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 September 30, 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 October 31, 2004: 51,671,787.

CNF INC.
FORM 10-Q
Quarter Ended September 30, 2004

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

ASSETS	September 30, 2004 (Unaudited)	December 31, 2003
Current Assets		
Cash and cash equivalents	$ 639,059	$ 298,623
Trade accounts receivable, net	449,218	380,898
Other accounts receivable	19,776	66,112
Operating supplies, at lower of average cost or market	15,680	9,468
Prepaid expenses	44,039	45,114
Deferred income taxes	50,268	50,631
Assets of discontinued operations (Note 2)	528,935	478,388
Total Current Assets	1,746,975	1,329,234
Property, Plant and Equipment, at Cost		
Land	148,809	147,713
Buildings and leasehold improvements	615,265	591,797
Revenue equipment	653,379	593,830
Other equipment	212,893	210,374
	1,630,346	1,543,714
Accumulated depreciation and amortization	(775,830)	(725,763)
	854,516	817,951
Other Assets		
Deferred charges and other assets (Note 4)	47,918	122,208
Capitalized software, net	52,140	54,646
Assets of discontinued operations (Note 2)	169,198	442,234
	269,256	619,088
Total Assets	$ 2,870,747	$ 2,766,273

The accompanying notes are an integral part of these statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2004 (Unaudited)	December 31, 2003
Current Liabilities		
Accounts payable	$ 231,021	$ 203,988
Accrued liabilities	277,143	200,932
Accrued claims costs	92,683	94,291
Current maturities of long-term debt (Note 7)	112,727	14,055
Liabilities of discontinued operations (Note 2)	322,108	308,884
Total Current Liabilities	1,035,682	822,150
Long-Term Liabilities		
Long-term debt and guarantees (Note 7)	602,520	554,981
Accrued claims costs	107,270	113,785
Employee benefits (Note 5)	144,468	176,129
Other liabilities and deferred credits	28,166	24,828
Deferred income taxes	61,185	50,370
Liabilities of discontinued operations (Note 2)	198,077	205,222
Total Liabilities	2,177,368	1,947,465
Commitments and Contingencies (Note 8)		
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 747,073 and 763,674 shares, respectively	7	8
Additional paid-in capital, preferred stock	113,622	116,147
Deferred compensation, Thrift and Stock Plan	(51,272)	(57,687)
Total Preferred Shareholders' Equity	62,357	58,468
Common stock, $.625 par value; authorized 100,000,000 shares; issued 57,459,165 and 56,436,981 shares, respectively	35,912	35,273
Additional paid-in capital, common stock	382,253	356,700
Retained earnings	394,173	570,751
Deferred compensation, restricted stock	(4,330)	(6,188)
Cost of repurchased common stock (6,379,599 and 6,459,732 shares, respectively)	(157,297)	(159,273)
	650,711	797,263
Accumulated Other Comprehensive Loss (Note 6)	(19,689)	(36,923)
Total Common Shareholders' Equity	631,022	760,340
Total Shareholders' Equity	693,379	818,808
Total Liabilities and Shareholders' Equity	$ 2,870,747	$ 2,766,273

The accompanying notes are an integral part of these statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
REVENUES	$ 973,619	$ 837,361	$ 2,744,921	$ 2,396,520
Costs and Expenses				
Operating expenses (Note 4)	779,984	657,379	2,196,724	1,909,648
Selling, general and administrative expenses	88,751	86,113	266,084	250,979
Depreciation	26,449	25,558	76,951	76,240
	895,184	769,050	2,539,759	2,236,867
OPERATING INCOME	78,435	68,311	205,162	159,653
Other Income (Expense)				
Investment income	2,112	635	4,247	1,851
Interest expense (Note 7)	(10,959)	(7,134)	(28,306)	(21,925)
Miscellaneous, net	(876)	(933)	(5,401)	(2,110)
	(9,723)	(7,432)	(29,460)	(22,184)
Income from Continuing Operations Before Taxes	68,712	60,879	175,702	137,469
Income Tax Provision	26,798	23,743	68,524	53,613
INCOME FROM CONTINUING OPERATIONS	41,914	37,136	107,178	83,856
Discontinued Operations, net of tax (Note 2)				
Loss from Disposal	(260,490)	-	(260,490)	-
Income (Loss) from Discontinued Operations	4,444	(10,315)	3,114	(20,711)
	(256,046)	(10,315)	(257,376)	(20,711)
Net Income (Loss)	(214,132)	26,821	(150,198)	63,145
Preferred Stock Dividends	2,075	2,030	6,119	6,125
NET INCOME (LOSS) APPLICABLE TO COMMON SHAREHOLDERS	$ (216,207)	$ 24,791	$ (156,317)	$ 57,020
Weighted-Average Common Shares Outstanding (Note 1)				
Basic	50,670,398	49,549,338	50,150,987	49,480,305
Diluted	55,408,636	56,641,421	56,527,092	56,634,040
Earnings (Loss) per Common Share (Note 1)				
Basic				
Net Income from Continuing Operations	$ 0.79	$ 0.71	$ 2.02	$ 1.57
Loss from Disposal, net of tax	(5.15)	-	(5.20)	-
Income (Loss) from Discontinued Operations, net of tax	0.09	(0.21)	0.06	(0.42)
Net Income (Loss) Applicable to Common Shareholders	$ (4.27)	$ 0.50	$ (3.12)	$ 1.15
Diluted				
Net Income from Continuing Operations	$ 0.72	$ 0.64	$ 1.83	$ 1.44
Loss from Disposal, net of tax	(4.70)	-	(4.61)	-
Income (Loss) from Discontinued Operations, net of tax	0.08	(0.18)	0.06	(0.36)
Net Income (Loss) Applicable to Common Shareholders	$ (3.90)	$ 0.46	$ (2.72)	$ 1.08

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Cash and Cash Equivalents, Beginning of Period	$ 298,623	$ 232,813
Operating Activities		
Net income (loss)	(150,198)	63,145
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations	257,376	20,711
Depreciation and amortization, net of accretion	86,957	85,540
Increase in deferred income taxes	12,485	5,771
Amortization of deferred compensation	8,770	7,164
Provision for uncollectible accounts	3,894	3,532
Equity in earnings of Vector joint venture	(8,079)	(15,358)
Loss on sales of property and equipment, net	159	2,603
Loss from equity ventures	-	3,716
Changes in assets and liabilities:		
Receivables	(58,512)	(19,113)
Prepaid expenses	1,075	(3,913)
Accounts payable	29,064	(15,384)
Accrued liabilities, excluding accrued incentive compensation	21,889	26,457
Accrued incentive compensation	54,322	(21,137)
Accrued claims costs	(8,123)	(19,558)
Income taxes	30,974	52,515
Employee benefits	(36,610)	(20,057)
Deferred charges and credits	71,561	24,653
Other	(7,287)	6,562
Net Cash Provided by Operating Activities	309,717	187,849
Investing Activities		
Capital expenditures	(110,111)	(77,471)
Software expenditures	(9,209)	(10,732)
Proceeds from sales of property and equipment, net	5,043	4,830
Net Cash Used in Investing Activities	(114,277)	(83,373)
Financing Activities		
Net proceeds from issuance of long-term debt	292,587	2,156
Net repayment of long-term debt and guarantees	(142,919)	(12,143)
Proceeds from exercise of stock options	25,074	2,702
Payments of common dividends	(15,153)	(14,876)
Payments of preferred dividends	(9,941)	(10,192)
Net Cash Provided by (Used in) Financing Activities	149,648	(32,353)
Net Cash Provided by Continuing Operations	345,088	72,123
Net Cash Used in Discontinued Operations	(4,652)	(9,604)
Increase in Cash and Cash Equivalents	340,436	62,519
Cash and Cash Equivalents, End of Period	$ 639,059	$ 295,332
Supplemental Disclosure		
Cash Paid (Refunded) for income taxes, net	$ 24,824	$ (37,699)
Cash Paid for interest, net of amounts capitalized	14,480	15,909

The accompanying notes are an integral part of these 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.

In the third quarter of 2004, CNF committed to sell Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (hereinafter collectively referred to as "MWF"). As a result, MWF is classified as held for sale and, for all periods presented, the results of operations, net assets, and cash flows of the Menlo Worldwide Forwarding ("Forwarding") segment have been segregated and reported as discontinued operations, as more fully discussed in Note 2, "Discontinued Operations." In addition to MWF, the Forwarding segment also includes Emery Worldwide Airlines, Inc. ("EWA"), a separate wholly owned subsidiary of CNF that is reported in discontinued operations but is not classified as held for sale.

Earnings per Share ("EPS")

Basic EPS is computed by dividing reported earnings (loss) by the weighted-average common shares outstanding. Diluted EPS is calculated as follows:

(Dollars in thousands except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Numerator:				
Continuing operations (after preferred stock dividends), as reported	$ 39,839	$ 35,106	$ 101,059	$ 77,731
Add-backs:				
Dividends on Series B preferred stock, net of replacement funding	303	315	954	1,006
Interest expense on convertible subordinated debentures, net of trust dividend income (Note 7)	--	954	1,590	2,862
Continuing operations	40,142	36,375	103,603	81,599
Discontinued operations	(256,046)	(10,315)	(257,376)	(20,711)
Applicable to common shareholders	$ (215,904)	$ 26,060	$ (153,773)	$ 60,888
Denominator:				
Weighted-average common shares outstanding	50,670,398	49,549,338	50,150,987	49,480,305
Stock options and restricted stock	1,221,014	346,956	1,122,770	408,608
Series B preferred stock	3,517,224	3,620,127	3,517,224	3,620,127
Convertible subordinated debentures (Note 7)	--	3,125,000	1,736,111	3,125,000
	55,408,636	56,641,421	56,527,092	56,634,040
Earnings (Loss) per Diluted Share:				
Continuing operations	$ 0.72	$ 0.64	$ 1.83	$ 1.44
Discontinued operations	(4.62)	(0.18)	(4.55)	(0.36)
Applicable to common shareholders	$ (3.90)	$ 0.46	$ (2.72)	$ 1.08

For the three and nine months ended September 30, 2004, diluted shares reflect the effect of CNF's redemption in June 2004 of its convertible subordinated debentures, as more fully discussed in Note 7, "Debt."

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 (loss) and earnings (loss) 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:

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss), as reported	$ (216,207)	$ 24,791	$ (156,317)	$ 57,020
Additional compensation cost, net of tax, that would have been included in net income (loss) if the fair-value method had been applied	(2,364)	(2,411)	(6,297)	(6,863)
Adjusted net income (loss) as if the fair-value method had been applied	$ (218,571)	$ 22,380	$ (162,614)	$ 50,157
Earnings (loss) per share:				
Basic:				
As reported	$ (4.27)	$ 0.50	$ (3.12)	$ 1.15
Adjusted	$ (4.31)	$ 0.45	$ (3.24)	$ 1.01
Diluted:				
As reported	$ (3.90)	$ 0.46	$ (2.72)	$ 1.08
Adjusted	$ (3.94)	$ 0.42	$ (2.83)	$ 0.95

The effect of applying SFAS 123 may not be indicative of the future effect.

Foreign Currency

Adjustments resulting from translating foreign functional currency financial statements into U.S. dollars are included in Accumulated Other Comprehensive Loss in the Consolidated Balance Sheets. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in results of operations.

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. The deferred tax asset is included in Assets of Discontinued Operations in the Consolidated Balance Sheets as it relates to the discontinued Forwarding segment. In the third quarter of 2004, the accumulated foreign currency translation adjustment associated with the Forwarding segment was included in CNF's third-quarter impairment charge, as more fully discussed in Note 2, "Discontinued Operations."

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 was 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, which were redeemed by CNF on June 1, 2004, were included in long-term debt at March 31, 2004, and prior periods were restated to reflect adoption of FIN 46R, as more fully discussed in Note 7, "Debt."

Reclassification

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

2. Discontinued Operations

Income (Loss) from Discontinued Operations

In the process of evaluating several strategic alternatives for Menlo Worldwide's Forwarding segment, CNF was approached by United Parcel Service, Inc. ("UPS") in the third quarter of 2004 with interest in acquiring MWF. Decisions by CNF's management and its Board of Directors and the third-quarter sale negotiations with UPS established CNF's commitment to sell MWF as of September 30, 2004. Accordingly, CNF classified MWF as held for sale and reported the Forwarding segment as discontinued operations. In the third quarter of 2004, CNF recognized a $260.5 million impairment charge to write down the recorded book value of MWF to its anticipated selling price, less costs to sell, as required by SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The impairment charge is based on the current agreement to sell MWF, as described below under "Stock Sale Agreement with UPS," and primarily represents the estimated write-down to the carrying value of MWF's goodwill and long-lived assets, including MWF's accumulated foreign currency translation adjustment, as well as estimated selling costs. CNF agreed to accept less than the recorded book value of MWF due primarily to management's current assessment of the risk and resource requirements associated with other strategic alternatives related to MWF's operations. The impairment charge is a deductible capital loss for tax purposes. However, since CNF does not currently forecast any significant taxable capital gains in the tax carry-forward period, it does not currently expect to recognize a tax deduction for the capital loss. As a result, no tax benefit was recorded on the impairment charge.

For all periods presented, the results of operations, net assets, and cash flows of the Forwarding segment have been segregated and classified as discontinued operations. Financial information for discontinued operations is summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2004	2003	2004	2003
Revenues	$ 558,231	$ 470,985	$ 1,582,996	$ 1,359,149
Income (Loss) from Discontinued Operations				
Income (loss) before income taxes	7,285	(12,754)	5,104	(29,796)
Income tax (provision) benefit	(2,841)	2,439	(1,990)	9,085
	$ 4,444	$ (10,315)	$ 3,114	$ (20,711)
Loss from Disposal				
Impairment Charge	$ (260,490)	$ -	$ (260,490)	$ -

As required by EITF 87-24, "Allocation of Interest to Discontinued Operations," continuing operations has been allocated certain corporate overhead charges that were previously allocated to the discontinued Forwarding segment. These corporate overhead charges were $2.8 million and $3.1 million in the third quarter of 2004 and 2003, respectively, and $11.0 million and $9.3 million in the first nine months of 2004 and 2003, respectively. For all periods presented, the additional corporate overhead charges were allocated to the Con-Way and Logistics reporting segments based on segment revenue and capital employed.

Stock Sale Agreement with UPS

On October 5, 2004, CNF and Menlo Worldwide entered into a stock purchase agreement with United Parcel Service of America, Inc. and United Parcel Service, Inc. to acquire all of the issued and outstanding capital stock of MWF. The agreement excludes certain assets and liabilities of MWF and includes certain assets and liabilities of CNF or its subsidiaries related to the business as presently conducted by Menlo Worldwide Forwarding. Among the assets and liabilities so excluded are those related to EWA, as described below, and the obligation related to MWF employees covered under CNF's domestic pension, postretirement medical and long-term disability plans. Under the agreement, CNF will be reimbursed for the actuarially determined estimate of its obligation related to MWF employees covered under CNF's postretirement medical plan. CNF will receive cash consideration of $150 million that is subject to certain adjustments, including adjustments for cash held by MWF at closing and MWF's net working capital as of closing. In addition, UPS will assume indebtedness associated with the MWF business, including approximately $110 million of debt owed by MWF in connection with the City of Dayton, Ohio, Special Facilities Revenue Refunding Bonds, certain capital leases and other debt, other letters of credit, and overdraft facilities. CNF will indemnify UPS against certain losses that UPS may incur after the closing of the sale with certain limitations. Any losses related to these indemnification obligations or any other costs, including any future cash expenditures, related to the sale that have not been estimated and recognized at this time will be disclosed in the future and recognized in future periods when and if incurred. Subject to customary conditions, including receipt of government regulatory approvals and consents, CNF expects the sale to close during the fourth quarter of 2004.

Assets and Liabilities of Discontinued Operations

The assets and liabilities of the Forwarding segment are presented in the Consolidated Balance Sheets under the captions "Assets (or Liabilities) of Discontinued Operations." Assets of discontinued operations at September 30, 2004 and December 31, 2003 mostly consisted of cash of $40.6 million and $22.8 million, respectively; receivables of $428.6 million and $403.3 million, respectively; and goodwill and long-lived assets of $169.2 million and $442.2 million, respectively. Liabilities of discontinued operations at those same dates primarily included accounts payable and accrued liabilities of $309.1 million and $281.3 million, respectively, and long-term debt and capital leases of $110.1 million and $110.2 million, respectively. As described above, the sale agreement with UPS excludes certain assets and liabilities of MWF, including but not limited to cash balances, as well as the assets and liabilities of EWA, including the restructuring reserves discussed below.

In connection with the cessation of its air carrier operations in 2001, 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 MWF'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.

Reserves related to the 2001 restructuring plan decreased to $34.1 million at September 30, 2004 from $34.8 million at December 31, 2003, primarily due to payments of restructuring-related obligations, partially offset by proceeds from sales of aircraft equipment. Restructuring reserves at September 30, 2004 consisted primarily of CNF's estimated exposure related to the labor matters described above, as well as other estimated remaining restructuring-related obligations.

3. 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 four reporting segments. The operating results of Con-Way are reported as one reporting segment while Menlo Worldwide is divided into two reporting segments: Menlo Worldwide Logistics ("Logistics"), and Menlo Worldwide Other, which consists of Vector, a joint venture with GM. Also, certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the CNF Other reporting segment.

In the third quarter of 2004, CNF committed to sell MWF. Accordingly, MWF is classified as held for sale and, for all periods presented, the results of operations, net assets, and cash flows of the Forwarding segment have been segregated as discontinued operations and excluded from the reporting segment financial data summarized below. Prior to the reclassification, the combined operating results of MWF and a portion of the operations of EWA were reported in continuing operations as the Forwarding segment. As required by accounting rules, continuing operations has been allocated certain corporate overhead charges that were previously allocated to the discontinued Forwarding segment, as more fully discussed in Note 2, "Discontinued Operations." Accordingly, reporting segment financial information presented below reflects those reclassifications for all periods presented.

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 and 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 September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues				
Con-Way Transportation Services	$ 684,775	$ 574,608	$ 1,936,224	$ 1,635,183
Menlo Worldwide Logistics	286,847	262,663	805,494	761,212
	971,622	837,271	2,741,718	2,396,395
CNF Other	1,997	90	3,203	125
	$ 973,619	$ 837,361	$ 2,744,921	$ 2,396,520
Intersegment Revenue Eliminations by Segment				
Con-Way Transportation Services	$ 1,514	$ 1,199	$ 4,173	$ 1,434
Menlo Worldwide Logistics	--	--	--	2,975
	1,514	1,199	4,173	4,409
CNF Other	7,524	5,810	20,188	16,546
	$ 9,038	$ 7,009	$ 24,361	$ 20,955
Revenues before Intersegment Eliminations				
Con-Way Transportation Services	$ 686,289	$ 575,807	$ 1,940,397	$ 1,636,617
Menlo Worldwide Logistics	286,847	262,663	805,494	764,187
	973,136	838,470	2,745,891	2,400,804
CNF Other	9,521	5,900	23,391	16,671
Intersegment Revenue Eliminations	(9,038)	(7,009)	(24,361)	(20,955)
	$ 973,619	$ 837,361	$ 2,744,921	$ 2,396,520
Operating Income (Loss)				
Con-Way Transportation Services	$ 70,607	$ 53,909	$ 181,702	$ 129,213
Menlo Worldwide				
Logistics	5,764	6,477	17,794	18,004
Other	2,699	8,810	8,079	15,358
	8,463	15,287	25,873	33,362
CNF Other	(635)	(885)	(2,413)	(2,922)
	$ 78,435	$ 68,311	$ 205,162	$ 159,653

4. 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 Operations, does not include any provision for income taxes that will be incurred by CNF. MW's undistributed earnings from Vector at September 30, 2004 and December 31, 2003, before provision for CNF's related parent income taxes, was $30.7 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 September 30, 2004 and December 31, 2003 was $25.9 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 September 30, 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.

5. Employee Benefit Plans

Effective in 2004, CNF adopted the interim disclosure provisions of SFAS No. 132R, "Employers' Disclosure about Pensions and Other Post-retirement Benefits, an Amendment of FASB Statements No. 87, 88 and 106 and a Revision of FASB Statement No. 132." The revised statement requires the disclosure of the components of the net periodic benefit expense recognized in interim periods, which is summarized in the tables below.

	Defined Benefit Pension Plans			
	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2004	2003	2004	2003
Service cost – benefits earned during the quarter	$ 16,626	$ 10,966	$ 44,100	$ 32,897
Interest cost on benefit obligation	12,900	12,495	41,197	37,484
Expected return on plan assets	(16,958)	(10,391)	(44,760)	(31,173)
Net amortization and deferral	2,838	2,269	6,652	6,808
Net periodic benefit expense	$ 15,406	$ 15,339	$ 47,189	$ 46,016

CNF has contributed $90.8 million to its defined benefit pension plans in 2004, consisting of $40.2 million paid in the second quarter and $50.6 million of payments in the third quarter. No further funding payments are expected for the remainder of 2004.

As reported above, net periodic pension plan expense for the third quarter of 2004 and 2003 includes expense of $2.9 million and $3.1 million, respectively, that relates to pension plan participants of companies that are now reported as discontinued operations, and for the first nine months of 2004 and 2003, the table above includes expense of $10.1 million and $9.2 million, respectively, for those participants.

(Dollars in thousands)	Post-retirement Medical Plan			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Service cost – benefits earned during the quarter	$ 164	$ 457	$ 1,201	$ 1,370
Interest cost on benefit obligation	1,659	1,384	4,802	4,152
Net amortization and deferral	113	66	262	197
Net periodic benefit expense	$ 1,936	$ 1,907	$ 6,265	$ 5,719

As reported above, net periodic post-retirement plan expense for the third quarter of 2004 and 2003 includes $0.9 million that relates to post-retirement plan participants of companies that are now reported as discontinued operations, and for the first nine months of 2004 and 2003, the table above includes expense of $3.7 million and $2.8 million, respectively, for those participants.

In December 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (the "Act") was enacted in the U.S. The Act introduced a prescription drug benefit under Medicare, as well as a federal subsidy to sponsors of retiree health benefit plans that provide a prescription drug benefit that is at least actuarially equivalent to Medicare's prescription drug benefit. In January and May 2004, the FASB issued FASB Staff Position No. 106-1 and 106-2, "Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003" ("FSP 106-1" and "FSP 106-2").

Under FSP 106-2, CNF concluded that its post-retirement medical plan provided an actuarially equivalent benefit and recognized the Act's effect retrospectively to the date of enactment. CNF's adoption of FSP 106-2 resulted in a $4.9 million reduction to its projected post-retirement benefit obligation, which will be recognized as a reduction to its net periodic post-retirement benefit expense in future periods when costs are subsidized under the Act. The effect of adoption of FSP 106-2 on CNF's financial condition, results of operations and cash flows for the three and nine months ended September 30, 2004 was not significant.

6. Comprehensive Income

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net income (loss)	$ (214,132)	$ 26,821	$ (150,198)	$ 63,145
Other comprehensive income (loss):				
Realized gain on marketable securities	--	--	(2,044)	--
Change in fair value of cash flow hedge	--	101	--	295
Foreign currency translation adjustment (Note 1)	1,394	(2,231)	9,512	1,207
	1,394	(2,130)	7,468	1,502
Comprehensive income (loss)	$ (212,738)	$ 24,691	$ (142,730)	$ 64,647

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

(Dollars in thousands)	September 30, 2004	December 31, 2003
Unrealized gain on marketable securities	$ --	$ 2,044
Accumulated foreign currency translation adjustments (Note 1)	(61)	(19,339)
Minimum pension liability adjustment	(19,628)	(19,628)
Accumulated other comprehensive loss	$ (19,689)	$ (36,923)

7. Debt

$385 Million Revolving Credit Facility

As more fully discussed in Note 2, “Discontinued Operations,” CNF recognized a $260.5 million impairment charge to write down the recorded book value of MWF to its estimated selling price, less costs to sell. To remain in compliance with certain financial covenants, CNF obtained an amendment to the credit agreement for CNF’s $385 million revolving credit facility. Additionally, the credit agreement contains restrictions on the sale of subsidiary guarantors and a threshold for the sale of assets. CNF has obtained the necessary creditors’ consent for the sale of MWF.

Convertible Subordinated Debentures

On June 1, 2004, CNF redeemed $128.9 million aggregate principal amount of its 5% Convertible Subordinated Debentures due 2012 (the “Convertible Debentures”). The Convertible Debentures were redeemable for cash 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. CNF Trust 1 (the “Trust”), a trust wholly owned by CNF, applied the proceeds from the redemption of the Convertible Debentures to redeem CNF’s $3.9 million interest in the common stock of the Trust and $125 million of Term Convertible Securities, Series A (“TECONS”), which the Trust issued to the public in June 1997. In connection with the redemption of the Convertible Debentures, CNF recognized $2.7 million of expenses in the second quarter of 2004 for an early redemption call premium and for the write-off of the unamortized cost of issuing the Convertible Debentures.

Prior to their redemption in June 2004, the Convertible Debentures were reported in long-term debt as the result of CNF’s adoption in the first quarter of 2004 of the revised FASB Interpretation No. 46 “Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51” (“FIN 46R”). Under FIN 46R, CNF was not deemed to be the primary beneficiary of the Trust and CNF was therefore required to deconsolidate the Trust effective in the quarter ended March 31, 2004. Prior to adoption of FIN 46R, CNF reported the TECONS as a mezzanine security 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 Convertible Debentures prior to their redemption. Also, prior to redemption of the Convertible Debentures, 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.

The TECONS, the Trust, and the Convertible Debentures are 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.

Senior Debentures due 2034

On April 27, 2004, CNF issued $300 million of 6.70% Senior Debentures due 2034 in a private placement with exchange rights for proceeds of $292.6 million, net of a $7.4 million discount. In connection with the issuance of the Senior Debentures, CNF capitalized $2.6 million of underwriting fees and $0.3 million of related debt costs in the second quarter, which will be amortized until maturity in 2034. CNF used a portion of the proceeds to redeem $128.9 million of CNF’s Convertible Debentures on June 1, 2004, as discussed above. CNF intends to use the remaining proceeds to repurchase from time to time or pay at maturity, $100 million of 7.35% Notes due in June 2005, and for working capital and general corporate purposes.

On July 27, 2004, CNF completed the exchange of registered senior debentures (the “Senior Debentures”) for the debentures issued in the private placement. 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.

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 September 30, 2004, there was $27.7 million aggregate principal amount of Series A TASP 6.00% notes outstanding and $62.0 million of Series B TASP 8.54% 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 issuance 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."

The Note and Guarantee Agreement with the holders of the Series A TASP 6.00% notes contains a financial covenant restricting the sale or merger of any significant subsidiary to a third party. CNF has obtained a waiver from the holders of the 6.00% notes for the anticipated sale of MWF to remain in compliance with certain financial covenants in that agreement.

8. 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 in 2002 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.

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

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (referred to as "Management's Discussion and Analysis") is intended to assist in 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 four 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 two reporting segments: 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 primarily transports 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.

In the third quarter of 2004, CNF committed to sell Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (hereinafter collectively referred to as "MWF"). Accordingly, MWF is classified as held for sale and, for all periods presented, the results of operations, net assets, and cash flows of the Menlo Worldwide Forwarding ("Forwarding") segment have been segregated and reported as discontinued operations, as required by SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." As more fully discussed below under " Results of Operations Discontinued Operations," CNF announced on October 5, 2004 that it reached an agreement to sell MWF to United Parcel Service of America, Inc. ("UPS") for $150 million, and the assumption of $110 million of debt. Subject to customary regulatory approvals, CNF expects the sale to close during the fourth quarter of 2004.

RESULTS OF OPERATIONS

OVERVIEW

CNF's net income from continuing operations (after preferred stock dividends) in the third quarter of 2004 was $39.8 million ($0.72 per diluted share), a 13.5% increase over last year's third quarter. In the first nine months of 2004, net income from continuing operations rose 30.0% to $101.1 million ($1.83 per diluted share). CNF reported net losses applicable to common shareholders in the third quarter and the first nine months of 2004, as improved results from continuing operations were offset by losses from discontinued operations, including a $260.5 million impairment charge in the third quarter to write down the recorded book value of MWF to its anticipated selling price, less costs to sell. Net income from continuing operations in the third quarter and first nine months of 2004 improved over the same periods last year due primarily to significantly higher operating income from Con-Way, partially offset by lower operating income from Menlo Worldwide and an increase in other net non-operating expenses.

The following table compares operating results (dollars in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues	$ 973,619	$ 837,361	$ 2,744,921	$ 2,396,520
Operating Income	78,435	68,311	205,162	159,653
Net Income (Loss)				
Continuing Operations [1]	$ 39,839	$ 35,106	$ 101,059	$ 77,731
Discontinued Operations	(256,046)	(10,315)	(257,376)	(20,711)
Applicable to Common Shareholders	$ (216,207)	$ 24,791	$ (156,317)	$ 57,020
Diluted Earnings (Loss) per Share				
Continuing Operations [1]	$ 0.72	$ 0.64	$ 1.83	$ 1.44
Discontinued Operations	(4.62)	(0.18)	(4.55)	(0.36)
Applicable to Common Shareholders	$ (3.90)	$ 0.46	$ (2.72)	$ 1.08

[1] After preferred stock dividends

CONTINUING OPERATIONS

CNF's revenue for the third quarter and first nine months of 2004 increased 16.3% and 14.5%, respectively, from the same periods last year, due to higher revenue at all reporting segments, which benefited from improved economic conditions. Operating income in 2004 rose 14.8% in the third quarter and grew 28.5% in the first nine months, as significantly higher operating income at Con-Way was partially offset by lower operating income at Menlo Worldwide. The increase in Con-Way's operating income was due principally to the effect of operating leverage on revenue growth. Con-Way's operating income in the third quarter and first nine months of 2004 increased 31.0% and 40.6%, respectively, on revenue growth of 19.2% and 18.4%, respectively. For the periods presented, the Menlo Worldwide companies reported lower operating income in 2004 due primarily to a decline in operating income from Vector, and to a lesser degree, Logistics. Vector's third-quarter operating income in 2004 fell $6.1 million to $2.7 million, while operating income in the first nine months of 2004 declined $7.3 million to $8.1 million. Vector's operating income in 2004 reflects the recognition of compensation in accordance with agreements amended effective in the third quarter of 2003. Except for the third quarter of 2003, which includes $3.5 million of operating income from the transition to recognizing compensation under the amended agreements, Vector's operating income in the prior year was determined under the compensation principles of the original Vector agreements, as more fully discussed under "Menlo Worldwide Other." In 2004, Logistics reported an 11.0% decline in third-quarter operating income, and, in the first nine months of the year, reported a 1.2% decrease in operating income. Operating income from continuing operations, as presented in the accompanying financial statements, includes CNF corporate expenses previously allocated to the discontinued Forwarding segment, as more fully discussed below under "Discontinued Operations."

Other net expense increased $2.3 million in the third quarter of 2004 and $7.3 million in the first nine months of 2004 due primarily to increases in interest expense, partially offset by higher interest income on cash-equivalent investments and, for the nine-month period, an increase in other net miscellaneous non-operating expenses. Interest expense in the third quarter and first nine months of 2004 rose $3.8 million and $6.4 million, respectively, due largely to the net effect of financing transactions, including the issuance in May 2004 of 6.7% Senior Debentures and the redemption in June 2004 of 5% Convertible Debentures, as more fully discussed, in Note 7, "Debt" of Item 1, "Financial Statements." Other net miscellaneous non-operating expenses in the third quarter of 2004 reflects a $0.6 million decline in the fair value of corporate-owned life insurance ("COLI") policies that were terminated in the quarter, a $0.8 million decline in foreign exchange gain, and a $0.7 million decline in the fair value of freestanding interest rate swap derivatives, substantially offset by $1.5 million of third-quarter equity venture losses in the prior year. The nine-month period in 2004 reflects $2.7 million of costs associated with the redemption of the Convertible Debentures, a $2.1 million decline in COLI value, a $1.3 million decline in foreign currency gain, and a $0.9 million decline from interest rate swaps, partially offset by prior-year equity venture losses of $3.7 million.

Con-Way Transportation Services Segment

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Summary of Operating Results				
Revenues	$ 684,775	$ 574,608	$ 1,936,224	$ 1,635,183
Operating Income	70,607	53,909	181,702	129,213
Operating Margin	10.3%	9.4%	9.4%	7.9%
	2004 vs. 2003		2004 vs. 2003	
Selected Regional-Carrier Operating Statistics				
Revenue per day	+17.8%		+16.1%	
Yield	+3.5		+2.3	
Weight per day:				
Less-than-truckload	+11.4		+11.8	
Total	+13.8		+13.5	

Con-Way's revenue in the third quarter and first nine months of 2004 rose 19.2% and 18.4%, respectively, from the same periods in 2003 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 in the third quarter of 2004 rose 17.8% from the third quarter of 2003 on a 13.8% increase in weight per day ("weight") and a 3.5% increase in revenue per hundredweight ("yield"). For the first nine months of 2004, revenue per day from the regional carriers rose 16.1% from the same period last year on a 13.5% increase in weight and a 2.3% increase in yield. Weight improvement in the third quarter and first nine months of 2004 was due primarily to comparatively better economic conditions in the U.S., and to a lesser extent, continued consolidation of the LTL industry. Yield in the third quarter and first nine months of 2004 reflects an increase in fuel surcharges, continued growth in higher-rated interregional joint services, and higher rates. Excluding fuel surcharges, yield in 2004 increased 0.1% and 0.4% from the third quarter and first nine months of 2003, respectively. Yields in 2004 were adversely affected by a 5.2% and 4.2% increase in weight per shipment in the third quarter and first nine months, respectively. 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 third quarter and first nine months of 2004, Con-Way's asset-light businesses increased revenue by 37.1% and 59.9%, respectively, from the same periods in 2003.

Con-Way's operating income in the third quarter and first nine months of 2004 increased 31.0% and 40.6%, respectively, 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 third quarter and first nine months of 2004 by $1.5 million and $7.0 million, respectively, over the same periods in 2003. The improvement in Con-Way's operating margin in the third quarter and first nine months of 2004 reflects operating leverage, as Con-Way's regional carrier service center network accommodated additional shipments with proportionally smaller cost increases. Operating income in the third quarter and first nine months of 2004 was affected by employee costs, which rose 16.2% and 15.3%, respectively, due primarily to increases in employee payroll and benefits. Employee payroll grew 17.3% and 17.5% in the third quarter and first nine months of 2004, respectively, due largely to increases in employee headcount and variable compensation. Employee benefits expense in the same comparative periods rose 14.2% and 10.5%, respectively, which reflects higher workers' compensation costs, which increased due in part to increases in the unit cost and volume of claims. As more fully discussed in Item 4, "Controls and Procedures," workers' compensation costs in 2004 also include a third-quarter entry to correct the cumulative under-recognition of expense on certain prior-period claims, which had a $3.9 million adverse effect, net of incentive compensation. Higher employee benefits expense in the first nine months of 2004 was also due in part to an increase in payroll taxes and other employee benefits. Certain corporate expenses previously allocated to the discontinued Forwarding segment are reported in continuing operations, as more fully discussed in Note 2 of Item 1, "Financial Statements." The additional corporate overhead charge allocated to the Con-Way reporting segment was $2.4 million and $2.7 million in the third quarter of 2004 and 2003, respectively, and was $9.6 million and $8.1 million in the first nine months of 2004 and 2003, respectively.

In June 2004, Con-Way announced the formation of a new operating company, Con-Way Truckload ("CTL"), that is scheduled to begin operations in the first quarter of 2005. The new company will serve Con-Way's three regional LTL carriers by providing linehaul service on full loads of LTL shipments moving in transcontinental lanes and eventually offer the services to other customers. The formation of CTL is expected to allow Con-Way to reduce linehaul expense, and protect service with inter-company operations that operate in tandem with current truckload vendors. CTL will utilize Con-Way's existing infrastructure and administrative support services to minimize the required investment. Con-Way's management expects the new company will allow Con-Way to build a potential truckload revenue base by providing truckload services to its customers, and does not expect that the new operation will have a material effect on CNF's financial condition, results of operations or cash flows as of and for the year ending December 31, 2004.

Menlo Worldwide

For financial reporting purposes, the Menlo Worldwide group is divided into two reporting segments: 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 2004, the Menlo Worldwide group of businesses reported third-quarter operating income of $8.5 million and in the first nine months of the year, reported operating income of $25.9 million.

Logistics Segment

The following table compares operating results (dollars in thousands) and operating margins of the Logistics reporting segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Summary of Operating Results				
Revenues	$286,847	$ 262,663	$ 805,494	$ 761,212
Operating Income	5,764	6,477	17,794	18,004
Operating Margin	2.0%	2.5%	2.2%	2.4%

Logistics' revenue in the third quarter and first nine months of 2004 increased 9.2% and 5.8%, respectively, from the same periods in 2003, due principally to increases in warehouse management services and carrier management services, partially offset by lower revenue from contract carriage services. Revenue from carrier management services in the third quarter and first nine months of 2004 increased 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 7.2% and 7.7% of Logistics' revenue in the third quarter and first nine months of 2003, respectively, but was among Logistics' lowest-margin accounts. Logistics' operating income in the third quarter and first nine months of 2004 decreased 11.0% and 1.2%, respectively, reflecting a reduction in margin on carrier management services due to the competitive transportation pricing environment, the renegotiation of certain contracts with existing customers, and a decrease in margins during the start-up phase of new contracts. Certain corporate expenses previously allocated to the discontinued Forwarding segment are reported in continuing operations, as more fully discussed in Note 2 of Item 1, "Financial Statements." The additional corporate overhead charge allocated to the Logistics reporting segment was $0.4 million in the third quarter of both 2004 and 2003 and was $1.4 million and $1.2 million in the first nine months of 2004 and 2003, respectively.

Logistics' carrier-management 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, which Logistics refers to as purchased transportation. Logistics' net revenue (revenue less purchased transportation) in the third quarter of 2004 and 2003 was $79.4 million and $76.4 million, respectively. Logistics' net revenue in the first nine months of 2004 and 2003 was $232.1 million and $226.9 million, respectively.

Menlo Worldwide Other Segment

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. Operating income reported by the Menlo Worldwide Other segment in the third quarter of 2004 fell $6.1 million to $2.7 million, while operating income in the first nine months of 2004 declined $7.3 million to $8.1 million.

Vector's operating income in 2004 reflects the recognition of compensation in accordance with agreements amended effective in the third quarter of 2003, as described below. Except for the third quarter of 2003, which includes $3.5 million of operating income from the transition to recognizing compensation under the amended agreements, Vector's operating income in the prior year was determined under the compensation principles of the original Vector agreements.

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 Menlo Worldwide, LLC ("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. 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.

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 believes that Vector's long-term profitability growth depends on its ability to grow 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 Segment

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 Con-Way. The CNF Other third-quarter operating loss decreased to $0.6 million in 2004 from $0.9 million in 2003, while the $2.4 million operating loss in the first nine months of 2004 decreased from $2.9 million in 2003. Operating results for the CNF Other segment were affected by the sales of corporate properties, which resulted in a $0.7 million first-quarter net loss in 2004 and a $1.1 million second-quarter net loss in 2003.

DISCONTINUED OPERATIONS

Income (Loss) from Discontinued Operations

In the process of evaluating several strategic alternatives for Menlo Worldwide's Forwarding segment, CNF was approached by UPS in the third quarter of 2004 with interest in acquiring MWF. Decisions by CNF's management and its Board of

Directors and the third-quarter sale negotiations with UPS established CNF's commitment to sell MWF as of September 30, 2004. Accordingly, CNF classified MWF as held for sale and reported the Forwarding segment as discontinued operations. In the third quarter of 2004, CNF recognized a $260.5 million impairment charge to write down the recorded book value of MWF to its anticipated selling price, less costs to sell, as required by SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

The impairment charge is based on the current agreement to sell MWF, as described below under "Stock Sale Agreement with UPS," and primarily represents the estimated write-down to the carrying value of MWF's goodwill and long-lived assets, including MWF's accumulated foreign currency translation adjustment, as well as estimated selling costs. CNF agreed to accept less than the recorded book value of MWF due primarily to management's current assessment of the risk and resource requirements associated with other strategic alternatives related to MWF's operations. The impairment charge is a deductible capital loss for tax purposes. However, since CNF does not currently forecast any significant taxable capital gains in the tax carry-forward period, it does not currently expect to recognize a tax deduction for the capital loss. As a result, no tax benefit was recorded on the impairment charge.

For all periods presented, the results of operations, net assets, and cash flows of the Forwarding segment have been segregated and classified as discontinued operations. The operating results for discontinued operations are summarized in Note 2, "Discontinued Operations" of Item 1, "Financial Statements."

Stock Sale Agreement with UPS

On October 5, 2004, CNF and Menlo Worldwide entered into a stock purchase agreement with United Parcel Service of America, Inc. and United Parcel Service, Inc. to acquire all of the issued and outstanding capital stock of MWF. The agreement excludes certain assets and liabilities of MWF and includes certain assets and liabilities of CNF or its subsidiaries related to the business as presently conducted by Menlo Worldwide Forwarding. Among the assets and liabilities so excluded are those related to EWA, as described below, and the obligation related to MWF employees covered under CNF's domestic pension, postretirement medical and long-term disability plans. Under the agreement, CNF will be reimbursed for the actuarially determined estimate of its obligation related to MWF employees covered under CNF's postretirement medical plan. CNF will receive cash consideration of $150 million that is subject to certain adjustments, including adjustments for cash held by MWF at closing and MWF's net working capital as of closing. In addition, UPS will assume indebtedness associated with the MWF business, including approximately $110 million of debt owed by MWF in connection with the City of Dayton, Ohio, Special Facilities Revenue Refunding Bonds, certain capital leases and other debt, other letters of credit, and overdraft facilities. CNF will indemnify UPS against certain losses that UPS may incur after the closing of the sale with certain limitations. Any losses related to these indemnification obligations or any other costs, including any future cash expenditures, related to the sale cannot be estimated at this time and will be disclosed in the future and recognized in future periods when and if incurred. Subject to customary conditions, including receipt of government regulatory approvals and consents, CNF expects the sale to close during the fourth quarter of 2004. For additional details, refer to the stock sale agreement filed as an exhibit to CNF's Form 8-K dated October 5, 2004.

Assets and Liabilities of Discontinued Operations

The assets and liabilities of the Forwarding segment are presented in the Consolidated Balance Sheets under the captions "Assets (or Liabilities) of Discontinued Operations," and described in more detail in Note 2 of Item 1, "Financial Statements." As described above, the sale agreement with UPS excludes certain assets and liabilities of MWF, including but not limited to cash balances, as well as the assets and liabilities of EWA, including the restructuring reserves discussed below.

In connection with the cessation of its air carrier operations in 2001, 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 MWF'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.

Reserves related to the 2001 restructuring plan decreased to $34.1 million at September 30, 2004 from $34.8 million at December 31, 2003, primarily due to payments of restructuring-related obligations, partially offset by proceeds from sales of aircraft equipment. Restructuring reserves at September 30, 2004 consisted primarily of CNF's estimated exposure related to the labor matters described above, as well as other estimated remaining restructuring-related obligations.

LIQUIDITY AND CAPITAL RESOURCES

In the first nine months of 2004, cash and cash equivalents rose to $639.1 million at September 30, 2004, as $309.7 million provided by operating activities and $149.6 million provided by financing activities significantly exceeded $114.3 million used in investing activities. The excess cash flow from operating and financing activities increased cash and cash equivalents by $345.1 million. Cash provided by financing activities primarily reflects net proceeds of $292.6 million received from the issuance of $300 million of Senior Debentures in May 2004, partially offset by the redemption in June 2004 of $128.9 million of Convertible Debentures, as more fully discussed below and in Note 7, "Debt" of Item 1, "Financial Statements." CNF's cash flows are summarized in the table below.

(Dollars in thousands)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Operating Activities		
Net income (loss)	$ (150,198)	$ 63,145
Discontinued operations	257,376	20,711
Non-cash adjustments (1)	104,186	92,968
	211,364	176,824
Changes in assets and liabilities		
Receivables	(58,512)	(19,113)
Accounts payable and accrued liabilities, excluding accrued incentive compensation	50,953	11,073
Accrued incentive compensation	54,322	(21,137)
Income taxes	30,974	52,515
Employee benefits	(36,610)	(20,057)
Deferred charges and credits	71,561	24,653
Other	(14,335)	(16,909)
	98,353	11,025
Net Cash Provided by Operating Activities	309,717	187,849
Net Cash Used in Investing Activities	(114,277)	(83,373)
Net Cash Provided by (Used in) Financing Activities	149,648	(32,353)
Net Cash Provided by Continuing Operations	345,088	72,123
Net Cash Used in Discontinued Operations	(4,652)	(9,604)
Increase in Cash and Cash Equivalents	$ 340,436	$ 62,519

(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

Cash flow from operations in the first nine months of 2004 was $309.7 million compared to $187.8 million in 2003. In the first nine months of 2004, an increase in receivables used $58.5 million while the collective increase in accounts payable and accrued liabilities (excluding accrued incentive compensation) provided $51.0 million. Accrued incentive compensation increased by $54.3 million in the first nine months of 2004, while the same period of the prior year reflects a $21.1 million reduction. 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. In the first nine months of 2004, incentive compensation expense accruals exceeded payments, while in the first nine months of last year, payments for incentive compensation exceeded expense accruals. Changes in employee benefits in the first nine months of 2004 and 2003 reflect the net effect of defined benefit pension plan funding contributions of $90.8 million and $75.0 million, respectively, as described below under "-Defined Benefit Pension Plans," partially offset by expense accruals for CNF's defined benefit plan obligation.

In June and July of 2004, CNF fully liquidated its corporate-owned life insurance policies based on the volatility and insufficiency of returns on the investments. Prior to the liquidation, the cash-surrender value of the policies was reported in Other Assets in CNF's Consolidated Balance Sheets. The $54.5 million of cash payments for settlement of the investments were received by CNF in the third quarter of 2004 and are reflected in the change in deferred charges and credits in CNF's Consolidated Statement of Cash Flows for the nine months ended September 30, 2004.

Investing activities in the first nine months of 2004 used $114.3 million, an increase from $83.4 million used in the first nine months of last year, due primarily to a net increase in capital expenditures of $32.6 million, including an increase of $37.1 million at Con-Way, partially offset by reductions at the Logistics and the Menlo Worldwide Other segments. In the first nine months of last year, Con-Way invested $69.0 million, primarily for revenue equipment. In 2004, CNF anticipates total capital and software expenditures of approximately $200 million. The remaining planned capital expenditures for 2004 primarily include approximately $65 million for the acquisition of additional tractor and trailer equipment at Con-Way to accommodate the increase in business levels.

Financing activities in the first nine months of 2004 provided cash of $149.6 million compared to cash used of $32.4 million in 2003. In April 2004, CNF issued $300 million of 6.70% Senior Debentures due 2034 in a private placement with exchange rights for net proceeds of $292.6 million. CNF used a portion of the proceeds to redeem $128.9 million of CNF's Convertible Debentures on June 1, 2004, as more fully discussed in Note 7, "Debt," of Item 1, "Financial Statements." CNF expects the remaining portion of the proceeds from issuance of the Senior Debentures to pay from time to time or at maturity its $100 million of 7.35% Notes due in June 2005, and for working capital and general corporate purposes. Financing activities in the first nine months of 2004 and 2003 also reflect 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 September 30, 2004, no borrowings were outstanding under the facility and $201.2 million of letters of credit were outstanding, leaving $183.8 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 $142.3 million at September 30, 2004, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of $105.8 million was outstanding under these facilities. Of the total letters of credit outstanding at September 30, 2004, $230.7 million provided collateral for CNF workers' compensation and vehicular self-insurance programs.

As more fully discussed above under "Results of Operations – Discontinued Operations," CNF recognized a $260.5 million charge to write down the recorded book value of MWF to its estimated selling price, less costs to sell. To remain in compliance with certain financial covenants, CNF obtained an amendment to the credit agreement for CNF's $385 million revolving credit facility. Additionally, the credit agreement contains restrictions on the sale of subsidiary guarantors and a threshold for the sale of assets. CNF has obtained the necessary creditors' consent for the sale of MWF. 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 Plans

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 has contributed $90.8 million to its defined benefit pension plans in 2004, consisting of $40.2 million paid in the second quarter and $50.6 million of payments in the third quarter. No further funding payments are expected for the remainder of 2004. 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 and for the lack of tax deductibility of funding 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 plans 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 nine months of 2004, there have been no material changes in the contractual cash obligations for CNF’s continuing operations outside the ordinary course of business, except for CNF’s issuance of the Senior Debentures in April 2004 and the redemption of its Convertible Debentures in June 2004. These financing transactions, as well as the effect of CNF’s adoption of FIN 46R, are more fully discussed above and in Note 7, “Debt,” of Item 1, “Financial Statements.”

The table below summarizes contractual cash obligations for CNF’s continuing operations as of September 30, 2004.

(Dollars in thousands)		Payments Due by Period				
	Total	Remainder of 2004	2005	2006-2007	2008-2009	2010 & Thereafter
Long-Term Debt and Guarantees	$ 691,809	$ 7	$ 112,730	$ 33,668	$ 45,404	$ 500,000
Operating Leases	136,215	15,320	51,908	45,421	15,707	7,859
Total	$ 828,024	$ 15,327	$ 164,638	$ 79,089	$ 61,111	$ 507,859

As presented above, contractual obligations on long-term debt and guarantees represent principal payments while contractual obligations for operating leases represent the payments under the lease arrangements. These contractual cash obligations are reflected in the Consolidated Balance Sheets, except for operating leases, which are disclosed as future obligations under GAAP.

Other

CNF’s debt-to-capital ratio increased to 50.8% at September 30, 2004 from 41.0% at December 31, 2003 due primarily to the net effect of the second-quarter financing transactions described above and to the decline in retained earnings resulting from the third quarter write-down of the recorded book value of MWF, as discussed below and under “Management’s Discussion and Analysis-Discontinued Operations.”

DISCONTINUED OPERATIONS

Sale Agreement with UPS

On October 5, 2004, CNF announced that it had reached an agreement to sell MWF to UPS for $150 million in cash, which amount is subject to adjustment for cash held by MWF at closing and the net capital of MWF as of closing. As part of the sale agreement, UPS will assume approximately $110 million of debt owed by MWF. This sale is subject to regulatory approvals and is expected to close during the fourth quarter of 2004.

Spin-Off of CFC

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 8, “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 programs 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, future capital gains, 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

Reserves related to EWA's 2001 restructuring plan were based on significant estimates and assumptions made by management. Refer to "Results of Operations—Discontinued Operations."

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 provides 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 Plans

CNF has defined benefit pension plans that cover 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 changes in high-quality corporate bond yields and the guidance 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. Lower 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

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. Under SFAS 142, "Goodwill and Other Intangible Assets," CNF tests the recoverability of goodwill on an annual basis in the fourth quarter and between annual tests in certain circumstances. CNF utilized a third-party independent valuation consultant to perform the impairment test of goodwill associated with the Forwarding reporting segment as of December 31, 2003. Based on the annual impairment test in the fourth quarter of 2003, which assumed improving cash flows, CNF was not required to record a charge for goodwill impairment.

As more fully discussed above under "Results of Operations – Discontinued Operations," CNF committed to sell MWF in the third quarter of 2004 and recognized a $260.5 million impairment charge to write down the recorded book value of MWF to its anticipated selling price, less costs to sell. The impairment charge is based on a current agreement to sell MWF and represents the estimated write-down to the carrying value of MWF's goodwill and long-lived assets, including MWF's accumulated foreign currency translation adjustment, as well as estimated selling costs. CNF agreed to accept less than the recorded book value of MWF due primarily to management's current assessment of the risk and resource requirements associated with other strategic alternatives related to MWF's operations.

In assessing the recoverability of 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 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.

CYCLICALITY AND SEASONALITY

CNF's businesses operate in industries that are affected directly by general economic conditions and seasonal fluctuations, 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

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 was 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 Debentures held by the Trust, which were redeemed by CNF on June 1, 2004, were included in long-term debt at March 31, 2004, and prior periods were restated to reflect adoption of FIN 46R, as more fully discussed in Note 7, "Debt" 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, including the expected closing date of, and other statements regarding the sale of MWF, 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 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 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;
- 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;
- matters relating to the pending sale of MWF, including the resulting disruption to normal business activities (including CNF's efforts to timely comply with Section 404 of the Sarbanes-Oxley Act of 2002).

As a result of the foregoing, no assurance can be given as to future financial condition, cash flows, or results of operations. See Note 8, "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 held two freestanding interest rate swap derivatives at September 30, 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 EWA'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 September 30, 2004, CNF had not entered into any material derivative contracts to hedge exposure to commodity prices or foreign currency.

CNF is subject to the effect of interest rate fluctuations in the fair value of its long-term debt, as summarized in Item 8, "Financial Statements and Supplementary Data," under Note 6, "Debt and Other Financing Arrangements," of CNF's 2003 Annual Report on Form 10-K. In April 2004, CNF issued $300 million of 6.70% Senior Debentures in a private placement with exchange rights for net proceeds of $292.6 million. CNF used a portion of the proceeds to redeem $128.9 million of CNF's Convertible Debentures on June 1, 2004, as more fully discussed in Note 7, "Debt" of Item 1, "Financial Statements." Given a hypothetical 10% change in interest rates, the increase in fair value of CNF's long-term debt and guarantees at September 30, 2004 would be approximately $36 million.

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, after giving effect to the changes discussed in paragraph (b) below, CNF's disclosure controls and procedures are effective as of the end of such period.

(b) Internal Control Over Financial Reporting.

During the fiscal quarter to which this report relates, CNF’s management identified a significant deficiency, as defined under Public Company Accounting Oversight Board (“PCAOB”) Auditing Standard No. 2, in internal controls over the accounting for certain self-insured workers’ compensation and vehicular claims. CNF has corrected the deficiency by redesigning the policies and procedures over account reconciliations for these self-insured claims. Except for this identified redesign of internal control, 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

Certain legal proceedings of CNF are also discussed in Note 2, “Discontinued Operations,” and Note 8, “Commitments and Contingencies,” of Part 1, Item 1, “Financial Statements.”

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 process 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. Menlo Worldwide Forwarding, Inc. (“MWF, Inc.”), 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, Inc., 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, Inc., 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.

EWA, MWF, Inc., 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.

In 2003, CNF became aware of information that Emery Transnational, a Philippines-based joint venture in which MWF, Inc. may be deemed to be a controlling partner, may have made certain payments in violation of the Foreign Corrupt Practices Act. CNF promptly notified the Department of Justice and the Securities and Exchange Commission of this matter, and MWF, Inc. instituted policies and procedures in the Philippines designed to prevent such payments from being made in the future. In addition, CNF conducted an internal investigation of approximately 40 other MWF, Inc. international locations and has shared the results of the investigation with the SEC. The investigation revealed that Menlo Worldwide Forwarding (Thailand) Limited, a Thailand-based joint venture, also may have made certain payments in violation of the Foreign Corrupt Practices Act. MWF, Inc. has made certain personnel changes and is instituting policies and procedures in Thailand designed to prevent such payments from being made in the future.

Certain current and former officers of CNF, EWA and MWF, Inc. 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 MWF, Inc. 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. On November 5, 2004, the Court granted preliminary approval to a settlement negotiated by the parties, and ordered that notice be given to the shareholders that a hearing to consider final approval of the settlement is scheduled for February 2005.

ITEM 6. Exhibits

4	Amendment No 5 dated October 21, 2004 to the $385 Million Credit Agreement
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

SIGNATURES

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

CNF Inc.
(Registrant)

November 8, 2004

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