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

FORM 10-Q

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

For the quarterly period ended September 30, 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

2855 Campus Drive, Suite 300, San Mateo, California 94403
Telephone Number (650) 378-5200

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 ☐

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

Number of shares of Common Stock, $.625 par value,
outstanding as of October 31, 2005: 52,327,232

CNF INC.
FORM 10-Q
Quarter Ended September 30, 2005

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

ASSETS	September 30, 2005	December 31, 2004
Current Assets		
Cash and cash equivalents	$ 641,931	$ 386,897
Marketable securities	156,050	446,300
Trade accounts receivable, net	536,455	425,783
Other accounts receivable (Note 2)	10,095	134,577
Operating supplies, at lower of average cost or market	19,103	16,665
Prepaid expenses	43,394	48,092
Deferred income taxes	58,274	51,453
Assets of discontinued operations (Note 2)	9,226	5,128
Total Current Assets	1,474,528	1,514,895
Property, Plant and Equipment, at cost		
Land	149,368	142,857
Buildings and leasehold improvements	635,791	618,698
Revenue equipment	774,834	677,499
Other equipment	220,994	210,102
	1,780,987	1,649,156
Accumulated depreciation and amortization	(838,914)	(789,835)
	942,073	859,321
Other Assets		
Deferred charges and other assets (Note 4)	40,275	56,618
Capitalized software, net	45,648	50,347
Assets of discontinued operations (Note 2)	16,027	15,220
	101,950	122,185
Total Assets	$ 2,518,551	$ 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	September 30, 2005	December 31, 2004
Current Liabilities		
Accounts payable	$ 267,764	$ 252,867
Accrued liabilities	256,277	226,437
Self-insurance accruals	87,098	86,095
Current maturities of long-term debt	15,030	112,727
Income taxes payable	15,540	-
Liabilities of discontinued operations (Note 2)	35,729	34,705
Total Current Liabilities	677,438	712,831
Long-Term Liabilities		
Long-term debt and guarantees	582,714	601,344
Self-insurance accruals	104,389	102,512
Employee benefits (Note 5)	231,408	245,989
Other liabilities and deferred credits	21,698	20,296
Deferred income taxes	9,366	29,200
Liabilities of discontinued operations (Note 2)	759	6,862
Total Liabilities	1,627,772	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 658,073 and 742,995 shares, respectively	7	7
Additional paid-in capital, preferred stock	100,086	113,002
Deferred compensation, Thrift and Stock Plan	(42,686)	(49,117)
Total Preferred Shareholders' Equity	57,407	63,892
Common stock, $.625 par value; authorized 100,000,000 shares; issued 60,530,015 and 58,544,254 shares, respectively	37,850	36,590
Additional paid-in capital, common stock	503,274	429,134
Retained earnings	569,450	426,300
Deferred compensation, restricted stock	(3,751)	(5,744)
Cost of repurchased common stock (Note 7) (8,340,812 and 6,364,868 shares, respectively)	(258,357)	(157,069)
Total Common Shareholders' Equity	848,466	729,211
Accumulated Other Comprehensive Loss (Note 6)	(15,094)	(15,736)
Total Shareholders' Equity	890,779	777,367
Total Liabilities and Shareholders' Equity	$ 2,518,551	$ 2,496,401

The accompanying notes are an integral part of these statements.

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

	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues	$ 1,099,151	$ 973,619	$ 3,080,709	$ 2,744,921
Costs and Expenses				
Operating expenses (Note 4)	884,255	792,075	2,471,555	2,231,920
Selling, general and administrative expenses	82,471	76,660	246,195	230,888
Depreciation	29,392	26,449	83,110	76,951
	996,118	895,184	2,800,860	2,539,759
Operating Income	103,033	78,435	279,849	205,162
Other Income (Expense)				
Investment income	5,668	2,112	15,830	4,247
Interest expense	(8,426)	(10,959)	(28,580)	(28,306)
Miscellaneous, net	(732)	(876)	(4,348)	(5,401)
	(3,490)	(9,723)	(17,098)	(29,460)
Income from Continuing Operations Before Taxes	99,543	68,712	262,751	175,702
Income Tax Provision (Note 9)	35,070	26,798	89,271	68,524
Income from Continuing Operations	64,473	41,914	173,480	107,178
Discontinued Operations, net of tax (Note 2)				
Gain (Loss) from Disposal	3,335	(260,490)	(3,490)	(260,490)
Income from Discontinued Operations	-	4,444	-	3,114
	3,335	(256,046)	(3,490)	(257,376)
Net Income (Loss)	67,808	(214,132)	169,990	(150,198)
Preferred Stock Dividends	1,816	2,075	5,841	6,119
Net Income (Loss) Applicable to Common Shareholders	$ 65,992	$ (216,207)	$ 164,149	$ (156,317)
Weighted-Average Common Shares Outstanding (Note 1)				
Basic	52,081,891	50,670,398	52,198,251	50,150,987
Diluted	55,966,289	55,408,636	56,259,541	56,527,092
Earnings (Loss) per Common Share (Note 1)				
Basic				
Net Income from Continuing Operations	$ 1.20	$ 0.79	$ 3.21	$ 2.02
Gain (Loss) from Disposal, net of tax	0.07	(5.15)	(0.07)	(5.20)
Income from Discontinued Operations, net of tax	-	0.09	-	0.06
Net Income (Loss) Applicable to Common Shareholders	$ 1.27	$ (4.27)	$ 3.14	$ (3.12)
Diluted				
Net Income from Continuing Operations	$ 1.12	$ 0.72	$ 2.99	$ 1.83
Gain (Loss) from Disposal, net of tax	0.06	(4.70)	(0.06)	(4.61)
Income from Discontinued Operations, net of tax	-	0.08	-	0.06
Net Income (Loss) Applicable to Common Shareholders	$ 1.18	$ (3.90)	$ 2.93	$ (2.72)

The accompanying notes are an integral part of these statements

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

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Cash and Cash Equivalents, Beginning of Period	$ 386,897	$ 38,183
Operating Activities		
Net income (loss)	169,990	(150,198)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Discontinued operations, net of tax	3,490	257,376
Depreciation and amortization, net of accretion	91,308	86,957
Increase (Decrease) in deferred income taxes	(17,043)	14,847
Amortization of deferred compensation	7,791	8,770
Provision for uncollectible accounts	3,626	3,894
Equity in earnings of joint venture	(10,833)	(8,079)
Loss (Gain) from sales of property and equipment, net	(438)	159
Changes in assets and liabilities:		
Receivables	(109,775)	(67,612)
Prepaid expenses	4,698	1,075
Accounts payable	16,019	29,819
Accrued incentive compensation	(1,312)	54,322
Accrued liabilities, excluding accrued incentive compensation	28,944	30,553
Self-insurance accruals	2,880	(4,645)
Income taxes	61,379	30,974
Employee benefits	(39,807)	(43,504)
Deferred charges and credits	26,744	71,562
Other	(5,444)	(7,314)
Net Cash Provided by Operating Activities	232,217	308,956
Investing Activities		
Capital expenditures	(168,133)	(110,111)
Software expenditures	(6,314)	(9,209)
Proceeds from sales of property and equipment, net	3,756	5,043
Proceeds from sale of discontinued operations	108,366	-
Net decrease (increase) in marketable securities	290,250	(65,110)
Net Cash Provided by (Used in) Investing Activities	227,925	(179,387)
Financing Activities		
Net proceeds from issuance of long-term debt	-	292,587
Repayment of long-term debt and guarantees	(112,722)	(142,919)
Proceeds from exercise of stock options	56,844	25,074
Payments of common dividends	(15,782)	(15,153)
Payments of preferred dividends	(9,664)	(9,941)
Repurchases of common stock	(111,562)	-
Net Cash Provided by (Used in) Financing Activities	(192,886)	149,648
Net Cash Provided by Continuing Operations	267,256	279,217
Net Cash Used in Discontinued Operations	(12,222)	(3,891)
Increase in Cash and Cash Equivalents	255,034	275,326
Cash and Cash Equivalents, End of Period	$ 641,931	$ 313,509
Supplemental Disclosure		
Cash paid for income taxes, net	$ 40,916	$ 24,824
Cash paid for interest, net of amounts capitalized	$ 27,470	$ 19,692

The accompanying notes are an integral part of these statements

CNF INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Numerator:				
Continuing operations (after preferred stock dividends), as reported	$ 62,657	$ 39,839	$ 167,639	$ 101,059
Add-backs:				
Dividends on Series B preferred stock, net of replacement funding	269	303	830	954
Interest expense on convertible subordinated debentures, net of trust dividend income	--	--	--	1,590
Continuing operations	62,926	40,142	168,469	103,603
Discontinued operations	3,335	(256,046)	(3,490)	(257,376)
Applicable to common shareholders	$ 66,261	$ (215,904)	$ 164,979	$ (153,773)
Denominator:				
Weighted-average common shares outstanding	52,081,891	50,670,398	52,198,251	50,150,987
Stock options and restricted stock	786,186	1,221,014	963,078	1,122,770
Series B preferred stock	3,098,212	3,517,224	3,098,212	3,517,224
Convertible subordinated debentures	--	--	--	1,736,111
	55,966,289	55,408,636	56,259,541	56,527,092
Earnings (Loss) per Diluted Share:				
Continuing operations	$ 1.12	$ 0.72	$ 2.99	$ 1.83
Discontinued operations	0.06	(4.62)	(0.06)	(4.55)
Applicable to common shareholders	$ 1.18	$ (3.90)	$ 2.93	$ (2.72)

For the nine months ended September 30, 2004, diluted shares reflect the effect of convertible subordinated debentures, which were redeemed on June 1, 2004.

Stock-Based Compensation

Employees 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 the market prices of the underlying stock on the dates of grant.

The table below 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. For purposes of this pro-forma disclosure, the value of the options is estimated using a Black-Scholes option pricing model and amortized ratably over the vesting periods. Because the estimated value is determined as of the date of grant, the actual value ultimately realized by the employee may be significantly different.

(Dollars in thousands, except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss) applicable to common shareholders, as reported	$ 65,992	$ (216,207)	$ 164,149	$ (156,317)
Stock-based compensation cost included in reported income, net of tax	434	27	829	1,437
Additional compensation cost, net of tax, that would have been included in net income (loss) if the fair-value method had been applied	(1,407)	(3,506)	(4,570)	(8,349)
Adjusted net income (loss) as if the fair-value method had been applied	$ 65,019	$ (219,686)	$ 160,408	$ (163,229)
Earnings (loss) per share:				
Basic:				
As reported	$ 1.27	$ (4.27)	$ 3.14	$ (3.12)
Adjusted	$ 1.25	$ (4.34)	$ 3.07	$ (3.25)
Diluted:				
As reported	$ 1.18	$ (3.90)	$ 2.93	$ (2.72)
Adjusted	$ 1.17	$ (3.96)	$ 2.87	$ (2.84)

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.

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. In the adoption of SFAS 123R, CNF has concluded that it will continue its use of the Black-Scholes model for estimating the fair value of stock option grants and will apply the modified prospective transition method to all past share-based awards outstanding and unvested as of the effective adoption date of January 1, 2006. Under the modified prospective transition method, CNF will recognize the associated expense over the remaining vesting period based on the fair values previously determined and disclosed as part of the pro-forma disclosures presented above. The estimated annual compensation expense related to these unvested stock options in 2006 is approximately $0.06 per diluted common share. However, the calculation of total compensation expense for share-based awards after the effective date of SFAS 123R cannot be known at this time as it is affected by the number of future shares awarded, and it may be different from the calculation of pro-forma compensation expense under SFAS 123, as presented in the table above.

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. Accordingly, CNF 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.

Reclassification

Certain amounts in the prior-period financial statements have been reclassified to conform to the current-period presentation, including the reclassification in the Consolidated Statement of Cash Flows of the $29.4 million first-quarter payment from the UPS that is more fully discussed below in Note 2, "Discontinued Operations." In the nine months ended September 30, 2005, the first-quarter payment has been reclassified to investing activities from operating activities, where it was reported in CNF's 2005 first- and second-quarter reports on Form 10-Q.

2. Discontinued Operations

Discontinued operations in the periods presented relate to the sale of MWF, to the shut-down of EWA and its terminated Priority Mail contract with the U.S. Postal Service ("USPS"), and to the spin-off of Consolidated Freightways Corporation ("CFC"). 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 in 2004, continuing operations has been allocated general corporate overhead charges that were previously allocated to the discontinued Forwarding segment. These corporate overhead charges of $2.8 million in the third quarter and $11.0 million in the first nine months of 2004 were allocated from discontinued operations to Con-Way Transportation Services ("Con-Way") and Menlo Worldwide Logistics ("Logistics") based on segment revenue and capital employed.

Results of discontinued operations are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Revenues	$ --	$ 558,231	$ --	$ 1,582,996
Income from Discontinued Operations				
MWF				
Income before income taxes	--	7,285	--	5,104
Income tax provision	--	(2,841)	--	(1,990)
	$ --	$ 4,444	$ --	$ 3,114
Gain (Loss) from Disposal, net of tax				
MWF	$ 8,967	$ (260,490)	$ 2,824	$ (260,490)
EWA	(7,192)	--	(7,874)	--
CFC	1,560	--	1,560	--
	$ 3,335	$ (260,490)	$ (3,490)	$ (260,490)

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)	September 30, 2005	December 31, 2004
Assets		
Current assets	$ 9,226	$ 5,128
Prepaid employee benefits and long-lived assets	16,027	15,220
Total Assets	25,253	20,348
Liabilities		
Accounts payable and accrued liabilities	35,078	33,243
Other	651	1,462
Current Liabilities	35,729	34,705
Long-term liabilities	759	6,862
Total Liabilities	36,488	41,567
Net Liabilities	$ 11,235	$ 21,219

MWF

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 Menlo Worldwide'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 through CNF's 2007 fiscal year. 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.

Disposition 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 net 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. As a result of additional adjustments in its estimated disposition loss, CNF in 2005 reported a $3.6 million second-quarter net gain and a $9.0 million third-quarter net gain, primarily to recognize an increase in its estimate of deferred tax assets associated with employee benefit obligations retained by CNF, as more fully discussed below under "- Excluded Assets and Liabilities."

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. Since CNF did not forecast any significant taxable capital gains in the tax carry-forward period, the $41.0 million cumulative disposal-related tax benefit at December 31, 2004 was fully offset by a valuation allowance of an equal amount. In 2005, the cumulative disposal-related tax benefit and the associated valuation allowance declined to $29.0 million at September 30, 2005 due primarily to the third-quarter sale-related proceeds received from UPS and revisions to the tax effect of sale-related estimates, partially offset by the first-quarter disposal-related capital loss.

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 (the "Reimbursable Plans.") Accordingly, CNF in December 2004 recorded in Other Accounts Receivable a receivable for its estimate of the present value of the retained obligations of the Reimbursable Plans. Under an agreement reached in August 2005, UPS paid $79.0 million to CNF for the agreed-upon estimated present value of the retained obligations of the Reimbursable Plans. The carrying value of these obligations at September 30, 2005 was equal to the cash reimbursement from UPS. If, on CNF's annual November 30 actuarial measurement date, the present value estimated by an independent actuary is different than the carrying value, that difference would be recognized as a gain or loss from disposal in the fourth quarter of 2005.

EWA

The results of EWA relate to the cessation of its air-carrier operations in 2001 and to the termination of its Priority Mail contract with the USPS in 2000. In 2005, EWA recognized net losses of $0.6 million in the second quarter and $7.2 million in the third quarter, due primarily to increases in the estimated exposure for litigation and restructuring-related obligations. EWA's estimated loss reserves increased to $35.1 million at September 30, 2005 from $33.8 million at December 31, 2004 due primarily to the third-quarter loss described above, partially offset by the cash settlement of restructuring-related obligations. EWA's remaining loss reserves at September 30, 2005 are reported in Liabilities of Discontinued Operations and consisted mostly of CNF's estimated exposure related to the labor matters described below, and other litigation-related losses.

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"), Menlo Worldwide, and CNF Other. Menlo Worldwide 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 third quarter of 2004 were $2.4 million and $0.4 million, respectively, and in the first nine months of 2004, were $9.6 million and $1.4 million, respectively.

In April 2005, Con-Way Logistics was integrated with Logistics. As a result, for the periods presented, the operating results of Con-Way Logistics have been reclassified to conform to the current-period presentation.

Financial Data

Management evaluates segment performance primarily based on revenue and operating income (loss), except for Vector, which is evaluated based on MW's proportionate share of Vector's income before taxes. Accordingly, interest expense, investment income and other non-operating items 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. Intersegment revenue and related operating income have been eliminated to reconcile to consolidated revenue and operating income.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
External Revenues				
Con-Way Transportation Services	$ 741,366	$ 666,143	$ 2,095,630	$ 1,885,484
Menlo Worldwide Logistics	354,797	305,479	973,782	856,234
CNF Other	2,988	1,997	11,297	3,203
	$ 1,099,151	$ 973,619	$ 3,080,709	$ 2,744,921
Intersegment Revenue				
Con-Way Transportation Services	$ 25,490	$ 13,491	$ 57,412	$ 36,692
Menlo Worldwide Logistics	--	38	--	241
CNF Other	15,275	7,524	36,234	20,188
	$ 40,765	$ 21,053	$ 93,646	$ 57,121
Total Revenues before Intersegment Eliminations				
Con-Way Transportation Services	$ 766,856	$ 679,634	$ 2,153,042	$ 1,922,176
Menlo Worldwide Logistics	354,797	305,517	973,782	856,475
CNF Other	18,263	9,521	47,531	23,391
Intersegment Revenue Eliminations	(40,765)	(21,053)	(93,646)	(57,121)
	$ 1,099,151	$ 973,619	$ 3,080,709	$ 2,744,921
Operating Income (Loss)				
Con-Way Transportation Services	$ 94,403	$ 70,661	$ 253,288	$ 183,451
Menlo Worldwide				
Logistics	7,889	5,710	18,553	16,045
Vector	4,220	2,699	13,196	8,079
	12,109	8,409	31,749	24,124
CNF Other	(2,638)	(635)	(2,825)	(2,413)
	$ 103,874	$ 78,435	$ 282,212	$ 205,162
Reconciliation of segments to consolidated amount:				
Income tax related to Vector, an equity-method investment (Note 4)	(841)	--	(2,363)	--
	$ 103,033	$ 78,435	$ 279,849	$ 205,162

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 Menlo Worldwide, LLC ("MW") owns a majority interest in Vector, MW's portion of Vector's operating results are reported in the Menlo Worldwide 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. In the United States, the joint venture partners are responsible for income taxes applicable to their share of Vector's U.S. federal taxable income. Accordingly, MW's portion of U.S federal income taxes on Vector's domestic income is reported in CNF's tax provision. CNF's foreign tax credits related to Vector's foreign income are also reflected in CNF's tax provision. In foreign tax jurisdictions, Vector, rather than the joint venture partners, is responsible for income taxes on its foreign income. In accordance with GAAP, MW's portion of Vector's income taxes on its foreign income is reported in operating income as a component of equity-method income rather than in CNF's tax provision. MW's portion of Vector's net income, which is reported as a reduction of operating expenses in the accompanying Statements of Consolidated Operations, does not include any provision for U.S. federal income taxes on income earned by CNF, but does include a provision for MW's portion of Vector's income taxes on foreign income. The provision for the third quarter and first nine months of 2005 was $0.8 million and $2.4 million, respectively. MW's undistributed earnings from Vector at September 30, 2005 and December 31, 2004, before provision for CNF's related parent income taxes, were $38.0 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, CNF's payable to Vector as of September 30, 2005 and December 31, 2004 was $37.7 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 September 30, 2005, CNF provided a portion of its $20 million credit commitment to Vector through CNF's guarantee of $1.8 million of uncommitted local currency overdraft facilities available to Vector by international banks. At September 30, 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"). Although total amounts relating to the CNF Benefit Plans are included in the disclosures below, the estimated portion of benefit expense that relates to employees of MWF and EWA is included in Discontinued Operations in the Statements of Consolidated Operations. The obligation related to employees of MWF and EWA covered by the CNF Benefit Plans is included in Employee Benefits of continuing operations in CNF's Consolidated Balance Sheets at September 30, 2005 and December 31, 2004.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Service cost – benefits earned during the quarter	$ 12,209	$ 16,626	$ 36,213	$ 44,100
Interest cost on benefit obligation	13,117	12,900	38,905	41,197
Expected return on plan assets	(14,611)	(16,958)	(43,337)	(44,760)
Net amortization and deferral	882	2,838	2,616	6,652
Net periodic benefit expense	$ 11,597	$ 15,406	$ 34,397	$ 47,189

In the presentation above, the portion of benefit expense that relates to discontinued operations was immaterial in the third quarter and first nine months of 2005 and was $2.9 million and $10.1 million for the third quarter and first nine months of 2004, respectively.

Through the first nine months of 2005, CNF contributed $75 million to its Pension Plans, and plans to make another contribution in the fourth quarter of 2005. Assuming no material change in market conditions or expected asset values between September 30 and the plan measurement date in November, CNF estimates that the amount of the fourth-quarter contribution will be up to $100 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2005	2004	2005	2004
Service cost – benefits earned during the quarter	$ 791	$ 164	$ 1,053	$ 1,201
Interest cost on benefit obligation	3,315	1,659	4,413	4,802
Net amortization and deferral	1,141	113	1,518	262
Net periodic benefit expense	$ 5,247	$ 1,936	$ 6,984	$ 6,265

In the presentation above, the portion of benefit expense that relates to discontinued operations was $3.2 million in the third quarter and first nine months of 2005 and was $0.9 million and $3.7 million in the third quarter and first nine months of 2004, respectively.

6. Comprehensive Income

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

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net income (loss)	$ 67,808	$ (214,132)	$ 169,990	$ (150,198)
Other comprehensive income (loss):				
Unrealized loss on marketable securities	--	--	--	(2,044)
Foreign currency translation adjustment (Note 1)	31	1,394	642	9,512
	31	1,394	642	7,468
Comprehensive income (loss)	$ 67,839	$ (212,738)	$ 170,632	$ (142,730)

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

(Dollars in thousands)	September 30, 2005	December 31, 2004
Accumulated foreign currency translation adjustments (Note 1)	$ (414)	$ (1,056)
Minimum pension liability adjustment	(14,680)	(14,680)
Accumulated other comprehensive loss	$ (15,094)	$ (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 September 30, 2005, CNF repurchased a total of 2,389,000 shares at a cost of $111.6 million. CNF generally expects the remaining purchases to be made ratably throughout the remainder of the program.

8. Commitments and Contingencies

Spin-Off of CFC

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

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 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 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. In addition, CNF, on behalf of EWA, conducted its own investigation into the allegations. CNF is currently unable to predict the outcome of this matter. Under the False Claims Act, the government would be entitled to recover treble damages, plus penalties, if a court 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.

9. Income Taxes

CNF's effective tax provision rate of 35.2% and 34.0% in the third quarter and first nine months of 2005, respectively, declined from 39.0% in the same periods of last year. The lower rate in the third quarter was due primarily to a reduction in the nine-month effective rate to 37.0%, excluding the effect of issue-specific reversals of accrued income taxes (primarily a second-quarter reversal of $7.0 million that related to an IRS settlement of issues related to tax years prior to 2002). Excluding the effect of the reversals of accrued taxes, the lower effective tax rates in 2005 were due primarily to an increase in tax-exempt interest income, increased foreign tax credits, and the effect of the GAAP classification of income taxes on Vector's increasing foreign income. As more fully discussed in Note 4, "Investment in Unconsolidated Joint Venture," of Item 1, "Financial Statements," MW's portion of U.S. federal income taxes on Vector's domestic income is reported in CNF's tax provision. CNF's foreign tax credits related to Vector's foreign income are also reflected in CNF's tax provision. However, under GAAP, MW's portion of Vector's income taxes on its foreign income is reported in operating income as a component of equity-method income and is not a component of CNF's tax provision.

CNF receives a tax deduction equal to the difference between the grant price and the exercise price of non-qualified stock options. In connection with non-qualified stock options exercised in the first nine months of 2005, CNF at September 30, 2005 recognized a $15.9 million tax benefit as a reduction of accrued income taxes and as increase in additional paid-in capital.

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, logistics 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; Menlo Worldwide, a provider of integrated contract logistics solutions; and CNF Other, which includes certain corporate activities and Road Systems, a trailer manufacturer. Menlo Worldwide 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 unit 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 Menlo Worldwide, LLC ("MW") in 2004 sold MWF to UPS. Accordingly, the results of operations, net assets, and cash flows of the Forwarding segment have been segregated and reported as discontinued operations, except where otherwise noted.

Results of Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net Income (Loss)				
Continuing Operations [1, 2]	$ 62,657	$ 39,839	$ 167,639	$ 101,059
Discontinued Operations [2]	3,335	(256,046)	(3,490)	(257,376)
Applicable to Common Shareholders	$ 65,992	$ (216,207)	$ 164,149	$ (156,317)
Diluted Earnings (Loss) per Share				
Continuing Operations	$ 1.12	$ 0.72	$ 2.99	$ 1.83
Discontinued Operations	0.06	(4.62)	(0.06)	(4.55)
Applicable to Common Shareholders	$ 1.18	$ (3.90)	$ 2.93	$ (2.72)

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 in 2004, continuing operations has been allocated general corporate overhead charges that were previously allocated to the discontinued Forwarding segment. These corporate overhead charges of $2.8 million in the third quarter and $11.0 million in the first nine months of 2004 were allocated from discontinued operations to Con-Way and Logistics based on segment revenue and capital employed.

In 2005, CNF's net income available to common shareholders of $66.0 million ($1.18 per diluted share) in the third quarter and $164.1 million ($2.93 per diluted share) in the first nine months improved significantly over net losses in the prior year, due primarily to last year's $260.5 million third-quarter impairment charge related to MWF, which was sold in December 2004, and to significantly higher net income from continuing operations. CNF's net income from continuing operations in the third quarter grew 57.3% to $62.7 million ($1.12 per diluted share) in 2005 from $39.8 million ($0.72 per diluted share) in 2004, and in the first nine months, rose 65.9% to $167.6 million ($2.99 per diluted share) in 2005 from $101.1 million ($1.83 per diluted share) in the prior year. As more fully discussed below under "Results of Operations – Discontinued Operations," in the periods presented, discontinued operations relate to the sale of MWF, to the shut-down of EWA and its terminated Priority Mail contract with the USPS, and to the spin-off of CFC.

Continuing Operations

The following table compares CNF's segment operating results (dollars in thousands):

(Dollars in thousands)	Three Months Ended September 30, 2005	Three Months Ended September 30, 2004	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Revenues				
Con-Way Transportation Services	$ 741,366	$ 666,143	$ 2,095,630	$ 1,885,484
Menlo Worldwide Logistics	354,797	305,479	973,782	856,234
CNF Other	2,988	1,997	11,297	3,203
	$ 1,099,151	$ 973,619	$ 3,080,709	$ 2,744,921
Operating Income (Loss)				
Con-Way Transportation Services	$ 94,403	$ 70,661	$ 253,288	$ 183,451
Menlo Worldwide				
Logistics	7,889	5,710	18,553	16,045
Vector	4,220	2,699	13,196	8,079
	12,109	8,409	31,749	24,124
CNF Other	(2,638)	(635)	(2,825)	(2,413)
	$ 103,874	$ 78,435	$ 282,212	$ 205,162
Reconciliation of segments to consolidated amount:				
Income tax related to Vector, an equity-method investment (Note 4)	(841)	--	(2,363)	--
	$ 103,033	$ 78,435	$ 279,849	$ 205,162

CNF's revenue for the third quarter and first nine months of 2005 increased 12.9% and 12.2%, respectively, from the same periods last year, due to higher revenue at all reporting segments. Consolidated operating income in 2005 rose 31.4% in the third quarter and grew 36.4% in the first nine months of the year on significantly higher operating income from Con-Way and improved operating results from Menlo Worldwide. Con-Way's operating income for the third quarter and first nine months of 2005 increased 33.6% and 38.1%, respectively, due largely to revenue growth of 11.3% and 11.1%, respectively, and improved regional-carrier operating margins. Con-Way's revenue increases in 2005 reflect regional-carrier tonnage growth and yield improvement on increased fuel surcharges. Improved operating margins at Con-Way primarily reflect a decline in employee costs as a percentage of revenue, due largely to lower incentive compensation that resulted from variations in operating income and other performance factors relative to incentive plan targets. Menlo Worldwide's operating income in the third quarter and first nine months of 2005 increased 44.0% and 31.6%, respectively, with the third-quarter improvement coming mostly from higher operating income at Menlo Logistics and the nine-month improvement being primarily attributable to higher income from Vector's foreign operations. Reported segment income from Vector increased 56.4% to $4.2 million in the third quarter of 2005 and grew 63.3% to $13.2 million in the first nine months of 2005. Logistics' operating income in the third quarter and first nine months of 2005 increased 38.2% and 15.6%, respectively, on revenue growth of 16.1% and 13.7%, respectively.

Other net expense decreased $6.2 million in the third quarter of 2005 and $12.4 million in the first nine months of 2005 due primarily to increases in investment income, which rose $3.6 million and $11.6 million, respectively, on increased average cash equivalents and marketable securities. Interest expense decreased $2.5 million in the third quarter of 2005 and increased in the first nine months of 2005 by $0.3 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, the $128.9 million redemption in June 2004 of 5% Convertible Debentures, and the $100.0 million repayment in June 2005 of 7.35% Notes. In the first nine months of 2005, a net decrease in other miscellaneous non-operating expenses primarily reflects $2.7 million of second-quarter costs in 2004 associated with the redemption of the Convertible Debentures, partially offset by higher other miscellaneous expenses in 2005.

CNF's effective tax provision rate of 35.2% and 34.0% in the third quarter and first nine months of 2005, respectively, declined from 39.0% in the same periods of last year. The lower rate in the third quarter was due primarily to a reduction in the nine-month effective rate to 37.0%, excluding the effect of issue-specific reversals of accrued income taxes (primarily a second-quarter reversal of $7.0 million that related to an IRS settlement of issues related to tax years prior to 2002). Excluding the effect of the reversals of accrued taxes, the lower effective tax rates in 2005 were due primarily to an increase in tax-exempt interest income, increased foreign tax credits, and the effect of the GAAP classification of income taxes on Vector's increasing foreign income. As more fully discussed in Note 4, "Investment in Unconsolidated Joint Venture," of Item 1, "Financial Statements," MW's portion of U.S. federal income taxes on Vector's domestic income is reported in CNF's tax provision. CNF's foreign tax credits related to Vector's foreign income are also reflected in CNF's tax provision. However, under GAAP, MW's portion of Vector's income taxes on its foreign income is reported in operating income as a component of equity-method income and is not a component of CNF's tax provision.

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 September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Summary of Operating Results				
Revenues	$ 741,366	$ 666,143	$ 2,095,630	$ 1,885,484
Operating Income	94,403	70,661	253,288	183,451
Operating Margin	12.7%	10.6%	12.1%	9.7%
	2005 vs. 2004		2005 vs. 2004	
Selected Regional-Carrier Operating Statistics				
Revenue per day	+13.4%		+12.3%	
Yield	+4.1		+4.9	
Weight per day	+8.9		+7.0	
Weight per shipment	+3.0		+3.0	

Con-Way's revenue in the third quarter and first nine months of 2005 rose 11.3% and 11.1%, respectively, from the same periods in 2004 due to higher revenue from Con-Way's regional carriers and continued growth from the Con-Way Supply Chain Services Group, which includes Con-Way NOW, Con-Way Air Express, and Con-Way Truckload. Revenue per day from the regional carriers in the third quarter of 2005 rose 13.4% from the third quarter of 2004 on an 8.9% increase in weight per day ("weight") and a 4.1% increase in revenue per hundredweight ("yield"). For the first nine months of 2005, revenue per day from the regional carriers rose 12.3% from the same period last year on a 7.0% increase in weight and a 4.9% increase in yield. Management believes a portion of the weight improvement in 2005 was from market-share gains. Yield increases in the third quarter and first nine months of 2005 primarily reflect an increase in fuel surcharges, continued growth in higher-rated interregional joint services, and general rate increases, partially offset by growth in lower-yielding lower-cost shipments, as more fully discussed below. Like other LTL carriers, Con-Way assesses many of its customers with a fuel surcharge. The fuel surcharge is a part of Con-Way's overall rate structure for customers and is intended to protect Con-Way from the adverse effects of higher fuel costs. As fuel prices have risen, the fuel surcharge has increased Con-Way's yields and revenue. At times, in the interest of its customers, Con-Way has temporarily capped the fuel surcharge at a fixed percentage. Following a sharp increase in fuel costs in the aftermath of hurricanes in the U.S., Con-Way imposed a temporary cap on its fuel surcharge that was in effect from August 29 through October 24. Excluding fuel surcharges, yields in 2005 decreased 0.7% and increased 0.6% from the third quarter and first nine months of 2004, respectively. Yields in 2005 were adversely affected by 3.0% increases in weight per shipment in both the third quarter and first nine months of 2005, which were largely driven by a spot-quote program that contributed to an increase in the number of shipments in excess of 10,000 pounds. The spot-quote program was developed to place lower-yielding large shipments into empty linehaul leg segments without requiring additional capacity. Commensurate with the lower transportation cost per unit of weight, spot-quote and other lower-cost higher-weight shipments generally have lower yields.

Con-Way's operating income in the third quarter and first nine months of 2005 increased 33.6% and 38.1%, respectively, due largely to higher revenue and improved operating margins from the regional carriers. Fuel costs in the third quarter and first nine months of 2005 increased 71.1% and 61.7%, respectively, and purchased transportation costs in the same comparative periods increased 21.0% and 17.6%, respectively. However, higher fuel costs and fuel-related increases in purchased transportation costs were more than recovered through fuel surcharges, as discussed above and more fully discussed below in "Other Matters – Fuel Costs." Employee costs in the third quarter and first nine months of 2005 increased 5.5% and 4.8%, respectively, but declined as a percent of revenue. Employee costs in 2005 reflect increases in base compensation and employee benefits, partially offset by lower incentive compensation. Base compensation in the third quarter and first nine months of 2005 rose 9.9% and 8.8%, respectively, due primarily to headcount increases attributable to higher business volumes, and to a lesser extent, wage and salary rate increases. Incentive compensation in the third quarter and first nine months of 2005 declined by $7.1 million and $19.0 million, respectively, based on variations in operating income and other performance measures relative to incentive plan targets. Employee benefits expense increased 3.2% and 2.8% in the third quarter and first nine months of 2005, respectively, due largely to growth in headcount, partially offset by a decline in workers' compensation expense. Lower workers' compensation expense in the third quarter and first nine months of 2005 was largely due to a third-quarter entry in 2004 to correct the cumulative under-recognition of expense on certain prior-period claims, which had a $3.9 million adverse effect, net of incentive compensation.

Menlo Worldwide

The Menlo Worldwide reporting segment consists of the operating results of Logistics and Vector. Menlo Worldwide in 2005 reported third-quarter operating income of $12.1 million, an increase of 44.0% over last year. In the first nine months of 2005, segment income was $31.7 million, a 31.6% improvement over the same prior-year period. 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 Operations 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 Menlo Worldwide reporting segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Summary of Operating Results				
Logistics				
Revenues	$ 354,797	$ 305,479	$ 973,782	$ 856,234
Purchased Transportation	(260,680)	(217,578)	(699,595)	(603,019)
Net Revenues	94,117	87,901	274,187	253,215
Operating Income	7,889	5,710	18,553	16,045
Operating Margin on Revenue	2.2%	1.9%	1.9%	1.9%
Operating Margin on Net Revenue	8.4%	6.5%	6.8%	6.3%
Vector				
Operating Income	$ 4,220	$ 2,699	$ 13,196	$ 8,079

Menlo Worldwide - Logistics

Logistics' revenue in the third quarter and first nine months of 2005 increased 16.1% and 13.7%, respectively, due to increases in revenue from carrier-management and warehouse-management services. In 2005, revenue from carrier-management services in the third quarter and first nine months grew 18.8% and 14.9%, respectively, while revenue from warehouse-management services rose 6.6% and 9.8%, 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. Logistics' net revenue (revenue less purchased transportation) in the third quarter and first nine months of 2005 increased 7.1% and 8.3%, respectively, as purchased transportation costs grew at a higher rate than revenue.

Logistics' operating income in the third quarter and first nine months of 2005 increased 38.2% and 15.6%, respectively, over the same periods of last year, due primarily to revenue increases and improved margins on warehouse-management services, partially offset by a decline in margins on carrier-management services. Margins on warehouse-management and carrier-management services were positively affected by lower employee costs, which were due primarily to declines in health and welfare costs, workers' compensation and incentive compensation. Incentive compensation in the third quarter and first nine months of 2005 declined by 28.7% and 7.4%, respectively, based on variations in operating income and other performance measures relative to incentive plan targets. In the third quarter and first nine months of 2005, margins on carrier-management services were adversely affected by higher purchased transportation costs. In 2005, purchased transportation costs in the third quarter and first nine months grew 19.8% and 16.0%, respectively, due to increased business levels and fuel-related increases in carrier rates.

Beginning in the second quarter of 2005, Logistics integrated the Con-Way Logistics business into its operations. Accordingly, the operating results of Con-Way Logistics are reported in the Menlo Worldwide Logistics reporting segment and prior periods have been reclassified to conform to the current-period presentation. The integration of the two businesses is intended to provide an enterprise solution offering for Logistics' customers who want to use Con-Way as a primary transportation provider in addition to those customers who want a vendor-neutral transportation solution. The integration is also expected to expand Con-Way Logistics' multi-client warehousing service model to Logistics' larger warehouse network.

Menlo Worldwide - Vector

Operating Results

Third-quarter segment income reported from MW's equity investment in Vector increased to $4.2 million in 2005 from $2.7 million in 2004, and for the nine-month period, improved to $13.2 million in 2005 from $8.1 million last year. Higher reported segment income from Vector was due primarily to higher income earned in GM's international regions, partially offset by a decline in income from GM's North America region. Improved income in GM's international regions was substantially due to increased business levels and the revised compensation rates 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 compensation from the management fee in each successive year covered under the amended Vector agreements for North America. Except for special projects compensated under ABCs, CNF does not currently expect to earn performance-based compensation in 2005, 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

Compensation earned from GM's European region in the third quarter and first nine months of 2005 increased $1.5 million and $6.4 million, respectively, from the same periods last year, due primarily to increased business levels and an amendment to ABCs for GM's European region. 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. 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 third-quarter operating loss increased to $2.6 million in 2005 from $0.6 million in 2004, while the $2.8 million operating loss in the first nine months of 2005 increased from $2.4 million in 2004. The first nine months of 2005 primarily reflect a $2.2 million third-quarter loss resulting from an insurance settlement, while the same period of last year primarily was affected by corporate insurance activities and sales of corporate properties, which resulted in a $0.7 million first-quarter loss.

Discontinued Operations

Discontinued operations in the periods presented relate to the sale of MWF, to the shut-down of EWA and its terminated Priority Mail contract with the USPS, and to the spin-off of CFC. 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."

MWF

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 Menlo Worldwide'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 through CNF's 2007 fiscal year. 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.

Disposition 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 net 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. As a result of additional adjustments in its estimated disposition loss, CNF in 2005 reported a $3.6 million second-quarter net gain and a $9.0 million third-quarter net gain, primarily to recognize an increase in its estimate of deferred tax assets associated with employee benefit obligations retained by CNF, as more fully discussed below under "- Excluded Assets and Liabilities."

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. Since CNF did not forecast any significant taxable capital gains in the tax carry-forward period, the $41.0 million cumulative disposal-related tax benefit at December 31, 2004 was fully offset by a valuation allowance of an equal amount. In 2005, the cumulative disposal-related tax benefit and the associated valuation allowance declined to $29.0 million at September 30, 2005 due primarily to the third-quarter sale-related proceeds received from UPS and revisions to the tax effect of sale-related estimates, partially offset by the first-quarter disposal-related capital loss.

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 (the "Reimbursable Plans.") Accordingly, CNF in December 2004 recorded in Other Accounts Receivable a receivable for its estimate of the present value of the retained obligations of the Reimbursable Plans. Under an agreement reached in August 2005, UPS paid $79.0 million to CNF for the agreed-upon estimated present value of the retained obligations of the Reimbursable Plans. The carrying value of these obligations at September 30, 2005 was equal to the cash reimbursement from UPS. If, on CNF's annual November 30 actuarial measurement date, the present value estimated by an independent actuary is different than the carrying value, that difference would be recognized as a gain or loss from disposal in the fourth quarter of 2005.

EWA

The results of EWA relate to the cessation of its air-carrier operations in 2001 and to the termination of its Priority Mail contract with the USPS in 2000. In 2005, EWA recognized net losses of $0.6 million in the second quarter and $7.2 million in the third quarter, due primarily to increases in the estimated exposure for litigation and restructuring-related obligations. EWA's estimated loss reserves increased to $35.1 million at September 30, 2005 from $33.8 million at December 31, 2004 due primarily to the third-quarter loss described above, partially offset by the cash settlement of restructuring-related obligations. EWA's remaining loss reserves at September 30, 2005 are reported in Liabilities of Discontinued Operations and consisted mostly of CNF's estimated exposure related to the labor matters described below, and other litigation-related losses.

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 $641.9 million at September 30, 2005 from $386.9 million at December 31, 2004, as $232.2 million provided by operating activities and $227.9 million provided by investing activities exceeded $192.9 million used in financing activities. Cash provided by investing activities primarily reflects the net effect of a $290.3 million decrease in short-term marketable securities, $168.1 million of capital expenditures and $108.4 million in payments received from UPS in connection with the sale of MWF, while cash used in financing activities primarily reflects debt repayment of $112.7 million and common stock repurchases of $111.6 million. CNF's cash flows are summarized in the table below.

(Dollars in thousands)	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004
Operating Activities		
Net income (loss)	$ 169,990	$ (150,198)
Discontinued operations	3,490	257,376
Non-cash adjustments (1)	74,411	106,548
	247,891	213,726
Changes in assets and liabilities		
Receivables	(109,775)	(67,612)
Accounts payable and accrued liabilities, excluding accrued incentive compensation	44,963	60,372
Accrued incentive compensation	(1,312)	54,322
Income taxes	61,379	30,974
Employee benefits	(39,807)	(43,504)
Deferred charges and credits	26,744	71,562
All other changes in assets and liabilities	2,134	(10,884)
	(15,674)	95,230
Net Cash Provided by Operating Activities	232,217	308,956
Net Cash Provided by (Used in) Investing Activities	227,925	(179,387)
Net Cash Provided by (Used in) Financing Activities	(192,886)	149,648
Net Cash Provided by Continuing Operations	267,256	279,217
Net Cash Used in Discontinued Operations	(12,222)	(3,891)
Increase in Cash and Cash Equivalents	$ 255,034	$ 275,326

(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 operating activities in the first nine months of 2005 was $232.2 million, a $76.7 million decrease from the same prior-year period, as an increase in net income before non-cash items was more than offset by the net use of cash due to changes in assets and liabilities. Receivables in the first nine months of 2005 used $109.8 million on an increase in revenue. Accrued incentive compensation decreased $1.3 million in the first nine months of 2005, while the prior-year period reflects a $54.3 million increase. 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 the first nine months of 2005, $57.6 million in payments for incentive compensation exceeded expense accruals of $56.3 million, while in the first nine months of 2004, $78.6 million in expense accruals exceeded $24.3 million in payments. Based primarily on taxable income, increases in CNF's current tax payable provided $61.4 million, as CNF reported an income tax payable at September 30, 2005 compared to an income tax receivable at December 31, 2004, as reported in Other Receivables in CNF's financial statements. The net use of cash from the decline in employee benefit liabilities for the first nine months of 2005 and 2004 reflects the effect of defined benefit pension plan funding contributions of $75.0 million and $90.8 million, respectively, as described below under "- Defined Benefit Pension Plans," partially offset by expense accruals for CNF's defined benefit plan obligation. Cash provided by changes in deferred charges and credits declined to $26.7 million in the first nine months of 2005 from $71.6 million provided in the same nine-month period of 2004 due primarily to $54.5 million of cash payments received last year in connection with the liquidation of corporate-owned life insurance policies, partially offset by increases in CNF's payable to Vector, which is more fully discussed in Note 4, "Investment in Unconsolidated Joint Venture," in Item 1, "Financial Statements." Increases in CNF's payable to Vector in the first nine months of both 2005 and 2004 provided cash of $22.2 million and $9.9 million, respectively.

Investing Activities

Investing activities in the first nine months of 2005 provided $227.9 million compared to $179.4 million used in the first nine months of 2004. In 2005, CNF collected non-trade receivables from UPS, including a $29.4 million first-quarter payment received from UPS in connection with the sale of MWF and a $79.0 million third-quarter payment received from UPS for CNF's retained obligations related to MWF employees covered under CNF's long-term disability and postretirement medical plans. The $29.4 million first-quarter payment from UPS has been reclassified to investing activities from operating activities, where it was reported in CNF's 2005 first- and second-quarter reports on Form 10-Q. In both periods presented, investing activities also reflect fluctuations in short-term marketable securities and capital expenditures. Investments in marketable securities decreased in the first nine months of 2005 by $290.3 million, primarily from the first-quarter conversion of auction-rate securities into cash and cash equivalents, while the first nine months of 2004 reflect a $65.1 million increase in marketable securities. Capital expenditures in the first nine months of 2005 increased $58.0 million from the same period of 2004 due substantially to expenditures at Con-Way, which acquired $124.6 million of tractors and trailers in the first nine months of 2005, compared to $75.2 million in the first nine months of 2004.

Financing Activities

Financing activities in the first nine months of 2005 used cash of $192.9 million compared to $149.6 million provided in the first nine months of 2004. In the first nine months of 2005, cash used in financing activities includes $111.6 million used for the repurchase of common stock under CNF's repurchase program described below. Financing activities in 2005 reflect the repayment at maturity on June 1 of $100 million 7.35% Notes, while 2004 reflects the $292.6 million net issuance of 6.7% Senior Debentures and the $128.9 million redemption of 5% Convertible Debentures. 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 $56.8 million in the first nine months of 2005 from $25.1 million in the same period 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 a two-year period in open-market purchases and privately negotiated transactions. CNF currently estimates it will repurchase approximately $150 million of CNF's common stock annually in each of 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 September 30, 2005, no borrowings were outstanding under the facility and $219.2 million of letters of credit were outstanding, leaving $180.8 million of available capacity for additional letters of credit or cash borrowings, subject to compliance with financial covenants and other customary conditions to borrowing. CNF had other uncommitted unsecured credit facilities totaling $35.0 million at September 30, 2005, which are available to support letters of credit, bank guarantees, and overdraft facilities; at that date, a total of $15.8 million was outstanding under these facilities. Of the total letters of credit outstanding at September 30, 2005, $218.7 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

As more fully discussed below under "Estimates and Critical Accounting Policies – Defined Benefit Pension Plans," CNF periodically reviews the funded status of its defined benefit pension plans for non-contractual employees, and makes contributions from time to time as necessary to comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). In determining the amount and timing of its pension contributions, CNF considers both the ERISA- and GAAP- based measurements of funded status as well as the tax deductibility of contributions. Through the first nine months of 2005, CNF contributed $75.0 million to its defined benefit pension plans, and plans to make another contribution in the fourth quarter of 2005. Assuming no material change in market conditions or expected asset values between September 30 and the plan measurement date in November, CNF estimates that the amount of the fourth-quarter contribution will be up to $100 million. CNF made defined benefit pension plan contributions of $90.8 million in 2004.

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 nine months of 2005, there have been no material changes in CNF's contractual cash obligations outside the ordinary course of business. As discussed above, CNF repaid its $100 million 7.35% Notes on June 1, 2005.

CNF currently anticipates capital expenditures of approximately $225.0 million in 2005.

Other

CNF's ratio of total debt to capital decreased to 40.2% at September 30, 2005 from 47.9% at December 31, 2004, due primarily to the increase in retained earnings resulting from net income earned in the first nine months of 2005 and the repayment in June of $100 million 7.35% Notes.

In June 2005, Standard & Poor's affirmed its investment-grade rating on CNF's senior unsecured debt and upgraded its outlook to "positive" from "stable."

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. The first-quarter payment from UPS and the third-quarter payment more fully discussed below are reported as sale-related proceeds under investing activities in CNF's Statements of Consolidated Cash Flows.

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. Accordingly, CNF in December 2004 recorded in Other Accounts Receivable a receivable for its estimate of the present value of these employee benefit obligations. Under agreement reached in August 2005, UPS paid $79.0 million to CNF for the agreed-upon present value of the employee benefit obligations retained by CNF.

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 and the expected rate of return on plan assets. CNF assesses its plan assumptions for the discount rate, expected rate of return on plan assets, and other significant assumptions on a continuous basis, but concludes on those assumptions at the actuarial plan measurement date in November of each year.

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 2005 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 expected rate of return on plan assets based on current market expectations and historical returns. The rate of return is based on an 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 decreased its expected rate of return on plan assets to 8.5% in 2005 from 9.0% in 2004, due to market declines. Using year-end plan asset values, a 0.25% decline in the expected rate of return on plan assets would result in an estimated $2 million increase in 2005 annual pension expense.

Differences between the expected and actual rate of return on plan assets and/or changes in the discount rate may result in cumulative unrecognized actuarial losses. These unrecognized actuarial losses primarily reflect the declining discount rate and lower market returns in recent years. Although these amounts may be recovered in future periods through actuarial gains, any portion of the unrecognized actuarial loss outside of a corridor amount must be amortized and recognized as expense over the average service period for employees. Amortization of the unrecognized actuarial loss in 2005 declined $6 million from 2004, due primarily to a reduction in the difference between expected and actual returns on plan assets in 2005.

Under assumptions applied at the 2004 measurement date, the accumulated benefit obligation of certain CNF pension plans exceeded the fair value of plan assets. Accordingly, CNF recorded a minimum pension liability adjustment to recognize the shortfall between the fair value of the assets and the accumulated benefit obligation of these plans. At September 30, 2005 and December 31, 2004, the cumulative additional minimum pension liability, as reported in Accumulated Other Comprehensive Loss in Shareholders' Equity, was $14.7 million (net of $9.4 million of tax benefits).

CNF periodically reviews the funded status of its defined benefit pension plans for non-contractual employees, and makes contributions from time to time as necessary to comply with the funding requirements of the Employee Retirement Income Security Act ("ERISA"). In determining the amount and timing of its pension contributions, CNF considers both the ERISA- and GAAP-based measurements of funded status as well as the tax deductibility of contributions. Through the first nine months of 2005, CNF contributed $75.0 million to its defined benefit pension plans, and plans to make another contribution in the fourth quarter of 2005. Assuming no material change in market conditions or expected asset values between September 30 and the plan measurement date in November, CNF estimates that the amount of the fourth-quarter contribution will be up to $100 million. CNF made defined benefit pension plan contributions of $90.8 million in 2004. CNF estimates that a $50 million pension funding payment in the fourth quarter of 2005 would reduce annual pension expense in 2006 by $4 million.

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 transportation industry, 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.

Fuel Costs

CNF is exposed to the effects of changes in diesel fuel prices. Like other LTL carriers, Con-Way assesses many of its customers with a fuel surcharge. The fuel surcharge is a part of Con-Way's overall rate structure for customers and is intended to protect Con-Way from the adverse effects of higher fuel costs. As fuel prices have risen, the fuel surcharge has increased Con-Way's yields and revenue, and Con-Way has more than recovered higher fuel costs and fuel-related increases in purchased transportation. At times, in the interest of its customers, Con-Way has temporarily capped the fuel surcharge at a fixed percentage. Following a sharp increase in fuel costs in the aftermath of hurricanes in the U.S., Con-Way imposed a temporary cap on its fuel surcharge that was in effect from August 29 through October 24. CNF cannot predict the future movement of fuel prices, Con-Way's ability to recover higher fuel costs through fuel surcharges, or the effect that changes in fuel surcharges may have on Con-Way's overall rate structure. Con-Way's operating income would likely be adversely affected by a rapid and significant decline in fuel prices as lower fuel surcharges would reduce Con-Way's yield and revenue. Whether or not fuel prices increase, decrease, or remain constant, Con-Way's operating income may be adversely affected if competitive pressures limited Con-Way's ability to assess its fuel surcharges.

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 in Portland, Oregon. Although CNF maintains backup systems and has disaster recovery processes and procedures in place, a sustained interruption in the operation of these facilities, whether due to terrorist activities, earthquakes, floods or otherwise, could have a material adverse effect on CNF's financial condition, cash flows, and results of operations.

Homeland Security

CNF is subject to compliance with cargo security and transportation regulations issued by the 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 advantages over comparable unionized competitors 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.

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. In the adoption of SFAS 123R, CNF has concluded that it will continue its use of the Black-Scholes model for estimating the fair value of stock option grants and will apply the modified prospective transition method to all past share-based awards outstanding and unvested as of the effective adoption date of January 1, 2006. Under the modified prospective transition method, CNF will recognize the associated expense over the remaining vesting period based on the fair values previously determined and disclosed as part of the pro-forma disclosures presented above. The estimated annual compensation expense related to these unvested stock options in 2006 is approximately $0.06 per diluted common share. However, the calculation of total compensation expense for share-based awards after the effective date of SFAS 123R cannot be known at this time as it is affected by the number of future shares awarded, and it may be different from the calculation of pro-forma compensation expense under SFAS 123.

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 or fuel surcharges;
- 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, 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 EWA 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 is exposed to the effects of changes in diesel fuel prices. Like other LTL carriers, Con-Way assesses many of its customers with a fuel surcharge. The fuel surcharge is a part of Con-Way's overall rate structure and is intended to protect Con-Way from the adverse effects of higher fuel costs. When fuel costs exceed certain specified thresholds, CNF seeks to charge customers a fuel surcharge that is adjusted weekly based on a Department of Energy index. Fuel surcharges are common in the transportation industry and generally have been accepted by customers. As fuel prices have risen, the fuel surcharge has increased Con-Way's yields and revenue and has more than recovered higher fuel costs and fuel-related increases in purchased transportation.
At times, in the interest of its customers, Con-Way has temporarily capped the fuel surcharge at a fixed percentage. Following a sharp increase in fuel costs in the aftermath of hurricanes in the U.S., Con-Way imposed a temporary cap on its fuel surcharge that was in effect from August 29 through October 24. CNF cannot predict the future movement of fuel prices, Con-Way's ability to recover higher fuel costs through fuel surcharges, or the effect that changes in fuel surcharges may have on Con-Way's overall rate structure. Con-Way's operating income would likely be adversely affected by a significant decline in fuel prices as lower fuel surcharges would reduce Con-Way's yield and revenue. Whether or not fuel prices increase, decrease or remain constant, Con-Way's operating income may also be adversely affected if competitive pressures limited Con-Way's ability to continue to assess fuel surcharges to its customers.

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."

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.

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

The following table provides a summary of shares repurchased by CNF during the quarter ended September 30, 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]
July 1, 2005 – July 31, 2005	130,300	$ 49.18	130,300	$ 219,023,671
August 1, 2005 – August 31, 2005	360,300	$ 51.15	360,300	$ 200,593,326
September 1, 2005 – September 30, 2005	242,700	$ 50.08	242,700	$ 188,437,851
Total	733,300	$ 50.45	733,300	$ 188,437,851

[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 6. EXHIBITS

Exhibit No.

(10) Material Contracts

10.1 Amendments to Executive Compensation Plans (Item 1.01 to CNF's Report on Form 8-K filed on September 29, 2005.*#)

10.2 Termination of Material Executive Severance Agreements (Item 1.02 to CNF's Report on Form 8-K filed on September 29, 2005.*#)

(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)

November 7, 2005

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