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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

OR

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

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

COMMISSION FILE NUMBER 1-5046

CNF Inc.

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☒ No ☐

Number of shares of Common Stock, $.625 par value,
outstanding as of April 30, 2005: 52,633,451

CNF INC.
FORM 10-Q
Quarter Ended March 31, 2005

INDEX

PART I. FINANCIAL INFORMATION		Page
Item 1.	Financial Statements	
	Consolidated Balance Sheets - March 31, 2005 and December 31, 2004	3
	Statements of Consolidated Income - Three Months Ended March 31, 2005 and 2004	5
	Statements of Consolidated Cash Flows - Three Months Ended March 31, 2005 and 2004	6
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	31
Item 4.	Controls and Procedures	32
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	33
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	34
Item 4.	Submission of Matters to a Vote of Security Holders	35
Item 6.	Exhibits	36
Signatures		37

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CNF INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

ASSETS	March 31, 2005	December 31, 2004
Current Assets		
Cash and cash equivalents	$ 675,057	$ 386,897
Marketable securities	155,975	446,300
Trade accounts receivable, net	461,531	425,783
Other accounts receivable (Note 2)	73,735	134,577
Operating supplies, at lower of average cost or market	18,407	16,665
Prepaid expenses	50,308	48,092
Deferred income taxes	51,655	51,453
Assets of discontinued operations (Note 2)	5,128	5,128
Total Current Assets	1,491,796	1,514,895
Property, Plant and Equipment, at cost		
Land	142,857	142,857
Buildings and leasehold improvements	624,585	618,698
Revenue equipment	691,525	677,499
Other equipment	211,994	210,102
	1,670,961	1,649,156
Accumulated depreciation and amortization	(811,243)	(789,835)
	859,718	859,321
Other Assets		
Deferred charges and other assets (Note 4)	40,107	56,618
Capitalized software, net	49,135	50,347
Assets of discontinued operations (Note 2)	14,777	15,220
	104,019	122,185
Total Assets	$ 2,455,533	$ 2,496,401

The accompanying notes are an integral part of these statements.

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

LIABILITIES AND SHAREHOLDERS' EQUITY	**March 31, 2005**	**December 31, 2004**
Current Liabilities		
Accounts payable	$ 246,021	$ 252,867
Accrued liabilities	201,118	226,437
Self-insurance accruals	81,228	86,095
Current maturities of long-term debt	115,030	112,727
Liabilities of discontinued operations (Note 2)	23,446	34,705
Total Current Liabilities	666,843	712,831
Long-Term Liabilities		
Long-term debt and guarantees	585,148	601,344
Self-insurance accruals	104,572	102,512
Employee benefits (Note 5)	256,492	245,989
Other liabilities and deferred credits	16,410	20,296
Deferred income taxes	26,041	29,200
Liabilities of discontinued operations (Note 2)	2,666	6,862
Total Liabilities	1,658,172	1,719,034
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 674,450 and 742,995 shares, respectively	7	7
Additional paid-in capital, preferred stock	102,577	113,002
Deferred compensation, Thrift and Stock Plan	(46,930)	(49,117)
Total Preferred Shareholders' Equity	55,654	63,892
Common stock, $.625 par value; authorized 100,000,000 shares; issued 59,484,400 and 58,544,254 shares, respectively	37,196	36,590
Additional paid-in capital, common stock	457,018	429,134
Retained earnings	450,110	426,300
Deferred compensation, restricted stock	(5,158)	(5,744)
Cost of repurchased common stock (Note 7) (6,753,497 and 6,364,868 shares, respectively)	(182,111)	(157,069)
	757,055	729,211
Accumulated Other Comprehensive Loss (Note 6)	(15,348)	(15,736)
Total Common Shareholders' Equity	741,707	713,475
Total Shareholders' Equity	797,361	777,367
Total Liabilities and Shareholders' Equity	$ 2,455,533	$ 2,496,401

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,			
	2005		2004	
REVENUES	$	947,683	$	846,920
Costs and Expenses				
Operating expenses (Note 4)		768,733		691,817
Selling, general and administrative expenses		79,226		74,445
Depreciation		26,468		25,210
		874,427		791,472
OPERATING INCOME		73,256		55,448
Other Income (Expense)				
Investment income		4,627		727
Interest expense		(10,466)		(7,336)
Miscellaneous, net		(1,604)		(568)
		(7,443)		(7,177)
Income from Continuing Operations Before Taxes		65,813		48,271
Income Tax Provision		24,962		18,826
INCOME FROM CONTINUING OPERATIONS		40,851		29,445
Discontinued Operations, net of tax (Note 2)				
Loss from Disposal		(9,776)		-
Loss from Discontinued Operations		-		(3,016)
		(9,776)		(3,016)
Net Income		31,075		26,429
Preferred Stock Dividends		1,989		2,022
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$	29,086	$	24,407
Weighted-Average Common Shares Outstanding (Note 1)				
Basic		52,348,984		49,835,663
Diluted		56,610,719		57,125,185
Earnings (Loss) per Common Share (Note 1)				
Basic				
Net Income from Continuing Operations	$	0.74	$	0.55
Loss from Disposal, net of tax		(0.18)		-
Loss from Discontinued Operations, net of tax		-		(0.06)
Net Income Available to Common Shareholders	$	0.56	$	0.49
Diluted				
Net Income from Continuing Operations	$	0.69	$	0.50
Loss from Disposal, net of tax		(0.17)		-
Loss from Discontinued Operations, net of tax		-		(0.05)
Net Income Available to Common Shareholders	$	0.52	$	0.45

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	2005	**2004**
Cash and Cash Equivalents, Beginning of Period	$ 386,897	$ 38,183
Operating Activities		
Net income	31,075	26,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Discontinued operations, net of tax	9,776	3,016
Depreciation and amortization, net of accretion	29,271	28,437
Decrease in deferred income taxes	(3,361)	(324)
Amortization of deferred compensation	2,865	3,187
Provision for uncollectible accounts	908	1,662
Equity in earnings of joint venture	(4,035)	(2,392)
Loss (Gain) on sales of property and equipment, net	(37)	517
Changes in assets and liabilities:		
Receivables	(4,459)	(17,745)
Prepaid expenses	(2,216)	(11,992)
Accounts payable	(4,386)	16,352
Accrued incentive compensation	(38,868)	(6,911)
Accrued liabilities, excluding accrued incentive compensation	11,777	20,331
Self-insurance accruals	(2,807)	(14,485)
Income taxes	21,340	16,311
Employee benefits	10,503	14,378
Deferred charges and credits	17,082	4,209
Other	(8,026)	(876)
Net Cash Provided by Operating Activities	66,402	80,104
Investing Activities		
Capital expenditures	(26,991)	(11,806)
Software expenditures	(2,471)	(4,431)
Proceeds from sales of property and equipment, net	497	2,037
Net decrease in marketable securities	290,325	37,115
Net Cash Provided by Investing Activities	261,360	22,915
Financing Activities		
Repayment of long-term debt and guarantees	(12,708)	(14,053)
Proceeds from exercise of stock options	26,064	433
Payments of common dividends	(5,276)	(5,001)
Payments of preferred dividends	(4,861)	(5,004)
Repurchases of common stock	(32,264)	-
Net Cash Used in Financing Activities	(29,045)	(23,625)
Net Cash Provided by Continuing Operations	298,717	79,394
Net Cash Provided by (Used in) Discontinued Operations	(10,557)	21,163
Increase in Cash and Cash Equivalents	288,160	100,557
Cash and Cash Equivalents, End of Period	$ 675,057	$ 138,740
Supplemental Disclosure		
Cash Paid for income taxes, net	$ 6,188	$ 7,081
Cash Paid for interest, net of amounts capitalized	$ 2,098	$ 2,296

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 an independent registered public accounting firm. 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 accounting principles generally accepted in the United States ("GAAP") 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 2004 Annual Report on Form 10-K. Results for the periods presented are not necessarily indicative of annual results.

In December of 2004, CNF completed the sale of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (hereinafter collectively referred to as "MWF") to United Parcel Service, Inc. and United Parcel Service of America, inc. (collectively, "UPS"). As a result, for the 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, which was not sold to UPS.

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 March 31,	
	2005	2004
Numerator:		
Continuing operations (after preferred stock dividends), as reported	$ 38,862	$ 27,423
Add-backs:		
Dividends on Series B preferred stock, net of replacement funding	264	308
Interest expense on convertible subordinated debentures, net of trust dividend income	--	954
Continuing operations	39,126	28,685
Discontinued operations	(9,776)	(3,016)
Available to common shareholders	$ 29,350	$ 25,669
Denominator:		
Weighted-average common shares outstanding	52,348,984	49,835,663
Stock options and restricted stock	1,086,424	601,625
Series B preferred stock	3,175,311	3,562,897
Convertible subordinated debentures	--	3,125,000
	56,610,719	57,125,185
Earnings (Loss) per Diluted Share:		
Continuing operations	$ 0.69	$ 0.50
Discontinued operations	(0.17)	(0.05)
Available to common shareholders	$ 0.52	$ 0.45

Diluted shares for the periods presented reflect the effect of CNF's redemption in June 2004 of its convertible subordinated debentures.

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" ("APB 25"). Accordingly, no compensation expense is recognized for fixed-option plans because the exercise prices of employee stock options equal or exceed the market prices of the underlying stock on the dates of grant.

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

(Dollars in thousands, except per share data)	Three Months Ended March 31,	
	2005	2004
Net income available to common shareholders, as reported	$ 29,086	$ 24,407
Stock-based compensation cost included in reported income, net of tax	413	648
Additional compensation cost, net of tax, that would have been included in net income if the fair-value method had been applied	(1,550)	(2,442)
Adjusted net income as if the fair-value method had been applied	$ 27,949	$ 22,613
Earnings per share:		
Basic:		
As reported	$ 0.56	$ 0.49
Adjusted	$ 0.53	$ 0.45
Diluted:		
As reported	$ 0.52	$ 0.45
Adjusted	$ 0.50	$ 0.42

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 the 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.

In the first quarter of 2004, CNF concluded that it would no longer assume indefinite reinvestment of past and future earnings of MWF's foreign subsidiaries and accordingly, recorded a deferred tax asset of $9.4 million to recognize the associated tax effect of MWF's accumulated foreign currency translation adjustment. The deferred tax asset was recorded 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." CNF did not change its assumptions regarding the repatriation of the foreign earnings of its other subsidiaries.

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), a revision of SFAS 123 that supersedes APB 25 and its related implementation guidance. SFAS 123R eliminates the alternative to use APB 25's intrinsic-value method of accounting that was provided in SFAS 123 as originally issued, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) over the period during which an employee is required to provide service in exchange for the award.

SFAS 123R also amends FASB Statement No. 95, "Statement of Cash Flows," to require that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as financing cash flows, rather than as a reduction of taxes paid. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated because they depend on factors that cannot be predicted, including when employees exercise stock options.

The effective date of SFAS 123R is as of the beginning of the first interim or annual reporting period of the first fiscal year beginning on or after June 15, 2005, which for CNF is the first quarter of 2006. CNF is currently assessing the impact that SFAS 123R will have on its financial statements.

Reclassification

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

2. Discontinued Operations

Discontinued operations in the periods presented relate to the sale of MWF and to EWA. For the periods presented, the results of operations, net assets, and cash flows of discontinued operations have been segregated from continuing operations, except where otherwise noted.

As required by EITF 87-24, "Allocation of Interest to Discontinued Operations," for periods prior to the disposition of MWF, continuing operations has been allocated general corporate overhead charges that were previously allocated to the discontinued Forwarding segment. These corporate overhead charges of $3.7 million in the first quarter of 2004 were allocated from discontinued operations to Con-Way and Logistics based on segment revenue and capital employed.

Results of discontinued operations are summarized below:

	Three Months Ended March 31,	
(Dollars in thousands)	2005	2004
Revenues	$ --	$ 504,064
Loss from Discontinued Operations		
Loss before income tax benefit	--	(4,945)
Income tax benefit	--	1,929
	$ --	$ (3,016)
Loss from Disposal, net of tax	$ (9,776)	$ --

The assets and liabilities of discontinued operations, which are presented in the Consolidated Balance Sheets under the captions "Assets (or Liabilities) of Discontinued Operations," consisted of the following:

(Dollars in thousands)	March 31, 2005	December 31, 2004
Assets		
Current assets	$ 5,128	$ 5,128
Employee benefits and long-lived assets	14,777	15,220
Total Assets	19,905	20,348
Liabilities		
Accounts payable and accrued liabilities	22,366	33,243
Other	1,080	1,462
Current Liabilities	23,446	34,705
Long-term liabilities	2,666	6,862
Total Liabilities	26,112	41,567
Net Liabilities	$ 6,207	$ 21,219

Menlo Worldwide Forwarding

Impairment Charge

On October 5, 2004, CNF and Menlo Worldwide, LLC ("MW") entered into a stock purchase agreement with UPS to sell all of the issued and outstanding capital stock of MWF. CNF completed the sale on December 19, 2004, as more fully discussed below. Although the stock purchase agreement was entered into on October 5, 2004, 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. In the process of evaluating several strategic alternatives for MW's Forwarding segment, CNF was approached by UPS in the third quarter of 2004 with interest in acquiring MWF. Accordingly, in the third quarter of 2004, CNF classified MWF as held for sale 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 was based on the agreement to sell MWF, as described below, and primarily represents the estimated write-down to the fair value of MWF's goodwill and long-lived assets, including MWF's accumulated foreign currency translation adjustment, as well as estimated selling costs.

Stock Purchase Agreement

The stock purchase agreement excludes certain assets and liabilities of MWF and includes certain assets and liabilities of CNF or its subsidiaries related to the business conducted by MWF. Among the assets and liabilities so excluded are those related to EWA, and the obligation related to MWF employees covered under CNF's domestic pension, postretirement medical and long-term disability plans. Under the agreement, UPS agreed to pay to CNF an amount equal to MWF's cash position as of December 31, 2004, and to pay the estimated present value of CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans, as agreed to by the parties or, in the absence of such agreement, as determined by an independent actuary. In addition, UPS assumed 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. Under the stock purchase agreement, CNF has agreed to a three-year non-compete covenant that, subject to certain exceptions, will limit CNF's annual air freight and ocean forwarding and/or customs brokerage revenues to $175 million. CNF has also agreed to 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 recognized in future periods as an additional loss from disposal when and if incurred.

Loss on Sale of MWF

Upon completion of the sale of MWF on December 19, 2004, CNF received cash consideration of $150 million, subject to certain post-closing adjustments, including adjustments for cash held by MWF at closing and MWF's net working capital as of closing. In connection with the sale, CNF in 2004 recognized a fourth-quarter loss from disposal of $15.8 million (net of a $3.6 million tax benefit), as the adjusted carrying value of MWF exceeded the cash consideration, including amounts received at closing and expected to be received in the future. Following settlement of the MWF cash balance in March 2005, CNF received cash of $29.4 million and recognized an additional first-quarter loss from disposal of $9.8 million, primarily to recognize the difference between the actual cash received and CNF's estimate of the cash position at December 31, 2004, and to accrue additional estimated transaction costs.

CNF recognized a tax benefit on its losses from the disposal of MWF, which are treated as capital losses for tax purposes. Under current tax law, capital losses can only be used to offset capital gains. CNF does not currently forecast any significant capital gains in the tax carry-forward period. Based in part on the amount of capital gains actually recognized for tax purposes, only $3.6 million of the total disposal-related tax benefit of $48.2 was realizable in 2004, and as a result, the remaining $44.6 million of the recognized tax benefit was fully offset by an equal valuation allowance.

Excluded Assets and Liabilities

As described above, the stock purchase agreement excludes, and CNF has retained, the obligations related to MWF employees covered under certain CNF-sponsored employee benefit plans, including domestic pension, postretirement and long-term disability plans that cover the noncontractual employees and former employees of both continuing and discontinued operations. These plans also include certain pension plans that cover only the current and former employees of the discontinued Forwarding segment (the "Forwarding Plans"). For financial reporting purposes, the prepaid benefit cost of the Forwarding Plans is reported in Assets of Discontinued Operations while the accrued benefit cost related to MWF employees covered under the other legally separate CNF-sponsored plans are reported in Employee Benefits of continuing operations. Under the stock purchase agreement, UPS agreed to pay to CNF the estimated present value of CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans, as agreed to by the parties or, in the absence of such agreement, as determined by an independent actuary. Accordingly, CNF in December 2004 recorded in Other Accounts Receivable a receivable for its estimate of the present value of these employee benefit obligations. As of March 31, 2005, UPS and CNF had not reached agreement as to the amount to be paid by UPS for the employee benefit obligations retained by CNF, and it is possible that the amount ultimately paid will be based upon an estimate prepared by an independent actuary. As more fully discussed below under "Estimates and Critical Accounting Policies," CNF's estimate of the present value of these employee benefit obligations is an actuarial determination that depends upon a number of assumptions and factors. If CNF's estimate is different than the amount actually payable by UPS, that difference would be recognized as a gain or loss from disposal when and if incurred.

The stock purchase agreement also excludes the assets and liabilities of EWA, including restructuring reserves related to its 2001 restructuring plan. EWA's restructuring reserves decreased to $27.4 million at March 31, 2005 from $33.8 million at December 31, 2004, primarily due to settlement of obligations. Restructuring reserves at March 31, 2005 were primarily reported in Liabilities of Discontinued Operations and consisted primarily of CNF's estimated exposure related to the labor matters described below, as well as other estimated remaining restructuring-related obligations.

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.

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. For financial reporting purposes, CNF is divided into three reporting segments: Con-Way Transportation Services ("Con-Way"), MW, and CNF Other. MW consists of the operating results of Menlo Worldwide Logistics ("Logistics") and Vector SCM, LLC ("Vector"), a joint venture with General Motors ("GM") that

is accounted for as an equity-method investment. Certain corporate activities and the results of Road Systems, a trailer manufacturer, are reported in the CNF Other reporting segment.

In December of 2004, CNF sold MWF. As a result, for the 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 more fully discussed in Note 2, "Discontinued Operations", for periods prior to the disposition of MWF, continuing operations has been allocated certain corporate overhead charges that were previously allocated to the discontinued Forwarding segment. The additional corporate overhead charges allocated to Con-Way and Logistics in the first quarter of 2004 were $3.2 million and $0.5 million, respectively.

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 March 31,	
	2005	2004
External Revenues		
Con-Way Transportation Services	$ 659,373	$ 593,876
Menlo Worldwide - Logistics	282,901	252,790
	942,274	846,666
CNF Other	5,409	254
	$ 947,683	$ 846,920
Intersegment Revenue		
Con-Way Transportation Services	$ 1,619	$ 1,262
Menlo Worldwide - Logistics	--	--
	1,619	1,262
CNF Other	9,601	6,100
	$ 11,220	$ 7,362
Total Revenues before Intersegment Eliminations		
Con-Way Transportation Services	$ 660,992	$ 595,138
Menlo Worldwide - Logistics	282,901	252,790
	943,893	847,928
CNF Other	15,010	6,354
Intersegment Revenue Eliminations	(11,220)	(7,362)
	$ 947,683	$ 846,920
Operating Income (Loss)		
Con-Way Transportation Services	$ 62,933	$ 47,866
Menlo Worldwide		
Logistics	5,653	6,042
Vector	4,035	2,392
	9,688	8,434
CNF Other	635	(852)
	$ 73,256	$ 55,448

4. Investment in Unconsolidated Joint Venture

Vector is 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. Although MW owns a majority interest in Vector, MW's portion of Vector's operating results are reported in the MW reporting segment as an equity-method investment based on GM's ability to control certain operating decisions. Vector is organized as a limited liability company that has elected to be taxed as a partnership. Therefore, the joint venture partners are responsible for income taxes applicable to their share of Vector's taxable income. MW's portion of Vector's net income, which is reported as a reduction of operating expenses in the accompanying Statements of Consolidated Income, does not include any provision for income taxes that will be incurred by CNF. MW's undistributed earnings from Vector at March 31, 2005 and December 31, 2004, before provision for CNF's related parent income taxes, was $31.2 million and $27.2 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 and marketable securities. As a result of Vector's excess cash invested by CNF, Vector's affiliate receivable from CNF as of March 31, 2005 and December 31, 2004 was $29.7 million and $15.5 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 $400 million revolving credit facility. At March 31, 2005, CNF provided a portion of its $20 million credit commitment to Vector through CNF's guarantee of $2.5 million of uncommitted local currency overdraft facilities available to Vector by international banks. At March 31, 2005 and December 31, 2004, there was no balance outstanding under Vector's 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

Employees of CNF and its subsidiaries in the U.S. are covered under the CNF Postretirement Medical Plan (the "Postretirement Plan") and several defined benefit pension plans (the "Pension Plans"). The Pension Plans consist of a plan that covers the non-contractual employees and former employees of CNF's continuing and discontinued operations (the "CNF Retirement Plan"), as well as certain pension plans that cover only the current and former employees of the discontinued Forwarding segment (the "Forwarding Plans"). As more fully discussed in Note 2, "Discontinued Operations," CNF completed the sale of MWF in December 2004. Accordingly, amounts related to the legally separate Forwarding Plans are not included in the employee benefit disclosures below and are reported as discontinued operations. As a result, the employee benefit plan interim disclosures presented below are provided only for the CNF Retirement Plan and the Postretirement Plan (collectively "the CNF Benefit Plans"). Based on CNF's intention to retain the CNF Benefit Plans following the sale of MWF, the obligation related to employees of MWF and EWA covered by these plans is included in Employee Benefits of continuing operations in CNF's Consolidated Balance Sheets at March 31, 2005 and December 31, 2004.

The following table summarizes the components of net periodic benefit expense for the CNF Retirement Plan:

(Dollars in thousands)	Three Months Ended March 31, 2005	2004
Service cost – benefits earned during the quarter	$ 11,884	$ 15,391
Interest cost on benefit obligation	12,864	15,852
Expected return on plan assets	(14,604)	(15,575)
Net amortization and deferral	561	2,137
Net periodic benefit expense	$ 10,705	$ 17,805

In the presentation above, the portion of benefit expense that relates to discontinued operations was immaterial in the first quarter of 2005 and $5.3 million in the first quarter of 2004.

CNF currently estimates that it will contribute $75 million to its Pension Plans in 2005, composed of a $30 million payment made in the second quarter and $45 million of payments anticipated in the third quarter.

The following table summarizes the components of net periodic benefit expense for the Postretirement Plan:

(Dollars in thousands)	Three Months Ended March 31, 2005	2004
Service cost – benefits earned during the quarter	$ 141	$ 488
Interest cost on benefit obligation	563	1,477
Net amortization and deferral	30	69
Net periodic benefit expense	$ 734	$ 2,034

In the presentation above, the portion of benefit expense that relates to discontinued operations was immaterial in the first quarter of 2005 and $1.0 million in the first quarter of 2004.

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 March 31, 2005	2004
Net income	$ 31,075	$ 26,429
Other comprehensive income (loss):		
Unrealized loss on marketable securities	--	(211)
Foreign currency translation adjustment (Note 1)	388	9,859
	388	9,648
Comprehensive income	$ 31,463	$ 36,077

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

(Dollars in thousands)	March 31, 2005	December 31, 2004
Accumulated foreign currency translation adjustments (Note 1)	$ (668)	$ (1,056)
Minimum pension liability adjustment	(14,680)	(14,680)
Accumulated other comprehensive loss	$ (15,348)	$ (15,736)

7. Common Stock Repurchase Program

In January 2005, CNF's Board of Directors authorized a two-year stock repurchase program providing for the repurchase of up to $300 million in common stock in open market purchases and privately negotiated transactions. As of March 31, 2005, CNF repurchased a total of 694,000 shares at a cost of $32.3 million. CNF generally expects the remaining purchases to be made ratably throughout the remainder of the program.

8. Commitments and Contingencies

Purchase Commitments

At March 31, 2005, Con-Way was obligated under purchase commitments to acquire $70.9 million of revenue equipment for delivery in 2005.

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 resulted in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it became 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

In February 2002, a lawsuit was filed against EWA in the District Court for the Southern District of Ohio, alleging violations of the Worker Adjustment and Retraining Notification Act (the "WARN Act") in connection with employee layoffs and ultimate terminations due to the August 2001 grounding of EWA's airline operations and the shutdown of the airline

operations in December 2001. The court subsequently certified the lawsuit as a class action on behalf of affected employees laid off between August 11 and August 15, 2001. The WARN Act generally requires employers to give 60-days notice, or 60-days pay and benefits in lieu of notice, of any shutdown of operations or mass layoff at a site of employment. The estimated range for potential loss on this matter is zero to approximately $8 million. CNF intends to continue to vigorously defend the lawsuit.

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 U.S. Postal Service ("USPS") for payment under the Priority Mail contract. EWA subsequently entered into a tolling agreement with the government in order to give the parties more time to investigate the allegations. In November 2004, CNF representatives met with the government to discuss the government's allegations, and at that time received certain information relating to the government's investigation. EWA is continuing with its own investigation of the allegations, and as a result, 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 were to ultimately conclude that EWA knowingly submitted false invoices to the USPS.

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

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 a historical and prospective understanding of CNF's results of operations, financial condition and cash flows, including a discussion and analysis of the following:

- Overview of Business
- Results of Operations
- Liquidity and Capital Resources
- Estimates and Critical Accounting Policies
- Other Matters

This discussion and analysis should be read in conjunction with the information included in CNF's 2004 Annual Report on Form 10-K.

Overview of Business

CNF provides transportation and supply chain management services for a wide range of manufacturing, industrial, and retail customers. For financial reporting purposes, CNF is divided into three reporting segments: Con-Way Transportation Services ("Con-Way"), primarily a provider of regional less-than-truckload ("LTL") freight services; MW, a provider of integrated contract logistics solutions; and CNF Other, which includes certain corporate activities and Road Systems, a trailer manufacturer. MW consists of the operating results of Menlo Worldwide Logistics ("Logistics") and Vector, a joint venture with GM that is accounted for as an equity-method investment

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 a freight service center network while Logistics and Vector manage the logistics functions of their customers and primarily utilize third-party transportation providers for the movement of customer shipments.

As more fully discussed under "Results of Operations – Discontinued Operations," CNF and MW in 2004 sold Menlo Worldwide Forwarding ("MWF") to UPS. Accordingly, the results of operations, net assets, and cash flows of the Menlo Worldwide Forwarding ("Forwarding") segment have been segregated and reported as discontinued operations.

Results of Operations

CNF's net income from continuing operations (after preferred stock dividends and income taxes) in the first quarter of 2005 rose 41.7% to $38.9 million ($0.69 per diluted share), due primarily to significantly higher operating income from Con-Way. Net income from continuing operations was offset by a $9.8 million net loss ($0.17 per diluted share) from discontinued operations, which reflects a loss related to the disposition of MWF. The resulting net income available to common shareholders in the first quarter of 2005 was $29.1 million ($0.52 per diluted share), a 19.2% increase from $24.4 million ($0.45 per diluted share) in last year's first quarter.

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

	Three Months Ended March 31,	
	2005	2004
Revenues	$ 947,683	$ 846,920
Operating Income	73,256	55,448
Net Income (Loss)		
Continuing Operations [1, 2]	$ 38,862	$ 27,423
Discontinued Operations [2]	(9,776)	(3,016)
Available to Common Shareholders	$ 29,086	$ 24,407
Diluted Earnings (Loss) per Share		
Continuing Operations	$ 0.69	$ 0.50
Discontinued Operations	(0.17)	(0.05)
Available to Common Shareholders	$ 0.52	$ 0.45

[1] After preferred stock dividends

[2] As required by EITF 87-24, "Allocation of Interest to Discontinued Operations," for periods prior to the disposition of MWF, continuing operations has been allocated general corporate overhead charges that were previously allocated to the discontinued Forwarding segment. These corporate overhead charges of $3.7 million in the first quarter of 2004 were allocated from discontinued operations to Con-Way and Logistics based on segment revenue and capital employed.

Continuing Operations

In the first quarter of 2005, CNF's revenue increased 11.9% to $947.7 million, due to higher revenue at all reporting segments, which benefited from improved economic conditions. Consolidated operating income in the first quarter of 2005 rose 32.1%, on significantly higher operating income from Con-Way and improved operating results from MW. Con-Way's operating income in the first quarter of 2005 increased 31.5% on revenue growth of 11.0%. MW reported higher operating income in the first quarter of 2005 due primarily to an increase in operating income from Vector, partially offset by lower operating income from Logistics. Vector's operating income in the first quarter of 2005 increased $1.6 million to $4.0 million while Logistics reported a 6.4% decrease in operating income.

Other net expense in the first quarter of 2005 increased 3.7% to $7.4 million, due primarily to increases in interest expense and other net non-operating expenses, partially offset by a $3.9 million increase in interest income on cash equivalents and marketable securities. Interest expense in the first quarter of 2005 rose $3.1 million, due largely to the net effect on interest from financing transactions, including the $292.6 million net issuance in April 2004 of 6.7% Senior Debentures and the $128.9 million redemption in June 2004 of 5% Convertible Debentures. Miscellaneous net non-operating expenses in the first quarter of 2005 reflects a $0.6 million decline in the income from corporate-owned life insurance policies that were terminated in the third quarter of 2004 and a $0.3 million decline in foreign exchange gain.

In the first quarter of 2005, the increase in net income from continuing operations (after income taxes and preferred stock dividends) was substantially due to improved operating income on higher revenue. Higher non-operating expense was more than offset by a lower effective tax rate, which declined to 37.9% in the first quarter of 2005 from 39.0% in the first quarter of 2004, due primarily to higher net income and the reversal of reserves on certain tax issues.

Con-Way Transportation Services

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

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
Summary of Operating Results		
Revenues	$ 659,373	$ 593,876
Operating Income	62,933	47,866
Operating Margin	9.5%	8.1%

	2005 vs. 2004
Selected Regional-Carrier Operating Statistics	
Revenue per day	+11.6%
Yield	+4.6
Weight per day	+6.6
Weight per shipment	+4.0

Con-Way's revenue in the first quarter of 2005 rose 11.0% due to a 10.9% increase in revenue from Con-Way's regional carriers and revenue growth of 13.5% from the Con-Way Supply Chain Group, which includes Con-Way NOW, Con-Way Air Express, Con-Way Truckload, and Con-Way Logistics. Beginning in the second quarter of 2005, the Con-Way Logistics business will be integrated with Menlo Worldwide Logistics, as more fully discussed below under "Menlo Worldwide – Logistics." First-quarter revenue per day from the regional carriers in 2005 rose 11.6% from 2004 on a 6.6% increase in weight per day ("weight") and a 4.6% increase in revenue per hundredweight ("yield"). Management believes a portion of the weight improvement in 2005 was from market-share gains, due in part to a spot-quote program that contributed to an increase in the number of shipments in excess of 10,000 pounds. Yield increases in the first quarter of 2005 primarily reflect an increase in fuel surcharges. Excluding fuel surcharges, first quarter yield in 2005 increased 0.7% from 2004. Yields in 2005 also benefited from continued growth in higher-rated interregional joint services and general rate increases in June 2004, but were adversely affected by a 4.0% increase in weight per shipment, which was largely driven by the spot-quote program described above. 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.

Con-Way's operating income in the first quarter of 2005 increased 31.5%, due largely to higher revenue and improved margins from the regional carriers. First-quarter operating income in 2005 was affected by purchased transportation costs, which rose 20.9% from the prior year and increased as a percent of revenue to 14.7% from 13.5%. Fuel costs in the first quarter of 2005 increased 52.0% from the first quarter of 2004, but those higher costs were recovered through the fuel surcharges discussed above. First-quarter employee costs in 2005 increased 4.9% from the prior year due largely to increases in employee headcount, but decreased as a percent of revenue due in part to increased productivity and a decline in employee benefits cost as a percent of revenue.

Menlo Worldwide

The Menlo Worldwide reporting segment consists of the operating results of Logistics and Vector. MW reported first-quarter revenue in 2005 of $282.9 million, an 11.9% increase from 2004. First-quarter operating income for MW was $9.7 million, a 14.9% increase from last year. 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. Accordingly, CNF's Consolidated Statements of Income do not include any revenue from Vector and only MW's proportionate share of the net income from Vector is reported as a reduction of operating expenses.

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

	Three Months Ended March 31,	
	2005	2004
Summary of Operating Results		
Logistics		
Revenues	$ 282,901	$ 252,790
Purchased Transportation	(198,405)	(174,770)
Net Revenues	84,496	78,020
Operating Income	5,653	6,042
Operating Margin	2.0%	2.4%
Vector		
Operating Income	$ 4,035	$ 2,392

Menlo Worldwide - Logistics

Logistics' revenue in the first quarter of 2005 increased 11.9% from the first quarter of 2004, due principally to increases in revenue from carrier-management and warehouse-management services of 10.4% and 17.9%, respectively. 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. Despite double-digit percentage growth in carrier- and warehouse-management services, Logistics' net revenue (revenue less purchased transportation) in the first quarter of 2005 increased 8.3% over last year's first quarter, due largely to a 13.5% increase in purchased transportation costs.

Logistics' operating income in the first quarter of 2005 decreased 6.4% from the first quarter of 2004, reflecting margin declines, which were due primarily to higher purchased transportation costs on carrier-management services, lower customer shipment volumes on transaction-based warehouse-management services and administrative costs related to expansion in international markets. Management will seek to increase margins by renegotiating certain customer and vendor contracts on carrier-management services and reducing costs in line with lower customer shipment volumes on warehouse-management services.

Beginning in the second quarter of 2005, Logistics will integrate the Con-Way Logistics business into its operations. The integration of the two businesses is intended to provide an enterprise solution offering for Logistics' customers that want to use Con-Way as a primary transportation provider. The integration is also expected to expand Con-Way Logistics' multi-client warehousing service to Logistics' larger warehouse network.

Menlo Worldwide - Vector

Operating Results

First-quarter operating income reported from MW's equity investment in Vector increased to $4.0 million in 2005 from $2.4 million in 2004, due primarily to higher operating income earned in GM's international regions, partially offset by a decline in operating income from GM's North America region. Improved operating income in GM's international regions was substantially due to the revised compensation principles in GM's European region, as described below.

North America

In August 2003, the Vector Agreements were amended, primarily to expedite the transition of logistics services in the North America region from GM to Vector, as more fully discussed in Note 3, "Investment in Unconsolidated Joint Venture," of Item 8, "Financial Statements and Supplementary Data," in CNF's 2004 Annual Report on Form 10-K. Prior to the 2003 amendment, agreements pertaining to Vector 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.

Under the amended Vector Agreements, Vector is 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 ABCs. 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 ("volume-based compensation") and, beginning in 2004, can earn additional compensation if certain performance criteria are achieved ("performance-based compensation"). In accordance with GAAP, compensation under the volume-based management fee is recognized as vehicles are shipped while performance-based compensation is recognized on the achievement of specified levels of cost savings, 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. For other special projects in GM's North America region, Vector is compensated under ABCs. CNF expects a declining amount of volume-based compensation in each successive year covered under the amended Vector agreements for North America. CNF does not currently expect to earn performance-based compensation in 2005, except for special projects compensated under ABCs, based primarily on current-year increases in fuel and other transportation costs that CNF believes will prevent the attainment of performance criteria in 2005.

International

Effective January 1, 2005, for the 2005 calendar year, all of the ABCs for GM's European region were amended to compensate Vector with cost reimbursement and a management fee based on vehicle production volumes, rather than through separately approved ABCs. As a result of the amendment, compensation earned from GM's European region in the first quarter of 2005 increased $2.6 million from the same quarter last year. After 2005, Vector's compensation for GM's European region will again be based on separately approved ABCs, unless further amendments are negotiated. The compensation principles for GM's Latin America and Asia/Pacific regions are unaffected by the 2005 amendments in the European region.

Call Right and Put Right

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 any commercialization contracts involving customers other than GM.

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 segment reported first-quarter operating income of $0.6 million in 2005 compared to an operating loss of $0.9 million in 2004. The first quarter of 2005 included a $1.4 million gain from corporate insurance activities, while the same quarter of last year included a $1.1 million operating loss from sales of corporate properties.

<u>Discontinued Operations</u>

Discontinued operations in the periods presented relate to the sale of MWF and to EWA. For the periods presented, the results of operations, net assets, and cash flows of discontinued operations have been segregated from continuing operations, except where otherwise noted. The operating results and net assets of discontinued operations are summarized in Note 2, "Discontinued Operations," of Item 1, "Financial Statements."

Menlo Worldwide Forwarding

Impairment Charge

On October 5, 2004, CNF and Menlo Worldwide, LLC ("MW") entered into a stock purchase agreement with UPS to sell all of the issued and outstanding capital stock of MWF. CNF completed the sale on December 19, 2004, as more fully discussed below. Although the stock purchase agreement was entered into on October 5, 2004, 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. In the process of evaluating several strategic alternatives for MW's Forwarding segment, CNF was approached by UPS in the third quarter of 2004 with interest in acquiring MWF. Accordingly, in the third quarter of 2004, CNF classified MWF as held for sale 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 was based on the agreement to sell MWF, as described below, and primarily represents the estimated write-down to the fair value of MWF's goodwill and long-lived assets, including MWF's accumulated foreign currency translation adjustment, as well as estimated selling costs.

Stock Purchase Agreement

The stock purchase agreement excludes certain assets and liabilities of MWF and includes certain assets and liabilities of CNF or its subsidiaries related to the business conducted by MWF. Among the assets and liabilities so excluded are those related to EWA, and the obligation related to MWF employees covered under CNF's domestic pension, postretirement medical and long-term disability plans. Under the agreement, UPS agreed to pay to CNF an amount equal to MWF's cash position as of December 31, 2004, and to pay the estimated present value of CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans, as agreed to by the parties or, in the absence of such agreement, as determined by an independent actuary. In addition, UPS assumed 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. Under the stock purchase agreement, CNF has agreed to a three-year non-compete covenant that, subject to certain exceptions, will limit CNF's annual air freight and ocean forwarding and/or customs brokerage revenues to $175 million. CNF has also agreed to 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 recognized in future periods as an additional loss from disposal when and if incurred. For additional details, refer to the stock purchase agreement filed as an exhibit to CNF's Form 8-K dated October 5, 2004 and the amendment to the stock purchase agreement filed as an exhibit to CNF's Form 8-K dated December 21, 2004.

Loss on Sale of MWF

Upon completion of the sale of MWF on December 19, 2004, CNF received cash consideration of $150 million, subject to certain post-closing adjustments, including adjustments for cash held by MWF at closing and MWF's net working capital as of closing. In connection with the sale, CNF in 2004 recognized a fourth-quarter loss from disposal of $15.8 million (net of a $3.6 million tax benefit), as the adjusted carrying value of MWF exceeded the cash consideration, including amounts received at closing and expected to be received in the future. Following settlement of the MWF cash balance in March 2005, CNF received cash of $29.4 million and recognized an additional first-quarter loss from disposal of $9.8 million, primarily to recognize the difference between the actual cash received and CNF's estimate of the cash position at December 31, 2004, and to accrue additional estimated transaction costs.

CNF recognized a tax benefit on its losses from the disposal of MWF, which are treated as capital losses for tax purposes. Under current tax law, capital losses can only be used to offset capital gains. CNF does not currently forecast any significant capital gains in the tax carry-forward period. Based in part on the amount of capital gains actually recognized for tax purposes, only $3.6 million of the total disposal-related tax benefit of $48.2 was realizable in 2004, and as a result, the remaining $44.6 million of the recognized tax benefit was fully offset by an equal valuation allowance.

Excluded Assets and Liabilities

As described above, the stock purchase agreement excludes, and CNF has retained, the obligations related to MWF employees covered under certain CNF-sponsored employee benefit plans, including domestic pension, postretirement and long-term disability plans that cover the noncontractual employees and former employees of both continuing and discontinued operations. These plans also include certain pension plans that cover only the current and former employees of the discontinued Forwarding segment (the "Forwarding Plans"). For financial reporting purposes, the prepaid benefit cost of the Forwarding Plans is reported in Assets of Discontinued Operations while the accrued benefit cost related to MWF employees covered under the other legally separate CNF-sponsored plans are reported in Employee Benefits of continuing operations. Under the stock purchase agreement, UPS agreed to pay to CNF the estimated present value of CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans, as agreed to by the parties or, in the absence of such agreement, as determined by an independent actuary. Accordingly, CNF in December 2004

recorded in Other Accounts Receivable a receivable for its estimate of the present value of these employee benefit obligations. As of March 31, 2005, UPS and CNF had not reached agreement as to the amount to be paid by UPS for the employee benefit obligations retained by CNF, and it is possible that the amount ultimately paid will be based upon an estimate prepared by an independent actuary. As more fully discussed below under "Estimates and Critical Accounting Policies," CNF's estimate of the present value of these employee benefit obligations is an actuarial determination that depends upon a number of assumptions and factors. If CNF's estimate is different than the amount actually payable by UPS, that difference would be recognized as a gain or loss from disposal when and if incurred.

The stock purchase agreement also excludes the assets and liabilities of EWA, including restructuring reserves related to its 2001 restructuring plan. EWA's restructuring reserves decreased to $27.4 million at March 31, 2005 from $33.8 million at December 31, 2004, primarily due to settlement of obligations. Restructuring reserves at March 31, 2005 were primarily reported in Liabilities of Discontinued Operations and consisted primarily of CNF's estimated exposure related to the labor matters described below, as well as other estimated remaining restructuring-related obligations.

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.

Liquidity and Capital Resources

Cash and cash equivalents rose to $675.1 million at March 31, 2005 from $386.9 million at December 31, 2004, as $66.4 million provided by operating activities and $261.4 million provided by investing activities significantly exceeded $29.0 million used in financing activities. Cash provided by investing activities primarily reflects a $290.3 decrease in short-term marketable securities, partially offset by capital expenditures of $27.0 million. CNF's cash flows are summarized in the table below.

(Dollars in thousands)	Three Months Ended March 31,	
	2005	2004
Operating Activities		
Net income	$ 31,075	$ 26,429
Discontinued operations	9,776	3,016
Non-cash adjustments (1)	25,611	31,087
	66,462	60,532
Changes in assets and liabilities		
Receivables	(4,459)	(17,745)
Accounts payable and accrued liabilities, excluding accrued incentive compensation	7,391	36,683
Accrued incentive compensation	(38,868)	(6,911)
Income taxes	21,340	16,311
Employee benefits	10,503	14,378
Deferred charges and credits	17,082	4,209
All other changes in assets and liabilities	(13,049)	(27,353)
	(60)	19,572
Net Cash Provided by Operating Activities	66,402	80,104
Net Cash Provided by Investing Activities	261,360	22,915
Net Cash Used in Financing Activities	(29,045)	(23,625)
Net Cash Provided by Continuing Operations	298,717	79,394
Net Cash Provided by (Used in) Discontinued Operations	(10,557)	21,163
Increase in Cash and Cash Equivalents	$ 288,160	$ 100,557

(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

Operating Activities

Cash flow from continuing operations in the first quarter of 2005 was $66.4 million, a $13.7 million decline from last year's first quarter. Net income before non-cash items in the first quarter of 2005 exceeded the same quarter of last year; however, in 2005, that improvement was more than offset by a larger first-quarter decline in accrued incentive compensation. Accrued incentive compensation decreased $38.9 million in the first quarter of 2005, while the prior-year first quarter reflects a $6.9 million reduction. In both periods, 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 both 2005 and 2004, first-quarter payments for incentive compensation exceeded expense accruals. Receivables in the first quarter of 2005 used $4.5 million as a revenue-driven increase in receivables was partially offset by $29.4 million received from UPS in connection with the sale of MWF and a decline in CNF's receivable for income tax refunds. CNF's income tax receivable, as reported in Other Receivables in CNF's Consolidated Balance Sheets, decreased based on taxable income. Cash used in

accrued incentive compensation and receivables was partially offset by positive cash flows from a $17.1 million decline in deferred charges, which primarily reflects a reduction in MW's investment in Vector. MW's investment in Vector consists of MW's proportionate share of Vector's undistributed earnings and any affiliate receivable or payable between CNF and Vector, as more fully discussed in Note 4, "Investment in Unconsolidated Joint Venture," in Item 1, "Financial Statements." In the first quarter of 2005, Vector transferred excess cash to CNF, which increased CNF's affiliate payable to Vector and contributed to a $10.2 million decline in MW's investment in Vector.

Investing Activities

Investing activities in the first quarter of 2005 provided $261.4 million compared to $22.9 million provided in the first quarter of 2004. In both periods presented, investing activities consisted primarily of capital expenditures and the fluctuations in short-term marketable securities. Capital expenditures in the first quarter of 2005 increased $15.2 million from the first quarter of 2004 due substantially to expenditures at Con-Way, which increased its tractor and trailer acquisitions to $16.2 million in the first quarter of 2005 from $6.7 million in the first quarter of 2004. Investments in marketable securities decreased in the first quarter of 2005 and 2004 by $290.3 million and $37.1 million, respectively, primarily from the conversion of auction-rate securities into cash.

Financing Activities

Financing activities in the first quarter of 2005 used cash of $29.0 million compared to $23.6 million used in the first quarter of 2004. In the first quarter of 2005, cash used in financing activities includes $32.3 million use for the repurchase of common stock under CNF's common stock repurchase program described below. Financing activities in both periods presented also reflect dividend payments and scheduled principal payments for the Thrift and Stock Plan notes guaranteed by CNF. Cash provided by the exercise of stock options increased to $26.1 million in the first quarter of 2005 from $0.4 million in the same quarter last year, due primarily to an increase in the market price for CNF's common stock.

In January 2005, the Board of Directors authorized the repurchase of up to $300 million in CNF's common stock from time to time during the next two years in open market purchases and privately negotiated transactions. CNF currently estimates it will repurchase approximately $150 million of CNF's common stock annually in 2005 and 2006.

CNF has a $400 million revolving credit facility that matures on March 11, 2010. The revolving credit facility is available for cash borrowings and for the issuance of letters of credit up to $400 million. At March 31, 2005, no borrowings were outstanding under the facility and $189.9 million of letters of credit were outstanding, leaving $210.1 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 $120.0 million at March 31, 2005, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of $39.9 million was outstanding under these facilities. Of the total letters of credit outstanding at March 31, 2005, $219.4 million provided collateral for CNF workers' compensation and vehicular self-insurance programs. See "Other Matters – Forward-Looking Statements" below, and Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," of CNF's 2004 Annual Report on Form 10-K for additional information concerning CNF's $400 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"). CNF applies the recognition and measurement criteria of GAAP in reporting the effect of its pension plans in its consolidated financial statements. However, pension funding requirements are determined by ERISA rather than GAAP. CNF currently estimates that it will contribute $75 million in 2005, composed of a $30 million payment made in the second quarter and $45 million of payments anticipated in the third quarter. CNF also made defined benefit pension plan contributions of $90.8 million in 2004, $75.0 million in 2003, and $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.

Contractual Cash Obligations

CNF's contractual cash obligations as of December 31, 2004 are summarized in CNF's 2004 Annual Report on Form 10-K under Item 7, "Management's Discussion and Analysis - Liquidity and Capital Resources - Contractual Cash Obligations." In the first quarter of 2005, there have been no material changes in CNF's contractual cash obligations outside the ordinary course of business.

At March 31, 2005, Con-Way was obligated under purchase commitments to acquire $70.9 million of revenue equipment for delivery in 2005. CNF currently anticipates capital expenditures of approximately $235 million in 2005, including its obligations under purchase commitments described above.

Other

CNF's ratio of total debt to capital decreased to 46.8% at March 31, 2005 from 47.9% at December 31, 2004, due primarily to the increase in retained earnings resulting from net income earned in the first quarter of 2005.

Discontinued Operations

On December 19, 2004, CNF completed the sale of MWF to UPS for $150 million in cash, subject to adjustment for cash held by MWF at closing and the net capital of MWF as of closing. In March 2005, CNF received $29.4 million from UPS for the reimbursable cash held by MWF at closing, with no adjustment for net capital.

As more fully discussed under " Results of Operations – Discontinued Operations," UPS agreed to pay to CNF an amount equal to CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans, as agreed to by parties or, in the absence of such agreement, as determined by an independent actuary. Accordingly, CNF in December 2004 recorded in Other Accounts Receivable a receivable for its estimate of the present value of these employee benefit obligations. As of March 31, 2005, UPS and CNF had not reached agreement as to the amount to be paid by UPS for the employee benefit obligations retained by CNF, and it is possible that the amount ultimately paid will be based upon an estimate prepared by an independent actuary.

Estimates and Critical Accounting Policies

The preparation of financial statements in accordance with accounting principles generally accepted in the U.S. requires management to adopt accounting policies and make significant judgments and estimates. In many cases, there are alternative policies or estimation techniques that could be used. CNF maintains a process to evaluate the appropriateness of its accounting policies and estimation techniques, including discussion with and review by the Audit Committee of its Board of Directors and its independent auditors. Accounting policies and estimates may require adjustment based on changing facts and circumstances and actual results could differ from estimates. The policies and estimates discussed below include those that are most critical to the financial statements.

Self-Insurance Reserves

CNF uses a combination of insurance and self-insurance programs to provide for the costs of medical, casualty, liability, vehicular, cargo and workers' compensation claims. In the measurement of these costs, CNF considers historical claims experience, medical costs, demographic and severity factors and other assumptions. Self-insurance accruals are developed based on the estimated, undiscounted cost of claims, including those claims incurred but not reported as of the balance sheet date. The long-term portion of self-insurance accruals relates primarily to workers' compensation and vehicular claims that are payable over several years. The actual costs may vary from estimates.

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.

Disposition and Restructuring Estimates

As more fully discussed under "Results of Operations – Discontinued Operations," CNF's management made significant estimates and assumptions in connection with the restructuring of EWA in 2001 and the disposition of MWF in 2004. Actual results could differ from estimates, which could affect related amounts reported in the financial statements.

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 reasonably estimable.

Defined Benefit Pension Plans

CNF has defined benefit pension plans that cover employees and former 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 and market fluctuations, and the rate of compensation increase.

CNF assumed a discount rate of 6.25% for purposes of calculating its pension expense in both 2005 and 2004. CNF adjusts its discount rate periodically by taking into account changes in high-quality corporate bond yields and the guidance of its outside

actuaries. In determining the appropriate discount rate, CNF in 2004 began utilizing a bond model that incorporates expected cash flows of plan obligations. The bond model uses a selected portfolio of Moody's Aa-or-better rated bonds with cash flows and maturities that match the projected benefit payments of CNF's pension plans. CNF's discount rate is equal to the yield on the portfolio of bonds, which will typically exceed the Moody's Aa corporate bond index due to the long duration of expected benefit payments from CNF's plan. If all other factors were held constant, a 0.25% decline in the discount rate would result in an estimated $6 million increase in 2005 annual pension expense.

CNF adjusts its assumed rate of return on plan assets based on historical returns and current market expectations. The rate of return is based on a mean-expected 20-year return on the current asset allocation and the effect of actively managing the plan, net of fees and expenses. For purposes of calculating its pension expense, CNF assumed a rate of return on plan assets of 8.5% in 2005, a decline from an assumption of 9.0% in 2004. Using year-end plan asset values, a 0.5% decline in the assumed rate of return on plan assets would result in an estimated $4 million increase in 2005 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 reduces the annual pension expense in 2005 by approximately $6 million from the annual pension expense in 2004.

Goodwill and Other Long-Lived Assets

CNF performs an impairment analysis of long-lived assets whenever circumstances indicate that the carrying amount may not be recoverable. For assets that are to be held and used, an impairment charge is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than carrying value. If impairment exists, a charge is recognized for the difference between the carrying value and the fair value. Fair values are determined using quoted market values, discounted cash flows, or external appraisals, as applicable. Assets held for disposal are carried at the lower of carrying value or estimated net realizable value.

Other Matters

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 computer facilities and its administrative and technology employees are located at the Administrative and Technology ("AdTech") Center, a centralized shared-service facility. 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 Department of Homeland Security and the Department of Transportation. 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, results of operations, and cash flows.

Employees

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 December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), a revision of SFAS 123 that supersedes APB 25 and its related implementation guidance. SFAS 123R eliminates the alternative to use APB 25's intrinsic-value method of accounting that was provided in SFAS 123 as originally issued, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) over the period during which an employee is required to provide service in exchange for the award.

SFAS 123R also amends FASB Statement No. 95, "Statement of Cash Flows," to require that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as financing cash flows, rather than as a reduction of taxes paid. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated because they depend on factors that cannot be predicted, including when employees exercise stock options.

The effective date of SFAS 123R is as of the beginning of the first interim or annual reporting period of the first fiscal year beginning on or after June 15, 2005, which for CNF is the first quarter of 2006. CNF is currently assessing the impact that SFAS 123R will have on its financial statements.

Forward-Looking Statements

Certain statements included herein constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to a number of risks and uncertainties, and should not be relied upon as predictions of future events. All statements other than statements of historical fact are forward-looking statements, including any projections of earnings, revenues, weight, yield, volumes, income or other financial or operating items, any statements of the plans, strategies, expectations or objectives of CNF or its management for future operations or other future items, any statements concerning proposed new products or services, any statements regarding CNF's estimated future contributions to pension plans, any statements as to the adequacy of reserves, any statements regarding the outcome of any claims that may be brought against CNF by CFC's multi-employer pension plans or 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 that CNF may, from time to time, be required to record impairment charges for long-lived assets;

- the possibility of defaults under CNF's $400 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, 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;

- 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 sale of MWF, including CNF's obligation to indemnify UPS for certain losses in connection with the sale;

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, fuel prices, and foreign currency exchange rates. CNF enters into derivative financial instruments only in circumstances that warrant the hedge of an underlying asset, liability or future cash flow against exposure to some form of interest rate, commodity or currency-related risk. Additionally, the designated hedges should have high correlation to the underlying exposure such that fluctuations in the value of the derivatives offset reciprocal changes in the underlying exposure.

CNF is subject to the effect of interest rate fluctuations on the fair value of its long-term debt. Based on the fixed interest rates and maturities of its long-term debt, fluctuations in market interest rates would not significantly affect operating results or cash flows, but may have a material effect on the fair value of long-term debt, as more fully discussed in Note 5, "Debt and Other Financing Arrangements," in Item 8, "Financial Statements and Supplementary Data," in CNF's 2004 Annual Report on Form 10-K.

CNF has market risk for changes in the price of diesel fuel. When fuel costs exceed certain specified thresholds, CNF seeks to charge customers a fuel surcharge that is adjusted weekly based on a national index. Fuel surcharges are common in the transportation industry and generally have been accepted by customers. However, although CNF's risk associated with fuel price increases is currently eliminated by revenue from fuel surcharges, competitive pressures may limit CNF's ability to continue to maintain or increase its fuel surcharges in response to rising fuel prices. In addition, the relationship between revenue recognized from CNF's fuel surcharges and fuel costs incurred by CNF may vary, and as a result, fluctuations in the market price of fuel may have a positive or negative effect on CNF's operating margins.

The assets and liabilities of CNF's foreign subsidiaries are denominated in foreign currencies, which create exposure to changes in foreign currency exchange rates. However, the market risk related to foreign currency exchange rates is not material to CNF's financial condition, results of operations, or cash flows.

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 CNF's disclosure controls and procedures are effective as of the end of such period.

(b) Internal Control Over Financial Reporting.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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."

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. Menlo Worldwide Forwarding, Inc. ("MWF, Inc."), EWA and CNF Inc. were named as defendants in wrongful death lawsuits brought by the families of the three deceased crew members, seeking compensatory and punitive damages. The lawsuits brought by two of the three families have now been settled, with each settlement fully covered by insurance. The parties to the lawsuit filed by the family of the third deceased crew member have concluded settlement negotiations on all material terms of settlement, but the final documents have not yet been signed. The settlement of that lawsuit also will be fully covered by insurance.

EWA, MWF, Inc., MW 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 is vigorously defending the lawsuit.

In 2003, prior to the sale of MWF to UPS, 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. CNF was subsequently advised by the Department of Justice that it is not pursuing an investigation of this matter. CNF has conducted an internal investigation of approximately 40 other MWF, Inc. international locations and has shared the results of the internal investigation with the SEC. The internal investigation revealed that Menlo Worldwide Forwarding (Thailand) Limited, a Thailand-based joint venture, also may have made certain payments in violation of the Foreign Corrupt Practices Act. MWF, Inc. made certain personnel changes and instituted policies and procedures in Thailand designed to prevent such payments from being made in the future. In December 2004, CNF completed the sale of its air freight forwarding business (including the stock of MWF, Inc., Emery Transnational and Menlo Worldwide Forwarding (Thailand) Limited) to an affiliate of UPS. In connection with that sale, CNF agreed to indemnify UPS for certain losses resulting from violations of the Foreign Corrupt Practices Act. CNF is currently unable to predict whether it will be required to make payments under the indemnity.

Certain current and former officers of CNF, EWA and MWF, Inc. and certain current and former directors of CNF were 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 alleged breach of fiduciary duty, gross mismanagement, waste and abuse of control relating to the management, control and operation of EWA and MWF, Inc. CNF was named only as a nominal defendant and no relief was sought against it. CNF maintains insurance for the benefit of its officers and directors, and the applicable insurance carriers were 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 on February 4, 2005, the Court gave final approval of the settlement. Under terms of the non-monetary settlement, the individually named defendants expressly denied any wrongdoing or liability. The Court's final judgment of dismissal with prejudice was subject to a 60-day appeals period that passed with no appeal filed.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides a summary of shares repurchased by the CNF during the quarter ended March 31, 2005:

	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program [1]	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program [1]
January 1, 2005 – January 31, 2005	14,000	$ 46.91	14,000	$ 299,343,254
February 1, 2005 – February 28, 2005	449,000	$ 45.52	449,000	$ 278,902,912
March 1, 2005 – March 31, 2005	231,000	$ 48.34	231,000	$ 267,735,939
Total	694,000	$ 46.49	694,000	$ 267,735,939

[1] In January 2005, CNF's Board of Directors authorized a two-year stock repurchase program providing for the repurchase of up to $300 million in common stock in open market purchases and privately negotiated transactions.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Annual Shareholders Meeting held April 19, 2005, the following proposals were presented with the indicated voting results:

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

Nominee	For	Against
Michael J. Murray	48,620,325	967,658
Robert D. Rogers	47,994,049	1,593,934
William J. Schroeder	48,615,357	972,626
Chelsea C. White III	48,607,301	980,682

The following directors did not stand for election and continued in office as directors after the Annual Shareholders Meeting: W. Keith Kennedy, Jr., John J. Anton, William R. Corbin, Margaret G. Gill, Robert Jaunich II, Admiral Henry H. Mauz, Jr., John C. Pope, Peter W. Stott, and Robert P. Wayman.

The appointment of KPMG LLP as independent public accountants for the year 2005 was approved by the following vote: For 48,725,773; Against 657,310; Abstain 204,900.

ITEM 6. EXHIBITS

Exhibit No.

(3) Articles of Incorporation and By-laws

- 3.1 CNF Inc. Bylaws, as amended April 25, 2005 (Exhibit 3.1 to CNF's Report on Form 8-K filed on April 28, 2005*)

(10) Material Contracts

- 10.1 CNF Inc. 1997 Equity and Incentive Plan, as amended as of January 27, 2003 (Exhibit A to CNF's Proxy Statement dated March 24, 2003.*#)
- 10.2 CNF Inc. Amended and Restated 2003 Equity Incentive Plan for Non-Employee Directors#.
- 10.3 Summary of Certain Compensation Arrangements#.
- 10.4 Form of Restricted Stock Award Agreement for directors of CNF (Exhibit 99.1 to CNF's Report on Form 8-K filed on April 28, 2005*#)
- 10.5 CNF Inc. Nonqualified Executive Benefit Plans Trust Agreement 2004 Restatement dated as of December 30, 2004 between CNF Inc. and Wachovia Bank, NA#
- 10.6 CNF Inc. Nonqualified Director Benefit Plans Trust Agreement 2004 Restatement dated as of December 30, 2004 between CNF Inc. and Wachovia Bank, NA#

(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

* Previously filed with the Securities and Exchange Commission and incorporated herein by reference.
# Designates a contract or compensation plan for Management or Directors.

SIGNATURES

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

CNF Inc.
(Registrant)

May 9, 2005

/s/Kevin Schick
Kevin Schick
Senior Vice President and
Chief Financial Officer