

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 March 31, 2004

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 April 30, 2004: 50,458,891

CNF INC.
FORM 10-Q
Quarter Ended March 31, 2004

INDEX

	Page
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	
Consolidated Balance Sheets - March 31, 2004 and December 31, 2003	3
Statements of Consolidated Income - Three Months Ended March 31, 2004 and 2003	5
Statements of Consolidated Cash Flows - Three Months Ended March 31, 2004 and 2003	6
Notes to Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures about Market Risk	30
Item 4. Controls and Procedures	31
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	32
Item 4. Submission of Matters to a Vote of Security Holders	33
Item 6. Exhibits and Reports on Form 8-K	34
Signatures	36

PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

<u>ASSETS</u>	March 31, 2004 (Unaudited)	December 31, 2003
Current Assets		
Cash and cash equivalents	\$ 399,104	\$ 321,460
Trade accounts receivable, net	781,118	769,707
Other accounts receivable	41,877	68,611
Operating supplies, at lower of average cost or market	15,510	14,333
Prepaid expenses	66,655	53,144
Deferred income taxes	99,929	89,440
Total Current Assets	<u>1,404,193</u>	<u>1,316,695</u>
 Property, Plant and Equipment, at Cost		
Land	157,930	159,645
Buildings and leasehold improvements	794,501	792,289
Revenue equipment	652,159	652,818
Other equipment	373,297	373,034
	<u>1,977,887</u>	<u>1,977,786</u>
Accumulated depreciation and amortization	(1,002,301)	(980,331)
	<u>975,586</u>	<u>997,455</u>
 Other Assets		
Deferred charges and other assets (Note 3)	126,613	130,324
Capitalized software, net	67,858	68,589
Goodwill, net	240,685	240,671
	<u>435,156</u>	<u>439,584</u>
 Total Assets	<u>\$ 2,814,935</u>	<u>\$ 2,753,734</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>	March 31, 2004 (Unaudited)	December 31, 2003
Current Liabilities		
Accounts payable	\$ 378,916	\$ 354,401
Accrued liabilities (Note 8)	338,227	320,250
Accrued claims costs	114,757	120,730
Current maturities of long-term debt and capital leases	12,902	14,230
Total Current Liabilities	844,802	809,611
Long-Term Liabilities		
Long-term debt and guarantees (Note 6)	541,116	554,981
Long-term obligations under capital leases	110,156	110,199
Accrued claims costs	109,418	114,793
Employee benefits (Note 4)	291,363	269,318
Other liabilities and deferred credits	36,900	38,149
Deferred income taxes	29,697	37,875
Total Liabilities	1,963,452	1,934,926
Commitments and Contingencies (Note 10)		
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 756,774 and 763,674 shares, respectively	8	8
Additional paid-in capital, preferred stock	115,098	116,147
Deferred compensation, Thrift and Stock Plan	(55,562)	(57,687)
Total Preferred Shareholders' Equity	59,544	58,468
Common stock, \$.625 par value; authorized 100,000,000 shares; issued 56,469,708 and 56,436,981 shares, respectively	35,294	35,273
Additional paid-in capital, common stock	357,842	356,700
Retained earnings	590,157	570,751
Deferred compensation, restricted stock	(5,611)	(6,188)
Cost of repurchased common stock (6,427,077 and 6,459,732 shares, respectively)	(158,468)	(159,273)
	819,214	797,263
Accumulated Other Comprehensive Loss (Note 5)	(27,275)	(36,923)
Total Common Shareholders' Equity	791,939	760,340
Total Shareholders' Equity	851,483	818,808
Total Liabilities and Shareholders' Equity	\$ 2,814,935	\$ 2,753,734

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 31,	
	2004	2003
REVENUES	\$ 1,348,405	\$ 1,206,241
Costs and Expenses		
Operating expenses (Note 3)	1,138,504	1,013,671
Selling, general and administrative expenses	125,074	118,290
Depreciation	32,085	33,232
	<u>1,295,663</u>	<u>1,165,193</u>
OPERATING INCOME	<u>52,742</u>	<u>41,048</u>
Other Income (Expense)		
Investment income	727	586
Interest expense (Note 6)	(9,040)	(9,272)
Miscellaneous, net	(1,103)	(2,927)
	<u>(9,416)</u>	<u>(11,613)</u>
Income Before Taxes	<u>43,326</u>	<u>29,435</u>
Income Tax Provision	16,897	11,480
Net Income	26,429	17,955
Preferred Stock Dividends	<u>2,022</u>	<u>2,026</u>
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<u>\$ 24,407</u>	<u>\$ 15,929</u>
Weighted-Average Common Shares		
Outstanding (Note 1)		
Basic	49,835,663	49,396,071
Diluted	57,125,185	53,652,665
Earnings per Common Share (Note 1)		
Basic	<u>\$ 0.49</u>	<u>\$ 0.32</u>
Diluted	<u>\$ 0.45</u>	<u>\$ 0.30</u>

The accompanying notes are an integral part of these statements.

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

	Three Months Ended	
	March 31,	
	2004	2003
Cash and Cash Equivalents, Beginning of Period	\$ 321,460	\$ 270,404
Operating Activities		
Net income	26,429	17,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net of accretion	36,488	37,434
Increase (Decrease) in deferred income taxes	(9,116)	6,453
Amortization of deferred compensation	3,187	2,471
Provision for uncollectible accounts	3,004	2,835
Equity in earnings of joint venture	(2,392)	(2,976)
Loss on sales of property and equipment, net	253	873
Loss from equity ventures	-	1,370
Changes in assets and liabilities:		
Receivables	(11,062)	17,190
Prepaid expenses	(13,511)	(12,708)
Accounts payable	31,615	(6,307)
Accrued liabilities, excluding accrued incentive compensation	18,978	38,787
Accrued incentive compensation	(538)	(50,694)
Accrued claims costs	(11,348)	(8,094)
Income taxes	20,078	(577)
Employee benefits	17,096	7,352
Accrued aircraft lease return provision	(14)	(23,656)
Deferred charges and credits	6,893	6,467
Other	388	(635)
Net Cash Provided by Operating Activities	<u>116,428</u>	<u>33,540</u>
Investing Activities		
Capital expenditures	(12,895)	(44,866)
Software expenditures	(4,478)	(3,797)
Proceeds from sales of property and equipment, net	2,706	458
Net Cash Used in Investing Activities	<u>(14,667)</u>	<u>(48,205)</u>
Financing Activities		
Net repayment of long-term debt, guarantees and capital leases	(14,096)	(10,024)
Proceeds from exercise of stock options	433	1,327
Payments of common dividends	(5,001)	(4,951)
Payments of preferred dividends	(5,004)	(5,124)
Net Cash Used in Financing Activities	<u>(23,668)</u>	<u>(18,772)</u>
Net Cash Provided by (Used in) Continuing Operations	<u>78,093</u>	<u>(33,437)</u>
Net Cash Provided by (Used in) Discontinued Operations	<u>(449)</u>	<u>930</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>77,644</u>	<u>(32,507)</u>
Cash and Cash Equivalents, End of Period	<u>\$ 399,104</u>	<u>\$ 237,897</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 2003 Annual Report on Form 10-K.

As a result of adopting the revised FASB Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51," CNF was required to deconsolidate a wholly owned subsidiary trust effective in the quarter ended March 31, 2004, as more fully discussed below under "– New Accounting Standards," and Note 6, "Company-Obligated Mandatorily Redeemable Convertible Securities of CNF Trust 1."

Earnings per Share ("EPS")

Basic 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:

	Three Months Ended	
	March 31,	
	2004	2003
<i>(Dollars in thousands except per share data)</i>		
Earnings:		
Net income available to common shareholders	\$ 24,407	\$ 15,929
Add-backs:		
Dividends on preferred stock, net of replacement funding	308	324
Interest expense on convertible subordinated debentures, net of trust dividend income (Note 6)	954	--
	<u>\$ 25,669</u>	<u>\$ 16,253</u>
Shares:		
Weighted-average common shares outstanding	49,835,663	49,396,071
Stock options	601,625	487,615
Series B preferred stock	3,562,897	3,768,979
Convertible subordinated debentures (Note 6)	3,125,000	--
	<u>57,125,185</u>	<u>53,652,665</u>
Diluted earnings per share	<u>\$ 0.45</u>	<u>\$ 0.30</u>

For the three months ended March 31, 2003, the convertible subordinated debentures 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 convertible subordinated debentures under the if-converted method would have been 3,125,000 shares for the three months ended March 31, 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	
	March 31,	
	2004	2003
Net income available to common shareholders, as reported	\$ 24,407	\$ 15,929
Additional compensation cost, net of tax, that would have been included in net income if the fair-value method had been applied	(2,610)	(2,215)
Adjusted net income available to common shareholders as if the fair-value method had been applied	<u>\$ 21,797</u>	<u>\$ 13,714</u>
Earnings per share:		
Basic:		
As reported	<u>\$ 0.49</u>	<u>\$ 0.32</u>
Adjusted	<u>\$ 0.44</u>	<u>\$ 0.28</u>
Diluted:		
As reported	<u>\$ 0.45</u>	<u>\$ 0.30</u>
Adjusted	<u>\$ 0.40</u>	<u>\$ 0.26</u>

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

Foreign Currency

CNF recognizes deferred taxes to reflect the effect of temporary differences between tax and book accounting on the translation of foreign subsidiary financial statements. Based on expectations in certain tax jurisdictions, CNF re-evaluated its assumptions regarding the repatriation of foreign earnings in the first quarter of 2004. CNF will no longer assume that past and future earnings of foreign subsidiaries are indefinitely reinvested. Accordingly, CNF in the first quarter of 2004 recorded a deferred tax asset of \$9.4 million to recognize the associated tax effect of the accumulated foreign currency translation adjustment.

New Accounting Standards

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 requires that all special-purpose entities be designated as either a voting-interest entity or a variable-interest entity ("VIE"). A VIE is an entity for which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the VIE to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary if it does not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the VIE's expected losses or receives a majority of its expected residual returns.

The implementation of FIN 46 was required for periods beginning after June 15, 2003. However, in October 2003, the FASB deferred the effective date for applying FIN 46 to VIEs created before February 1, 2003 until the end of the first interim period ending after December 15, 2003. In December 2003, the FASB revised FIN 46 ("FIN 46R") to incorporate certain revisions,

including the requirement to disregard certain rights in determining whether an entity is the primary beneficiary in a VIE. Under FIN 46R, CNF is not the primary beneficiary of CNF Trust 1 (the "Trust"), a wholly owned subsidiary, and CNF was therefore required to deconsolidate the Trust effective in the quarter ended March 31, 2004. Accordingly, CNF's 5% convertible subordinated debentures held by the Trust have been included in long-term debt, as more fully discussed in Note 6, "Company-Obligated Mandatorily Redeemable Convertible Securities of CNF Trust 1."

Reclassification

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

2. Reporting Segments

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.

Financial Data

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 or capital employed. Inter-segment revenue and related operating income have been eliminated to reconcile to consolidated revenue and operating income.

(Dollars in thousands)

	Three months ended	
	March 31,	
	2004	2003
Revenues		
Con-Way Transportation Services	\$ 593,844	\$ 519,108
Menlo Worldwide		
Forwarding	501,517	445,622
Logistics	252,790	241,502
	<u>754,307</u>	<u>687,124</u>
CNF Other	254	9
	<u>\$ 1,348,405</u>	<u>\$ 1,206,241</u>
Inter-segment Revenue Eliminations by Segment		
Con-Way Transportation Services	\$ 1,294	\$ 110
Menlo Worldwide		
Forwarding	2,547	72
Logistics	--	1,675
	<u>2,547</u>	<u>1,747</u>
CNF Other	6,100	5,141
	<u>\$ 9,941</u>	<u>\$ 6,998</u>
Revenues before Inter-segment Eliminations		
Con-Way Transportation Services	\$ 595,138	\$ 519,218
Menlo Worldwide		
Forwarding	504,064	445,694
Logistics	252,790	243,177
	<u>756,854</u>	<u>688,871</u>
CNF Other	6,354	5,150
Inter-segment Revenue Eliminations	(9,941)	(6,998)
	<u>\$ 1,348,405</u>	<u>\$ 1,206,241</u>
Operating Income (Loss)		
Con-Way Transportation Services	\$ 51,105	\$ 37,192
Menlo Worldwide		
Forwarding	(6,409)	(5,431)
Logistics	6,506	6,036
Other	2,392	2,976
	<u>2,489</u>	<u>3,581</u>
CNF Other	(852)	275
	<u>\$ 52,742</u>	<u>\$ 41,048</u>

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 provided for \$5 billion in direct loss reimbursement and other financial assistance. In March 2002, Forwarding received an initial \$11.9 million payment under the Act, resulting in 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. Investment in Unconsolidated Joint Venture

Vector SCM ("Vector") is a joint venture formed with General Motors ("GM") in December 2000 for the purpose of providing logistics management services on a global basis for GM, and ultimately for customers in addition to GM. Although Menlo Worldwide, LLC ("MW") owns a majority interest in Vector, MW's portion of Vector's operating results are reported in the Menlo Worldwide Other reporting segment as an equity-method investment based on GM's ability to control certain operating decisions. Vector is organized as a limited liability company that has elected to be taxed as a partnership. Therefore, the joint venture partners are responsible for income taxes applicable to their share of Vector's taxable income. MW's portion of Vector's net income, which is reported as a reduction of operating expenses in the accompanying Statements of Consolidated Income, does not include any provision for income taxes that will be incurred by CNF. MW's undistributed earnings from Vector at March 31, 2004 and December 31, 2003, before provision for CNF's related parent income taxes, was \$25.0 million and \$22.6 million, respectively.

Vector participates in CNF's centralized cash management system, and, consequently, Vector's domestic trade accounts payable are paid by CNF and settled through Vector's affiliate accounts with CNF. In addition, excess cash balances in Vector's bank accounts, if any, are invested by CNF and settled through affiliate accounts, which earn interest income based on a rate earned by CNF's cash-equivalent investments. As a result of Vector's excess cash invested by CNF, Vector's affiliate receivable from CNF as of March 31, 2004 and December 31, 2003 was \$18.0 million and \$16.0 million, respectively.

As required by the Vector Agreements, CNF provides Vector with a \$20 million line of credit for Vector's working capital and capital expenditure requirements. Under the credit facility, which matures on December 13, 2005, Vector may obtain loans with an annual interest rate based on the rate CNF pays under its \$385 million revolving credit facility. CNF provides a portion of its \$20 million credit commitment to Vector through CNF's guarantee of \$7.5 million of uncommitted local currency overdraft facilities available to Vector by international banks. At March 31, 2004, there was no balance outstanding under Vector's uncommitted local currency overdraft facilities and no borrowings were directly payable to CNF. At December 31, 2003, Vector owed \$5.8 million under the uncommitted local currency overdraft facilities and no borrowings were directly payable to CNF.

CNF's capital transactions with Vector, including cash advances to and from Vector under CNF's centralized cash management system and credit facility described above, are reported as adjustments to MW's investment in Vector in Deferred Charges and Other Assets in CNF's Consolidated Balance Sheets.

4. Employee Benefit Plans

During the first quarter of fiscal 2004, CNF adopted the interim disclosure provisions of SFAS No. 132R, "Employers' Disclosure about Pensions and Other Postretirement Benefits, an Amendment of FASB Statements No. 87, 88 and 106 and a Revision of FASB Statement No. 132." This statement revises employers' disclosures about pension plans and other postretirement benefits.

The following table summarizes the components of net periodic benefit expense for CNF for the three months ended March 31:

<i>(Dollars in thousands)</i>	Pension Plans		Postretirement Plan	
	2004	2003	2004	2003
Service cost – benefits earned during the quarter	\$ 15,391	\$ 10,965	\$ 488	\$ 457
Interest cost on benefit obligation	15,852	12,495	1,477	1,384
Expected return on plan assets	(15,575)	(10,391)	--	--
Net amortization and deferral	2,137	2,269	69	65
Net benefit expense	<u>\$ 17,805</u>	<u>\$ 15,338</u>	<u>\$ 2,034</u>	<u>\$ 1,906</u>

During the first quarter, CNF revised its forecasted contribution to its defined benefit pension plans. At this time, CNF plans to contribute \$90 million to the plans during 2004.

5. 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 March 31,	
	2004	2003
Net income	\$ 26,429	\$ 17,955
Other comprehensive income (loss), net of tax:		
Unrealized loss on marketable securities	(211)	--
Change in fair value of cash flow hedge (Note 9)	--	93
Foreign currency translation adjustment (Note 1)	9,859	18
	<u>9,648</u>	<u>111</u>
Comprehensive income	<u>\$ 36,077</u>	<u>\$ 18,066</u>

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

<i>(Dollars in thousands)</i>	March 31, 2004	December 31, 2003
Unrealized gain on marketable securities	\$ 1,833	\$ 2,044
Accumulated foreign currency translation adjustments (Note 1)	(9,480)	(19,339)
Minimum pension liability adjustment	(19,628)	(19,628)
Accumulated other comprehensive loss	<u>\$ (27,275)</u>	<u>\$ (36,923)</u>

6. Company-Obligated Mandatorily Redeemable Securities of CNF Trust 1

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. The Trust pays interest on the TECONS and receives interest on the Debentures due from CNF. Excess interest income is paid to CNF as the common stockholder 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). 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. 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. 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"), as more fully discussed in Note 9, "Preferred Securities of Subsidiary Trust," of Item 8, "Financial Statements and Supplementary Data," in CNF's 2003 Annual Report on Form 10-K.

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. Upon any redemption of the Debentures, a like aggregate liquidation amount of TECONS will be redeemed. On conversion of a TECONS by the holder, a like amount of Debentures would be converted on behalf of the TECONS holder, and CNF would then deliver the fixed number of shares of CNF common stock into which the Debentures are convertible.

On April 30, 2004, CNF announced that it intends to redeem the Debentures on June 1, 2004, as more fully discussed below in Note 7, "Debt." The proceeds from the redemption of the Debentures will be applied by the Trust to simultaneously redeem all of the outstanding TECONS and all of the outstanding common securities.

Prior to the required deconsolidation of the Trust under FIN 46R, as described in Note 1 "Principal Accounting Policies – New Accounting Standards," CNF reported the TECONS as a mezzanine security ("Company-Obligated Mandatorily Redeemable Preferred Securities of Subsidiary Trust Holding Solely Convertible Debentures of the Company") with cash distributions reported as a non-operating expense. Under FIN 46R, CNF's consolidated financial statements, for all periods presented, reflect the deconsolidation of the Trust. Accordingly, long-term debt and interest expense reflect the obligation and interest cost, respectively, of the Debentures described above. CNF's \$3.9 million interest in the common securities of the Trust is reported as an investment in Deferred Charges and Other Assets while dividend income on the common securities are reported by CNF as non-operating income. Adoption of FIN 46R did not have a material effect on results of operations in the periods presented, as dividends paid to holders of the TECONS are equal to the amount by which CNF's interest expense on the Debentures exceeds dividend income earned by CNF on the common securities of the Trust.

7. Debt

Senior Debentures due 2034

On April 27, 2004, CNF issued \$300 million of 6.70% Senior Debentures due 2034 ("Senior Debentures") in a private placement for proceeds of \$290.0 million, net of a \$7.4 million discount and \$2.6 million of underwriting costs. CNF intends to use the net proceeds to redeem \$128.9 million of Convertible Subordinated Debentures on June 1, 2004, to repurchase from time to time or pay at maturity, \$100 million of 7.35% Notes due 2005, and for working capital and general corporate purposes. CNF's Convertible Subordinated Debentures, which are held by a wholly owned subsidiary trust, are more fully discussed above in Note 6, "Company-Obligated Mandatorily Redeemable Securities of CNF Trust 1."

The Senior Debentures bear interest at the rate of 6.70% per year, payable semi-annually on May 1 and November 1 of each year, beginning on November 1, 2004. CNF may redeem the Senior Debentures, in whole or in part, on not less than 30 nor more than 60 days' notice, at a redemption price equal to the greater of (1) the principal amount being redeemed, or (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Debentures being redeemed, discounted at the redemption date on a semiannual basis at the Treasury rate payable on an equivalent debenture plus 35 basis points. The Senior Debentures were issued under an indenture that restricts CNF's ability, with certain exceptions, to incur debt secured by liens.

The Senior Debentures were sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended. The Senior Debentures have not been registered under the Securities Act or any applicable state securities

laws and may not be offered or sold in the United States absent registration or an applicable exemption from such registration requirements. CNF has entered into a registration rights agreement in which CNF has agreed to file within 90 days of April 27, 2004 a registration statement with the Securities and Exchange Commission to register resales of the notes within 90 days of the closing date. CNF will be required to pay additional interest if the registration statement is not filed within the required period, it is not effective on or before the 180th day after April 27, 2004 or under certain other circumstances.

Thrift and Stock Plan Notes

CNF guarantees the notes issued by CNF's Thrift and Stock Plan ("TASP"), as more fully discussed in Note 6, "Debt and Other Financing Arrangements," of Item 8, "Financial Statements and Supplementary Data," included in CNF's 2003 Annual Report on Form 10-K.

As of March 31, 2004, there was \$27.7 million aggregate principal amount of Series A TASP notes outstanding and \$62.0 million of Series B TASP notes outstanding. Holders of the Series B notes issued by CNF's TASP have the right to require CNF to repurchase those notes if, among other things, both Moody's and Standard & Poor's have publicly rated CNF's long-term senior debt at less than investment grade unless, within 45 days, CNF shall have obtained, through a guarantee, letter of credit or other permitted credit enhancement or otherwise, a credit rating for such notes of at least "A" from Moody's or Standard & Poor's (or another nationally recognized rating agency selected by the holders of such notes) and shall maintain a rating on such notes of "A" or better thereafter.

Following CNF's private placement of debentures in April 2004, as described above, Moody's and Standard & Poors affirmed their investment-grade ratings on CNF's senior unsecured debt. Also, Moody's upgraded its outlook to "stable" from "negative."

8. Restructuring Plans

2001 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. CNF announced in December 2001 that Forwarding 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. As a result, EWA terminated the employment of all of its pilots and crew members. Those pilots and crew members 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 crew members protesting the cessation of EWA's air carrier operations and Forwarding'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 provided for 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.

Forwarding's restructuring reserves for aircraft and other costs increased to \$35.5 million at March 31, 2004 from \$34.8 million at December 31, 2003, primarily due to proceeds from sales of aircraft and equipment, partially offset by payments of restructuring-related obligations. None of the 37 aircraft that were grounded in connection with Forwarding's restructuring plan remained under lease as of March 31, 2004. Restructuring reserves at March 31, 2004 consisted primarily of CNF's estimated exposure related to the labor matters described above, as well as other estimated remaining restructuring-related obligations.

Refer to Note 3, "Restructuring Plans," of Item 8, "Financial Statements and Supplementary Data," included in CNF's 2003 Annual Report on Form 10-K for a more detailed discussion of Forwarding's 2001 restructuring plan.

2003 Restructuring Plan

In response to continued declines in North American air freight revenue, Forwarding continued restructuring its operations in the fourth quarter of 2003, primarily to reduce the costs of its North American freight service center network. Under the

restructuring plan, nine service centers were closed in markets for which Forwarding believes it can utilize cartage agents to transport customer shipments more cost effectively. In connection with the restructuring plan, Forwarding recognized a \$7.8 million charge in the fourth quarter of 2003, primarily for the accrual of future lease payments on closed facilities and employee termination costs. Forwarding's reserves related to the 2003 restructuring plan declined to \$3.7 million at March 31, 2004, from \$6.6 million at December 31, 2003, due to cash payments related to employee terminations and lease payments on closed facilities. These payments are reflected in Forwarding's cash flows when paid but will not be included in Forwarding's future operating expenses as these costs were accrued in connection with the restructuring charge. In addition to actions taken in connection with the restructuring charge, Forwarding's restructuring plan also included the renegotiation of contracts with third-party cartage agents and other service providers.

9. Derivative Instruments and Hedging Activities

Under SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, CNF records derivative instruments on the balance sheet as either an asset or liability measured at fair value with changes in fair value 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.

At March 31, 2004, CNF held two 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. In connection with Forwarding's 2001 restructuring plan, hedge accounting was discontinued for these interest rate swap derivatives when EWA settled floating-rate operating leases hedged with the interest rate swaps. In the first quarter of 2004, decreases in the estimated fair value of these freestanding interest rate swap derivatives were reported as decreases in Other Assets in the Consolidated Balance Sheets and as a non-operating loss of \$0.3 million.

10. Commitments and Contingencies

Spin-Off of CFC

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation ("CFC") to CNF's shareholders. 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.

Prior to the enactment in April 2004 of the Pension Funding Equity Act of 2004, if the multiemployer funds had asserted such claims against CNF, CNF would have had a statutory obligation to make cash payments to the funds prior to any arbitral or judicial decisions on the funds' determinations. Under the facts related to the CFC withdrawals and the law in effect after enactment of the Pension Funding Equity Act of 2004, CNF would no longer be required to make such payments to the multiemployer funds unless and until final decisions in arbitration proceedings, or in court, upheld the funds' determinations.

As a result of the matters discussed above, 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

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 included in CNF's 2003 Annual Report on Form 10-K.

CNF provides supply chain management services for commercial and industrial shipments by land, air and sea throughout the world. CNF's principal businesses consist of Con-Way and the Menlo Worldwide group of businesses. However, for financial reporting purposes, CNF is divided into five reporting segments. The operating results of Con-Way, primarily a provider of regional less-than-truckload ("LTL") freight services, are reported as one reporting segment while Menlo Worldwide is divided into three reporting segments: Forwarding, primarily a global provider of air freight and ocean forwarding services; Logistics, a provider of integrated contract logistics solutions; and Menlo Worldwide Other, which consists of Vector, a joint venture with General Motors ("GM") that serves as the lead logistics manager for GM. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the separate CNF Other reporting segment.

CNF's operating results are generally expected to depend on the number and weight of shipments transported, the prices received on those shipments, and the mix of services provided to customers, as well as the fixed and variable costs incurred by CNF in providing the services and the ability to manage those costs under changing shipment levels. Con-Way and Forwarding primarily transport shipments through freight service center networks while Logistics and Vector manage the logistics functions of their customers and primarily utilize third-party transportation providers for the movement of customer shipments.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

CNF's net income available to common shareholders in the first quarter of 2004 was \$24.4 million (\$0.45 per diluted share), a 53.2% increase from \$15.9 million (\$0.30 per diluted share) in the first quarter of 2003, which included a \$7.2 million pre-tax net gain (\$4.4 million after-tax or \$0.08 per diluted share) from a payment under the Air Transportation Safety and System Stabilization Act (the "Stabilization Act").

The following table compares operating results (dollars in thousands, except per share amounts) for the three months ended March 31:

	<u>2004</u>	<u>2003</u>
Revenues	\$1,348,405	\$1,206,241
Operating Income	52,742	41,048
Net Income Available to Common Shareholders	24,407	15,929
Diluted Earnings per Share	0.45	0.30

CNF's revenue in the first quarter of 2004 increased to \$1.3 billion, an 11.8% increase over the same period last year, as both Con-Way and the Menlo Worldwide group of businesses achieved continued revenue growth amid improved global economic conditions. Consolidated operating income rose to \$52.7 million, a 28.5% increase over the first quarter of 2003, due principally to significantly higher operating income from Con-Way. The collective first-quarter operating income of the Menlo Worldwide companies fell to \$2.5 million in 2004 from \$3.6 million in 2003; however, the prior-year first quarter benefited from Forwarding's \$7.2 million net gain from the Stabilization Act payment.

Con-Way's operating income grew 37.4% in the first quarter of 2004 to \$51.1 million, due principally to operating leverage and a 14.4% increase in revenue. Operating results at Menlo Worldwide also benefited from revenue growth. In the first quarter of 2004, Forwarding reported a 12.5% increase in revenue and a \$6.4 million operating loss. Although Forwarding's first-quarter revenue was still insufficient to cover its costs, the first-quarter operating loss increased by only \$1.0 million from the same

quarter last year despite the prior-year benefit from the \$7.2 million net gain described above. Excluding the Stabilization Act payment in last year's first quarter, Forwarding reduced its first-quarter operating loss in 2004. Logistics first-quarter revenue in 2004 rose 4.7% from the prior year while operating income rose 7.8%. Vector's first-quarter 2004 operating income of \$2.4 million, which declined from \$3.0 million in the first quarter of 2003, reflects compensation earned under amended agreements with GM, its joint venture partner and customer.

Other net expense of \$9.4 million in the first quarter of 2004 declined 18.9% from the same period last year due in part to a \$1.3 million favorable impact from changes in the cash-surrender value of corporate-owned life insurance policies. Also, the prior-year first quarter was adversely affected by equity venture losses of \$1.4 million.

CON-WAY TRANSPORTATION SERVICES

The following table compares operating results (dollars in thousands), operating margins, and the percentage increase in selected operating statistics of the Con-Way reporting segment for the three months ended March 31:

	<u>2004</u>	<u>2003</u>
Summary of Operating Results		
Revenues	\$593,844	\$519,108
Operating Income	51,105	37,192
Operating Margin	8.6%	7.2%
	<u>2004 vs. 2003</u>	
Selected Regional-Carrier Operating Statistics		
Revenue per day	+11.3%	
Yield	+0.5	
Weight per day:		
Less-than-truckload	+10.0	
Total	+10.7	

Con-Way's revenue in the first quarter of 2004 rose 14.4% due to higher revenue from Con-Way's regional carriers and continued growth from Con-Way's asset-light businesses, which include Con-Way NOW, Con-Way Logistics, and Con-Way Air Express. Revenue per day from the regional carriers rose 11.3% from the first quarter of 2003 on a 10.7% increase in weight per day ("weight"), which was due primarily to comparatively better economic conditions in the U.S. First-quarter revenue per hundredweight ("yield") in 2004 was positively affected by continued growth in interregional joint services, which typically command higher rates on longer lengths of haul, but was adversely affected by a 2.8% increase in weight per shipment. Rates typically decline when weight per shipment increases, as freight with a higher weight per shipment typically has a lower transportation cost per unit of weight. In the first quarter of 2004, Con-Way's asset-light businesses increased revenue by 95.9% over the first quarter of 2003. Con-Way defines "asset-light" businesses as those that require a comparatively smaller capital investment than its LTL operations.

Con-Way's first-quarter operating income in 2004 increased 37.4%, due primarily to higher revenue from the regional carriers, as well as revenue growth from Con-Way's asset-light businesses, which reduced their collective net operating loss in the first quarter of 2004 by 62.6% over the prior-year period. The improvement in Con-Way's operating margin in the first quarter of 2004 reflects operating leverage, as Con-Way's regional carrier service center network accommodated additional shipments with proportionally smaller cost increases. First-quarter operating income in 2004 was adversely affected by employee costs, which rose 13.4% from the prior year.

MENLO WORLDWIDE

For financial reporting purposes, the Menlo Worldwide group is divided into three reporting segments: Forwarding, Logistics, and Menlo Worldwide Other. Vector SCM, a joint venture with GM, is reported in the Menlo Worldwide Other segment as an equity-method investment. In the first quarter of 2004, the Menlo Worldwide group of businesses reported revenue of \$754.3 million and operating income of \$2.5 million.

FORWARDING

The following table compares operating results (dollars in thousands), operating margins, and the percentage increase (decrease) in selected operating statistics of the Forwarding reporting segment for the three months ended March 31:

	<u>2004</u>	<u>2003</u>
Summary of Operating Results		
Revenues	\$501,517	\$445,622
Operating Loss	(6,409)	(5,431)
Operating Margin	-1.3%	-1.2%
Item affecting comparability of operating loss:		
Net gain from a payment under the Air Transportation Safety and System Stabilization Act	--	\$7,230
	<u>2004 vs. 2003</u>	
Selected Air Freight Operating Statistics		
International		
Revenue per day	+14.5%	
Weight per day	+20.4	
Yield	-4.8	
North America		
Revenue per day	+0.8	
Weight per day	+7.2	
Yield	-6.0	

Forwarding's revenue in the first quarter of 2004 grew 12.5% over the first quarter of 2003, primarily due to a significant increase in international air freight revenue and a slight increase in North American air freight revenue. Forwarding's first quarter in 2004 included one more working day than the same quarter of last year. International air freight revenue per day increased 14.5% over the first quarter of 2003 as a 20.4% increase in international average pounds per day ("weight") was partially offset by a 4.8% decline in international air freight revenue per pound ("yield"). Weight in the first quarter of 2004 benefited from improved global economic conditions, which contributed to improved business levels in the Asian, European, and Latin American markets. The decline in international yield was due in part to reduced volumes of higher-yield military supply business, which benefited the first quarter of 2003, and to a greater percentage of lower-yield delivery services in the first quarter of 2004. Excluding the positive effect of higher fuel surcharges, first-quarter international yield fell 5.7% from the same quarter last year. North American air freight revenue per day in the first quarter of 2004 increased 0.8% over the same period last year as a 7.2% increase in weight was mostly offset by a 6.0% decline in yield. Growth in North American weight in the first quarter of 2004 was largely due to improved economic conditions in the U. S., while the decline in North American yield was primarily due to a greater percentage of lower-yield deferred delivery services. Forwarding's efforts to increase second-day and deferred delivery services contributed to a higher percentage of lower-yield delivery services in the first quarter of 2004. Excluding the yield-enhancing effect of higher fuel surcharges, North American yield in the first quarter of 2004 declined 7.7% from the first quarter of 2003.

Forwarding's first-quarter operating loss increased to \$6.4 million in 2004 from \$5.4 million in 2003, largely due to a first-quarter prior-year net gain of \$7.2 million from the Stabilization Act payment, as more fully discussed below under "– Terrorist Attacks." Excluding last year's net gain from the Stabilization Act payment, Forwarding reduced its first-quarter operating loss in 2004 principally from growth in air freight revenue and cost reductions to the North American service center network. Forwarding's international gross margin as a percentage of international air freight revenue in the first quarter of 2004 fell from the same period last year, primarily due to reduced volumes of higher-yield military supply business, which benefited gross margins in the first quarter of 2003. The decline in the international gross margin as a percentage of revenue was partially offset by cost reductions to the North American service center network in the fourth quarter of 2003, as more fully discussed below under "—Restructuring Plans—2003 Restructuring Plan." Forwarding's first-quarter operating loss in the prior year reflects costs for reducing and reconfiguring elements of the North American service center network. Management will continue to

focus on increasing the revenue and operating margins of its variable-cost-based international operations and, in North America, will continue its efforts to align its costs with revenues.

Restructuring Plans

2001 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. CNF announced in December 2001 that Forwarding 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. As a result, EWA terminated the employment of all of its pilots and crew members. Those pilots and crew members 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 crew members protesting the cessation of EWA's air carrier operations and Forwarding'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 provided for 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.

Forwarding's restructuring reserves for aircraft and other costs increased to \$35.5 million at March 31, 2004 from \$34.8 million at December 31, 2003, primarily due to proceeds from sales of aircraft and equipment, partially offset by payments of restructuring-related obligations. None of the 37 aircraft that were grounded in connection with Forwarding's restructuring plan remained under lease as of March 31, 2004. Restructuring reserves at March 31, 2004 consisted primarily of CNF's estimated exposure related to the labor matters described above, as well as other estimated remaining restructuring-related obligations.

Refer to Note 3, "Restructuring Plans," of Item 8, "Financial Statements and Supplementary Data," included in CNF's 2003 Annual Report on Form 10-K for a more detailed discussion of Forwarding's 2001 restructuring plan.

2003 Restructuring Plan

In response to continued declines in North American air freight revenue, Forwarding continued restructuring its operations in the fourth quarter of 2003, primarily to reduce the costs of its North American freight service center network. Under the restructuring plan, nine service centers were closed in markets for which Forwarding believes it can utilize cartage agents to transport customer shipments more cost effectively. In connection with the restructuring plan, Forwarding recognized a \$7.8 million charge in the fourth quarter of 2003, primarily for the accrual of future lease payments on closed facilities and employee termination costs. Forwarding's reserves related to the 2003 restructuring plan declined to \$3.7 million at March 31, 2004, from \$6.6 million at December 31, 2003, due to cash payments related to employee terminations and lease payments on closed facilities. These payments are reflected in Forwarding's cash flows when paid but will not be included in Forwarding's future operating expenses as these costs were accrued in connection with the restructuring charge. In addition to actions taken in connection with the restructuring charge, Forwarding's restructuring plan also included the renegotiation of contracts with third-party cartage agents and other service providers. Management estimates that all actions taken under the restructuring plan will reduce annual operating expenses in 2004 by \$20 million with no adverse effect on revenue levels or the quality and coverage of delivery service.

Forwarding's restructuring charges recognized during 2001 and 2003 reflect CNF's estimate of the costs of the related restructuring activities. CNF believes that these estimates are 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 provided for \$5 billion in direct loss reimbursement and other financial assistance. In March 2002, Forwarding received an \$11.9 million payment under the Act, resulting in 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 air freight services and the demand for Forwarding's air freight 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.

LOGISTICS

The following table compares operating results (dollars in thousands) and operating margins of the Logistics reporting segment for the three months ended March 31:

	<u>2004</u>	<u>2003</u>
Summary of Operating Results		
Revenues	\$252,790	\$241,502
Operating Income	6,506	6,036
Operating Margin	2.6%	2.5%

Logistics' revenue in the first quarter of 2004 increased 4.7% from the first quarter of 2003, principally due to an increase in warehouse management services. Revenue from carrier management services in the first quarter of 2004 was essentially unchanged despite the loss of a significant customer in the fourth quarter of 2003, a division of a large company that terminated the logistics outsourcing arrangements at many of its divisions. The customer accounted for 4.2% of Logistics' revenue in the first quarter of 2003 but was among Logistics' lowest-margin accounts. Logistic's operating income in the first quarter of 2004 grew 7.8%, due largely to higher revenue.

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) in the first quarter of 2004 was \$76.3 million, an increase from \$74.0 million in the first quarter of 2003.

MENLO WORLDWIDE OTHER

The Menlo Worldwide Other reporting segment consists of the results of Vector, a joint venture formed with GM in December 2000 for the purpose of providing logistics management services on a global basis for GM, and ultimately for customers in addition to GM. Prior to the amendments described below, agreements pertaining to Vector (collectively, "Vector Agreements") provided that Vector would be compensated by sharing in efficiency gains and cost savings achieved through the implementation of Approved Business Cases ("ABCs") and other special projects in GM's North America region and GM's three international regions. An ABC is a project, developed with and approved by GM, aimed at reducing costs, assuming operational responsibilities, and/or achieving operational changes.

In August 2003, the Vector Agreements were amended, primarily to expedite the transition of logistics management services in the North America region from GM to Vector. The amendments changed the compensation principles for GM's North American logistics operations, revised the allocation of Vector's profit between GM and MW, and modified the formula for the valuation of Vector in the event that MW exercises its Put Right, as described below.

The amendments to the Vector Agreements provide for Vector to be compensated for its management of logistics for all of GM's North America operations rather than through its sharing in efficiency gains and cost savings under individual and separately approved ABCs in North America. In each year of a five-year period retroactive to January 1, 2003, Vector will be compensated with a management fee based on shipment volumes and can earn additional compensation if certain performance criteria are achieved. In accordance with GAAP, compensation under the volume-based management fee will be recognized as vehicles are shipped while performance-based compensation will not be recognized until specified levels of cost savings are achieved, which

will generally not be determinable until the fourth quarter of each contract year. Vector will also be compensated by GM for its direct and administrative costs in North America, subject to certain limitations.

The amended Vector Agreements also increase MW's allocation of profit and loss from 80% to 85%. Although MW owns a majority equity interest, the operating results of Vector are reported as an equity-method investment based on GM's ability to control certain operating decisions.

Under the Vector Agreements, GM has the right to purchase MW's membership interest in Vector ("Call Right") and MW has the right to require GM to purchase MW's membership interest in Vector ("Put Right"). The Call Right and Put Right are exercisable at the sole discretion of GM and MW, respectively. Prior to amendment of the Vector Agreements, exercise of the Call Right or Put Right required GM to pay MW for the fair value of MW's membership interest in Vector, as determined by approved appraisers using a predetermined valuation formula. Under the amended Vector Agreements, the amount payable by GM to MW under the Put Right is based on a mutually agreed-upon estimated value for MW's membership interest as of the contract amendment date and will decline on a straight-line basis over an 8-year period beginning January 1, 2004. Exercise of MW's Put Right or GM's Call Right would result in MW retaining commercialization contracts involving customers other than GM.

Reported operating income of the Menlo Worldwide Other segment in the first quarter of 2004 was \$2.4 million, a decline from \$3.0 million in the same quarter of last year. Vector began recognizing compensation in accordance with the amended Vector Agreements in the third quarter of 2003. As a result, operating income in the first quarter of 2004 reflects the recognition of Vector's compensation in accordance with the amended Vector Agreements while operating income in the prior-year first quarter was determined under the compensation principles under the original Vector Agreements, as described above.

In each successive year covered by the amended Vector agreements, management anticipates that performance-based compensation will represent a growing percentage of compensation earned in GM's North America region. Management also intends to increase the percentage of compensation earned from commercialization activities and from GM's international regions and aftermarket parts supply operations, which are unaffected by the amended Vector Agreements.

CNF OTHER

The CNF Other segment consists of the results of Road Systems and certain corporate activities. A majority of the revenue from Road Systems was from sales to other CNF subsidiaries. The \$0.9 million operating loss in the first quarter of 2004 primarily reflects a \$0.7 million net loss from the sale of a corporate property, partially offset by the collective results of RSI and various corporate activities. In the first quarter of last year, the CNF Other segment reported operating income of \$0.3 million.

LIQUIDITY AND CAPITAL RESOURCES

In the first quarter of 2004, cash provided by operating activities was \$116.4 million, which was sufficient to fund investing activities that used \$14.7 million and financing activities that used \$23.7 million. The excess cash flow from operations increased cash and cash equivalents from \$321.5 million at December 31, 2003 to \$399.1 million at March 31, 2004.

The following table summarizes CNF's cash flows for the first quarter ended March 31:

	<u>2004</u>	<u>2003</u>
Operating Activities		
Net income	\$26,429	\$17,955
Non-cash adjustments (1)	31,424	48,460
	<u>57,853</u>	<u>66,415</u>
Changes in assets and liabilities		
Receivables	(11,062)	17,190
Accounts payable and accrued liabilities, excluding accrued incentive compensation	50,593	32,480
Accrued incentive compensation	(538)	(50,694)
Accrued aircraft leases and return provision	(14)	(23,656)
Income taxes	20,078	(577)
Other	(482)	(7,618)
	<u>58,575</u>	<u>(32,875)</u>
Net Cash Provided by Operating Activities	<u>116,428</u>	<u>33,540</u>
Net Cash Used in Investing Activities	<u>(14,667)</u>	<u>(48,205)</u>
Net Cash Used in Financing Activities	<u>(23,668)</u>	<u>(18,772)</u>
Net Cash Provided by (Used in) Continuing Operations	78,093	(33,437)
Net Cash Provided by (Used in) Discontinued Operations	<u>(449)</u>	<u>930</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>\$77,644</u>	<u>\$(32,507)</u>

(1) "Non-cash adjustments" refer to depreciation, amortization, deferred income taxes, provision for uncollectible accounts, equity in earnings of joint venture, and non-cash gains and losses.

CONTINUING OPERATIONS

First-quarter cash flow from operations in 2004 was \$116.4 million compared to \$33.5 million in 2003. In the first quarter of 2004, accrued incentive compensation declined by only \$0.5 million while the same quarter of the prior year reflects a \$50.7 million reduction. In the first quarter of 2004, changes in receivables consumed \$11.1 million while the collective increase in accounts payable and accrued liabilities (excluding accrued incentive compensation) provided \$50.6 million. Changes in accrued incentive compensation reflect CNF's payment schedule for its employee incentive plans, under which total incentive compensation earned in an award year is paid to employees with a partial payment in December of the award year and a final payment in February of the next award year. Cash flow from operations in the first quarter of 2004 also reflects an insignificant amount of payments for restructuring-related aircraft lease payments and return costs while the first quarter of 2003 includes \$23.7 million for that same purpose. Accrued income taxes increased in the first quarter of 2004 based on taxable income. As a result, CNF's receivable for income tax refunds, as reported in Other Receivables in CNF's Consolidated Balance Sheets, declined to \$3.9 million at March 31, 2004 from \$24.0 million at December 31, 2003. Accrued income taxes in the first quarter of last year in part reflect the restructuring-related payments, which were tax-deductible when paid.

Investing activities in the first quarter of 2004 used \$14.7 million, a decline from \$48.2 million used in the same quarter of last year, due substantially to a \$27.4 million reduction in capital expenditures at Con-Way. In the first quarter of last year, Con-Way

invested in \$38.4 million of capital acquisitions, primarily for revenue equipment. CNF's planned capital expenditures in 2004 are more fully discussed below under "- Other." In the first quarter of 2004 and 2003, net cash used in financing activities consisted primarily of dividend payments and scheduled principal payments for the Thrift and Stock Plan notes guaranteed by CNF.

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 March 31, 2004, no borrowings were outstanding under the facility and \$249.0 million of letters of credit were outstanding, leaving \$136.0 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 \$146.5 million at March 31, 2004, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of \$110.8 million was outstanding under these facilities. Of the total letters of credit outstanding at March 31, 2004, \$277.6 million provided collateral for CNF workers' compensation and vehicular self-insurance programs. See "Other Matters – Forward-Looking Statements" below, and Note 6, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," of CNF's 2003 Annual Report on Form 10-K for additional information concerning CNF's \$385 million credit facility and some of its other debt instruments.

Defined Benefit Pension Plan

CNF periodically reviews the funding status of its defined benefit pension plans 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"). Funding of CNF's defined benefit pensions is based on ERISA-defined measurements rather than the recognition and measurement criteria prescribed by accounting principles generally accepted in the United States ("GAAP"). CNF currently estimates it will contribute \$90 million to its defined benefit pension plans in 2004, composed of a \$30 million payment in the second quarter and \$60 million of payments in the third quarter. CNF also made defined benefit pension plan contributions of \$75.0 million in 2003, \$76.2 million in 2002 and \$13.1 million in 2001, but made no contributions from 1996 through 2000, due in part to the high rate of return realized on plan assets during that period. 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 the future.

Contractual Cash Obligations

CNF's contractual cash obligations as of December 31, 2003 are summarized in CNF's 2003 Annual Report on Form 10-K under Item 7, "Management's Discussion and Analysis - Liquidity and Capital Resources - Contractual Cash Obligations." In the first quarter of 2004, there have been no material changes in CNF's contractual cash obligations outside the ordinary course of business, except as described below.

For financial reporting purposes, CNF was required to deconsolidate a wholly owned subsidiary trust effective in the first quarter of 2004 upon adoption of FIN 46R. Accordingly, CNF's 5% convertible subordinated debentures held by the Trust have been included in long-term debt, as more fully discussed in Note 6, "Company-Obligated Mandatorily Redeemable Convertible Securities of CNF Trust 1," of Item 1, "Financial Statements."

On April 27, 2004, CNF issued \$300 million of 6.70% Senior Debentures due 2034 in a private placement for net proceeds of \$290.0 million. As more fully discussed in Note 7, "Debt" of Item 1, "Financial Statements," CNF intends to use the net proceeds to redeem \$128.9 million of Convertible Subordinated Debentures on June 1, 2004, to repurchase from time to time or pay at maturity, \$100 million of 7.35% Notes due 2005, and for working capital and general corporate purposes.

Other

In 2004, CNF anticipates capital expenditures of between \$170 to \$180 million, primarily for the acquisition of additional tractor and trailer equipment, which reflects an increase in business levels. CNF's debt-to-capital ratio decreased to 43.8% at March 31, 2004 from 45.3% at December 31, 2003 due primarily to net income.

DISCONTINUED OPERATIONS

On December 2, 1996, CNF completed the spin-off of Consolidated Freightways Corporation (“CFC”) to CNF’s shareholders. CFC withdrew in 2002 from certain multiemployer pension funds, thereby incurring withdrawal liabilities to such funds. Prior to enactment in April 2004 of the Pension Funding Equity Act of 2004, if the multiemployer funds had asserted claims against CNF for such liabilities, CNF would have had a statutory obligation to make cash payments to the funds prior to any arbitral or judicial decisions on the funds’ determinations. Under the facts relating to the CFC withdrawals and the law in effect after enactment of the Pension Funding Equity Act of 2004, CNF would no longer be required to make such payments to the multiemployer funds unless and until final decisions in arbitration proceedings, or in court, upheld the funds’ determination. Refer to Note 10, “Commitments and Contingencies,” of Item 1, “Financial Statements.”

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 described below.

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 undiscounted 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 a valuation allowance 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 carry forwards and carry backs, 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 2003 and 2001 were based on significant estimates and assumptions made by management. Refer to the "Menlo Worldwide – Forwarding – Restructuring Plans" section under "Results of Operations" above for a description of the significant 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 the discount rate used to measure the present value of pension obligations, the assumed rate of return on plan assets, which are both affected by economic conditions, market fluctuations, and rate of compensation increase. CNF adjusts its discount rate periodically by taking into account a number of factors, including changes in high-quality corporate bond yields and the advice of its outside actuaries. CNF adjusts its assumed rate of return on plan assets based on historic returns of the plan assets and current market expectations.

CNF used a 6.75% discount rate for purposes of calculating its 2003 pension expense, but used a 6.25% discount rate for calculating its 2003 year-end pension liability and its 2004 pension expense, due primarily to declines in high-quality corporate bond yields in 2003. By way of example, if all other factors were held constant, a 0.5% decline in the discount rate would have an estimated \$6 million increase in 2004 annual pension expense. CNF used an assumed rate of return on plan assets of 9.0% in 2003 and will assume the same rate for 2004. Using year-end plan asset values, a 0.5% decline in the assumed rate of return on plan assets would have an estimated \$3 million increase in 2004 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 decreases the annual pension expense in 2004 by approximately \$1 million from annual pension expense in 2003.

Goodwill and Other Long-Lived Assets

SFAS 142, "Goodwill and Other Intangible Assets" specifies that goodwill and indefinite-lived intangible assets will not be amortized but instead will be subject to an annual impairment test. On an annual basis in the fourth quarter and between annual tests in certain circumstances, CNF utilizes a third-party independent valuation consultant to perform an impairment test of goodwill associated with the Forwarding reporting segment. Based on an impairment test as of December 31, 2003, CNF was not required to record a charge for goodwill impairment.

Consistent with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," CNF performs an impairment analysis of long-lived assets (other than goodwill or intangible assets) whenever circumstances indicate that the carrying amount may not be recoverable.

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, CNF 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, and Note 6, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data" of CNF's 2003 Annual Report on Form 10-K."

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 December, 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 CNF Service Company 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 Administrative and Technology ("AdTech") Center in Portland, Oregon. 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

CNF is subject to compliance with cargo security and transportation regulations issued by the Transportation Security Administration and by the Department of Homeland Security. CNF is not able to accurately predict how new governmental regulation will affect 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.

NEW ACCOUNTING STANDARDS

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities: an Interpretation of ARB No. 51" ("FIN 46"). FIN 46 requires that all special-purpose entities be designated as either a voting-interest entity or a variable-interest entity ("VIE"). A VIE is an entity for which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the VIE to finance its activities without additional subordinated financial support from other parties. A VIE is required to be consolidated by its primary beneficiary if it does not effectively disperse risks among parties involved. The primary beneficiary of a VIE is the party that absorbs a majority of the VIE's expected losses or receives a majority of its expected residual returns.

The implementation of FIN 46 was required for periods beginning after June 15, 2003. However, in October 2003, the FASB deferred the effective date for applying FIN 46 to VIEs created before February 1, 2003 until the end of the first interim period ending after December 15, 2003. In December 2003, the FASB revised FIN 46 ("FIN 46R") to incorporate certain revisions, including the requirement to disregard certain rights in determining whether an entity is the primary beneficiary in a VIE. Under FIN 46R, CNF is not the primary beneficiary of CNF Trust 1 (the "Trust"), a wholly owned subsidiary, and CNF was therefore required to deconsolidate the Trust effective in the quarter ended March 31, 2004. Accordingly, CNF's 5% convertible subordinated debentures held by the Trust have been included in long-term debt, as more fully discussed in Note 6, "Company-Obligated Mandatorily Redeemable Convertible Securities of CNF Trust 1," of Item 1, "Financial Statements."

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 its 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, and the possibility that CNF may be required to repay certain 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 crew members, 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 February 2000 crash of an EWA aircraft and related 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 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.

As a result of the foregoing, no assurance can be given as to future financial condition, cash flows, or results of operations. See Note 10, “Commitments and Contingencies” in Item 1, “Financial Statements.”

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT 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 interest rate, commodity or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure.

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 6, "Debt and Other Financing Arrangements," and Note 7, "Leases" of CNF's 2003 Annual Report on Form 10-K.

As more fully discussed in Note 9, "Derivative Instruments and Hedging Activities," in Item 1, "Financial Statements," CNF held two freestanding interest rate swap derivatives at March 31, 2004 that were initially entered into as cash flow hedges to mitigate the effects of interest rate volatility on floating-rate lease payments. In connection with Forwarding's 2001 restructuring plan, hedge accounting was discontinued for these interest rate swaps when EWA settled floating-rate operating leases hedged with the interest rate swaps. At March 31, 2004, CNF had not entered into any material derivative contracts to hedge exposure to commodity prices or foreign currency.

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

In 2001, EWA 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 cooperated fully and provided the documents requested in those subpoenas. In September 2003, CNF received notice from the United States Attorney's Office for the District of Columbia that EWA is being considered for possible civil action under the False Claims Act for allegedly submitting false invoices to the USPS for payment under the Priority Mail contract. EWA has entered into a tolling agreement with the government in order to give the parties more time to investigate the allegations. EWA is in the early stages of conducting its own investigation of the allegations and as a result CNF is currently unable to predict the outcome of this matter. Under the False Claims Act, the government would be entitled to recover treble damages, plus penalties, if a court was to ultimately conclude that EWA knowingly submitted false invoices to the USPS.

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 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 crew members, 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 crew members, bringing the total number of terminated employees in 2001 to 800. Those pilots and crew members are represented by the Air Line Pilots Association ("ALPA") under a collective bargaining agreement. Subsequently, ALPA filed a grievance on behalf of the pilots and crew members protesting the cessation of EWA's air carrier operations and Forwarding'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 provided for 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 and CNF Inc. are named as defendants in a lawsuit filed in state court in California by approximately 140 former EWA pilots and crew members. The lawsuit alleges wrongful termination in connection with the termination 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 be in violation of the Foreign Corrupt Practices Act. CNF is conducting an internal investigation 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.

Certain current and former officers of CNF, EWA and Forwarding and certain current and former directors of CNF have been named as defendants in a purported shareholder derivative suit filed in September 2003 in California Superior Court for the County of San Mateo. The complaint alleges breach of fiduciary duty, gross mismanagement, waste and abuse of control relating to the management, control and operation of EWA and Forwarding. CNF is named only as a nominal defendant and no relief is sought against it. CNF maintains insurance for the benefit of its officers and directors, and the applicable insurance carriers have been notified of the claims asserted in the lawsuit.

ITEM 4. Submission of Matters to a Vote of Security Holders

At the Annual Shareholders Meeting held April 20, 2004, the following proposals were presented with the indicated voting results:

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

Nominee -----	For -----	Against -----
W. Keith Kennedy, Jr.	49,681,549	1,234,408
John C. Pope	48,422,404	2,493,553
Gregory L. Quesnel	49,497,073	1,418,884
Peter W. Stott	49,908,433	1,007,524

The following directors did not stand for election and continued in office as directors after the Annual Shareholders Meeting: Robert Alpert, Margaret G. Gill, Robert Jaunich II, Michael J. Murray, Robert D. Rogers, William J. Schroeder, Robert P. Wayman, and Chelsea C. White III.

On April 26, 2004, Robert Alpert retired from CNF's Board of Directors.

The appointment of KPMG LLP as independent public accountants for the year 2004 was approved by the following vote: For 48,883,195; Against 1,754,468; Abstain 278,294.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

- 10.1 Amended and Restated Severance Agreement By and Between CNF Inc. and Gregory L. Quesnel dated December 4, 2001. #
- 10.2 Amendment No. 1 to Amended and Restated Severance Agreement By and Between CNF Inc. and Gregory L. Quesnel dated January 1, 2003. #
- 10.3 Amended and Restated Severance Agreement By and Between CNF Inc. and Sanchayan C. Ratnathicam dated December 4, 2001. #
- 10.4 Amendment No. 1 to Amended and Restated Severance Agreement By and Between CNF Inc. and Sanchayan C. Ratnathicam dated January 1, 2003. #
- 10.5 Amended and Restated Severance Agreement By and Between CNF Inc. and Eberhard G.H. Schmoller dated December 4, 2001. #
- 10.6 Amendment No. 1 to Amended and Restated Severance Agreement By and Between CNF Inc. and Eberhard G.H. Schmoller dated January 1, 2003. #
- 10.7 Amended and Restated Severance Agreement By and Between CNF Inc. and Gerald L. Detter dated July 31, 2000. #
- 10.8 Amendment No. 1 to Amended and Restated Severance Agreement By and Between CNF Inc. and Gerald L. Detter dated January 1, 2003. #
- 10.9 Severance Agreement By and Between Con-Way Transportation Services, Inc. and Gerald L. Detter dated July 31, 2000. #
- 10.10 Amendment No. 1 to Amended and Restated Severance Agreement By and Between Con-Way Transportation Services, Inc. and Gerald L. Detter dated January 1, 2003. #
- 10.11 Amended and Restated Severance Agreement By and Between CNF Inc. and John H. Williford dated July 31, 2000. #
- 10.12 Amendment No. 1 to Amended and Restated Severance Agreement By and Between CNF Inc. and John H. Williford dated January 1, 2003. #
- 10.13 Amendment No. 2 to Amended and Restated Severance Agreement By and Between CNF Inc. and John H. Williford dated January 1, 2003. #
- 10.14 Severance Agreement By and Between Menlo Worldwide, LLC and John H. Williford dated August 25, 2003. #
- 10.15 Amendment No. 1 to Severance Agreement By and Between Menlo Worldwide, LLC and John H. Williford dated January 22, 2004. #
- 10.16 Form of CNF Inc. 2001 Amended and Restated Executive Severance Agreement , with attached schedule. #
- 10.17 Form of CNF Inc. Executive Severance Agreement , with attached schedule. #

- 10.18 Form of Con-Way Transportation Services, Inc., Executive Severance Agreement, with attached schedule. #
- 10.19 Form of Menlo Worldwide Forwarding, Inc. (formerly Emery Air Freight Corporation) Executive Severance Agreement, with attached schedule. #
- 10.20 Form of Menlo Logistics, Inc., Executive Severance Agreement, with attached schedule. #
- 10.21 Form of Menlo Worldwide, LLC Executive Severance Agreement, with attached schedule. #
- 10.22 Con-Way Transportation Services, Inc. Executive Severance Plan. #
- 10.23 Menlo Worldwide Forwarding (formerly Emery Air Freight Corporation) Executive Severance Plan. #
- 10.24 Menlo Logistics, Inc. Executive Severance Plan. #
- 10.25 Menlo Worldwide, LLC Executive Severance Plan. #
- 10.26 Menlo Worldwide Services, LLC Executive Severance Plan. #
- 10.27 Menlo Worldwide Technologies, LLC Executive Severance Plan. #
- 10.28 CNF Transportation Inc. Executive Severance Plan for Eligible Executives of Vector SCM, LLC. #
- 10.29 Menlo Worldwide, LLC Executive Severance Plan for Eligible Executives of Vector SCM, LLC. #
- 10.30 CNF Inc. Value Management Plan 2004 Amendment and Restatement. #
- 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
- (b) Reports on Form 8-K

On January 26, 2004, CNF filed a current report on Form 8-K to furnish under Item 12 CNF's press release presenting CNF's fourth-quarter results.

On January 27, 2004, CNF filed a current report on Form 8-K to file under Item 5 CNF's press release announcing the retirement of Donald Moffitt, chairman of the CNF Board of Directors, effective January 31, 2004. CNF also introduced Dr. W. Keith Kennedy, Jr. as the new chairman.

On February 18, 2004, CNF filed a current report on Form 8-K to file under Item 5 CNF's press release announcing the retirement of CNF Chief Executive Officer and President Gregory L. Quesnel, effective July 6, 2004.

Designates a contract or compensation plan for Management or Directors.

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)

May 6, 2004

/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 the 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.

May 6, 2004

/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 the 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.

May 6, 2004

/s/Chutta Ratnathicam
Chutta Ratnathicam
Chief Financial Officer

Exhibit 32(a)

**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 March 31, 2004 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: May 6, 2004

/s/ Gregory L. Quesnel _____

Name: Gregory L. Quesnel

Title: Chief Executive Officer

Exhibit 32(b)

**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 March 31, 2004 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: May 6, 2004

/s/ Chutta Ratnathicam_____

Name: Chutta Ratnathicam

Title: Chief Financial Officer