

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

FORM 10-Q

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

For the quarterly period ended June 30, 2003

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Number of shares of Common Stock, \$.625 par value,
outstanding as of July 31, 2003: 49,622,235

CNF INC.
FORM 10-Q
Quarter Ended June 30, 2003

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	June 30, 2003	December 31, 2002
	<u> </u>	<u> </u>
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$ 327,318	\$ 270,404
Trade accounts receivable, net	698,072	716,037
Other accounts receivable	71,299	129,535
Operating supplies, at lower of average cost or market	18,953	19,612
Prepaid expenses	51,389	43,885
Deferred income taxes	83,645	89,015
Total Current Assets	<u>1,250,676</u>	<u>1,268,488</u>
Property, Plant and Equipment, at Cost		
Land	162,017	162,767
Buildings and leasehold improvements	778,279	769,536
Revenue equipment	632,526	609,631
Other equipment	384,451	377,110
	<u>1,957,273</u>	<u>1,919,044</u>
Accumulated depreciation and amortization	(949,573)	(903,690)
	<u>1,007,700</u>	<u>1,015,354</u>
Other Assets		
Deferred charges and other assets	115,668	133,411
Capitalized software, net	73,824	75,674
Goodwill, net	240,655	240,593
Deferred income taxes	-	6,241
	<u>430,147</u>	<u>455,919</u>
Total Assets	<u>\$ 2,688,523</u>	<u>\$ 2,739,761</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>June 30, 2003</u>	<u>December 31, 2002</u>
Current Liabilities		
Accounts payable	\$ 349,957	\$ 356,605
Accrued liabilities (Note 4)	303,088	334,758
Accrued claims costs	131,822	141,632
Accrued aircraft leases and return provision (Note 5)	6,999	27,770
Current maturities of long-term debt and capital leases	14,210	12,289
Total Current Liabilities	806,076	873,054
Long-Term Liabilities		
Long-term debt and guarantees (Note 3)	433,150	447,234
Long-term obligations under capital leases	110,300	110,376
Accrued claims costs	118,643	128,447
Employee benefits	296,231	294,541
Other liabilities and deferred credits	43,570	43,111
Deferred income taxes	4,808	-
Total Liabilities	1,812,778	1,896,763
Commitments and Contingencies (Note 9)		
Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures of the Company (Note 7)		
	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 773,952 and 784,007 shares, respectively		
	8	8
Additional paid-in capital, preferred stock	117,710	119,239
Deferred compensation, Thrift and Stock Plan	(61,730)	(65,723)
Total Preferred Shareholders' Equity	55,988	53,524
Common stock, \$.625 par value; authorized 100,000,000 shares; issued 56,135,845 and 56,046,790 shares, respectively		
	35,085	35,029
Additional paid-in capital, common stock	347,386	345,054
Retained earnings	529,134	506,816
Deferred compensation, restricted stock	(3,050)	(3,710)
Cost of repurchased common stock (6,511,755 and 6,563,868 shares, respectively)	(160,556)	(161,841)
	747,999	721,348
Accumulated Other Comprehensive Loss (Note 6)	(53,242)	(56,874)
Total Common Shareholders' Equity	694,757	664,474
Total Shareholders' Equity	750,745	717,998
Total Liabilities and Shareholders' Equity	\$ 2,688,523	\$ 2,739,761

The accompanying notes are an integral part of these statements.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
REVENUES	\$ 1,236,905	\$ 1,186,273	\$ 2,443,146	\$ 2,253,347
Costs and Expenses				
Operating expenses	1,042,036	993,667	2,055,707	1,873,372
Selling, general and administrative expenses	124,053	113,060	242,343	224,221
Depreciation	33,496	35,637	66,728	71,481
	<u>1,199,585</u>	<u>1,142,364</u>	<u>2,364,778</u>	<u>2,169,074</u>
OPERATING INCOME	<u>37,320</u>	<u>43,909</u>	<u>78,368</u>	<u>84,273</u>
Other Income (Expense)				
Investment income	630	1,677	1,216	3,285
Interest expense (Note 8)	(7,362)	(5,638)	(15,023)	(11,523)
Dividend requirement on preferred securities of subsidiary trust (Note 7)	(1,563)	(1,563)	(3,126)	(3,126)
Miscellaneous, net	1,088	(2,501)	(1,887)	(3,803)
	<u>(7,207)</u>	<u>(8,025)</u>	<u>(18,820)</u>	<u>(15,167)</u>
Income Before Taxes	<u>30,113</u>	<u>35,884</u>	<u>59,548</u>	<u>69,106</u>
Income Tax Provision	11,744	13,995	23,224	26,951
Net Income	<u>18,369</u>	<u>21,889</u>	<u>36,324</u>	<u>42,155</u>
Preferred Stock Dividends	2,069	2,043	4,095	4,048
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 16,300</u>	<u>\$ 19,846</u>	<u>\$ 32,229</u>	<u>\$ 38,107</u>
Weighted-Average Common Shares Outstanding (Note 1)				
Basic	49,494,145	49,074,627	49,445,348	49,001,489
Diluted	57,127,187	56,713,022	54,004,772	56,610,935
Earnings per Common Share (Note 1)				
Basic	<u>\$ 0.33</u>	<u>\$ 0.40</u>	<u>\$ 0.65</u>	<u>\$ 0.78</u>
Diluted	<u>\$ 0.31</u>	<u>\$ 0.37</u>	<u>\$ 0.61</u>	<u>\$ 0.72</u>

The accompanying notes are an integral part of these statements.

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

	Six Months Ended June 30,	
	2003	2002
Cash and Cash Equivalents, Beginning of Period	\$ 270,404	\$ 400,763
Operating Activities		
Net income	36,324	42,155
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	74,730	81,079
Increase in deferred income taxes	16,295	68,524
Amortization of deferred compensation	4,953	4,419
Provision for uncollectible accounts	6,092	6,998
Equity in earnings of Vector	(6,548)	(10,629)
Loss (Gain) on sales of property and equipment, net	1,782	(13,318)
Loss from equity ventures	2,223	755
Changes in assets and liabilities:		
Receivables	75,131	(71,282)
Prepaid expenses	(7,504)	(3,035)
Accounts payable	(6,592)	30,629
Accrued liabilities	15,834	3,138
Accrued incentive compensation	(43,713)	36,513
Accrued claims costs	(19,614)	1,002
Income taxes	-	(21,501)
Employee benefits	(510)	7,233
Accrued aircraft leases and return provision	(29,186)	(125,127)
Deferred charges and credits	20,636	8,782
Other	8,084	1,253
Net Cash Provided by Operating Activities	<u>148,417</u>	<u>47,588</u>
Investing Activities		
Capital expenditures	(65,305)	(51,900)
Software expenditures	(7,665)	(6,872)
Proceeds from sales of property and equipment, net	4,554	6,287
Net Cash Used in Investing Activities	<u>(68,416)</u>	<u>(52,485)</u>
Financing Activities		
Repayments of long-term debt, guarantees and capital leases	(10,063)	(25,774)
Proceeds from exercise of stock options	1,805	4,958
Payments of common dividends	(9,911)	(9,803)
Payments of preferred dividends	(5,124)	(5,274)
Net Cash Used in Financing Activities	<u>(23,293)</u>	<u>(35,893)</u>
Net Cash Provided by (Used in) Continuing Operations	<u>56,708</u>	<u>(40,790)</u>
Net Cash Provided by (Used in) Discontinued Operations	<u>206</u>	<u>(4,461)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>56,914</u>	<u>(45,251)</u>
Cash and Cash Equivalents, End of Period	<u>\$ 327,318</u>	<u>\$ 355,512</u>

The accompanying notes are an integral part of these statements.

CNF INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Principal Accounting Policies

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 2002 Annual Report on Form 10-K.

Earnings per Share

Basic earnings per common share ("EPS") is computed by dividing reported net income available to common shareholders by the weighted-average common shares outstanding. The calculation of diluted EPS is calculated as follows:

<i>(Dollars in thousands except per share data)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Earnings:				
Net income available to common shareholders	\$ 16,300	\$ 19,846	\$ 32,229	\$ 38,107
Add-backs:				
Dividends on preferred stock, net of replacement funding	367	310	691	593
Dividends on preferred securities of subsidiary trust, net of tax	954	954	--	1,908
	\$ 17,621	\$ 21,110	\$ 32,920	\$ 40,608
Shares:				
Weighted-average common shares outstanding	49,494,145	49,074,627	49,445,348	49,001,489
Stock options	386,228	782,286	437,610	753,337
Series B preferred stock	4,121,814	3,731,109	4,121,814	3,731,109
Preferred securities of subsidiary trust	3,125,000	3,125,000	--	3,125,000
	57,127,187	56,713,022	54,004,772	56,610,935
Diluted earnings per share	\$ 0.31	\$ 0.37	\$ 0.61	\$ 0.72

For the six months ended June 30, 2003, the preferred securities of subsidiary trust were anti-dilutive. As a result, the assumed shares and related add-back to net income available to common shareholders under the if-converted method have been excluded from the calculation of diluted EPS. If the securities had been dilutive, the assumed shares from the preferred securities of subsidiary trust under the if-converted method would have been 3,125,000 shares for the six months ended June 30, 2003.

Stock-Based Compensation

Officers and non-employee directors have been granted options under CNF's stock option plans to purchase common stock of CNF at prices equal to the market value of the stock on the date of grant. CNF accounts for stock-based compensation utilizing the intrinsic value method in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for

Stock Issued to Employees.” Accordingly, no compensation expense is recognized for fixed option plans because the exercise prices of employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

The following table sets forth the effect on net income and earnings per share if CNF had applied the fair-value based method and recognition provisions of SFAS 123, “Accounting for Stock-Based Compensation,” to stock-based compensation:

<i>(Dollars in thousands, except per share data)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net income available to common shareholders, as reported	\$ 16,300	\$ 19,846	\$ 32,229	\$ 38,107
Additional compensation cost, net of tax, that Would have been included in net income if the fair value method had been applied	(2,238)	(1,862)	(4,452)	(4,079)
Pro forma net income available to common shareholders as if the fair value method had been applied	<u>\$ 14,062</u>	<u>\$ 17,984</u>	<u>\$ 27,777</u>	<u>\$ 34,028</u>
Earnings per share:				
Basic:				
As reported	<u>\$ 0.33</u>	<u>\$ 0.40</u>	<u>\$ 0.65</u>	<u>\$ 0.78</u>
Pro Forma	<u>\$ 0.28</u>	<u>\$ 0.37</u>	<u>\$ 0.56</u>	<u>\$ 0.69</u>
Diluted:				
As reported	<u>\$ 0.31</u>	<u>\$ 0.37</u>	<u>\$ 0.61</u>	<u>\$ 0.72</u>
Pro Forma	<u>\$ 0.27</u>	<u>\$ 0.34</u>	<u>\$ 0.53</u>	<u>\$ 0.65</u>

These pro forma effects of applying SFAS 123 may not be indicative of future amounts.

New Accounting Standards

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). During the quarter ended December 31, 2002, CNF adopted the disclosure provisions of FIN 45, which require increased disclosure of guarantees, including those for which likelihood of payment is remote. FIN 45 also requires that, upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The initial recognition and measurement provisions of FIN 45 are to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. CNF adopted FIN 45 with no material impact.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51" (“FIN 46”). FIN 46 addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity’s expected losses or receives a majority of its expected residual returns. The consolidation requirements of FIN 46 apply immediately to variable interest entities created or modified after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. CNF has adopted the currently applicable provisions of FIN 46 with no material impact.

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS 150”). SFAS 150 establishes classification standards for financial instruments with characteristics of liabilities, equity, or both. CNF adopted SFAS 150 effective July 1, 2003 with no impact.

Reclassification

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

2. Reporting Segments

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. CNF's principal businesses consist of Con-Way Transportation Services ("Con-Way") and Menlo Worldwide. For financial reporting purposes, CNF is divided into five reporting segments. The operating results of Con-Way are reported as one reporting segment while Menlo Worldwide is divided into three reporting segments: Menlo Worldwide Forwarding, Menlo Worldwide Logistics ("Logistics"), and Menlo Worldwide Other. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the CNF Other reporting segment.

In an effort to bring services offered by the Menlo Worldwide group of businesses under a single brand identity, Menlo Worldwide announced in February 2003 a plan to change the name of its forwarding segment from Emery Forwarding to Menlo Worldwide Forwarding ("Forwarding"). The Forwarding segment consists of the combined operating results of Menlo Worldwide Forwarding, Inc. (formerly Emery Air Freight Corporation) and its subsidiaries, Menlo Worldwide Expedite!, Inc. and a portion of the operations of Emery Worldwide Airlines, Inc. ("EWA"), which ceased air carrier operations in December 2001. In March 2003, Emery Air Freight Corporation changed its name to Menlo Worldwide Forwarding, Inc. ("MWF").

Financial Data

Intersegment revenue and related operating income have been eliminated to reconcile to consolidated revenue and operating income. Management evaluates segment performance primarily based on revenue and operating income (loss); therefore, other non-operating items, consisting primarily of interest income or expense, are not reported in segment results. Corporate expenses are generally allocated based on measurable services provided to each segment or, for general corporate expenses, based on segment revenue and capital.

<i>(Dollars in thousands)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Revenues				
Con-Way Transportation Services	\$ 541,446	\$ 503,968	\$ 1,060,554	\$ 958,699
Menlo Worldwide				
Forwarding	442,421	439,787	888,043	834,548
Logistics	253,012	241,611	494,514	458,120
	695,433	681,398	1,382,557	1,292,668
CNF Other	26	907	35	1,980
	<u>\$ 1,236,905</u>	<u>\$ 1,186,273</u>	<u>\$ 2,443,146</u>	<u>\$ 2,253,347</u>
Intersegment Revenue Eliminations by Segment				
Con-Way Transportation Services	\$ 146	\$ 129	\$ 256	\$ 197
Menlo Worldwide				
Forwarding	48	62	120	97
Logistics	1,300	3,426	2,975	6,873
	1,348	3,488	3,095	6,970
CNF Other	5,595	2,370	10,736	4,715
	<u>\$ 7,089</u>	<u>\$ 5,987</u>	<u>\$ 14,087</u>	<u>\$ 11,882</u>
Revenues before Intersegment Eliminations				
Con-Way Transportation Services	\$ 541,592	\$ 504,097	\$ 1,060,810	\$ 958,896
Menlo Worldwide				
Forwarding	442,469	439,849	888,163	834,645
Logistics	254,312	245,037	497,489	464,993
	696,781	684,886	1,385,652	1,299,638
CNF Other	5,621	3,277	10,771	6,695
Intersegment Revenue Eliminations	(7,089)	(5,987)	(14,087)	(11,882)
	<u>\$ 1,236,905</u>	<u>\$ 1,186,273</u>	<u>\$ 2,443,146</u>	<u>\$ 2,253,347</u>
Operating Income (Loss)				
Con-Way Transportation Services	\$ 43,575	\$ 35,115	\$ 80,767	\$ 68,836
Menlo Worldwide				
Forwarding	(13,818)	(5,908)	(19,249)	(11,621)
Logistics	6,303	7,059	12,339	14,812
Other	3,572	9,320	6,548	10,629
	(3,943)	10,471	(362)	13,820
CNF Other	(2,312)	(1,677)	(2,037)	1,617
	<u>\$ 37,320</u>	<u>\$ 43,909</u>	<u>\$ 78,368</u>	<u>\$ 84,273</u>

Special Items

CNF's results of operations included various items that affected the period-to-period comparability of the reported operating income (loss) of its reporting segments that CNF has identified as "special" items in the periods presented. Items were identified as such by CNF's management based in part on their materiality to the relevant reporting segment.

<i>(Dollars in thousands)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Con-Way Transportation Services -				
Net gain from the sale of property	\$ --	\$ --	\$ --	\$ 8,675
Menlo Worldwide -				
Forwarding -				
Net gains from payments under the Air				
Transportation Safety and				
System Stabilization Act	--	--	7,230	9,895
Logistics -				
Net gain from a contract termination	--	--	--	1,850
CNF Other -				
Net gain from the sale of property	--	--	--	2,367

Terrorist Attacks

In response to the September 11, 2001 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, Forwarding received an \$11.9 million payment under the Act, resulting in the recognition of a \$9.9 million first-quarter net gain in 2002. In March 2003, Forwarding received a final payment of \$7.5 million, resulting in a \$7.2 million first-quarter net gain in 2003.

3. Debt

In August 2003, debt agreements for CNF's \$385 million revolving credit facility and the 6.00% Thrift and Stock Plan (TASP) notes guaranteed by CNF were amended to exclude the effect of certain items from the calculation of financial covenants. Under the amendment to CNF's \$385 million revolving credit facility, the requirements for specified levels of consolidated net worth, fixed-charge coverage and the ratio of consolidated debt to net worth were amended to exclude any effect of goodwill impairment charges and minimum pension liability adjustments. Under the amendment to the 6.00% TASP notes guaranteed by CNF, the requirements for specified levels of consolidated net worth and fixed-charge coverage were amended to exclude any effect of goodwill impairment charges and minimum pension liability adjustments.

For additional information concerning debt instruments, including CNF's \$385 million revolving credit facility and the 6.00% TASP notes guaranteed by CNF, refer to Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," included in CNF's 2002 Annual Report on Form 10-K.

4. Discontinued Operations

Priority Mail Contract

As a result of the termination of the Priority Mail contract described below, the results of operations, and cash flows of the Priority Mail operations have been segregated and classified as discontinued operations. 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 below, all claims relating to amounts owed to EWA under the Priority Mail contract were fully settled in connection with payments from the USPS to EWA in 2002 and 2001.

Under the terms of the Termination Agreement, the USPS agreed to reimburse EWA for Priority Mail contract termination costs.

On January 7, 2001, the USPS paid EWA \$60.0 million toward the termination costs and on July 3, 2002, the USPS paid EWA \$6.0 million to fully settle EWA’s Priority Mail contract termination costs, which 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 as well as a \$70.0 million provisional payment for termination costs related to the separate Express Mail contract with the USPS. 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 payment under the Settlement Agreement, unbilled revenue under the contract 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.

Net current liabilities of the discontinued Priority Mail operations of \$3.4 million and \$3.2 million at June 30, 2003 and December 31, 2002, respectively, were included in Accrued Liabilities in the Consolidated Balance Sheets.

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation (“CFC”) to CNF’s shareholders. CNF recognized 2002 third-quarter and fourth-quarter losses from discontinuance of \$13.0 million (net of \$8.3 million of income taxes) and \$2.3 million (net of \$1.4 million of income taxes), respectively, in connection with the bankruptcy of CFC in September 2002. For further detailed discussion of this matter, see Note 9, “Commitments and Contingencies,” and Item 2, “Management’s Discussion and Analysis – Liquidity and Capital Resources – Discontinued Operations – Spin-Off of CFC.”

5. Restructuring Plan

In June 2001, Forwarding 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 primarily to a slowing domestic economy and loss of EWA’s contracts with the USPS to transport Express Mail and Priority Mail. The \$340.5 million second-quarter restructuring charge in 2001 consisted primarily of non-cash impairment charges of \$278.0 million and \$62.5 million of estimated future cash expenditures related primarily to the return to lessors of certain aircraft leased to EWA. Based on issues identified during inspections conducted by the Federal Aviation Administration (“FAA”), on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA. As a result, EWA furloughed approximately 400 pilots and crewmembers and Forwarding made arrangements to continue its service to customers by utilizing aircraft operated by several other air carriers. Primarily in response to the FAA action and a worsening global economic downturn, Forwarding re-evaluated its restructuring plan. On December 5, 2001, CNF announced that Forwarding (formerly known as “Emery” or “Emery Forwarding”) in 2002 would become part of CNF’s new Menlo Worldwide group of supply chain services providers and in North America would utilize aircraft operated by other air carriers instead of EWA operating its own fleet of aircraft, and that EWA would permanently cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Forwarding recognized additional restructuring charges of \$311.7 million,

including \$305.6 million for the planned disposal of leased aircraft, cessation of EWA's remaining operations, and other costs, and \$6.1 million for employee separation costs for 157 of Forwarding's non-pilot employees.

In connection with CNF's announcement of the cessation of EWA's air carrier operations on December 5, 2001, EWA terminated the employment of all of its pilots and crewmembers, bringing the total number of terminated employees in 2001 to 800. Those pilots and crewmembers are represented by the Air Line Pilots Association ("ALPA") union under a collective bargaining agreement. Subsequently, ALPA filed a grievance on behalf of the pilots and crewmembers protesting the cessation of EWA's air carrier operations and Forwarding'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.

Following the fourth-quarter restructuring charge in 2001, Forwarding's cash flows have reflected the cost of having other air carriers provide service to Forwarding's North American customers as well as lease payments and other costs associated with Forwarding's restructuring plan; however, Forwarding's operating expenses have reflected the cost of aircraft operated by other carriers but have not included scheduled rental payments and return costs or other restructuring-related payments, as these expenses were accrued in connection with the restructuring charges.

Forwarding's restructuring reserves for aircraft and other costs declined to \$36.4 million at June 30, 2003 from \$67.7 million at December 31, 2002 due primarily to payments for costs of terminating aircraft leases and returning aircraft to lessors. In April 2003, Forwarding paid \$7.6 million in connection with the return of the last aircraft of the 37-aircraft fleet that was grounded in connection with Forwarding's restructuring plan. Restructuring reserves at June 30, 2003 consisted primarily of CNF's estimated exposure related to labor matters in arbitration, as described above, as well as other estimated remaining restructuring-related obligations.

The restructuring charges recognized during 2001 reflect CNF's estimate of the costs of terminating EWA's air carrier operations and restructuring Forwarding'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 that difference would be recognized as additional expense or income in the period when and if that determination can be made.

6. Comprehensive Income

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

<i>(Dollars in thousands)</i>	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net income	\$ 18,369	\$ 21,889	\$ 36,324	\$ 42,155
Other comprehensive income (loss):				
Change in fair value of cash flow hedge (Note 8)	101	(99)	194	1,080
Foreign currency translation adjustment	3,420	4,397	3,438	3,115
	<u>3,521</u>	<u>4,298</u>	<u>3,632</u>	<u>4,195</u>
Comprehensive income	<u>\$ 21,890</u>	<u>\$ 26,187</u>	<u>\$ 39,956</u>	<u>\$ 46,350</u>

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

<i>(Dollars in thousands)</i>	June 30, 2003	December 31, 2002
Accumulated change in fair value of cash flow hedge (Note 8)	\$ (200)	\$ (394)
Accumulated foreign currency translation adjustments	(22,410)	(25,848)
Minimum pension liability adjustment	(30,632)	(30,632)
Accumulated other comprehensive loss	<u>\$ (53,242)</u>	<u>\$ (56,874)</u>

7. 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.

Holders 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.

8. 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 enters 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.

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 was hedged with interest rate swap derivatives designated as fair value hedges.

At June 30, 2003, CNF held three interest rate swap derivatives that were initially entered into as cash flow hedges to mitigate the effects of interest rate volatility on floating-rate operating lease payments. One of the three outstanding interest rate swap derivatives qualified for hedge accounting under SFAS 133. At June 30, 2003, the fair value of this interest rate swap designated as a cash flow hedge was reported as a liability of \$0.3 million (\$0.2 million after tax). In connection with the restructuring charges described above, EWA made payments in the fourth quarter of 2002 to settle its obligation to pay certain future floating-rate aircraft lease payments previously hedged with two of CNF's interest rate swap derivatives. The estimated fair value of these interest rate swaps at December 31, 2002 was reported as a \$3.9 million liability in Forwarding's restructuring reserves. Following repayment of EWA's leases, these interest rate swap derivatives did not qualify for hedge accounting under SFAS 133 and were therefore freestanding derivatives. As freestanding derivatives, the increase in the estimated fair value of these interest rate swaps in the second quarter and first half of 2003 was recognized as non-operating income of \$0.1 million and \$0.2 million, respectively.

Prior to their termination in December 2002, CNF had designated four interest rate swap derivatives as fair value hedges to mitigate the effects of interest rate volatility on the fair value of fixed-rate long-term debt. Immediately prior to CNF receiving cash payments in settlement of the interest rate swaps, the \$39.8 million estimated fair value of these derivative instruments was reported in Other Assets in CNF's Consolidated Balance Sheets with an offsetting fair-value adjustment to the carrying amount of the hedged fixed-rate long-term debt. Consistent with SFAS 133, the \$39.8 million cumulative adjustment of the carrying amount of long-term debt will be accreted to future earnings using the effective interest rate method until the debt is extinguished, at which time any unamortized fair-value adjustment would be fully recognized in earnings. Absent the terminated fair value hedges, the long-term debt will cease to be adjusted for fluctuations in fair value attributable to changes in interest rate risk.

9. Commitments and Contingencies

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of 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 ceased 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 was required to take 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 other costs, to be \$25.0 million. As a result, CNF accrued additional reserves in 2002, primarily in accrued claims costs in the Consolidated Balance Sheets, and recognized 2002 third-quarter and fourth-quarter losses from discontinuance of \$13.0 million (net of \$8.3 million of income taxes) and \$2.3 million (net of \$1.4 million of income taxes), respectively. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of all 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 and, if so, there can be no assurance that those claims would not be material. For further detailed discussion of this matter, see Item 2, "Management's Discussion and Analysis – Liquidity and Capital Resources – Discontinued Operations – Spin-Off of CFC."

As a result of the matters discussed above and in Item 2, under "Management's Discussion and Analysis," CNF can provide no assurance that matters relating to the spin-off of CFC and CFC's bankruptcy will not have a material adverse effect on CNF's financial condition, cash flows or results of operations.

Other

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 MWF and EWA. The Department of Justice ("DOJ") has joined in the investigation and has been seeking to obtain additional information through the grand jury process. Violation of applicable laws and regulations governing the handling of hazardous materials could result in the imposition of civil and/or criminal fines and other penalties. MWF and EWA are currently engaged in discussions with the FAA and the DOJ, and CNF believes that these matters could be resolved by the end of the year, although there can be no assurance in this regard.

CNF is a defendant in various 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.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations (referred to as Management's Discussion and Analysis) is intended to assist in the understanding and assessment of the principal factors affecting the results of operations, liquidity and capital resources, as well as the critical accounting policies of CNF and its subsidiaries. This discussion and analysis should be read in conjunction with the information, including the audited consolidated financial statements and accompanying notes, included in CNF's 2002 Annual Report on Form 10-K.

CNF Inc. provides supply chain management and transportation services for commercial and industrial customers throughout North America and the world. CNF's principal businesses consist of Con-Way Transportation Services ("Con-Way") and Menlo Worldwide. For financial reporting purposes, CNF is divided into five reporting segments. The operating results of Con-Way are reported as one reporting segment while Menlo Worldwide is divided into three reporting segments: Menlo Worldwide Forwarding, Menlo Worldwide Logistics ("Logistics"), and Menlo Worldwide Other. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the CNF Other reporting segment.

In an effort to bring services offered by the Menlo Worldwide group of businesses under a single brand identity, Menlo Worldwide announced in February 2003 a plan to change the name of its forwarding segment from Emery Forwarding to Menlo Worldwide Forwarding ("Forwarding"). The Forwarding segment consists of the combined operating results of Menlo Worldwide Forwarding, Inc. (formerly Emery Air Freight Corporation) and its subsidiaries, Menlo Worldwide Expedite!, Inc. and a portion of the operations of Emery Worldwide Airlines, Inc. ("EWA"), which ceased air carrier operations in December 2001. In March 2003, Emery Air Freight Corporation changed its name to Menlo Worldwide Forwarding, Inc. ("MWF").

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.

RESULTS OF OPERATIONS

CONTINUING OPERATIONS

CNF's second-quarter net income available to common shareholders of \$16.3 million (\$0.31 per diluted share) in 2003 declined from \$19.8 million (\$0.37 per diluted share) in 2002 and net income available to common shareholders of \$32.2 million (\$0.61 per diluted share) in the first half of 2003 fell from \$38.1 million (\$0.72 per diluted share) in the first half of last year, due primarily to declines in CNF's operating income. CNF's second-quarter operating income of \$37.3 million in 2003 declined 15.0% from \$43.9 million in 2002 and operating income of \$78.4 million in the first half of 2003 fell 7.0% from \$84.3 million in the first half of last year, due primarily to a decline in the operating results of Menlo Worldwide, partially offset by improved operating income from Con-Way. Operating income in the first half of 2003 included a first-quarter net gain of \$7.2 million (\$0.08 per diluted share) from a payment under the Air Transportation Safety and System Stabilization Act (the "Act") while the first half of last year included \$22.8 million (\$0.25 per diluted share) of special items, as summarized below, including a net gain of \$9.9 million (\$0.11 per diluted share) from a payment under the Act. CNF's revenue in the second quarter and first half of 2003 rose 4.3% and 8.4%, respectively, from the same periods last year due primarily to revenue growth at Con-Way and Menlo Worldwide.

Other net expense in the second quarter of 2003 decreased to \$7.2 million from \$8.0 million in the prior-year second quarter and increased to \$18.8 million in the first half of 2003 from \$15.2 million in the first half of 2002. The second quarter and first half of 2003, when compared to the same periods of last year, benefited from changes in the cash-surrender value of corporate-owned life insurance policies and was adversely affected by higher interest expense on long-term debt, declines in investment income on lower cash-equivalent investments, and higher losses from equity ventures. Increases in second-quarter and first-half interest expense in 2003 were due primarily to the settlement of interest rate swaps in December 2002, which effectively converted long-term debt from fixed-rate to floating-rate prior to their termination, as more fully discussed in Note 8, "Derivative Instruments and Hedging Activities," included in the accompanying Notes to Consolidated Financial Statements. CNF recognized equity venture losses of \$0.9 and \$2.2 million in the second quarter and first half of 2003, respectively, and \$0.2 million and \$0.8 million in the second quarter and first half of 2002, respectively.

CNF's results of operations included various items that affected the period-to-period comparability of the reported operating income (loss) of its reporting segments that CNF has identified as "special" items in the periods presented. Items were identified as such by CNF's management based in part on their materiality to the relevant reporting segment.

<i>(Dollars in thousands)</i>	Three months ended		Six months ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Con-Way Transportation Services -				
Net gain from the sale of property	\$ --	\$ --	\$ --	\$ 8,675
Menlo Worldwide -				
Forwarding -				
Net gains from payments under the Air Transportation Safety and System Stabilization Act	--	--	7,230	9,895
Logistics -				
Net gain from a contract termination	--	--	--	1,850
CNF Other -				
Net gain from the sale of property	--	--	--	2,367

CON-WAY TRANSPORTATION SERVICES

Con-Way's revenue in the second quarter and first half of 2003 grew 7.4% and 10.6%, respectively, from the same periods in 2002 due primarily to increases in revenue from Con-Way's regional less-than-truckload ("LTL") carriers and to revenue growth from Con-Way's asset-light businesses, as described below. Second-quarter and first-half regional-carrier revenue per day in 2003 increased 6.3% and 8.7%, respectively, over the same periods in 2002, due primarily to improvements in revenue per hundredweight ("yield") of 6.5% and 8.3%, respectively, on essentially flat tonnage growth. Yield improvements in the second quarter and first half of 2003 reflect rate increases, higher fuel surcharges and continued growth of interregional joint services, which typically command higher rates on longer lengths of haul. Excluding fuel surcharges, second-quarter and first-half yield in 2003 increased 4.4% and 4.9% over the respective prior-year periods. In 2003, Con-Way's asset-light businesses, including Con-Way NOW, Con-Way Logistics, and Con-Way Air Express, increased second-quarter revenue by \$12.7 million to \$30.5 million and grew first-half revenue by \$20.4 million to \$52.1 million. Con-Way defines "asset-light" businesses as those that require a comparatively smaller capital investment than its LTL operations.

Con-Way's second-quarter operating income in 2003 increased 24.1% from 2002 to \$43.6 million and first-half operating income in 2003 increased 17.3% from last year to \$80.8 million. Higher operating income in the second quarter and first half of 2003 was due primarily to higher revenue. Employee costs in the second quarter and first half of 2003, which increased 4.0% and 5.4% from the respective prior-year periods, declined as a percentage of Con-Way's revenue. Operating income in the first half of 2003 was adversely affected by higher first-quarter winter weather-related costs while the first half of the prior year benefited from an \$8.7 million first-quarter net gain from the sale of an excess property.

MENLO WORLDWIDE

For financial reporting purposes, the Menlo Worldwide group, which was formed effective January 1, 2002, is divided into three reporting segments: Forwarding, Logistics, and Menlo Worldwide Other. Vector SCM, a joint venture with General Motors, is reported in the Menlo Worldwide Other segment as an equity-method investment. The Menlo Worldwide group of businesses in 2003 reported second-quarter revenue of \$695.4 million, a 2.1% increase over last year, while revenue of \$1.38 billion in the first half of 2003 improved 7.0% over the first half of last year. Menlo Worldwide in 2003 reported second-quarter and first-half operating losses of \$3.9 million and \$0.4 million, respectively, compared to last year's second-quarter and first-half operating income of \$10.5 and \$13.8 million, respectively.

Forwarding

Forwarding's revenue in the second quarter and first half of 2003 rose 0.6% and 6.4% over the same periods of 2002, respectively, due primarily to an increase in international airfreight revenue, partially offset by a decline in North American airfreight revenue. Second-quarter and first-half 2003 international airfreight revenue per day increased 9.6% and 17.1%, respectively, over the same periods last year due to increases of 4.2% and 9.1%, respectively, in average international pounds per day ("weight") and improvements of 5.2% and 7.3%, respectively, in international revenue per pound ("yield"), which benefited from higher fuel surcharges. The increase in international weight in the second quarter and first half of 2003 is primarily the result of improved business levels in Asian markets, while the first-half improvement was also favorably impacted by an increase in war-related military business in the first quarter. Second-quarter and first-half 2003 North American airfreight revenue per day, including fuel surcharges, declined 13.1% and 9.5%, respectively, from the same periods in 2002 due to declines in weight of 2.7% and 0.2%, respectively, and declines in yield of 10.7% and 9.3%, respectively. Excluding fuel surcharges, second-quarter and first-half North American yield in 2003 declined 16.0% and 14.0%, respectively. North American second-quarter and first-half weight and yield declines in 2003 were primarily the result of Forwarding's efforts to increase second-day and deferred-delivery services as well as a decline in the demand for next-day delivery services, which contributed to a higher percentage of lower-yield second-day and deferred delivery services. Second-quarter and first-half yield in 2003 benefited from an increase in fuel surcharges compared to the same periods in 2002.

Forwarding's second-quarter operating loss in 2003 increased to \$13.8 million from \$5.9 million in 2002 and the operating loss of \$19.2 million in the first half of 2003 increased from \$11.6 million in the first half of 2002. Forwarding's first-half operating loss in 2003 included a \$7.2 million first-quarter net gain from a payment under the Air Transportation Safety and System Stabilization Act (the "Act") while the operating loss in the first half of 2002 included a \$9.9 million first-quarter net gain under the Act. Forwarding's second-quarter and first-half operating losses in 2003, excluding the net gains from payments under the Act, increased over the same prior-year periods due primarily to declines in North American airfreight revenue, higher costs for infrastructure in international markets and lower operating margins on international airfreight revenue. The first half of the current year was also adversely affected by an increase in winter weather-related costs in the first quarter.

Restructuring Plan

In June 2001, Forwarding 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 primarily to a slowing domestic economy and loss of EWA's contracts with the USPS to transport Express Mail and Priority Mail. The \$340.5 million second-quarter restructuring charge in 2001 consisted primarily of non-cash impairment charges of \$278.0 million and estimated future cash expenditures related primarily to the return to lessors of certain aircraft leased to EWA. Based on issues identified during inspections conducted by the Federal Aviation Administration ("FAA"), on August 13, 2001, EWA was required to suspend its air carrier operations as part of an interim settlement agreement with the FAA. As a result, EWA furloughed approximately 400 pilots and crewmembers and Forwarding made arrangements to continue its service to customers by utilizing aircraft operated by several other air carriers. Primarily in response to the FAA action and a worsening global economic downturn, Forwarding re-evaluated its restructuring plan. On December 5, 2001, CNF announced that Forwarding (formerly known as "Emery" or "Emery Forwarding") in 2002 would become part of CNF's new Menlo Worldwide group of supply chain services providers and in North America would utilize aircraft operated by other air carriers instead of EWA operating its own fleet of aircraft, and that EWA would permanently cease air carrier operations. In connection with the revised restructuring plan, in the fourth quarter of 2001 Forwarding recognized additional restructuring charges of \$311.7 million, including \$305.6 million for the planned disposal of leased aircraft, cessation of EWA's remaining operations, and other costs, and \$6.1 million for employee separation costs for 157 of Forwarding's non-pilot employees.

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Following the fourth-quarter restructuring charge in 2001, Forwarding's cash flows have reflected the cost of having other air carriers provide service to Forwarding's North American customers as well as lease payments and other costs associated with Forwarding's restructuring plan; however, Forwarding's operating expenses have reflected the cost of aircraft operated by other carriers but have not included scheduled rental payments and return costs or other restructuring-related payments, as these expenses were accrued in connection with the restructuring charges.

Forwarding's restructuring reserves for aircraft and other costs declined to \$36.4 million at June 30, 2003 from \$67.7 million at December 31, 2002 due primarily to payments for costs of terminating aircraft leases and returning aircraft to lessors. In April 2003, Forwarding paid \$7.6 million in connection with the return of the last aircraft of the 37-aircraft fleet that was grounded in connection with Forwarding's restructuring plan. Restructuring reserves at June 30, 2003 consisted primarily of CNF's estimated exposure related to labor matters in arbitration, as described above, as well as other estimated remaining restructuring-related obligations.

The restructuring charges recognized during 2001 reflect CNF's estimate of the costs of terminating EWA's air carrier operations and restructuring Forwarding'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 that difference would be recognized as additional expense or income in the period when and if that determination can be made.

Terrorist Attacks

In response to the September 11, 2001 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, Forwarding received an \$11.9 million payment under the Act, resulting in the recognition of a \$9.9 million first-quarter net gain in 2002. In March 2003, Forwarding received a final payment of \$7.5 million, resulting in a \$7.2 million first-quarter net gain in 2003.

Forwarding 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, Forwarding's costs of providing airfreight services and the demand for Forwarding's airfreight services. However, Forwarding 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.

Outlook

Management will continue Forwarding's focus on increasing the revenue and operating margins of its variable-cost-based international operations. In North America, management is continuing its efforts to align its costs with revenues, which have decreased due primarily to recent and unexpected declines in the demand for next-day heavy freight delivery services. This decline in revenue caused Forwarding's losses to increase further. Management has broadened its efforts to fix the problem and is aggressively pursuing a variety of alternatives.

Logistics

Logistics' revenue of \$253.0 million in the second quarter of 2003 increased 4.7% over the prior-year second quarter and revenue of \$494.5 million in the first half of 2003 grew 7.9% over the first half of last year, primarily due to higher revenue recognized from carrier and warehouse management services.

A portion of Logistics' revenue is attributable to contracts for which Logistics manages the transportation of freight but subcontracts the actual transportation and delivery of products to third parties. Logistics refers to this as purchased transportation. Logistics' net revenue (revenue less purchased transportation) was \$73.2 million and \$143.4 million in the

second quarter and first half of 2003, respectively, compared to \$69.0 million and \$132.1 million in 2002 in the respective periods last year.

Logistics' second-quarter operating income of \$6.3 million in 2003 fell from \$7.1 million in the prior-year second quarter while operating income of \$12.3 million in the first half of 2003 declined from \$14.8 million in the first half of last year. The prior-year first quarter included a \$1.9 million net gain from the early termination of a contract. Second-quarter and first-half operating income in 2003 reflects an increase in lower-margin warehouse and carrier management services and a decline in higher-margin consulting fee revenue. Logistics' operating income in the first half of 2003 was also adversely affected by higher administrative expenses, primarily because of increasing infrastructure capacity in international markets and higher amortization related to logistics management software placed in service in the second quarter of 2002.

Menlo Worldwide Other

The Menlo Worldwide Other reporting segment consists of the results of Vector SCM, a joint venture formed with General Motors ("GM") in December 2000 to provide logistics services to GM. Although CNF owns a majority equity interest in Vector, the operating results of Vector are reported as an equity-method investment based on GM's ability to control certain operating decisions.

Menlo Worldwide Other reported second-quarter operating income of \$3.6 million in 2003 compared to \$9.3 million in the second quarter of 2002. Operating income in the first half of 2003 declined to \$6.5 million from \$10.6 million in the same prior-year period. Operating income of the Menlo Worldwide Other segment in the second quarter and first half of last year included substantially all of Vector's net income for that period (rather than CNF's pro-rata portion of that net income), because CNF was contractually entitled to substantially all of Vector's net income to the extent of Vector's cumulative losses because, 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, GM began sharing in Vector's net income in the third quarter of 2002.

Under the agreement with GM ("LLC Agreement"), GM has the right to purchase CNF's membership interest in Vector ("Call Right") and CNF has the right to require GM to purchase CNF's membership interest in Vector ("Put Right"). The Call Right and Put Right are exercisable at the sole discretion of GM and CNF, respectively. Exercise of the Call Right or Put Right would require GM to pay CNF for the full value of CNF's membership interest in Vector, as determined by approved appraisers using a predetermined valuation formula.

CNF Other

The CNF Other segment consists of the results of Road Systems and certain corporate activities. The CNF Other second-quarter operating loss increased to \$2.3 million in 2003 from \$1.7 million in 2002 and the first-half operating loss of \$2.0 million in 2003 compared to operating income of \$1.6 million in the first half of last year. Operating results for the CNF Other segment were affected by sales of excess properties, which generated a loss of \$1.1 million in the current-year second quarter and a \$2.4 million net gain in the prior-year first quarter.

DISCONTINUED OPERATIONS

Priority Mail Contract

On November 3, 2000, EWA and the USPS announced an agreement (the "Termination Agreement") to terminate their contract for the transportation and sortation of Priority Mail (the "Priority Mail contract"). All claims relating to amounts owed to EWA under the Priority Mail contract were fully settled in connection with payments from the USPS to EWA in 2002 and 2001, including a \$6.0 million payment in July 2002 that 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. Refer to Note 4, "Discontinued Operations," included in the accompanying Notes to Consolidated Financial Statements.

Spin-Off of CFC

As more fully discussed below under “Liquidity and Capital Resources – Discontinued Operations – Spin-off of CFC,” CNF recognized 2002 third-quarter and fourth-quarter losses from discontinuance of \$13.0 million (net of \$8.3 million of income taxes) and \$2.3 million (net of \$1.4 million of income taxes), respectively, in connection with the bankruptcy of CFC in September 2002.

LIQUIDITY AND CAPITAL RESOURCES

In the first half of 2003, cash and cash equivalents rose \$56.9 million from December 31, 2002 to \$327.3 million at June 30, 2003. Cash provided by operating activities in the first half of 2003 was sufficient to fund investing and financing activities.

Continuing Operations

Operating activities in the first half of 2003 provided \$148.4 million, an increase from \$47.6 million generated by first-half operating activities in 2002. Cash from operations in the first half of 2003 was provided primarily by net income before non-cash items. "Non-cash items" refers to depreciation, amortization, deferred income taxes, provision for uncollectible accounts, equity in earnings of Vector, and non-cash gains and losses. Positive first-half operating cash flows in 2003 were also provided by a \$75.1 million reduction in trade and other receivables, which reflects \$41.3 million in income tax refunds received in the second quarter. First-half cash outflows in 2003 consisted primarily of a \$43.7 million decrease in accrued incentive compensation, which is included in Accrued Liabilities in the Consolidated Balance Sheets, and \$29.2 million of restructuring-related aircraft lease payments and return costs, as described above under "Results of Operations – Menlo Worldwide – Forwarding – Restructuring Plan."

Investing activities in the first half of 2003 used \$68.4 million compared to \$52.5 million used in the prior-year first half, due primarily to a \$13.0 million increase in capital expenditures at Con-Way, which reflects the acquisition of revenue equipment in the first quarter of 2003. Financing activities in the first half of 2003 used \$23.3 million compared to \$35.9 million used in the same period of 2002.

CNF has a \$385 million revolving credit facility that matures on July 3, 2006. The revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to \$385 million. At June 30, 2003, no borrowings were outstanding under the facility and \$241.8 million of letters of credit were outstanding, leaving \$143.2 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 \$112.0 million at June 30, 2003, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of \$75.0 million was outstanding under these facilities. Of the total letters of credit outstanding at June 30, 2003, \$235.1 million provided collateral for CNF workers' compensation and vehicular self-insurance programs. See "Other Matters – Forward-Looking Statements" below, Note 3 to the Consolidated Financial Statements, and Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," included in CNF's 2002 Annual Report on Form 10-K for additional information concerning CNF's \$385 million credit facility and some of its other debt instruments, including certain rights and remedies available to the lenders, which could have a material adverse effect on CNF. In particular, in the event that CNF's long-term senior debt is rated at less than investment grade by both Standard & Poor's and Moody's, holders of certain indebtedness would be entitled to require CNF to repurchase that indebtedness and CNF would be required to pledge collateral securing its \$385 million revolving credit facility and may be required to pledge collateral securing certain other indebtedness.

Discontinued Operations

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of 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 ceased 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 was required to take 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 other costs, to be \$25.0 million. As a result, CNF accrued additional reserves in 2002, primarily in accrued claims costs in the Consolidated Balance Sheets, and

recognized 2002 third-quarter and fourth-quarter losses from discontinuance of \$13.0 million (net of \$8.3 million of income taxes) and \$2.3 million (net of \$1.4 million of income taxes), respectively. CNF intends to seek reimbursement from CFC in its bankruptcy proceeding of amounts that CNF pays in respect of all 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 and, if so, there can be no assurance that those claims would not be material. CNF has received requests for information regarding the spin-off of CFC from representatives from some of the pension funds, and, in accordance with federal law, CNF has responded to those requests. 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, could be material, and a judgment against CNF for all or a significant part of these claims could 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 quarterly payments (after deductibility for tax purposes) could range from \$20 million to \$25 million (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 financial condition and cash flows.

As a result of the foregoing, there can be no assurance that matters relating to the spin-off of CFC and CFC's bankruptcy will not have a material adverse effect on CNF's financial condition, cash flows or results of operations, including potentially triggering downgrades of debt instruments or events of default under credit agreements. See "Other Matters – Forward-Looking Statements" and Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," included in CNF's 2002 Annual Report on Form 10-K.

Priority Mail Contract

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 4, "Discontinued Operations," included in the accompanying Notes to Consolidated Financial Statements, EWA in July 2002 received a \$6.0 million payment to fully settle EWA's Priority Mail contract termination costs.

Defined Benefit Pension Plan

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 ("ERISA"). CNF currently estimates that it will contribute a total of approximately \$75 million of cash in 2003, composed of three equal quarterly payments of \$25 million, beginning in the second quarter. However, this estimate is subject to uncertainties and assumptions, including assumptions as to the rate of return on plan assets and the actual amount of CNF's cash contributions may differ. Likewise, there can be no assurance that CNF will not be required to make further cash contributions, which could be substantial, to its defined benefit pension plan in subsequent years. Except for cash payments of \$76.2 million in 2002 and \$13.1 million in 2001, CNF had made no 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.

Recent declines in the equity markets have caused the market value of the defined benefit pension plan assets to decrease. As a result, the accumulated benefit obligation ("ABO") of CNF's defined benefit pension plans exceeded the fair value of plan assets as of June 30, 2003. In accordance with accounting principles generally accepted in the United States ("GAAP"), CNF's Consolidated Balance Sheets at June 30, 2003 and December 31, 2002 reflect accumulated minimum pension liability adjustments, which increased the accrued pension benefit cost for CNF's qualified and non-qualified defined benefit pension plans by \$56.9 million, and resulted in an intangible pension asset of \$6.7 million, and a net-of-tax accumulated other comprehensive loss of \$30.6 million in shareholders' equity. Funding of CNF's defined benefit pension, as described above, is based on ERISA-defined measurements rather than the recognition and measurement criteria prescribed by GAAP, which requires recognition of a minimum pension liability adjustment. However, future minimum pension liability adjustments, without sufficient levels of cash funding by CNF, would further reduce shareholders' equity. As a result of the foregoing, there can be no assurance that matters related to CNF's defined benefit pension plans will not have a material adverse effect on CNF's financial condition, cash flows or results of operations. As described in Note 3 of the Notes to Consolidated Financial Statements, debt agreements for CNF's \$385 million revolving credit facility and the 6.00% TASP notes guaranteed by CNF were amended in August 2003 to exclude the effect of any minimum pension liability adjustments from the calculation of financial covenants.

Other

In general, CNF expects its future liquidity to be affected by the timing and amount of cash flows related to capital expenditures, pension plan funding requirements, restructuring charge reserves, repayment of long-term debt and guarantees, capital and operating leases and the preferred securities of a subsidiary trust. For further discussion, see Note 3 to the Consolidated Financial Statements and Item 8, "Financial Statements and Supplementary Data," under Note 5, "Debt and Other Financing Arrangements," and Note 6, "Leases," included in CNF's 2002 Annual Report on Form 10-K.

CNF's ratio of total debt to capital decreased to 38.9% at June 30, 2003 from 40.3% at December 31, 2002 due primarily to net income and the repayment of debt and capital lease obligations in the first half of 2003.

OTHER MATTERS

ESTIMATES AND CRITICAL ACCOUNTING POLICIES

CNF makes estimates and assumptions when preparing its 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, uncollectible accounts receivable, defined benefit pension plan costs and goodwill and other intangible assets.

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, medical costs, 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 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 IRS 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 – Forwarding – Restructuring Plan" section under "Results of Operations" above for a description of some of the assumptions used.

Uncollectible Accounts Receivable

CNF and its subsidiaries report accounts receivable at net realizable value and provide an allowance for uncollectible accounts when collection is considered doubtful. Con-Way and Forwarding provide for uncollectible accounts based on various judgments and assumptions, including revenue levels, historical loss experience, and composition of outstanding accounts receivable. Logistics, based on the size and nature of its client base, performs a frequent and periodic evaluation of its customers' creditworthiness and accounts receivable portfolio and recognizes expense from uncollectible accounts when losses are both probable and estimable.

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 and the accrued pension liability depend upon a number of assumptions and factors, the most significant being (i) the discount rate used to measure the present value of pension obligations and (ii) the assumed rate of return on plan assets. CNF adjusts its discount rate periodically to reflect market conditions, taking into account a number of factors including changes in high-quality corporate bond yields and the advice of its outside actuaries. For purposes of calculating its 2002 pension expense, CNF used a 7.25% discount rate. Due to declines in market rates, CNF used a 6.75% discount rate for calculating its 2002 year-end pension liability and its 2003 pension expense. By way of example, if all other factors were held constant, a 0.5% decline in the discount rate would have an estimated \$4 million increase in 2003 annual pension expense and would increase the net-of-tax minimum pension liability adjustment by approximately \$35 million, which would reduce shareholder's equity, as described above under " - Liquidity and Capital Resources - Defined Benefit Pension Plan."

Rates of return on plan assets are also affected by economic conditions and market fluctuations. CNF's assumed rate of return on plan assets is based on historic returns of the plan assets since inception of the plan. In 2002, the assumed rate of return on plan assets was 9.5%. Recent declines in market returns have caused CNF to reduce its assumed rate of return on plan assets for 2003 to 9.0%. Using year-end plan asset values, a 0.5% decline in the assumed rate of return of plan assets would have an estimated \$2 million increase in 2003 annual pension expense.

The determination of CNF's accrued pension benefit cost includes an unrecognized actuarial loss that results from the cumulative difference between estimated and actual values for the year-end projected pension benefit obligation and the fair value of plan assets. Under GAAP, any portion of the unrecognized actuarial loss or gain that exceeds ten percent of the greater of the projected benefit obligation or fair value of plan assets must be amortized as an expense over the average service period

for employees, approximately thirteen years for CNF. Amortization of the unrecognized actuarial loss will increase the annual pension expense in 2003 by approximately \$6 million over annual pension expense in 2002.

Goodwill and Other Long-Lived Assets

Effective January 1, 2002, CNF adopted SFAS 142, "Goodwill and Other Intangible Assets." SFAS 142 specifies that goodwill and indefinite-lived intangible assets will no longer be amortized but instead will be subject to an annual impairment test. In accordance with the provisions of SFAS 142, CNF ceased goodwill amortization associated with the Forwarding reporting segment.

Based on an impairment test as of December 31, 2002, CNF was not required to record a charge for goodwill impairment. CNF will perform a fourth-quarter goodwill impairment test on an annual basis and between annual tests in certain circumstances. In assessing the recoverability of goodwill and other long-lived assets, CNF must make various assumptions regarding estimated future cash flows and other factors in determining the fair values of the respective assets. If these estimates or their related assumptions change in the future, Forwarding may be required to record impairment charges for goodwill or other long-lived assets in future periods. Any such resulting impairment charges could have a material adverse effect on CNF's financial condition or results of operations, including potentially triggering downgrades of debt instruments. See "– Forward-Looking Statements" below, Note 3 to the Consolidated Financial Statements, and Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," included in CNF's 2002 Annual Report on Form 10-K.

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 enters into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of 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 Item 8, "Financial Statements and Supplementary Data," under Note 5, "Debt and Other Financing Arrangements," and Note 6, "Leases," included in CNF's 2002 Annual Report on Form 10-K. CNF uses interest rate swaps to mitigate the impact of interest rate volatility on cash flows related to operating lease payments, and prior to their termination in December 2002, CNF used interest rate swaps to mitigate the impact of interest rate volatility on the fair value of its fixed-rate long-term debt, as described more fully in Note 8, "Derivative Instruments and Hedging Activities," included in the accompanying Notes to Consolidated Financial Statements. At June 30, 2003, CNF had not entered into any material derivative contracts to hedge foreign currency exchange exposure.

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 air freight 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.

BUSINESS INTERRUPTION

Although the operations of CNF's subsidiaries are largely decentralized, Forwarding maintains a major hub operation at the Dayton International Airport in Dayton, Ohio. While CNF currently maintains property and business interruption insurance covering Forwarding's operations at the Dayton hub, its insurance policies contain limits for certain causes of loss, including but not limited to earthquake and flood. Such policies do not insure against property loss or business interruption resulting from a terrorist act. Accordingly, there can be no assurance that this insurance coverage will be sufficient. As a result, a major property loss 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 its Administrative and Technology (“AdTech”) Center in Portland, Oregon for the performance of shared administrative and technology services in the conduct of their businesses. CNF’s centralized computer facilities and its administrative and technology employees are located at the AdTech Center campus. 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, floods or otherwise, could have a material adverse effect on CNF’s financial condition, cash flows, and results of operations.

HOMELAND SECURITY

Since 2001, CNF has been subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration. Beginning in 2002, CNF has been subject to regulations issued by the Department of Homeland Security. CNF is not able to accurately predict how recent events will affect governmental regulation and the transportation industry. However, CNF 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 ability to serve customers and on its financial condition, cash flows and results of operations.

EMPLOYEES

Most of the workforce of CNF and its subsidiaries is not affiliated with labor unions. Consequently, 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. There can be no assurance that CNF’s subsidiaries will be able to maintain their current advantages over certain of their competitors.

ACCOUNTING STANDARDS

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others” (“FIN 45”). During the quarter ended December 31, 2002, CNF adopted the disclosure provisions of FIN 45, which require increased disclosure of guarantees, including those for which likelihood of payment is remote. FIN 45 also requires that, upon issuance of a guarantee, the guarantor must recognize a liability for the fair value of the obligation it assumes under that guarantee. The initial recognition and measurement provisions of FIN 45 are to be applied on a prospective basis to guarantees issued or modified after December 31, 2002. CNF adopted FIN 45 with no material impact.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51" (“FIN 46”). FIN 46 addresses consolidation by business enterprises of entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Variable interest entities are required to be consolidated by their primary beneficiaries if they do not effectively disperse risks among parties involved. The primary beneficiary of a variable interest entity is the party that absorbs a majority of the entity’s expected losses or receives a majority of its expected residual returns. The consolidation requirements of FIN 46 apply immediately to variable interest entities created or modified after January 31, 2003 and apply to existing entities in the first fiscal year or interim period beginning after June 15, 2003. Certain new disclosure requirements apply to all financial statements issued after January 31, 2003. CNF has adopted the currently applicable provisions of FIN 46 with no material impact.

In May 2003, the FASB issued SFAS 150, “Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity” (“SFAS 150”). SFAS 150 establishes classification standards for financial instruments with characteristics of liabilities, equity, or both. CNF adopted SFAS 150 effective July 1, 2003 with no impact.

FORWARD-LOOKING STATEMENTS

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

any projections of earnings, revenues, weight, yield, volumes, income or other financial or operating items, any statements of the plans, strategies, expectations or objectives of 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 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 regarding the outcome of legal and other claims and proceedings against CNF; 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 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 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; the possibility of additional unusual charges and other costs and expenses relating to Forwarding's operations; the possibility that CNF may, from time to time, be required to record impairment charges for goodwill and other long-lived assets; the possibility of defaults under CNF's \$385 million credit agreement and other debt instruments, 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, or from any additional minimum pension liability adjustments that CNF may be required to record in respect of its defined benefit pension plan, 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; 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, including the effects of new regulations issued by the Department of Homeland Security; environmental and tax matters; the Department of Transportation, FAA and Department of Justice investigation relating to Forwarding'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 CFC, including the possibility that CFC's multi-employer pension plans may assert claims against CNF, that CNF may be required to make periodic cash payments while those claims are pending, and that CNF may not prevail in those proceedings and may not have the financial resources necessary to satisfy amounts payable to those plans; and matters relating to CNF's defined benefit pension plans, including the possibility that CNF may be required to record additional minimum pension liability adjustments if the market value of plan assets declines further. As a result of the foregoing, no assurance can be given as to future financial condition, cash flows, or results of operations. See Note 9, "Commitments and Contingencies" included in the accompanying Notes to Consolidated Financial Statements.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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.

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, any documents requested.

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 National Transportation Safety Board (NTSB) subsequently determined that the probable cause of the crash was the disconnection of the right elevator control tab due to improper maintenance, but was not able to determine whether the maintenance errors occurred during the most recent heavy maintenance "D" check by an outside vendor or during subsequent maintenance of the aircraft. MWF, EWA and CNF Inc. have been named as defendants in wrongful death lawsuits brought by the families of the three deceased crewmembers, seeking compensatory and punitive damages. MWF, EWA and CNF Inc. 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 MWF, EWA and CNF Inc. 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.

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. The ALPA matters are the subject of litigation in U.S. District Court and, depending on the outcome of that litigation, 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, MWF, Menlo Worldwide, LLC, CNF Inc. and certain individuals have been named as defendants in a lawsuit filed in state court in California by approximately 140 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. CNF believes that the lawsuit's claims are without merit, and intends to vigorously defend the lawsuit.

CNF has become aware of information that Emery Transnational, a Philippines-based joint venture in which MWF may be deemed to be a controlling partner, may have made certain improper payments in violation of the Foreign Corrupt Practices Act. CNF is conducting an internal investigation into these payments and has notified the Department of Justice and the Securities and Exchange Commission of this matter. CNF will share the results of its internal investigation, when completed, with the appropriate regulatory agencies, and will fully cooperate with any investigations that may be conducted by such regulatory agencies.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 4 Instruments defining the rights of security holders, including debentures:
 - 4.15 Amendment No. 3 dated August 1, 2003 to the \$350 Million Credit Agreement.
 - 4.16 Amendment dated August 8, 2003 to 6.00% Senior CNF Plan Guaranteed Notes.
- 31 Certification of Officers pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32 Certification of Officers pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

- 99.1 [a] Computation of Ratios of Earnings to Fixed Charges – For the six months ended June 30, 2003 and 2002, the ratios of earnings to fixed charges were 2.5x and 3.2x, respectively.
- [b] Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends – For the six months ended June 30, 2003 and 2002, the ratios of earnings to combined fixed charges and preferred stock dividends were 2.4x and 3.0x, respectively.

(b) Reports on Form 8-K

During the current quarter, CNF filed the following reports on Form 8-K:

On July 21, 2003, CNF filed a current report on Form 8-K to furnish under Item 12 CNF's press release presenting CNF's second-quarter results.

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)

August 13, 2003

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

CERTIFICATION OF CHIEF EXECUTIVE 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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

August 13, 2003

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

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

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 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) for the registrant and have:
 - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a. all significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

August 13, 2003

/s/Chutta Ratnathicam
Chutta Ratnathicam
Chief Financial Officer

**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 June 30, 2003 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 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ Gregory L. Quesnel
Name: Gregory L. Quesnel
Title: Chief Executive Officer

**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 June 30, 2003 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 (15 U.S.C. 78m or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 13, 2003

/s/ Chutta Ratnathicam
Name: Chutta Ratnathicam
Title: Chief Financial Officer

CNF INC.

COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES

(Dollars in thousands)

	Six Months Ended	
	June 30,	
	2003	2002
Fixed Charges:		
Interest Expense	\$ 15,023	\$ 11,523
Capitalized Interest	134	368
Amortization of Debt Expense	663	658
Dividend Requirement on Series B Preferred Stock [1]	5,069	5,208
Interest Component of Rental Expense [2]	15,367	11,674
	<u>\$ 36,256</u>	<u>\$ 29,431</u>
Earnings:		
Income Before Taxes	\$ 59,548	\$ 69,106
Fixed Charges	36,256	29,431
Capitalized Interest	(134)	(368)
Preferred Dividend Requirements [3]	(5,069)	(5,208)
	<u>\$ 90,601</u>	<u>\$ 92,961</u>
Ratio of Earnings to Fixed Charges:	<u>2.5</u> x	<u>3.2</u> x

[1] Dividends on shares of the Series B cumulative convertible preferred stock are used to pay debt service on notes issued by CNF'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 deducted in the determination of Income Before Taxes.

CNF INC.

COMPUTATION OF RATIOS OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED STOCK DIVIDENDS

(Dollars in thousands)

	Six Months Ended	
	June 30,	
	2003	2002
Combined Fixed Charges and Preferred		
Stock Dividends:		
Interest Expense	\$ 15,023	\$ 11,523
Capitalized Interest	134	368
Amortization of Debt Expense	663	658
Dividend Requirement on Series B Preferred Stock [1]	5,069	5,208
Dividend Requirement on Preferred Securities of Subsidiary Trust	3,126	3,126
Interest Component of Rental Expense [2]	15,367	11,674
	\$ 39,382	\$ 32,557
 Earnings:		
Income Before Taxes	\$ 59,548	\$ 69,106
Fixed Charges	39,382	32,557
Capitalized Interest	(134)	(368)
Preferred Dividend Requirements [3]	(5,069)	(5,208)
	\$ 93,727	\$ 96,087
 Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:	2.4 x	3.0 x

[1] Dividends on shares of the Series B cumulative convertible preferred stock are used to pay debt service on notes issued by CNF'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 deducted in the determination of Income Before Taxes.