to higher revenue recognized from carrier and warehouse management services, partially offset by lower revenue from contract carriage services.

A portion of Menlo Worldwide Logistics' revenue is attributable to logistics contracts for which Menlo Worldwide Logistics manages the transportation of freight but subcontracts the actual transportation and delivery of products to third parties. Menlo Worldwide Logistics refers to this as purchased transportation. Menlo Worldwide Logistics' net revenue (revenue less purchased transportation) in the third quarter and first nine months of 2002 was \$77.3 million and \$209.3 million, respectively, compared to \$66.3 million and \$206.5 million, respectively, in the same periods of 2001.

Menlo Worldwide Logistics' operating income in the third quarter and first nine months of 2002 was \$8.4 million and \$23.2 million compared to operating income of \$1.0 million in the third quarter of last year and an operating loss of \$13.1 million in the first nine months of last year. The first nine months of 2002 included a \$1.9 million first-quarter net gain from the early termination of a contract. Operating loss in the first nine months of last year reflects a \$31.6 million second-quarter loss and a \$6.3 million third-quarter loss from the business failure of a customer. Excluding these unusual and/or non-recurring items, operating income in the third quarter of 2002 would have been \$8.4 million compared to \$7.3 million in the third quarter of 2001, a 14.6% increase, and operating income in the first nine months of 2002 would have been \$21.3 million compared to \$24.8 million in the comparable period of 2001, a decline of 14.1%. The third quarter and first nine months of 2002 benefited from higher revenues but were adversely affected by employee compensation and benefits expense, which increased 11.3% and 7.8%, respectively, from the third quarter and first nine months of last year. Operating income in the first nine months of 2001 included \$2.6 million of operating income recognized on a customer that later filed for bankruptcy in the second quarter of last year.

Menlo Worldwide Other

The Menlo Worldwide Other reporting segment includes the results of Vector SCM and Menlo Worldwide Technologies. Vector SCM (Vector) is a joint venture formed with General Motors in December 2000 to provide logistics services to General Motors. Although CNF owns a majority equity interest in Vector, the operating results of Vector are reported as an

equity-method investment based on General Motors' ability to control certain operating decisions.

CNF reported operating income from Vector of \$2.6 million and \$13.3 million in the third quarter and first nine months of 2002, respectively, compared to third-quarter operating income of \$0.1 million in 2001 and an operating loss of \$6.2 million in the first nine months of 2001, which was incurred during Vector's start-up phase. CNF's operating income for the first nine months of 2002 included substantially all of Vector's net income for that period (rather than CNF's pro rata portion of that net income), because CNF is contractually entitled to substantially all of Vector's net income to the extent of Vector's cumulative losses; under the contract, all of Vector's losses in prior periods were allocated to CNF. During the second quarter of 2002, CNF's allocated cumulative losses from the Vector joint venture had been recouped through allocated net income. As a result, General Motors began sharing in Vector's net income in the third quarter of 2002. Accordingly, CNF's proportionate share of any quarterly net income that may be generated by Vector will be lower than what would have been reportable by CNF if CNF continued to be allocated substantially all of Vector's net income or losses, as was the case in 2001 and the first half of 2002. Vector's operating results in the third quarter of 2002 were adversely affected by delays in implementing new business cases.

CNF Other

The CNF Other segment includes the results of Road Systems and certain corporate activities. Operating losses of \$4.1 million and \$2.5 million in the third quarter and first nine months of 2002, respectively, included a \$3.6 million third-quarter loss from the business failure of CFC, which was partially offset in the nine-month period by a \$2.4 million first-quarter net gain from the sale of excess corporate properties. An operating loss of \$2.1 million in the third quarter and first nine months of last year was due primarily to the net effect of various corporate items.

DISCONTINUED OPERATIONS

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Priority Mail

On November 3, 2000, EWA and the U.S. Postal Service (USPS) announced an agreement (the "Termination Agreement") to terminate their contract for the transportation and sortation of Priority Mail (the "Priority Mail contract"). As described more fully in Note 2 to the Consolidated Financial Statements, "Discontinued Operations", all claims relating to amounts owed to EWA under the Priority Mail contract have been settled. As a result of USPS' payments under the Termination Agreement in January 2001 and July 2002, EWA recognized a 2002 third-quarter gain from discontinuance of \$2.9 million, net of \$1.8 million of income taxes. As a result of a USPS payment under the Settlement Agreement in September 2001, EWA recognized a 2001 third-quarter gain from discontinuance of \$39.0 million, net of \$24.9 million of income taxes.

As a result of the termination of the Priority Mail contract, the results of operations and cash flows of the Priority Mail operations have been segregated and classified as discontinued operations. Summary financial data and related information are included in Note 2 to the Consolidated Financial Statements, "Discontinued Operations."

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation ("CFC") to CNF's shareholders. In connection with the spin-off of CFC, CNF agreed to indemnify certain states, insurance companies and sureties against the failure of CFC to pay certain workers' compensation, tax and public liability claims that were pending as of September 30, 1996. In some cases, these indemnities are supported by letters of credit and surety bonds under which CNF is liable to the issuing bank or the surety company.

In September 2002, CFC filed for bankruptcy and announced that it will cease most U.S. operations. Following the commencement of its bankruptcy proceeding, CFC ceased making payments with respect to these workers' compensation and public liability claims. CNF has taken over payment of some of these claims, and expects that demands for payment will likely be made against it with respect to the remaining claims. CNF estimates the aggregate amount of all of these claims, plus related costs, to be \$21.3 million. As a result, CNF accrued additional reserves of \$21.3 million in Accrued Claims Costs in the Consolidated Balance Sheets and recognized a \$13.0 million loss from discontinuance, net of \$8.3 million of income taxes, in the third quarter of 2002. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of these claims, although there can be no assurance that CNF will be successful in recovering all or any portion of such payments.

In addition, CFC was, at the time of the spin-off, and remains a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations will result in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it will become obligated, under federal law, to pay its share of any unfunded vested benefits under those plans. It is possible that the trustees of CFC's multiemployer pension plans may assert claims that CNF is liable for amounts owing to the plans as a result of CFC's withdrawal from those plans. For further detailed discussion of this matter, see "Liquidity and Capital Resources - Spin-Off of CFC".

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LIQUIDITY AND CAPITAL RESOURCES

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In the first nine months of 2002, cash and cash equivalents decreased by \$62.5 million to \$338.3 million at September 30, 2002. Net capital expenditures of \$65.8 million and \$50.7 million of net cash used in financing activities were funded with the reduction in cash and by cash from operating activities. Net cash provided by operating activities in the nine months ended September 30, 2002 was \$49.2 million despite pension fund payments and significant payments for aircraft leases and return costs in that period.

Operating activities in the first nine months of 2002 generated net cash of \$49.2 million compared to \$269.6 million of cash generated by operating activities in the first nine months of 2001. Cash from continuing operations in the first nine months of 2002 was provided primarily by net income before non-cash items (including mostly depreciation, amortization, deferred income taxes, and gains from sales of property). Positive operating cash flows in the first nine months of 2002 were also provided by an increase in accrued liabilities, which consisted primarily of a higher accrual for employee compensation. Cash outflows from operations in the first nine months of 2002 included primarily aircraft lease payments and return costs, which are described below under "- Restructuring Charges and Regulatory Matters"; defined benefit pension plan funding payments of \$75.0 million; an increase in accounts receivable; and a decline in income taxes.

Investing activities in the first nine months of 2002 used cash of \$65.8 million, a \$109.9 million decline from the first nine months of 2001. Capital expenditures of \$67.4 million in the first nine months of 2002 fell from \$166.7 million in the first nine months of 2001 primarily due to capital expenditure reductions at all reporting segments, including primarily a \$75.4 million decline at Con-Way and a \$12.8 million reduction at Emery Forwarding. Financing activities in the first nine months of 2002 used cash of \$50.7 million compared to \$30.6 million used in the first nine months of 2001, due primarily to capital lease payments on aircraft in the first nine months of 2002.

CNF has a \$385 million revolving credit facility that matures on July 3, 2006. The revolving credit facility is also available for the issuance of letters of credit up to \$385 million, although the aggregate amount of letters of credit outstanding under the facility at any time reduces the amount of borrowings available under the facility at that

time by a like amount. At September 30, 2002, no borrowings were outstanding under the facility and \$205.5 million of letters of credit were outstanding, leaving \$179.5 million of available capacity for additional letters of credit or cash borrowings, subject to compliance with financial covenants and other customary conditions to borrowing. CNF had other uncommitted unsecured credit facilities totaling \$103.0 million at September 30, 2002, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of \$64.2 million was outstanding under these facilities. Of the total letters of credit outstanding at September 30, 2002, \$198.6 million provided collateral for CNF workers compensation and vehicular self-insurance programs.

Restructuring Charges and Regulatory Matters

Due in large part to the fourth-quarter 2001 restructuring charge incurred in connection with the cessation of EWA's air carrier operations as described above under "Results of Operations-Continuing Operations-Menlo Worldwide-Emery Forwarding-Restructuring Charges," CNF was required to obtain amendments to its bank revolving credit agreement in December 2001 in order to remain in compliance with the financial covenants in that agreement. The amended credit agreement provides that, if CNF's senior unsecured long-term debt securities are rated at less than "BBB-" by Standard & Poor's and less than "Baa3" by Moody's, CNF, including its principal subsidiaries, will be required to pledge its accounts receivable as collateral to secure borrowings and other amounts due under the credit facility, subject to specified limitations, and, if the aggregate borrowings and other amounts due under the credit facility exceed a specified amount, CNF, including its principal subsidiaries, will be required to provide such additional collateral as the agent bank under the credit facility may reasonably request. CNF's senior unsecured long-term debt is currently rated "BBB-" by Standard & Poor's with a stable outlook and "Baa3" by Moody's with a negative outlook, and, as a result, any further reduction in CNF's senior unsecured long-term debt ratings by both of these credit rating agencies will require that CNF, including its principal subsidiaries, pledge collateral to secure the credit facility as described above. To the extent CNF, including its principal subsidiaries, pledges collateral to secure amounts due under the debt facility, CNF, including its principal subsidiaries, may also be required to pledge some or all of that collateral to equally and ratably secure its \$200 million aggregate principal amounts of 8 7/8% notes due 2010 and its \$100 million aggregate principal amount of 7.35% notes due 2005, and \$111.8 million aggregate principal amount of notes due through 2009 issued by CNF's Thrift and Stock Plan ("TASP"), which are guaranteed by CNF.

CNF cannot provide assurance that matters relating to the cessation of EWA's air carrier operations will not have a material adverse effect on CNF's financial condition, cash flows, or results of operations in the future. Emery intends to continue to use aircraft operated by third parties to provide service to its customers in North America, which will continue to result in Emery making additional cash payments, primarily because Emery will be required to pay both the ongoing lease payments and other payments associated with EWA's remaining fleet of grounded aircraft in addition to payments to other air carriers providing service to Emery's North American customers.

In addition, the restructuring charges recognized by Emery during 2001 reflect CNF's estimate of the costs of terminating EWA's air carrier operations and restructuring Emery's business and related matters. CNF believes that the estimate is adequate to cover these costs based on information currently available and assumptions management believes are reasonable under the circumstances. However, there can be no assurance that actual costs will not differ from this estimate, and if such costs exceed CNF's estimate Emery will be required to recognize additional charges, which could result in defaults under CNF's \$385 million credit facility and other debt instruments and under aircraft leases, or other costs and expenses in connection with these matters. If any of the financial covenants in its \$385 million debt facility are breached, CNF will be required to obtain appropriate waivers or amendments from the requisite banks under the credit facility. If CNF is unable to obtain these amendments or waivers, CNF would be in default under the credit facility, and would be prohibited from making borrowings and from obtaining additional letters of credit under the revolving credit facility and could be required by the banks to repay any outstanding borrowings and replace letters of credit outstanding under the facility. Under cross-default or cross-acceleration clauses contained in other

debt instruments to which CNF is a party, these events could also result in other indebtedness becoming or being declared due and payable prior to its stated maturity. Moreover, to the extent that collateral was provided to secure borrowings and other amounts due under the \$385 million facility or the notes described above, the banks or the noteholders would generally be entitled to take possession of the collateral following a default. There can be no assurance that CNF would be able to obtain the necessary waivers or amendments under the \$385 million bank credit agreement were any such defaults to occur or to obtain additional financing to repay indebtedness or replace letters of credit that may become due as a result of those defaults. As a result, if a default were to occur under CNF's \$385 million credit facility and if CNF is unable to obtain all required amendments or waivers, this would likely have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

Holders of certain notes issued by CNF's TASP, which are guaranteed by CNF, have the right to require CNF to repurchase those notes if, among other things, both Moody's and Standard & Poor's have publicly rated CNF's long-term senior debt at less than investment grade unless, within 45 days, CNF shall have obtained, through a guarantee, letter of credit or other permitted credit enhancement or otherwise, a credit rating for such notes of at least "A" from Moody's or Standard & Poor's (or another nationally recognized rating agency selected by the holders of such notes) and shall maintain a rating on such notes of "A" or better thereafter. As of September 30, 2002, \$62.0 million in aggregate principal amount of these TASP notes was outstanding. CNF's long-term senior debt is currently rated "Baa3" by Moody's with a negative outlook and "BBB-" by Standard & Poor's with a stable outlook; "Baa3" is the lowest investment grade rating from Moody's and "BBB-" is the lowest investment grade rating from Standard & Poor's. As a result, any further decrease in CNF's long-term senior debt ratings by both of these credit rating agencies would give the holders of TASP notes the right to require CNF to repurchase those notes unless CNF was able to obtain appropriate credit enhancement as described above, and there can be no assurance that CNF would be able to do so. The occurrence of any event or condition requiring CNF to repay these TASP notes could likely have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

In the event that CNF is required to repay any borrowings or other indebtedness before its scheduled maturity date or to replace any letters of credit before their scheduled expiry date, whether upon a default under its revolving credit facility, as a result of a reduction in the credit ratings on its long-term debt or otherwise, there can be no assurance that CNF would have sufficient funds to do so or be able to arrange financing for those purposes. Accordingly, any of these events could have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

As discussed more fully above under "Emery Worldwide - Regulatory Matters," under EWA's second amended settlement agreement with the FAA, EWA agreed to surrender its air carrier certificate no later than December 4, 2002. Based on current circumstances, management believes that there is a reasonable possibility that EWA will be able to complete negotiations relating to the early termination of leases of substantially all of its aircraft on acceptable terms before December 4, 2002, although there can be no assurance in this regard. While the matter is not free from doubt, if EWA has not terminated all of its aircraft leases before it surrenders its certificate on December 4, 2002, the surrender of EWA's certificate may constitute a default under leases pursuant to which EWA leases some of its remaining aircraft. However, management believes that any lease defaults that might result from EWA's surrender of its certificate would not have a material adverse effect on CNF's financial condition or results of operations. As of October 31, 2002, approximately \$15 million of scheduled rental payments accrued in connection with Emery's restructuring charges relate to leases for which management believes the surrender of EWA's certificate may constitute a default.

In the first nine months of 2002, Emery paid \$189.8 million for aircraft leases and return costs, primarily due to the negotiated early return of aircraft. At September 30, 2002, \$140.6 million of accrued aircraft leases and return costs were classified as current liabilities in the Consolidated Balance Sheets based primarily on Emery's intention to negotiate the early termination of those aircraft leases. In October 2002, Emery paid an additional \$38.6 million in connection with the negotiated early return of 3 additional

aircraft. As of October 31, 2002, Emery had returned 26 of EWA's fleet of 37 parked aircraft to lessors, leaving 11 unreturned aircraft. EWA is currently seeking to reach agreement with lessors of its remaining aircraft in order to terminate the leases prior to their scheduled expiration dates. However, CNF can provide no assurance that EWA will be able to enter into any such agreements with the lessors. If EWA negotiates for the early termination of one or more of these remaining aircraft leases, EWA will substantially accelerate the timing of scheduled cash payments to the lessors.

At September 30, 2002, CNF had \$338.3 million in cash and cash equivalents available to meet its cash needs, including payment of amounts due under or in connection with aircraft leases. In addition, CNF intends to use borrowings and letters of credit issued under its \$385 million credit facility to meet cash needs subject to compliance with financial covenants and satisfaction of customary conditions precedent. However, there can be no assurance that CNF will be able to comply with these financial covenants or meet these conditions precedent and any inability of CNF to obtain additional borrowings or letters of credit under this credit facility would likely have a material adverse effect on its financial condition, cash flows, and results of operations.

IRS Matters

In August 2002, CNF entered into settlement agreements with the IRS, pursuant to which the parties settled an aircraft maintenance issue for the years 1987 through 2000, and all other open issues under IRS examinations for the years 1987 through 1996. Accordingly, CNF eliminated the related tax liabilities and recognized a \$25.0 million tax benefit in the third quarter of 2002. As a result of the settlement agreements, CNF was not required to make any additional payments to the IRS over and above a \$93.4 million payment made in respect to these issues in the third quarter of 2000. Certain issues remain open for the years 1997 through 2000, but management does not believe that the resolution of those issues is likely to have a material adverse effect on CNF's financial condition, cash flows or results of operations.

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation ("CFC") to CNF's shareholders. In connection with the spin-off of CFC, CNF agreed to indemnify certain states, insurance companies and sureties against the failure of CFC to pay certain workers' compensation, tax and public liability claims that were pending as of September 30, 1996. In some cases, these indemnities are supported by letters of credit and surety bonds under which CNF is liable to the issuing bank or the surety company.

In September 2002, CFC filed for bankruptcy and announced that it will cease most U.S. operations. Following the commencement of its bankruptcy proceeding, CFC ceased making payments with respect to these workers' compensation and public liability claims. CNF has taken over payment of some of these claims, and expects that demands for payment will likely be made against it with respect to the remaining claims. CNF estimates the aggregate amount of all of these claims, plus related costs, to be \$21.3 million. As a result, CNF accrued additional reserves of \$21.3 million in Accrued Claims Costs in the Consolidated Balance Sheets and recognized a \$13.0 million loss from discontinuance, net of \$8.3 million of income taxes, in the third quarter of 2002. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of these claims, although there can be no assurance that CNF will be successful in recovering all or any portion of such payments.

In addition, CFC was, at the time of the spin-off, and remains a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations will result in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it will become obligated, under federal law, to pay its share of any unfunded vested benefits under those plans.

It is possible that the trustees of CFC's multiemployer pension plans may assert claims that CNF is liable for amounts owing to the plans as a result of CFC's withdrawal from

those plans. CNF has received a request for information regarding the spin-off of CFC from representatives of the Central States Southeast and Southwest Areas Pension Fund, which is one of CFC's multiemployer plans, and, in accordance with federal law, CNF is in the process of responding to that request. Under federal law, representatives of CFC's multiemployer plans are entitled to request such information to assist them in determining whether they believe any basis exists for asserting a claim against CNF.

Based on advice of legal counsel and its knowledge of the facts, CNF believes that it would ultimately prevail if any such claims were made, although there can be no assurance in this regard. CNF believes that the amount of those claims, if asserted, would be material, and a judgment against CNF for all or a significant part of these claims would likely have a material adverse effect on CNF's financial condition, cash flow and results of operations.

If such claims were made, CNF, unless relieved of the obligation through appropriate legal proceedings, would be required under federal law to make periodic cash payments to the multiemployer plans asserting claims against CNF, in an aggregate amount of up to the full amount of those claims. However, under federal law, the claims would initially be decided through arbitration and, upon a final decision by the arbitrator in favor of CNF, the plan trustees would be required to promptly refund those payments, with interest. While the length of time required to reach a final decision in any such arbitration cannot be predicted with certainty, CNF believes that such a decision could be reached within twelve to eighteen months from receipt of claims from the plans, although there can be no assurance in this regard.

CNF currently estimates that the net amount of the periodic payments (after deductibility for tax purposes) could range from \$20 million to \$25 million quarterly (based on certain assumptions), although the actual amount could be greater or less than this estimate. Based on CNF's current financial condition and management's projections of CNF's estimated future financial condition, cash flows and results of operations, as well as a number of other estimates and assumptions, CNF believes that it would have sufficient financial resources to make these periodic payments if it were required to do so. However, there can be no assurance in that regard, and accordingly any requirement to make these periodic payments could have a material adverse effect on CNF's cash flows.

As a result of the foregoing, there can be no assurance that matters relating to CFC and its bankruptcy proceedings will not have a material adverse effect on CNF's financial condition, cash flows or results of operations, or that these matters will not have consequences similar to those described above under "Restructuring Charges and Regulatory Matters," which in turn would likely have a material adverse effect on CNF's financial condition, cash flows and results of operations.

Other

CNF periodically reviews the funding status of its defined benefit pension plan for non-contractual employees, and makes contributions from time to time as necessary in order to comply with the funding requirements of the Employee Retirement Income Security Act. In the first nine months of 2002, CNF contributed \$75.0 million in cash payments to the defined benefit pension plans. No additional payments are expected to be made in 2002. CNF currently estimates that it will contribute a total of approximately \$75 million in cash in 2003. However, this estimate is subject to uncertainties and assumptions, including assumptions as to the rate of return on plan assets and the number of non-contractual employees, and the actual amount of CNF's cash contributions may differ. Except for cash payments of \$75.0 million in 2002 and \$13.1 million in 2001, CNF had not made any contributions to the defined benefit pension plans since 1995, due in part to the high rate of return realized on plan assets from 1996 through 2000.

In general, CNF expects its future liquidity to be affected by the timing and amount of cash flows related to pension plan funding requirements, restructuring charge reserves, payments in repayment of long-term debt and guarantees, capital and operating leases and the preferred securities of a subsidiary trust, some of which are discussed above and in

Note 4 to the Consolidated Financial Statements, "Restructuring Charges," and Note 8 to the Consolidated Financial Statements, "Preferred Securities of Subsidiary Trust."

CNF's ratio of total debt to capital decreased to 40.7% at September 30, 2002 from 43.4% at December 31, 2001 due primarily to net income and the repayment of debt and capital lease obligations in the first nine months of 2002.

Discontinued Operations

As described above under "Results of Operations—Discontinued Operations," cash flows from the Priority Mail operations have been segregated and classified as net cash flows from discontinued operations in the Statements of Consolidated Cash Flows. As described in Note 2 to the Consolidated Financial Statements, "Discontinued Operations," EWA received payments in 2002 and 2001 from the USPS related to the discontinued Priority Mail operations

In January 2001, EWA received a \$60.0 million provisional payment toward reimbursable termination costs, as provided under the Termination Agreement signed by EWA and the USPS in November 2000. In September 2001, EWA received a \$305.0 million payment from the USPS, including \$235.0 million to settle all non-termination claims under the Priority Mail contract.

In July 2002, EWA received a \$6.0 million payment from the USPS, in addition to the \$60.0 million provisional payment in January 2001. The additional \$6.0 million payment fully settled EWA's Priority Mail contract termination costs.

OTHER MATTERS

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Cyclicality and Seasonality

CNF's businesses operate in industries that are affected directly by general economic conditions and seasonal fluctuations, both of which affect demand for transportation services. In the trucking and airfreight industries, for a typical year, the months of September and October usually have the highest business levels while the months of January and February usually have the lowest business levels.

Market Risk

CNF is exposed to a variety of market risks, including the effects of interest rates, commodity prices, foreign currency exchange rates and credit risk. CNF's policy is to enter into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of commodity, interest rate or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure.

CNF is subject to the effect of interest rate fluctuations in the fair value of its long-term debt and capital lease obligations, as summarized in Notes 5 and 6 to the Consolidated Financial Statements included in CNF's 2001 Annual Report to Shareholders. As described in Note 9 to the Consolidated Financial Statements, "Derivative Instruments and Hedging Activities," CNF uses interest rate swaps to mitigate the impact of interest rate volatility on cash flows related to operating lease payments and on the fair value of its fixed-rate long-term debt. At September 30, 2002, CNF had not entered into any derivative contracts to hedge foreign currency exchange exposure.

Business Interruption

Although the operations of CNF's subsidiaries are largely decentralized, Emery Forwarding maintains a major hub operation at the Dayton International Airport in Dayton, Ohio. While Emery Forwarding currently maintains casualty and business interruption insurance

covering the Dayton hub, there can be no assurance that this insurance coverage will be sufficient. As a result, a major casualty or sustained interruption in the business operations at the Dayton hub, whether due to terrorist activities or otherwise, could have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

In addition, CNF and its subsidiaries rely on centralized computer facilities located in Portland, Oregon in the conduct of their businesses. Although CNF 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 or otherwise, could have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

Employees

Most of the workforce of CNF and its subsidiaries is composed of non-union employees. CNF believes that the operations of its subsidiaries have significant advantages over comparable unionized competitors (particularly in the trucking industry) in providing reliable and cost-competitive customer services, including greater efficiency and flexibility. Customer choice and retention of a freight carrier is beyond a company's control and there can be no assurance that CNF subsidiaries will be able to maintain their current advantages over certain of their competitors.

Accounting Standards

Effective January 1, 2002, CNF adopted SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 specifies that goodwill and some intangible assets will no longer be amortized but instead will be subject to an annual fourth-quarter impairment test. Pursuant to SFAS 142, CNF has evaluated whether its goodwill is impaired and has determined that, as of January 1, 2002, CNF was not required to make an adjustment to the carrying value of the assets. Effective January 1, 2002, CNF ceased goodwill amortization associated with the Emery Forwarding segment. Prior to adoption of SFAS 142, CNF amortized goodwill of \$2.6 million and \$8.1 million, respectively, in the third quarter and first nine months of last year.

In June 2001, the FASB issued SFAS 143, "Accounting for Asset Retirement Obligations," which will be effective for CNF on January 1, 2003. SFAS 143 addresses the financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. CNF is in the process of evaluating the financial statement impact of adoption of SFAS 143.

In April 2002, the FASB issued SFAS 145, "Rescission of FASB Statements 4, 44, and 64, Amendment of FASB Statement 13, and Technical Corrections." SFAS 145 updates, clarifies and simplifies existing accounting pronouncements, by rescinding SFAS 4, which required all gains and losses from extinguishment of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. As a result, the criteria in Accounting Principles Board Opinion 30 will now be used to classify those gains and losses. Additionally, SFAS 145 amends SFAS 13 to require that certain lease modifications that have economic effects similar to sale-leaseback transactions be accounted for in the same manner as sale-leaseback transactions. Finally, SFAS 145 also makes technical corrections to existing pronouncements. While those corrections are not substantive in nature, in some instances, they may change accounting practice. CNF adopted the provisions of SFAS 145 that amended SFAS 13 for transactions occurring after May 15, 2002 in its consolidated financial statements with no material impact. CNF will adopt all other provisions of SFAS 145, as required, effective January 1, 2003. CNF is evaluating the financial statement impact of adopting these other provisions of SFAS 145.

In July 2002, the FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities," which is effective for exit or disposal activities initiated after December 31, 2002. SFAS 146, once adopted, nullifies EITF Issue No. 94-3. SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be

recognized when the liability is incurred, whereas EITF No. 94-3 had allowed for recognition of the liability at the commitment date to an exit plan. CNF is in the process of evaluating the financial statement impact of adoption of SFAS 146.

FORWARD-LOOKING STATEMENTS

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Certain statements included herein constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to a number of risks and uncertainties, and should not be relied upon as predictions of future events. All statements other than statements of historical fact are forward-looking statements, including any projections of earnings, revenues, weight, yield, volumes, income or other financial or operating items, any statements of the plans, strategies, expectations or objectives of CNF or management for future operations or other future items, any statements concerning proposed new products or services, any statements regarding CNF's estimated future contributions to pension plans, any statements regarding expectations as to the early termination of aircraft leases or the costs thereof, any statements as to the adequacy of reserves, any statements regarding the outcome of any claims that may be brought against CNF by CFC's multi-employer pension plans or regarding the amount of any periodic cash payments that CNF may be required to make while those claims are pending or CNF's ability to make those periodic payments, any statements regarding future economic conditions or performance, any statements of estimates or belief and any statements or assumptions underlying the foregoing. Certain such forward-looking statements can be identified by the use of forward-looking terminology such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "estimates" or "anticipates" or the negative of those terms or other variations of those terms or comparable terminology or by discussions of strategy, plans or intentions. Such forward-looking statements are necessarily dependent on assumptions, data and methods that may be incorrect or imprecise and there can be no assurance that they will be realized. In that regard, the following factors, among others and in addition to the matters discussed elsewhere in this document and in CNF's 2001 Annual Report on Form 10-K and other reports and documents filed by CNF with the Securities and Exchange Commission, could cause actual results and other matters to differ materially from those discussed in such forward-looking statements: changes in general business and economic conditions, including the slowdown in the global economy; the creditworthiness of CNF's customers and their ability to pay for services rendered; increasing competition and pricing pressure; changes in fuel prices; the effects of the cessation of EWA's air carrier operations, including the expense of using aircraft operated by other air carriers in Emery's North American operations while also bearing the cash costs of EWA's remaining grounded aircraft fleet, the possibility of cash payments in connection with the early termination of or defaults under aircraft leases, the possibility of additional unusual charges and other costs and expenses relating to Emery's operations, the possibility of defaults under aircraft leases, and the possibility of future loss of business due to publicity surrounding the grounding of EWA's fleet of aircraft; the possibility of defaults under CNF's \$385 million credit agreement and other debt instruments and aircraft leases, including defaults resulting from additional unusual charges or from any costs or expenses that CNF may incur in connection with CFC's bankruptcy proceedings or any claims that may be asserted by CFC's multi-employer pension plans or CNF's failure to perform in accordance with management's expectations, and the possibility that CNF may be required to pledge collateral to secure some of its indebtedness or to repay other indebtedness in the event that the ratings assigned to its long-term senior debt by credit rating agencies are reduced; the requirement that EWA surrender its air carrier certificate no later than December 4, 2002, which could potentially result in defaults under some of EWA's aircraft leases; uncertainties regarding EWA's ability to recover termination costs and other claims relating to the termination of its former Express Mail contract with the USPS; labor matters, including the grievance by furloughed pilots and crewmembers, renegotiations of labor contracts, labor organizing activities, work stoppages or strikes; enforcement of and changes in governmental regulations; environmental and tax matters; the Department of Transportation, FAA and Department of Justice investigation relating to Emery Worldwide's handling of hazardous materials; the February 2000 crash of an EWA aircraft and related investigation and litigation; and matters relating to CNF's 1996

spin-off of Consolidated Freightways, including the possibility that CFC's multi-employer pension plans may assert claims against CNF and that CNF may be required to make periodic cash payments while those claims are pending. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows, or results of operations. See Note 10 to the Consolidated Financial Statements, "Commitments and Contingencies" and "Management's Discussion of Financial Condition and Results of Operations—Liquidity and Capital Resources" included elsewhere herein.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. CNF's Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of CNF's disclosure controls and procedures (as such term is defined in Rules 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of the Evaluation Date, CNF's disclosure controls and procedures are effective in alerting them on a timely basis to material information relating to CNF (including its consolidated subsidiaries) required to be included in CNF's reports filed or submitted under the Exchange Act.

(b) Changes in Internal Controls. Since the Evaluation Date, there have not been any significant changes in CNF's internal controls or in other factors that could significantly affect these internal controls.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

As previously reported, CNF has been designated a potentially responsible party (PRP) by the EPA with respect to the disposal of hazardous substances at various sites. CNF expects its share of the clean-up costs will not have a material adverse effect on its financial condition, cash flows, or results of operations.

The Department of Transportation, through its Office of Inspector General, and the FAA have been conducting an investigation relating to the handling of so-called hazardous materials by Emery. The Department of Justice has joined in the investigation and has been seeking to obtain additional information through the grand jury process. The investigation is ongoing and Emery is cooperating fully. CNF is unable to predict the outcome of this investigation or when the outcome will be reached.

EWA has received subpoenas issued by federal grand juries in Massachusetts and the District of Columbia and the USPS Inspector General for documents relating to the Priority Mail contract. EWA has provided, and is continuing to provide, the documents.

On February 16, 2000, a DC-8 cargo aircraft operated by EWA personnel crashed shortly after take-off from Mather Field, near Sacramento, California. The crew of three was killed. The cause of the crash has not been conclusively determined. The National Transportation Safety Board (NTSB) is conducting an investigation. A NTSB hearing regarding the crash commenced on May 9 and 10, 2002, and is currently in recess. EWA is currently unable to predict the outcome of this investigation or the effect it may have on Emery or CNF. Emery, EWA and CNF have been named as defendants in wrongful death lawsuits brought by the families of the three deceased crew members, seeking compensatory and punitive damages. Emery, EWA and CNF also may be subject to other claims and proceedings relating to the crash, which could include other private lawsuits seeking monetary damages and governmental proceedings. Although Emery, EWA and CNF maintain insurance that is intended to cover claims that may arise in connection with an airplane crash, there can be no assurance that the insurance will in fact be adequate to cover all possible types of claims. In particular, any claims for punitive damages or any sanctions resulting from possible governmental proceedings would not be covered by insurance.

As a result of EWA's suspension of its air carrier operations on August 13, 2001, EWA furloughed approximately 400 pilots and crewmembers. Those pilots and crewmembers are represented by the Air Line Pilots Association (ALPA) union under a collective bargaining agreement and ALPA filed a grievance on their behalf protesting the furlough. The grievance sought pay during the course of the suspension, and was subject to arbitration. In October 2002, the arbitrator ruled in favor of EWA, holding that EWA was excused from compliance with the "no-furlough" provision of the collective bargaining agreement, and holding that pilots and crewmembers were entitled only to two weeks' severance pay.

On December 5, 2001, EWA announced that it would cease operating as an air carrier, and in connection therewith terminated the employment of all pilots and crewmembers, bringing the total number of terminated employees in 2001 to 800. Subsequently, ALPA filed a grievance on behalf of the pilots and crewmembers protesting the cessation of EWA's air carrier operations and Emery's use of other air carriers. Some aspects of the ALPA matters may be subject to binding arbitration. Based on CNF's current evaluation, management believes that it has addressed its estimated exposure related to the ALPA matters. However, CNF cannot predict with certainty the ultimate outcome of these matters.

EWA, EAFC, Menlo Worldwide, CNF and certain individuals have been named as defendants in a lawsuit filed in state court in California by approximately 60 former EWA pilots and crewmembers. The lawsuit includes claims for wrongful termination and intentional interference with an economic relationship in connection with the suspension and subsequent cessation of EWA's air carrier operations, and seeks \$500 million and certain other unspecified damages. The lawsuit was subsequently removed to federal district court in California. CNF believes that the lawsuit's claims are without merit, and intends to vigorously defend the lawsuit.

EWA has been named as a defendant in a lawsuit and arbitration proceeding brought by a subcontractor that operated aircraft under EWA's former Express Mail contract with the USPS. The USPS terminated the Express Mail contract "for convenience" on August 26, 2001. The subcontractor is seeking \$28.5 million and other unspecified damages in connection with such termination. EWA believes it is entitled to and intends to seek recovery from the USPS of any termination costs to which the subcontractor may be entitled.

As described in Note 10 to the Consolidated Financial Statements, "Commitments and Contingencies," CNF is subject to certain legal and administrative proceedings with the FAA. There can be no assurance that these proceedings will not have a material adverse effect on CNF's financial condition, cash flows, or results of operations.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 99.1 [a] Computation of Ratios of Earnings to Fixed Charges -For the six months ended September 30, 2002 and 2001, the ratios of earnings to fixed charges were 2.8x and -4.2x, respectively.
- [b] Computation of Ratios of Earnings to Combined Fixed Charges - For the six months ended September 30, 2002 and 2001, the ratios of earnings to combined fixed charges and preferred stock dividends were 2.7x and -3.9x, respectively.
- 99.2 Certification by the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 99.3 Certification by the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

One report on Form 8-K, dated August 12, 2002, was filed during the quarter ended September 30, 2002, reporting under Item 9 the announcement that CNF submitted to the Securities and Exchange Commission the Statements under Oath of the principal executive officer and principal financial officer in accordance with the SEC's June 27, 2002 Order requiring the filing of sworn statements pursuant to Section 21(a)(1) of the Securities and Exchange Act of 1934.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company (Registrant) has duly caused this Form 10-Q Quarterly Report to be signed on its behalf by the undersigned, thereunto duly authorized.

CNF Inc.
(Registrant)

November 12, 2002

/s/Chutta Ratnathicam
Chutta Ratnathicam
Senior Vice President and
Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory L. Quesnel, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNF Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 12, 2002

/s/Gregory L. Quesnel
Gregory L. Quesnel
Chief Executive Officer

I, Chutta Ratnathicam, certify that:

1. I have reviewed this quarterly report on Form 10-Q of CNF Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

November 12, 2002

/s/Chutta Ratnathicam
Chutta Ratnathicam
Chief Financial Officer

CNF INC.
COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES
(Dollars in thousands)

	Nine Months Ended September 30,	
	2002	2001
Fixed Charges:		
Interest Expense	\$ 17,336	\$ 21,635
Capitalized Interest	398	697
Amortization of Debt Expense	990	772
Dividend Requirement on Series B Preferred Stock [1]	7,772	7,970
Interest Component of Rental Expense [2]	25,395	37,197
	\$ 51,891	\$ 68,271
Earnings (Loss):		
Income (Loss) from Continuing Operations before Taxes	\$ 102,949	\$ (346,947)
Fixed Charges	51,891	68,271
Capitalized Interest	(398)	(697)
Preferred Dividend Requirements [3]	(7,772)	(7,970)
	\$ 146,670	\$ (287,343)
Ratio of Earnings (Loss) to Fixed Charges:	2.8 x	(4.2) x
Deficiency in the coverage of Fixed Charges by Earnings (Loss) before Fixed Charges	\$ -	\$ (355,614)

[1] Dividends on shares of the Series B cumulative convertible preferred stock are used to pay debt service on notes issued by the Company's Thrift and Stock Plan.

[2] Estimate of the interest portion of lease payments.

[3] Preferred stock dividend requirements included in fixed charges but not included in the determination of Income (Loss) from Continuing Operations before Taxes.

CNF INC.
COMPUTATION OF RATIOS OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS
(Dollars in thousands)

	Nine Months Ended	
	September 30,	
	2002	2001
Combined Fixed Charges and Preferred Stock Dividends:		
Interest Expense	\$ 17,336	\$ 21,635
Capitalized Interest	398	697
Amortization of Debt Expense	990	772
Dividend Requirement on Series B Preferred Stock [1]	7,772	7,970
Dividend Requirement on Preferred Securities of Subsidiary Trust	4,689	4,689
Interest Component of Rental Expense [2]	25,395	37,197
	<u>\$ 56,580</u>	<u>\$ 72,960</u>
Earnings (Loss):		
Income (Loss) from Continuing Operations before Taxes	\$ 102,949	\$ (346,947)
Fixed Charges	56,580	72,960
Capitalized Interest	(398)	(697)
Preferred Dividend Requirements [3]	(7,772)	(7,970)
	<u>\$ 151,359</u>	<u>\$ (282,654)</u>
Ratio of Earnings (Loss) to Combined Fixed Charges and Preferred Stock Dividends:	<u>2.7</u> x	<u>(3.9)</u> x
Deficiency in the coverage of Fixed Charges by Earnings (Loss) before Fixed Charges	<u>\$ -</u>	<u>\$ (355,614)</u>

[1] Dividends on shares of the Series B cumulative convertible preferred stock are used to pay debt service on notes issued by the Company's Thrift and Stock Plan.

[2] Estimate of the interest portion of lease payments.

[3] Preferred stock dividend requirements included in fixed charges but not included in the determination of Income (Loss) from Continuing Operations before Taxes.

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CNF Inc. (the "Company") for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Gregory L. Quesnel, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

/s/ Gregory L. Quesnel
Name: Gregory L. Quesnel
Title: Chief Executive Officer
Date: November 12, 2002

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of CNF Inc. (the "Company") for the quarterly period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Chutta Ratnathicam, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

/s/ Chutta Ratnathicam
Name: Chutta Ratnathicam
Title: Chief Financial Officer
Date: November 12, 2002