

# CONSOLIDATED FREIGHTWAYS, INC. 1981 ANNUAL REPORT



*The professionals in freight transportation—  
on the ground and in the air.*



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## THE CF COMPANY

Consolidated Freightways, Inc. is a freight transportation company engaged in various forms of trucking and in air freight forwarding. Its operating subsidiaries and divisions include:

**Consolidated Freightways Corporation of Delaware** is primarily a regular route common and contract motor carrier of general commodities, serving all 50 states, Puerto Rico, and Vancouver and Winnipeg, Canada. Headquartered in Menlo Park, California.

**CF Arrowhead Services** provides a separate irregular route truckload service on special commodities, such as those requiring flatbed or refrigerated equipment. Headquartered in Menlo Park, California.

**Canadian Freightways Limited** is a motor carrier serving Alberta, British Columbia and the Yukon Territory. Headquartered in Calgary, Alberta.

**Canadian Freightways Eastern Limited** is a motor carrier serving southern Ontario. Headquartered in Mississauga (Toronto).

**CF Air Freight, Inc.** is a domestic and international air freight forwarder with terminals or agents throughout the United States and in most foreign countries. Headquartered in Mountain View, California.

**Road Systems, Inc.** manufactures and rebuilds freight trailers, principally for the company's own motor carrier operations. Headquartered in Fontana, California.

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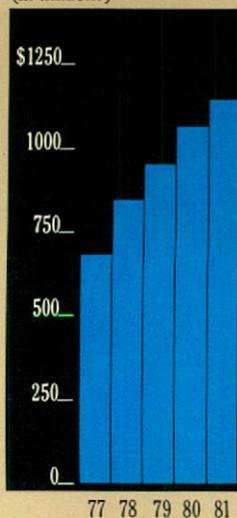
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## COMPARATIVE HIGHLIGHTS

	1981	1980*	% change
	(Dollars in thousands except per share data)		
<b>Revenues</b>	<b>\$1,143,722</b>	<b>\$1,065,515</b>	<b>7%</b>
Motor carrier	1,045,918	984,281	6
Air freight forwarding	97,804	81,234	20
<b>Earnings from Operations</b>	<b>93,286</b>	<b>94,695</b>	<b>-1</b>
Motor carrier	86,029	86,478	-1
Air freight forwarding	7,257	8,217	-12
<b>Income from Continuing Operations</b>	<b>63,946</b>	<b>52,336</b>	<b>22</b>
<b>Loss from Discontinued Operations</b>	<b>(8,485)</b>	<b>(10,438)</b>	<b>n.m.</b>
<b>Gain on Sale of Discontinued Operations</b>	<b>71,547</b>	<b>—</b>	<b>—</b>
<b>Write-off of Operating Rights (1980) and Related Tax Benefit (1981)</b>	<b>14,235</b>	<b>(32,102)</b>	<b>n.m.</b>
<b>Net Income</b>	<b>141,243</b>	<b>9,796</b>	<b>n.m.</b>
<b>Dividends</b>	<b>19,796</b>	<b>18,033</b>	<b>10</b>
<b>Shareholders' Equity</b>	<b>464,796</b>	<b>337,815</b>	<b>38</b>
<b>Long-Term Debt</b>	<b>105,637</b>	<b>93,384</b>	<b>13</b>
<b>Per Share</b>			
Income from continuing operations	4.81	3.99	21
Loss from discontinued operations	(.65)	(.79)	n.m.
Gain on sale of discontinued operations	5.40	—	—
Write-off of operating rights (1980) and related tax benefit (1981)	1.07	(2.45)	n.m.
Net income	10.63	.75	n.m.
Dividends	1.49	1.375	8
Shareholders' equity	34.79	25.68	35
<b>Average Shares Outstanding</b>	<b>13,288,421</b>	<b>13,112,966</b>	<b>1</b>

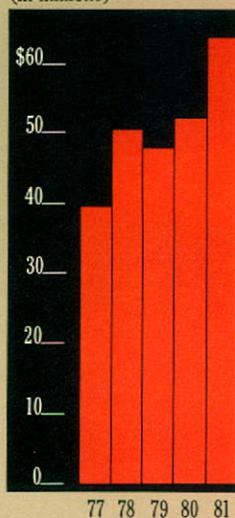
\*Restated for discontinued operations.  
n.m.— not meaningful

REVENUES\*  
(in millions)



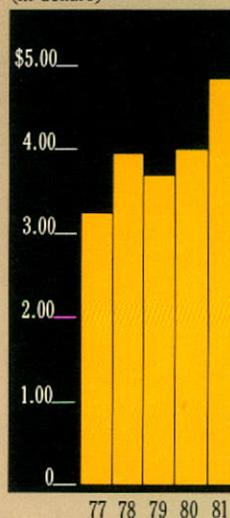
\*From continuing operations

INCOME\*  
(in millions)



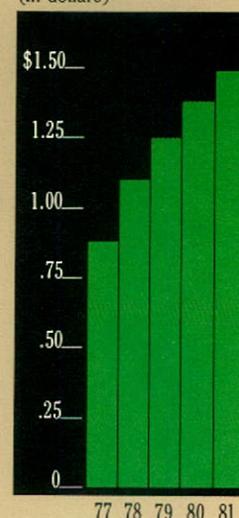
\*From continuing operations

EARNINGS PER SHARE\*  
(in dollars)



\*From continuing operations

DIVIDENDS PER SHARE  
(in dollars)



77 78 79 80 81

## **TO OUR SHAREHOLDERS AND EMPLOYEES**

When I said last year I thought the economy would improve in time to make 1981 a year of clear improvement for CF, I was only half right. The economic improvement was faint and brief, followed by another sinking spell. But the year was one of clear improvement for CF nevertheless.

In reporting the results of 1981, we have to start with the decision to sell our manufacturing and related subsidiaries to Daimler-Benz AG of West Germany for \$284 million in cash and notes.

This sale meant a profound change in the nature of our company—one that will be felt increasingly in time to come. It gave us an immediate infusion of \$204 million in cash, with \$80 million more due over the next seven years. We are now squarely positioned to concentrate on the business that has always been our largest source of revenue: transportation.

The next few years will see some significant changes in the U.S. transportation system, particularly truck and air. We intend to help shape and benefit from those changes. Our timing was excellent, and our main problem will be how to take maximum advantage of the many opportunities open to us. It's a nice kind of problem to have.

### **Sale Results in Record Net Income**

Net income for the year was \$141.2 million, or \$10.63 per share. This amount includes two nonrecurring credits as well as the income from continuing operations and the loss from discontinued operations.

The largest nonrecurring credit was the gain from the manufacturing sale, which was \$71.5 million or \$5.40 per share. The other was a tax credit of \$14.2 million, or \$1.07 per share, related to the 1980 write-off of motor carrier operating rights. The tax benefit was provided for by the Economic Recovery Tax Act of 1981.

Income from continuing operations was \$63.9 million, or \$4.81 per share, compared with \$52.3 million, or \$3.99 per share, in 1980.

The discontinued operations had a loss of \$8.5 million, equal to 65 cents per share. This compares with a loss of \$10.4 million, or 79 cents per share, in 1980.

### **Continuing Operations**

Our motor carrier people continued to do an impressive job of coping with a third consecutive year of declining freight tonnage and a substantial amount of rate-cutting competition. The latter is discussed more fully in the pages that follow.

Motor carrier revenues of \$1.046 billion were 6% ahead of 1980's \$984 million. Tons handled by the general freight operations were down 6% in the United States and 18% in Canada. Operating income was down slightly at \$86 million compared with \$86.5 million (restated to include a small manufacturing subsidiary not sold) in 1980. The operating profit margin continued to compare favorably with our major competitors.

CF Air Freight upped its revenue by 20% on a tonnage gain of 15%. With all costs continuing to increase, the profit margin was lower and operating income declined 12%.

### **Capital Investment**

Our planned investment in new terminals and in replacement revenue equipment resulted in capital expenditures on continuing operations totaling \$96.7 million,

with \$19.2 million going to land and buildings and \$77.5 million to revenue and other equipment.

We are projecting 1982 capital expenditures at \$120 million.

### **Financial Position Strong**

The funds received from the manufacturing divestiture have put us in an extremely strong financial position, a condition shared by very few of today's major transportation companies. We are making a comprehensive study of the transportation industry with an eye to the eventual redeployment of these funds. Meanwhile our cash management team is doing an excellent job of preserving capital and earning satisfactory investment returns.

Some of these funds have already been used to take advantage of the leasing provisions of the Economic Recovery Tax Act of 1981 by purchasing tax benefits from other companies in connection with the purchase and lease-back of capital equipment. These benefits will increase our cash flow over the next few years by reducing our federal income taxes.

### **Management and Directors**

Ronald E. Burbank, who had been our president and chief operating officer since April 1980, resigned to become president and chief executive of Freightliner Corporation when it was sold to Daimler-Benz. He had served our company well in executive capacities during the last 15 years. We lose his abilities with regret but with understanding and best wishes. I assumed the additional position of president.

Donald E. Moffitt, formerly vice president-finance, was elected executive vice president-finance and administration in April.

Leonard W. Huyser, president of Canadian Freightways Limited, retired in June after 39 years of dedicated service

to the company in both the United States and Canada. His many honors include being named Canada's "Transportation Man of the Year" in 1978. He was succeeded as president by Darshan S. Kailly.

Hillman Lueddemann, who had been a director of your company for 26 years, chose not to stand for re-election to the Board at the annual meeting in April. We are indebted and grateful to him for his long and effective service to our company.

### Looking Ahead

Many economists expect a strong recovery in the second half of 1982. We hope so, but they have been wrong before. As of this writing, the economy shows no signs of vigor.

My personal opinion is that America is paying the price for many years of misguided taxing and spending policies which penalized savings and investment and fostered inflation. Any cure will be long and painful. Better the cure than the disease, and better now than later, but there is no assurance the medicine we are taking is strong enough to work.

If that sounds like we're pessimistic about the future, we're really not. There are signs of a new spirit of cooperation and dedication in American labor, management and government. We are realizing that productivity is the name of the game, and that contrary to the thinking of two generations of politicians, there really is no such thing as a free lunch.

The trucking industry and the Teamsters Union have negotiated a new labor agreement, which if it is approved by the union membership, will be an encouraging indication that we can continue to work together to build a stronger industry. After

all, America is still by long odds the strongest productive economy in the world, and Consolidated Freightways is a healthy, vital part of it. We can handle our problems, and there will always be opportunities for those with vision to see them and the will to pursue them.

On behalf of the Board of Directors, I want to express our appreciation to the former employees who contributed so much to the growth and success of the subsidiaries sold during the year. We wish them continued success. We are also indebted to our present employees, our customers, and our suppliers for their support and cooperation in an eventful—and on the whole—very rewarding year.



R. F. O'Brien  
Chairman and Chief Executive Officer  
January 26, 1982



## INDUSTRY PERSPECTIVE

### Benefiting from changes in the motor carrier regulatory and competitive environment.

Although it has been nearly two years since the Motor Carrier Act of 1980 took effect, there is still no clear indication of the kind of regulatory climate we can eventually expect. It could range from total deregulation to some tightening up of the present situation. CF is prepared for any change as well as no change.

It is difficult to assess the effects of the Act to date with any accuracy. Writers and commentators tend to give it credit for the extensive rate competition we have been experiencing, which we think is due more to a very soft economy. CF Air Freight and Canadian Freightways have had a similar increase in price competition without any change in regulatory status. It reflects the battle for market share in a weak market.

Motor carrier tonnage in the United States began to show year-to-year declines in the second quarter of 1979. The decline has continued except for brief respites, and the current level of general freight tonnage is estimated to be nearly 30% below 1978 levels. Since our own tonnage is down only 12% in this period, it is clear we have increased our share of the market.

The excess capacity resulting from the tonnage slump has put pressure on some carriers to cut rates in the hope of adding enough volume to meet their fixed costs. The nature of the business assures that such a strategy can have only limited success. Nevertheless there is no doubt that rate competition affected our profit margins in 1981, and that it will intensify in 1982.

A quality advantage is a great help in selling a freight service when price is comparable. Whether such an advantage is real or only a perception, it is seldom great enough to hold or increase market share against a significant price difference. In practice, this means that all competitors must maintain roughly comparable price levels so that differences in success can again be based on small but visible quality differences. *The successful motor carrier must be able to maintain a quality difference at a relatively low cost.* This we strive to do. We know that we are one of the most efficient carriers in the industry.

Our management information system provides accurate cost data for use in pricing our services. Our basic pricing policy is:

- We analyze each situation account by account and act on a cost-benefit basis.
- We initiate rate cuts only when justified by cost savings.
- We match cuts by responsible competitors on a selective basis.

It is generally expected that the continuing decline in tonnage and the current pressure on rates will produce a shake-out in the industry, with many carriers merging, cutting back, or going out of business. This process is already underway, but is being delayed by a complex situation created by Congress in 1980 with respect to multi-employer pension plans. The effect of the law is to make it very difficult for a unionized carrier to merge or even liquidate because of contingent pension fund liabilities. Efforts are now being made in Congress to correct this situation.

We believe there are tremendous opportunities opening up to a strong, resourceful competitor like CF—opportunities in contract services, special commodities, freight forwarding, intermodal operations, and the development of our 50-state authority. We know our strategy of maintaining a high quality service and a low cost position is within our capabilities, and that it will succeed. When business activity begins to expand, we are confident we will grow at a much faster rate than the economy itself.

### CF Air Freight also carves out a bigger share of a weak market.

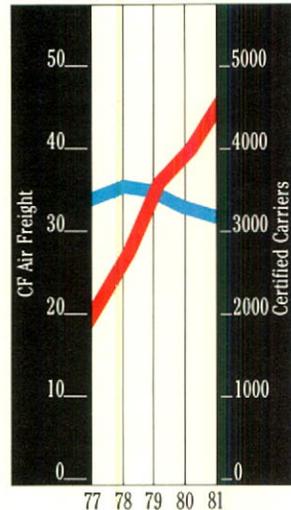
The graph on this page highlights the gains CF Air Freight has been able to make since the air cargo industry was deregulated in 1977. Our tonnage more than doubled while the industry as a whole declined slightly.

### AIR FREIGHT TRENDS

(thousands of tons)

■ CF tonnage

■ Industry tonnage



Source: CF Statistics and Estimates

# MOTOR CARRIER OPERATIONS REVIEW

Group Highlights*	1981	1980
Revenues	<b>\$1,045,918,000</b>	\$984,281,000
Earnings from operations	<b>86,029,000</b>	86,478,000
Capital expenditures	<b>92,599,000</b>	75,995,000
Terminals	<b>382</b>	323
Employees	<b>16,086</b>	16,548

\*After foreign currency translations. 1980 restated for discontinued operations.

The motor carrier group proved its ability to cope with an adverse economic and competitive climate in 1981, both in the United States and in Canada. Although traffic volume declined in all components except CF Arrowhead Services, revenues increased by 6%, and operating earnings were nearly as high as the record year before.

The name Consolidated Freightways is used by the U.S. general freight operation, which accounts for 94% of our motor carrier revenues and 86% of total corporate revenues. Because of its size and importance, it is reviewed separately and in detail in this section.

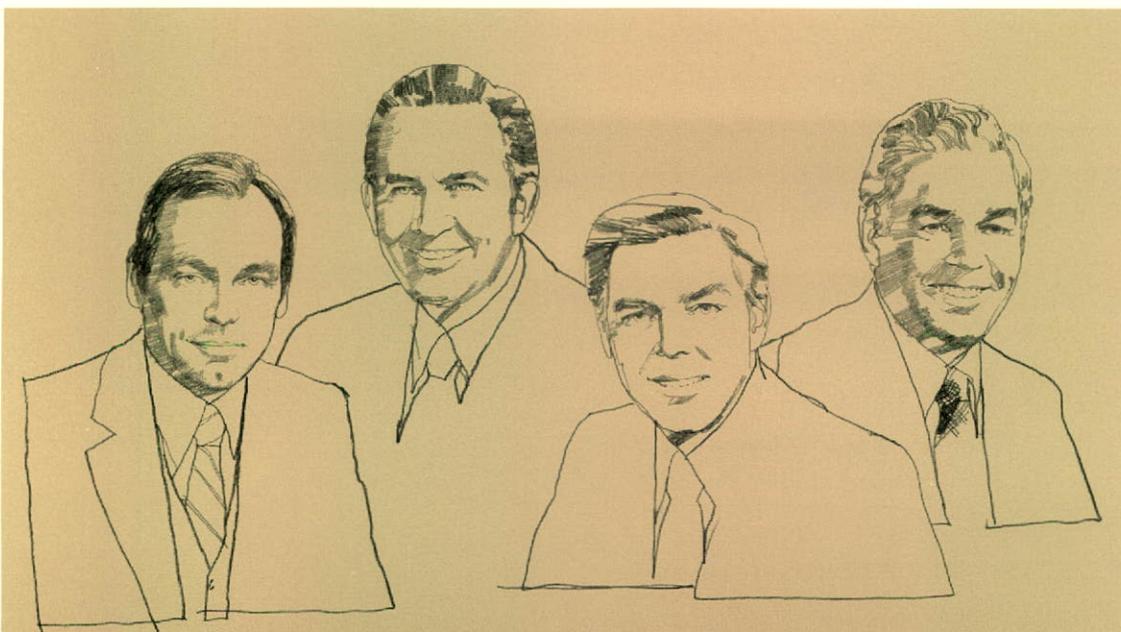
## CONSOLIDATED FREIGHTWAYS (General Freight)

Revenues	\$983,898,000
Earnings from operations	75,464,000

The year was notable for a number of reasons. It was the first full year of operation under the less

### Consolidated Freightways Corporation of Delaware

Left to right: Lary R. Scott, President; Raymond F. Halloran, Executive Vice President – Marketing and Sales; Robert H. Lawrence, Executive Vice President – Operations; Gene T. West, Senior Vice President.



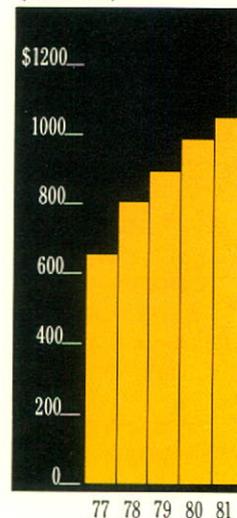
restricted regulatory environment resulting from the Motor Carrier Act of 1980. We experienced an increasing amount of rate competition. We received authority to serve all points in the 48 contiguous states, and moved quickly to exercise this authority by opening 59 additional terminals. And our nearly complete Freight Flow system proved it can handle both expansion and recession with a high degree of efficiency.

### The CF Freight Flow plan puts us far ahead of the rest of the industry.

The Freight Flow plan had its genesis in 1974. Management realized that substantial changes in motor carrier regulation were inevitable, and that CF would probably be able to expand its service throughout the entire United States. Since we could expect keen competition, we wanted to have as much of the new system as possible in place before the regulatory changes occurred. That's why we continued to expand our service territory during this period. We are now the only motor carrier with terminals and service in all 50 states.

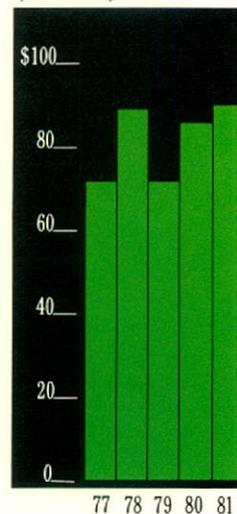
We studied the problem of providing fast and economical service between the hundreds of new terminals we could envision (versus 189 in 1974). It was obvious that simply adding on to the existing system would not suffice. Also the existing

MOTOR CARRIER REVENUES\* (in millions)



\*Restated for discontinued operations

MOTOR CARRIER EARNINGS FROM OPERATIONS\* (in millions)



\*Restated for discontinued operations

route structure would not provide the shortest routes for the projected future traffic flows developed by computer analysis.

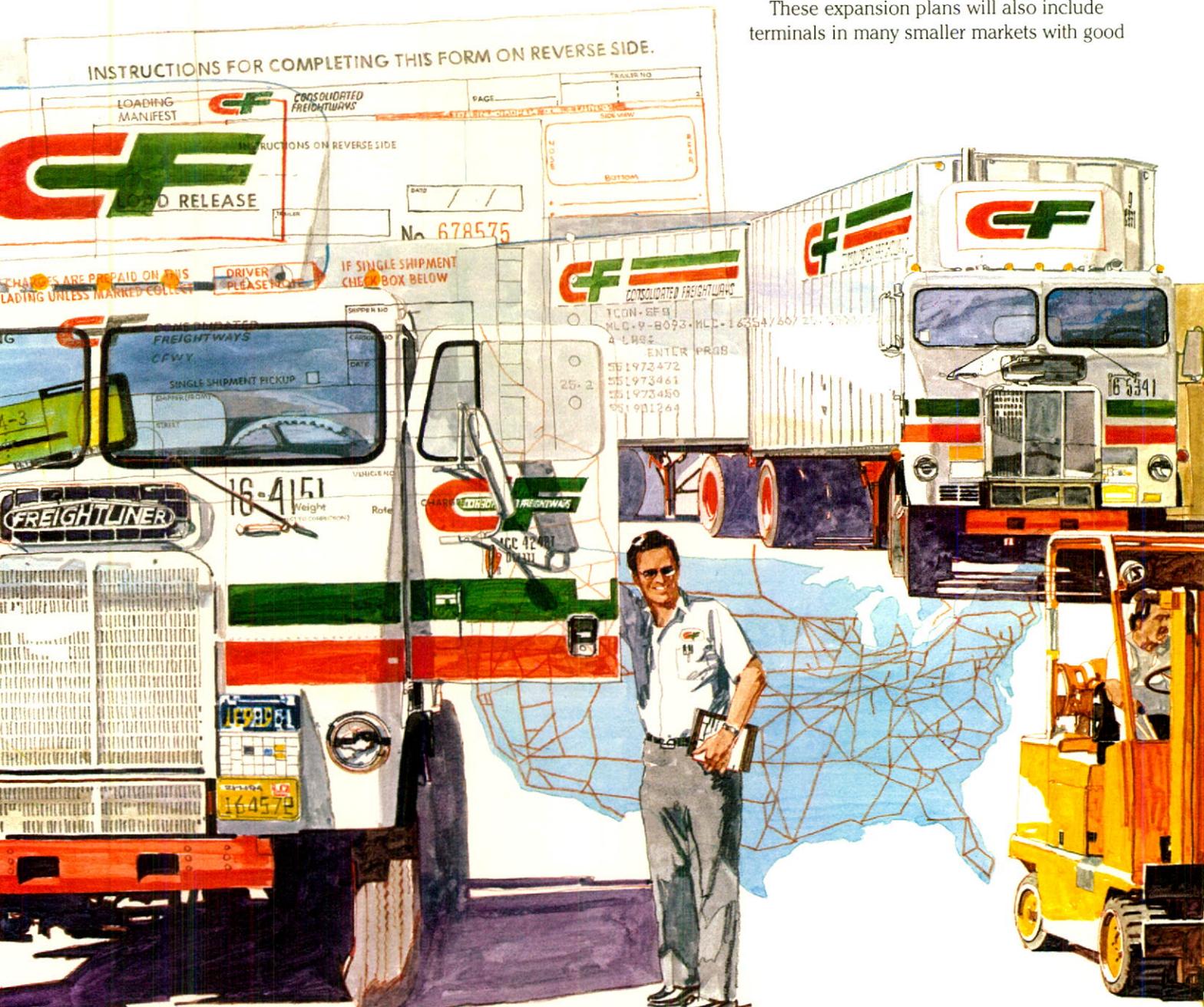
Our studies and research resulted in our Freight Flow plan, basically a plan for expansion that would ensure adequate capacity and the most efficient methods for handling the expected growth in volume. By the end of 1981 we had 28 strategically located freight consolidation centers in place or under construction. These centers are placed to have ready access to both the interstate highway system and major railroads. Each center serves its own group of customer service terminals—also known as satellites or end-of-line terminals—with daily freight clearance to and

from all points in the system. In addition, 18 equipment maintenance centers service all road equipment on a planned basis.

Over the last five years we invested nearly \$100 million in terminal facilities. Additional millions were expended to accomplish the necessary changes of operation. These changes, which involved relocating hundreds of employees, reduced our linehaul mileages between consolidation centers and provided the efficient mainline relay system which connects them.

The final plan is sufficiently flexible to be altered in case of changes in projected market development. We will add several more consolidation centers as we extend service and increase market penetration.

These expansion plans will also include terminals in many smaller markets with good



growth potential. We have developed small modular or mobile units capable of being operated effectively and economically with as few as one or two employees. The group center provides in and out clearance and performs most of the clerical functions.

**CF also leads the industry in its communications and control systems.**

The CF system is linked by a high speed communications network and benefits from the most advanced computer programs in the industry. Our mainframe computers are in Portland, Oregon, and a new type of input-output device was installed at each terminal during the year.

The complex rating function is performed at

a single location in Boise, Idaho, which allows a high degree of specialization. Information from each bill of lading is fed into the computer at the origin terminal. After appropriate rates are determined and added, the computer prepares the freight bills and transmits them as required.

Shipments are identified by the freight bill number, which includes the origin terminal code number and a progressive serial number known as the pro number. Movement of equipment and the related shipments is continuously entered in the computer, allowing any shipment to be instantly located.

This enables us to offer customers direct access to our data bank. Not only can they trace their own shipments, they can request information on all shipments within our system destined for them from other shippers.

Under the system in general use by the industry and previously used by CF, the shipment is not assigned its pro number until the freight bill is actually prepared. This requires the shipper to obtain it from the carrier prior to tracing.

The new CF advance assignment pro label system, introduced systemwide in 1981 after a year



of testing, uses prenumbered four-part labels. Our driver-salesman places one label on the shipper's copy of the bill of lading, one on the CF copy, and two on the shipment itself. The freight bill will carry the same number, and the customer now has it available immediately. This greatly enhances the usefulness of direct data access for the customer.

Occasionally a shipment will become separated from its documentation. The pro number label allows it to be quickly forwarded to destination, another advantage of the system.

A major advance in our linehaul and shipment control system will go on-line early in 1982 as part of an overall upgrading program. A large illuminated display covering one wall of our Linehaul Control Center in Menlo Park will instantly show the location of each load en route or ready for linehaul dispatch as that information is fed into the computer. In effect, a current working model of the entire system will be visible at all times. Each controller works with local and regional dispatchers to coordinate the movement of equipment and drivers within and between assigned areas. His ability to plan ahead for better equipment balance by matching schedules will be greatly extended. Potential imbalances can be more readily foreseen and minimized by rerouting equipment or other means.

**CF chalks up gains in fuel efficiency, safety and other operating factors.**

In the more routine aspects of handling and moving freight, gains in efficiency are less spec-



tacular but equally as important. One program that has received continuous attention in recent years is the effort to improve our fuel mileage.

At present fuel prices, each one-tenth of a mile per gallon we can improve on our road equipment saves upwards of \$1.5 million per year. Through investment in more fuel-efficient engines, radial tires, thermatic fans, air deflectors and other devices, supported by continuous driver training and cooperation on fuel-saving practices, we have increased average miles per gallon nearly 25% since 1974, saving millions of gallons of fuel.

We do our own testing of the effects of various components and configurations, using a flat section of Nevada highway. Current tests of a smooth-skin trailer with a new type of air deflector on the nose indicate significant additional savings are possible with such a configuration. The trailer was developed by our Road Systems subsidiary.

No phase of operations is more important than safety, not only on the highways but in our terminals. In 1981 CF again reduced both its road and city accident frequencies. CF drivers have set numerous industry safe-driving records, including an unapproached 7,590,669 miles of accident-free driving compiled by a single dispatch group, El Paso.

CF also customarily leads the industry in the number of state roadeo champions at the National Truck Roadeo, the highly competitive "Super Bowl" of truck driving. In 1981 we had 27 of the 230 state representatives to the National Roadeo. Special congratulations go to Jack C. Hartman,



based in Peru, Illinois, for winning the national championship in the twin trailer class. It was the sixth time a CF driver has won this event since it was added to the Rodeo ten years ago.

Among other operational factors improved during 1981 were cargo claims, empty miles, average weight per LTL shipment, crossdock pounds handled per manhour, and bills per clerical manhour.

We have often pointed to the gains in trucking productivity and fuel conservation available if every state would adopt the federal 80,000 pound gross weight standard and allow 65-foot double trailer equipment. There was some progress in this respect during the year.

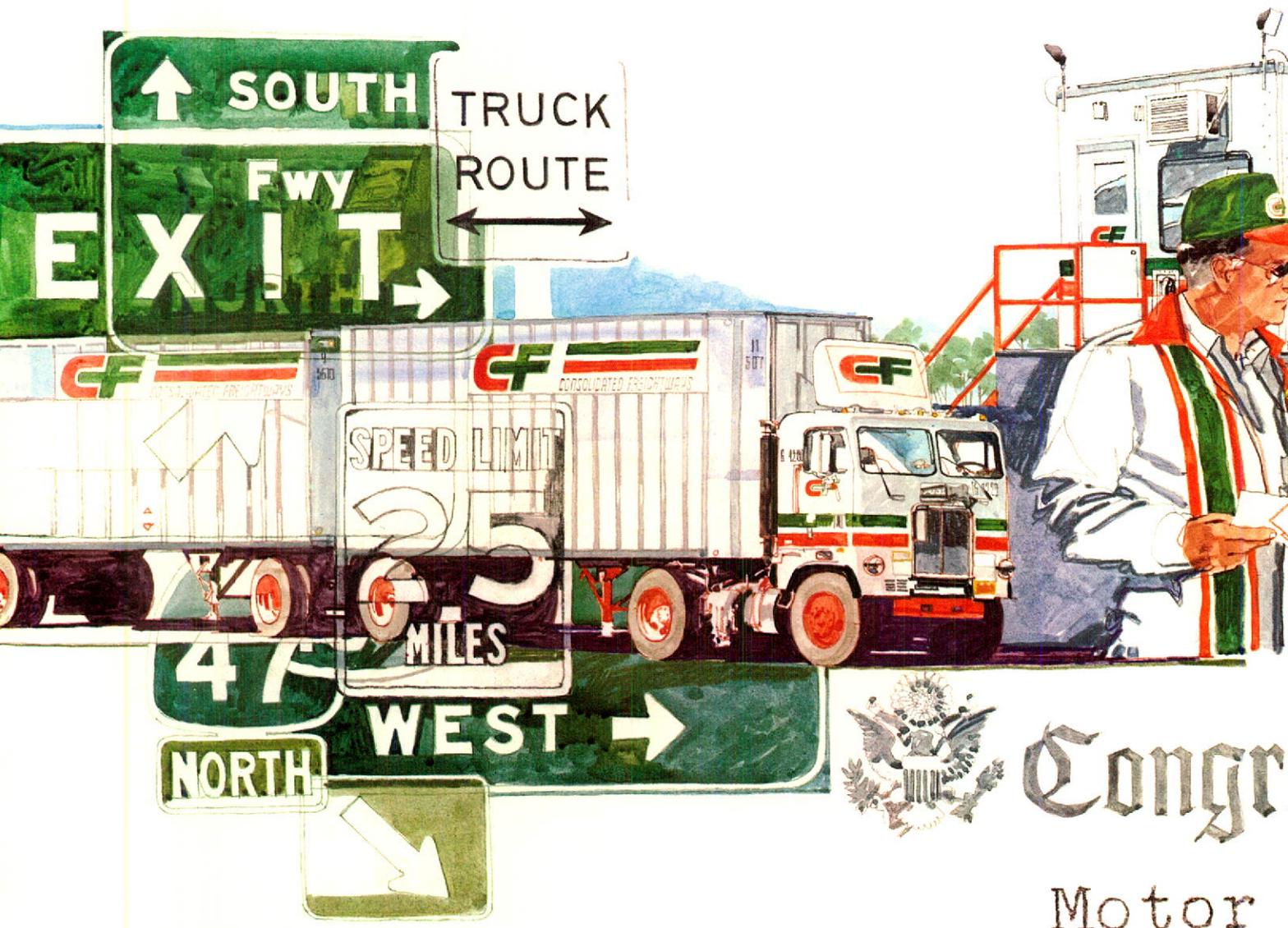
The U.S. Senate Commerce Committee approved a bill which would set minimum federal length and width standards for trailing equip-

ment and mandate 65-foot doubles. This bill may become law during the 1982 session.

In March the U.S. Supreme Court upheld our suit against the state of Iowa's ban on 65-foot double trailer combinations. The court had previously upheld our contest of the Wisconsin law.

In October we filed a similar suit against Pennsylvania. Although there are 16 other states which prohibit these combinations, a victory in Pennsylvania would eliminate one of the most costly and wasteful barriers to our interstate operations.

Six states along the Mississippi River had long presented a barrier to transcontinental trucks by having gross weight limits well under the 80,000 pounds or more which was standard in the other 44 states. Three of them adopted the 80,000 pound federal standard during the year. A similar measure in Missouri has been referred to a popu-



Congre  
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lar vote, which could leave only Arkansas and Illinois out of step with the other 48.

Our industry's principal opposition in these matters comes from the Association of American Railroads and the American Automobile Association, both of whom work and lobby vigorously to keep weight and size limits in place.

**Price cutting competition impairs profitability during period of excess capacity.**

The changes associated with the Motor Carrier Act of 1980 have provided us with opportunities as well as challenges. These were discussed at some length in our 1980 Annual Report.

In addition to the geographic extensions of our system previously reviewed, we continued to expand our contract operations and the special commodities service provided by CF Arrowhead Services. We also initiated ocean forwarding service to Puerto Rico and Hawaii. The ocean service uses both containers and trailers.

Our marketing program continues to stress quality of traffic and quality of service, but is also geared to respond to the fast-moving pace of rate competition. Our sales representatives had to become account managers, able to diagnose the differing needs of individual customers and tailor our service to meet them.

Our major challenge is to build market share and maintain reasonable profitability in the face of persistent and widespread rate cutting competition, caused principally by excess capacity. Our basic policy as outlined on page 4 is not to initiate rate cuts or discounts except where volume or other factors can produce appropriate cost reductions or improved productivity. By adhering to these policies, we believe CF can benefit significantly from the present relaxation of regulation.



Professional Record  
CONGRESS, SECOND SESSION  
Carrier Act 1980

**Capital expenditures were higher despite the recession economy.**

Our 1981 investment in land and buildings totaled \$18.5 million, down from \$20.1 million the year before. Largest single project was a \$6 million consolidation center at Sacramento, California, scheduled for completion in March 1982.

A total of 59 terminals was added to the system, increasing the total to 352 from 293 at the end of 1980. The number of loading doors increased from 8,300 to 8,537.

We have maintained our normal schedule of equipment replacement, which totaled \$55.5 million, up from \$43.1 million in 1980. At year end road equipment included 2,615 tractors and 14,168 trailers, a small increase from 2,606 and 13,998 at the end of 1980. The city fleet of 3,781 trucks and tractors and 2,672 trailers compared with 3,705 and 2,744, respectively.

Including dock and office equipment, the total

1981 capital investment was \$91.4 million, up from \$71.2 million.

**Industry negotiates a more competitive contract with Teamsters.**

Nearly 90% of nonsupervisory employees are represented by the International Brotherhood of Teamsters. The Teamsters Union agreed to open negotiations early for a new nationwide contract to replace the one expiring March 31, 1982.

The negotiators reached an agreement in January, subject to ratification by the membership. The new three-year accord represents an attempt to reduce unemployment in the industry by



making the unionized trucking companies more competitive with their many new nonunion competitors.

#### **CF ARROWHEAD SERVICES**

Revenues	\$14,661,000
Loss from operations	115,000

This special commodities division was launched in June 1980 and its growth has proceeded according to plan. It uses independent drivers who furnish their own tractors, and hauls truckload traffic which does not fit the requirements of the general commodities operation.

At year end CF Arrowhead had six company offices and 44 agents, compared with seven offices and seven agents at the end of 1980. The division moved into the black in August, but not soon enough to show a profit for the year. It is expected to be profitable in 1982.

#### **CANADIAN FREIGHTWAYS LIMITED**

	(Canadian \$)
Revenues	\$46,212,000
Earnings from operations	9,943,000

This subsidiary has 16 terminals and three highway sufferance warehouses in Alberta, British Columbia and the Yukon Territory. It experienced a second successive year of declining tonnage as the Canadian economy remained in a state of "stagflation." With tonnage down 19% for the year, revenues were up only 1% to C\$46,212,000. Although operating earnings were down 5% from C\$10.4 million, the profit margin was still the best of any CF component.

A company terminal was established in Prince Rupert, British Columbia, site of a major port development.

Capital expenditures totaled C\$3.3 million, principally for replacement revenue equipment, which compared with C\$5.3 million in 1980.



**CANADIAN FREIGHTWAYS EASTERN LIMITED**

	(Canadian \$)
Revenues	\$9,644,000
Earnings from operations	1,264,000

CFEL has eight terminals, including three sufferance warehouses, in southern Ontario. Headquartered in Toronto, it specializes in international traffic. Although tonnage declined in 1981, revenues were up 7% from C\$9 million and operating earnings were up 21% from C\$1 million.

**ROAD SYSTEMS, INC.\***

Revenues	\$17,575,000
Earnings from operations	2,311,000

\*Before elimination of intercompany transactions.

Since RSI is chiefly involved in rebuilding the company's highway trailers, most of its sales and earnings are eliminated in consolidation. It does a small but growing outside business in new and rebuilt trailers from its plant in Fontana, California.

**Five-Year Summary of Selected Operating Data**

CF General Freight Division	1981	1980	1979	1978	1977
Revenues	<b>\$983,898,000</b>	\$934,598,000	\$849,288,000	\$758,337,000	\$613,373,000
Operating ratio	<b>92.3</b>	91.7	92.7	89.6	89.2
Intercity miles	<b>364,887,000</b>	385,642,000	416,398,000	414,909,000	361,092,000
Average length of haul (miles)	<b>1,433</b>	1,435	1,446	1,426	1,416
Number of shipments	<b>7,422,000</b>	7,830,000	7,908,000	7,685,000	7,008,000
Number of tons	<b>4,204,000</b>	4,456,000	4,669,000	4,771,000	4,191,000
Average load factor (lbs.)	<b>33,024</b>	33,163	32,421	32,788	32,867
LTL percent of revenue	<b>80.3</b>	78.2	76.2	74.6	74.9
Average weight per shipment (lbs.)	<b>1,133</b>	1,138	1,181	1,242	1,196
Average revenue per shipment	<b>\$134.39</b>	\$121.07	\$107.40	\$98.68	\$87.52
Average revenue per cwt.	<b>\$11.86</b>	\$10.64	\$9.10	\$7.95	\$7.32
Cargo claims as % of revenue	<b>1.44</b>	1.81	1.52	1.57	1.44
Number of terminals	<b>352</b>	293	271	247	228
Number of doors	<b>8,537</b>	8,300	7,875	7,132	6,598
Intercity power units	<b>2,615</b>	2,606	2,741	2,660	2,334
Intercity trailers	<b>14,168</b>	13,998	13,973	13,064	11,845
P & D power units	<b>3,781</b>	3,705	3,780	3,541	3,449
P & D trailers	<b>2,672</b>	2,744	2,915	2,798	2,564
Number of employees	<b>14,996</b>	15,277	15,896	15,688	14,014

Left to right: Steve J. Bandrowsky, Vice President – Central Area; Donald E. Billings, Vice President – Southern Area; Robert C. Sands, Vice President – Eastern Area; Everett M. Stephens, Vice President – Western Area.



## AIR FREIGHT OPERATIONS REVIEW

Air Freight Highlights	1981	1980
Revenues	<b>\$97,804,000</b>	\$81,234,000
Earnings from operations	<b>7,257,000</b>	8,217,000
Capital expenditures	<b>2,616,000</b>	1,687,000
Terminals	<b>68</b>	63
Employees	<b>657</b>	541

CF Air Freight performed very well in what proved to be a year of depressed traffic volume for the air freight industry. The number of shipments and the tonnage handled both increased, boosting revenues 20.4% above 1980. Persistent rate competition kept pressure on profit margins, however, and operating earnings declined 11.7% from the record high of 1980.

This was neither a surprise nor a disappointment. We have put our efforts into building market share through competitive pricing for that business which best fits our operations. Since CF Air Freight still has an excellent profit margin, this strategy will be continued in 1982.

The strike of air traffic controllers followed by a reduction in flight schedules had an adverse but hard-to-measure effect. The reduction in available freight capacity probably contributed to higher airline freight charges. This, of course, increases a forwarder's costs.

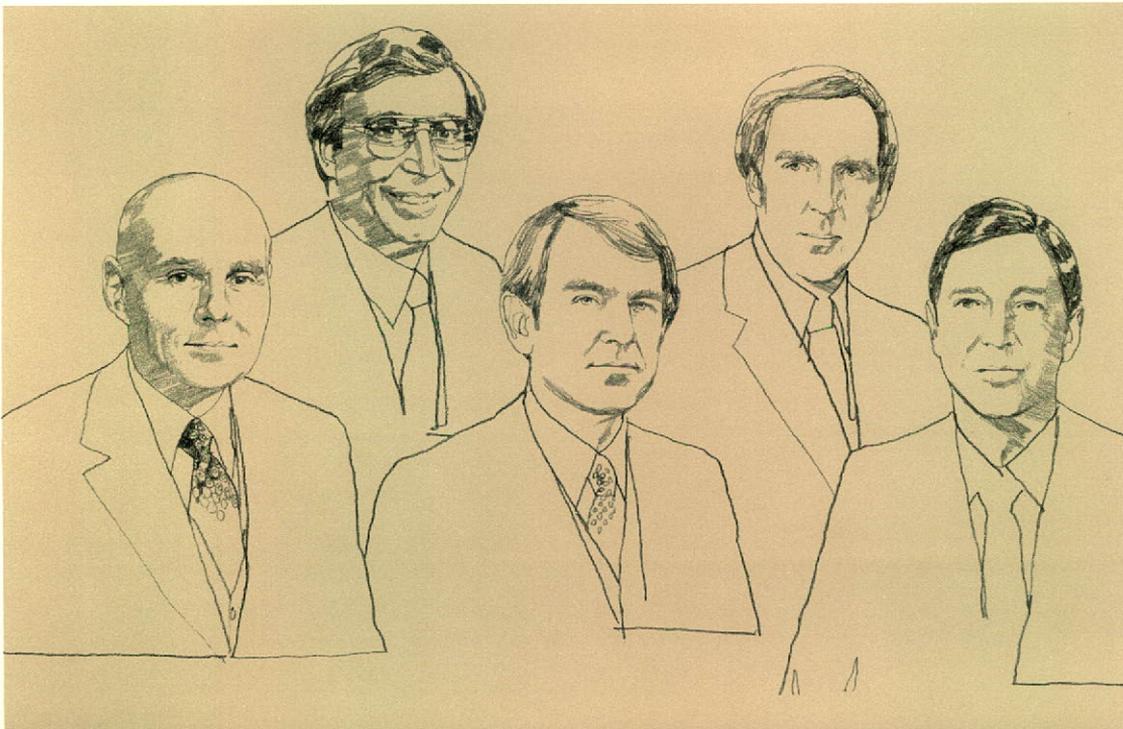
The air cargo industry is the only form of transportation from which all regulatory controls have

been removed. Air freight forwarders traditionally perform the pickup, consolidation, and delivery operations, relying on the scheduled airlines to perform the airhaul. The changing competitive conditions, with frequent changes in aircraft availability and rapidly escalating airline costs, have induced some forwarders to operate their own planes, creating another change in the competitive situation.

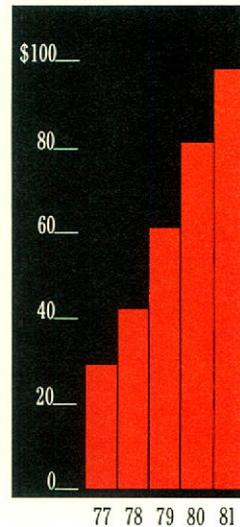
CF Air Freight believes there is adequate airlift capacity within the industry and that, from an economic and service standpoint, its customers can best be served by not duplicating this capacity. The capital cost of any excess capacity will in the long run find its way into the rate structure and neither shipper nor carrier will derive any long-term benefits. We have the financial resources to add aircraft to our own operations if the reliability or consistency of current airlift should deteriorate. In the meantime, we will concentrate on maintaining our high level of service through continuing relationships with existing carriers.

CF Air Freight's principal market is represented by domestic air freight tonnage exclusive of mail and express. We have a small but growing share of this market. A significant portion of this tonnage is handled directly by the airlines, usually because the size or type of shipment does not result in benefits from forwarder consolidation.

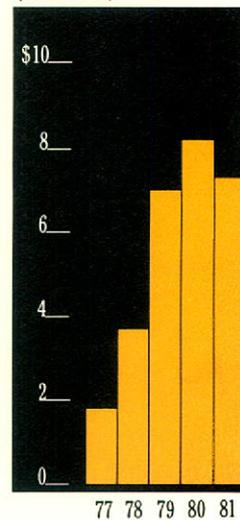
*Left to right: W. Roger Curry, President; Richard F. Bryner, Vice President - Operations; John W. Veenstra, Vice President - Sales and Marketing; Donald G. Berger, Vice President - Eastern Area; Rufus W. Roberts, Vice President - Western Area.*



AIR FREIGHT REVENUES  
(in millions)



AIR FREIGHT EARNINGS FROM OPERATIONS  
(in millions)



Our share of the international market is not significant. With such a small share of the market, we have ample opportunity to concentrate on strategies and tactics that will promote our growth.

**Our growth strategy calls for adding terminals in a period of recession.**

CF Air Freight increased its tonnage 14.6% in 1981 despite a decline in U.S. total domestic and international air cargo estimated at 3%. We credit an aggressive and creative marketing program coupled with our decision to invest in expanding our service and sales organization during a decline in the air freight market.

During 1981 we opened terminals in Moline, Illinois; Columbia, South Carolina; Bristol, Tennessee; San Antonio, Texas; and Casper, Wyoming. Sales offices were opened in Van Nuys, California; Charleston, South Carolina; and Austin, Texas, making a total of 68 terminals and

24 sales offices. We use pickup and delivery agents in approximately 160 U.S. cities where we do not have terminals.

We expect to continue expanding into additional markets as long as sufficient market potential can be identified. The pace will slow somewhat in 1982 because the weaker freight market increases the pressure on profit margins and lengthens the time required to make a new facility profitable.

Expansion opportunities are also limited by the availability of trained personnel. To meet this need, a permanent Training Center was recently opened. Staffed with full-time faculty, the Center exemplifies our belief that our industry depends



almost entirely on qualified, knowledgeable and motivated people for its success.

Joint air-ground service using the pickup and highway capabilities of Consolidated Freightways to bring air freight service to many cities without commercial air service was in effect during 1981. This operation provides valuable experience in intermodal service and is gradually being extended to other appropriate areas.

Plans for additional growth include greater emphasis on the international market by opening additional sales offices abroad during 1982.

#### **New on-line control system allows customer access to shipment data.**

A new shipment control system called CONFIRM was installed during the year to meet the need for more timely and accurate information. Using the

CF computer capability, it allows instant monitoring and tracing of individual shipments. Customers with an appropriate interface device may secure shipment information directly from the computer. Terminal managers may receive information on all freight inbound to them at any time.

The system required installation of advanced communication devices at each company terminal.

Capital expenditures for terminals, vehicles, communication hardware, and other operating equipment totaled \$2,616,000. Capital expenditures are expected to increase in 1982 due to construction of several large terminals and the training center.

Traffic Statistics	1981	1980
Shipments	<b>563,089</b>	521,593
Domestic	<b>506,961</b>	470,797
International	<b>56,128</b>	50,796
Average size (lbs.)	<b>162</b>	153
Domestic	<b>161</b>	151
International	<b>177</b>	173



## **FINANCIAL SECTION**

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## FINANCIAL REVIEW

### Overview

The Company sold its principal manufacturing and credit subsidiaries to Daimler-Benz AG of West Germany as of July 31, 1981, realizing a gain net of income taxes of \$71,547,000, or \$5.40 per share. The accompanying consolidated financial statements have been restated to reflect those subsidiaries as discontinued operations. One small subsidiary, Road Systems, Inc., a manufacturer and rebuilder of freight trailers, which had previously been reported in the manufacturing business segment, was not sold and has been reclassified to the motor carrier segment. For further information on the discontinued operations, see Note 2 on page 31 of this Annual Report.

Economic activity in the United States began a general deterioration in the latter part of 1979 and has had only brief periods of improvement through 1981. The freight transportation industry has been impacted to a greater extent than the economy as a whole.

Nevertheless, the Company achieved record revenues on continuing operations in 1981, 7.3% above the previous year, principally due to higher rates. Earnings from operations declined 1.5% from 1980 as a result of lower tonnage and more competitive pricing. Income from continuing operations was 22.2% higher, however, due to significantly greater interest income resulting

*Donald E. Moffitt, Executive Vice President—Finance & Administration*



primarily from the proceeds from the sale of the discontinued operations.

In 1980, revenues, earnings from operations and income from continuing operations increased 12.0%, 19.2% and 9.1%, respectively, over the previous year, which had been impacted by a nine-day nationwide trucking strike in the United States and higher costs not fully covered by rate increases. Revenues rose 12.3% in 1979, but earnings from operations and income from continuing operations decreased 14.5% and 5.5%, respectively, for the reasons mentioned above.

The Company recorded an extraordinary income tax benefit of \$14,235,000 during 1981 from the write-off of its U.S. motor carrier operating rights. Those rights, the ongoing market value of which was eliminated by the passage of the Motor Carrier Act of 1980, were written off in that year by an extraordinary charge of \$32,102,000. The tax benefit was specifically allowed by the Economic Recovery Tax Act of 1981.

### Motor Carrier

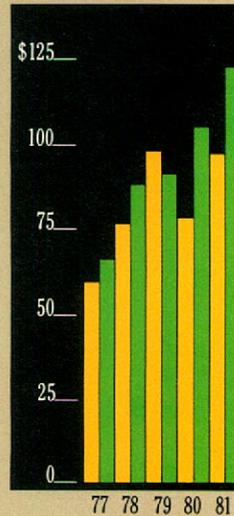
Changes in revenues and earnings of the motor carrier group result from a complex interaction of such factors as rates, total tonnage, the mix of less-than-truckload (LTL) and truckload traffic, commodities carried, average length of haul and productivity.

Weakness in the U.S. economy has resulted in a steady decline in tonnage handled by the U.S. general freight division during the last two years, although its tonnage declines have been less than those experienced by the rest of the industry. Compared with the previous year, tonnage decreased 5.6% and 4.6% in 1981 and 1980, respectively. The motor carrier's U.S. tonnage decline of 2% in 1979 was due to the nationwide work stoppage. Canadian tonnage has also declined.

The ability of the motor carrier group to realize revenue growth despite reduced tonnage is primarily due to increases in its percentage of LTL freight and higher rates. The percentage of LTL to total U.S. tonnage was 62.8% in 1981, 61.4% in 1980 and 59.5% in 1979. Competitive factors within the motor carrier industry, aggravated by

### CAPITAL EXPENDITURES AND CASH FLOW\*

(in millions)  
■ Capital Expenditures  
■ Cash Flow



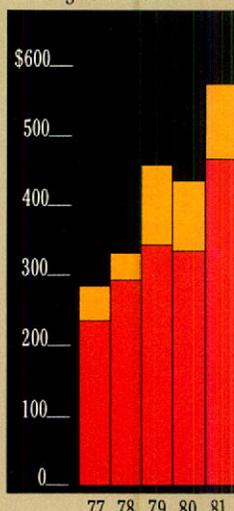
\*From continuing operations

## FINANCIAL REVIEW

### CAPITALIZATION\*

(in millions)

■ Shareholders' Equity  
■ Long-Term Debt



\*From continuing operations

substantial excess capacity, have resulted in widespread discounting and rate-cutting. Rates have therefore not fully compensated for cost increases. The operating profit margin declined to 8.2% in 1981 from 8.8% in 1980. This compares with 8.1% in 1979 and 11.1% in 1978.

The 1979 decrease in profitability was a consequence of rapidly rising fuel costs, increased labor costs, greater depreciation expense from major terminal additions, and the previously mentioned work stoppage. The increase in profitability in 1980 from the previous year reflects the absence of the work stoppage as well as successful cost control and the receipt of relatively more compensatory rate increases.

### Air Freight Forwarding

Air freight forwarding revenues have shown significant year-to-year increases of 20.4% in 1981, 32.6% in 1980 and 46.1% in 1979. During these same years, tonnage increased 14.6%, 11.3% and 30.7%, respectively. The slowing rate of revenue growth reflects both smaller tonnage gains and increased price competition, particularly in 1981. However, since U.S. air freight industry tonnage as a whole declined during these years, CF Air Freight's continuing growth resulted in an increased share of the market.

Aggressive price competition coupled with the cost of expanded marketing efforts have combined with the slower rate of tonnage growth to reduce profitability. The operating margin of 11.4% in 1979 fell to 10.1% in 1980 and to 7.4% in 1981. The 1979 margin was unusually high because of the operating economies associated with the substantial growth in tonnage in that year.

### Interest Expense

Overall interest rates during 1981 were somewhat higher than in 1980, but interest expense rose only slightly, reflecting a lower average level of debt. The proceeds from the sale of the manufacturing and credit subsidiaries enabled the Company to reduce its borrowing requirements. In

both 1980 and 1979, interest expense increased significantly as a result of a greater average level of debt as well as higher interest rates.

### Interest Income

The Company received an initial cash payment of \$204,208,000 and two installment notes totaling \$80 million from the sale of its manufacturing and credit subsidiaries on July 31, 1981. The total of the two installment notes was subsequently reduced to \$76,659,000 as a result of adjustments for the July losses of the discontinued operations and the final audit. The cash proceeds less the related expenses and income taxes currently payable were invested on a short-term basis and along with the installment notes earned interest totaling \$18,098,000 through the end of 1981. Additional interest was earned during 1981 from the temporary investment of cash generated by the operating subsidiaries in excess of their requirements.

Interest income also rose significantly in both 1980 and 1979 as a result of a greater average level of temporary investments combined with higher interest rates.

### Liquidity and Capital Resources

The capital requirements of the Company have been financed principally through working capital generated from operations. This source accounted for 92% of total working capital requirements in 1981 (excluding the long-term note receivable from the sale), 86% in 1980 and 77% in 1979.

The \$225,180,000 increase in working capital during 1981 resulted principally from the cash and note received in conjunction with the sale of subsidiaries previously noted.

Capital expenditures rose in 1981 compared with the previous year, when selected projects were deferred or cancelled due to the declining business volume, but remained below the record 1979 level. Although the operations in both 1981 and 1980 provided sufficient working capital to fund the capital programs for those years, the Company continued to increase its long-term debt whenever it could issue low-interest industrial revenue bonds. It also elected to maintain a minimum level of commercial paper in the market.

Current operations did not generate sufficient working capital for the 1979 capital expenditures,

and an additional \$73,915,000 of long-term debt was incurred. Of this amount, \$19,200,000 was in low-interest industrial revenue bonds.

At December 31, 1981, the Company had approximately \$184 million of unused borrowing capacity permitted under existing debt agreements.

### Financial Condition

The current ratio for the Company was 2.3 to 1 as of December 31, 1981, reflecting the proceeds from the sale of the manufacturing and credit subsidiaries. At December 31, 1980, the ratio was 1 to 1. The Company has historically maintained a relatively low current ratio because of a high turnover of trade accounts receivable.

### Supplementary Information on Changing Prices

All financial data presented elsewhere in this Annual Report are stated in historical dollars in accordance with generally accepted accounting principles. However, with the recent rapid increase in the rate of inflation, traditional accounting measurements of income and capital have become distorted. The Financial Accounting Standards Board (FASB) has issued Statement No. 33, "Financial Reporting and Changing Prices," which requires the disclosure of certain effects of changing prices on the basic financial statements. For the Company, those effects are limited to a revaluation of its net property, plant and equipment and the related depreciation expense. Prior year data have been restated to reflect continuing operations only.

The FASB has established two different methods for adjusting historical dollar financial statements to report the economic impact of changing prices: the "constant dollar" method, which measures the effects of general inflation, and the "current cost" method, which measures the effects of changes in specific prices.

Under the constant dollar method, the net cost of property, plant and equipment is restated in dollars of equivalent purchasing power of an average dollar during 1981 using the Consumer Price Index for All Urban Consumers (CPI-U).

The current cost method revalues net property, plant and equipment to reflect the specific price increases that would have been incurred if the assets had been purchased at prices in effect in

1981. At December 31, 1981, the current cost of net property, plant and equipment was \$545,026,000. The Company obtained its current cost information primarily by reference to industry indexes applicable to specific asset groups. Current cost amounts will differ from constant dollar amounts to the extent that the specific prices of assets have increased more or less rapidly than the general rate of inflation. However, current cost data do not reflect specific plans for the replacement of property nor consider operating efficiencies that may be gained by replacing existing assets.

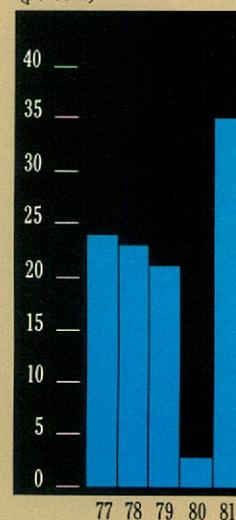
Under both the constant dollar and current cost methods, the revalued property, plant and equipment amounts are used to compute revised depreciation expense based on the same estimated useful lives, salvage values and depreciation methods used in the historical dollar financial statements. As specified in Statement No. 33, revenues and all costs and expenses other than depreciation are assumed to have occurred proportionately throughout the year and, therefore, are already stated in average 1981 dollars.

Historical cost depreciation expense for 1981 was \$47,538,000. Adjusted for inflation, depreciation expense is \$68,866,000 on a constant dollar basis (an increase of \$21,328,000 or 45%) and \$65,214,000 on a current cost basis (an increase of \$17,676,000 or 37%).

Although these adjustments to depreciation expense affect income from continuing operations before income taxes, income taxes have not been adjusted since this is prohibited by Statement No. 33. Moreover, the income taxes which the Company is currently required to pay are based on costs which have not been adjusted for the effects of inflation. Consequently, the 1981 effective tax rate on continuing operations rises from 40.1% on a historical cost basis to 50.2% on a constant dollar basis and 48.1% on a current cost basis.

The 1981 income from continuing operations of \$63,946,000 as reported in the Statements

RETURN ON AVERAGE SHAREHOLDERS' EQUITY (percent)



# FINANCIAL REVIEW

## Statement of Consolidated Income Adjusted for Changing Prices

Year Ended December 31, 1981	As Reported in the Statements of Consolidated Income	Adjusted for General Inflation ("Constant Dollars")	Adjusted for Changes in Specific Prices ("Current Costs")
	(In thousands except per share data)		
<b>Revenues</b>			
Motor carrier	\$1,045,918	\$1,045,918	\$1,045,918
Air freight forwarding	97,804	97,804	97,804
	1,143,722	1,143,722	1,143,722
<b>Costs and Expenses</b>			
Operating expenses	853,892	853,892	853,892
Depreciation	47,538	68,866	65,214
Selling and administrative expenses	149,006	149,006	149,006
	1,050,436	1,071,764	1,068,112
<b>Other Income, net</b>	13,555	13,555	13,555
<b>Income Taxes</b>	42,895	42,895	42,895
<b>Income from Continuing Operations</b>	63,946	42,618	46,270
<b>Loss from Discontinued Operations</b>	(8,485)	(8,485)	(8,485)
<b>Gain on Sale of Discontinued Operations</b>	71,547	71,547	71,547
<b>Extraordinary Item</b>	14,235	14,235	14,235
<b>Net Income</b>	\$ 141,243	\$ 119,915	\$ 123,567
<b>Per Share</b>			
Income from continuing operations	\$ 4.81	\$ 3.21	\$ 3.48
Loss from discontinued operations	(.65)	(.65)	(.65)
Gain on sale of discontinued operations	5.40	5.40	5.40
Extraordinary item	1.07	1.07	1.07
Net income	\$ 10.63	\$ 9.03	\$ 9.30

of Consolidated Income becomes \$42,618,000 (a 50% decrease) when adjusted for general inflation (constant dollar basis). On a current cost basis, the income from continuing operations is \$46,270,000 (a 38% decrease).

The Company held net monetary assets during a period when inflation caused the purchasing power of the dollar to decline. It experienced an unrealized loss in purchasing power of \$3,643,000 in 1981 on these monetary assets, offset by interest income on its investment portfolio.

In addition, adjusted for changes in general inflation, the historical cost of net property, plant and equipment at December 31, 1981 increased \$44,055,000. On a current cost basis, the increase in these assets was \$20,655,000. The difference in these two inflation adjustments of \$23,400,000 was caused by a more rapid rise in the general price level than in specific prices.

In the table on the following page, revenues, cash dividends per share and year-end market price per share for the past five years have been restated in average 1981 dollars on both a constant dollar and current cost basis. Net assets have also been restated on the same basis by increasing total shareholders' equity as reported in the Consolidated Balance Sheets by the excess of constant dollar or current cost values for net property, plant and equipment over the respective historical dollar amounts.

Reporting the effects of inflation is very complex, and the above presentation is experimental. Therefore, it is advisable not to infer too much significance from adjusted results for any one year. Comparisons of price level adjusted data are most meaningful when interpreted in terms of trends and relationships among the periods; the absolute dollar amounts have limited meaning.

**Five-Year Comparison of Selected Supplementary Financial Data  
Adjusted for Changing Prices Based on Average 1981 Dollars**

Years Ended December 31	1981	1980	1979	1978	1977
<b>Historical Cost Information</b>					
(Dollars in thousands except per share data)					
<b>Adjusted for General Inflation</b>					
Revenues*	\$1,143,722	\$1,172,067	\$1,189,713	\$1,178,486	\$1,023,374
Income from continuing operations	42,618	39,570	46,051	Not required	
Income per share from continuing operations	3.21	3.01	3.53	for years prior to 1979	
Net assets at year end*	598,231	490,502	530,425		
<b>Current Cost Information</b>					
Income from continuing operations	\$ 46,270	\$ 37,013	\$ 41,680		
Income per share from continuing operations	3.48	2.83	3.19	Not required	
Excess of the increase in general inflation over the increase in specific prices	23,400	18,272	20,665	for years prior to 1979	
Net assets at year end*	648,233	556,824	598,142		
<b>Other Information</b>					
Unrealized gain (loss) from decline in purchasing power of net monetary items*	\$ (3,643)	\$ 19,730	\$ 18,741		
Cash dividends per share	\$ 1.49	\$ 1.51	\$ 1.56	\$ 1.53	\$ 1.31
Market price per share at year end	\$ 40	\$ 27	\$ 31	\$ 31	\$ 38
Average consumer price index	272.4	246.8	217.4	195.4	181.5

\*Years prior to 1981 restated for discontinued operations.

**Quarterly Financial Data (Unaudited)**

1981 — Quarter Ended	March 31	June 30	September 30	December 31
(In thousands except per share data)				
Continuing operations				
Revenues	\$271,757	\$287,564	\$296,210	\$288,191
Earnings from operations	18,648	24,236	28,456	21,946
Income from continuing operations before income taxes	17,988	25,641	34,346	28,866
Income taxes	7,528	8,360	15,384	11,623
Income from continuing operations	10,460	17,281	18,962	17,243
Income (loss) from discontinued operations	13	(6,486)	(2,934)	922
Gain on sale of discontinued operations	—	—	71,547	—
Extraordinary item	—	—	14,235	—
Net income	10,473	10,795	101,810	18,165
Per share				
Income from continuing operations	.80	1.30	1.42	1.29
Income (loss) from discontinued operations	—	(.49)	(.22)	.06
Gain on sale of discontinued operations	—	—	5.40	—
Extraordinary item	—	—	1.07	—
Net income	.80	.81	7.67	1.35
Dividends	.35	.38	.38	.38
Market price	39-24½	45-37½	41½-35½	42¾-32
1980 — Quarter Ended	March 31	June 30	September 30	December 31
(In thousands except per share data)				
Continuing operations				
Revenues	\$268,367	\$257,450	\$265,404	\$274,294
Earnings from operations	22,227	19,649	26,657	26,162
Income from continuing operations before income taxes	20,346	19,616	24,643	26,291
Income taxes	8,521	8,522	11,897	9,620
Income from continuing operations	11,825	11,094	12,746	16,671
Income (loss) from discontinued operations	3,066	(4,095)	(7,313)	(2,096)
Extraordinary item	—	—	(32,102)	—
Net income (loss)	14,891	6,999	(26,669)	14,575
Per share				
Income from continuing operations	.90	.85	.97	1.27
Income (loss) from discontinued operations	.24	(.32)	(.55)	(.16)
Extraordinary item	—	—	(2.45)	—
Net income (loss)	1.14	.53	(2.03)	1.11
Dividends	.325	.35	.35	.35
Market price	24¾-19	23-18	29%-21%	27¾-23½

## TEN-YEAR FINANCIAL SUMMARY

Years Ended December 31	1981	1980	1979
<b>Summary of Operations</b>			
Revenues	\$1,143,722	\$1,065,515	\$951,770
Motor carrier*	1,045,918	984,281	890,513
Air freight forwarding	97,804	81,234	61,257
Earnings from operations	93,286	94,695	79,417
Motor carrier*	86,029	86,478	72,430
Air freight forwarding	7,257	8,217	6,987
Depreciation and amortization*	47,825	44,886	37,725
Interest expense*	13,169	12,665	8,196
Interest income*	29,466	9,892	6,271
Income from continuing operations before income taxes	106,841	90,896	77,888
Income taxes on continuing operations	42,895	38,560	29,900
Income from continuing operations	63,946	52,336	47,988
Income (loss) from discontinued operations	(8,485)	(10,438)	17,897
Net income	141,243(a)	9,796(b)	65,885
Working capital from continuing operations	122,739	105,256	90,741
<b>Per Share</b>			
Income from continuing operations	4.81	3.99	3.68
Income (loss) from discontinued operations	(.65)	(.79)	1.38
Net income	10.63(a)	.75(b)	5.06
Dividends	1.49	1.375	1.25
Shareholders' equity	34.79	25.68	26.36
<b>Financial Position of Continuing Operations*</b>			
Working capital	227,847	2,667	(388)
Property, plant and equipment, net	361,589	311,593	282,480
Total assets	828,338	515,351	504,515
Capital expenditures	96,676	78,217	98,291
Long-term debt	105,637	93,384	111,771
Shareholders' equity	464,796	337,815	344,190
<b>Ratios and Statistics</b>			
Current ratio*	2.3 to 1	1.0 to 1	1.0 to 1
Income from continuing operations as % of revenues	5.6%	4.9%	5.0%
Effective income tax rate on continuing operations	40.1%	42.4%	38.4%
Long-term debt as % of total capitalization	19%	22%	25%
Return on average invested capital	26%	2%	17%
Return on average shareholders' equity	35%	3%	21%
Dividends as % of net income	14%	184%	25%
Average shares outstanding	13,288,421	13,112,966	13,031,052
Market price range	\$45-24½	\$29½-18	\$28¼-21¾
Number of shareholders	10,290	10,043	9,783
Number of employees*	17,000	17,300	17,900

\*Years prior to 1981 restated for discontinued operations.

(a) Includes \$71,547,000 (\$5.40 per share) gain on sale of discontinued operations and \$14,235,000 (\$1.07 per share) tax benefit relating to write-off of U.S. motor

(b) Net of \$32,102,000 (\$2.45 per share) write-off of U.S. motor carrier operating rights.

(c) Net of \$19,787,000 (\$1.67 per share) loss on investment in Pacific Far East Line, Inc.

(d) Net of \$1,987,000 (\$.17 per share) loss on investment in Pacific Far East Line, Inc.

1978	1977	1976	1975	1974	1973	1972
(Dollars in thousands except per share data)						
\$847,832	\$682,249	\$574,563	\$470,306	\$475,699	\$426,390	\$362,277
805,897	653,358	548,665	449,791	459,230	414,829	355,307
41,935	28,891	25,898	20,515	16,469	11,561	6,970
92,909	73,552	58,087	39,141	39,231	29,219	29,360
89,184	71,784	56,909	38,569	39,394	29,348	30,032
3,725	1,768	1,178	572	(163)	(129)	(672)
32,342	25,049	22,713	22,358	20,268	18,206	17,041
5,306	4,133	3,792	5,492	5,382	4,344	4,437
2,761	2,413	2,285	1,968	2,108	2,407	1,796
89,159	71,764	56,600	35,607	36,265	26,900	26,323
38,353	31,872	25,483	15,810	15,470	9,938	11,669
50,806	39,892	31,117	19,797	20,795	16,962	14,654
11,201	12,608	7,071	(1,703)	6,119	11,643	10,557
62,007	52,500	38,188	18,094	26,914	8,818(c)	23,224(d)
88,366	65,671	56,421	44,711	44,164	34,673	31,858
3.95	3.22	2.54	1.66	1.74	1.43	1.25
.87	1.02	.58	(.14)	.52	.98	.90
4.82	4.24	3.12	1.52	2.26	.74(c)	1.98(d)
1.10	.875	.775	.70	.64	.54	.52
22.62	18.98	15.63	13.16	12.33	10.70	10.42
(1,931)	(6,856)	14,897	(5,696)	(10,054)	10,792	14,367
228,361	188,995	158,431	154,775	158,370	133,834	119,486
424,518	344,660	311,588	255,490	244,126	238,924	244,046
75,720	58,869	28,639	21,544	48,773	35,229	22,619
41,056	45,332	46,095	51,450	70,041	54,325	60,737
293,570	237,233	193,194	157,393	147,210	127,481	122,830
1.0 to 1	0.9 to 1	1.1 to 1	0.9 to 1	0.9 to 1	1.1 to 1	1.2 to 1
6.0%	5.8%	5.4%	4.2%	4.4%	4.0%	4.0%
43.0%	44.4%	45.0%	44.4%	42.7%	36.9%	44.3%
12%	16%	19%	25%	32%	30%	33%
19%	19%	17%	10%	15%	7%	15%
23%	24%	22%	12%	20%	7%	21%
23%	21%	25%	46%	28%	73%	26%
12,866,807	12,387,704	12,227,304	11,939,100	11,931,854	11,865,026	11,716,372
\$34-19%	\$26½-21½	\$28-18%	\$19¾-9%	\$20¼-8%	\$23%-10½	\$31½-18
9,798	9,735	9,451	9,818	9,966	9,703	8,666
17,300	15,600	14,300	13,200	13,500	14,500	13,500

er operating rights.

**STATEMENTS OF CONSOLIDATED INCOME**

Years Ended December 31	1981	1980*	1979*
	(Dollars in thousands except per share data)		
<b>Revenues</b>			
Motor carrier	\$1,045,918	\$ 984,281	\$ 890,513
Air freight forwarding	97,804	81,234	61,257
	<b>1,143,722</b>	<b>1,065,515</b>	<b>951,770</b>
<b>Costs and Expenses</b>			
Motor carrier			
Operating expenses	784,218	739,152	681,561
Selling and administrative expenses	128,951	115,312	100,146
Depreciation	46,720	43,339	36,376
	<b>959,889</b>	<b>897,803</b>	<b>818,083</b>
Air freight forwarding			
Operating expenses	69,674	57,532	43,186
Selling and administrative expenses	20,055	14,687	10,507
Depreciation	818	798	577
	<b>90,547</b>	<b>73,017</b>	<b>54,270</b>
	<b>1,050,436</b>	<b>970,820</b>	<b>872,353</b>
<b>Earnings from Operations</b>			
Motor carrier	86,029	86,478	72,430
Air freight forwarding	7,257	8,217	6,987
	<b>93,286</b>	<b>94,695</b>	<b>79,417</b>
<b>Other Income (Expense)</b>			
Interest expense	(13,169)	(12,665)	(8,196)
Interest income	29,466	9,892	6,271
Gain on sale of property and equipment	458	1,297	2,655
Miscellaneous, net	(3,200)	(2,323)	(2,259)
	<b>13,555</b>	<b>(3,799)</b>	<b>(1,529)</b>
<b>Income from Continuing Operations Before Income Taxes</b>	<b>106,841</b>	<b>90,896</b>	<b>77,888</b>
<b>Income Taxes</b> (Note 6)	<b>42,895</b>	<b>38,560</b>	<b>29,900</b>
<b>Income from Continuing Operations</b>	<b>63,946</b>	<b>52,336</b>	<b>47,988</b>
<b>Income (Loss) from Discontinued Operations</b> (Note 2)	<b>(8,485)</b>	<b>(10,438)</b>	<b>17,897</b>
<b>Gain on Sale of Discontinued Operations</b> (Note 2)	<b>71,547</b>	<b>—</b>	<b>—</b>
<b>Income Before Extraordinary Items</b>	<b>127,008</b>	<b>41,898</b>	<b>65,885</b>
<b>Extraordinary Items</b> — Write-off of U.S. motor carrier operating rights (1980) and related tax benefit (1981) (Note 3)	<b>14,235</b>	<b>(32,102)</b>	<b>—</b>
<b>Net Income</b>	<b>\$ 141,243</b>	<b>\$ 9,796</b>	<b>\$ 65,885</b>
<b>Average Shares Outstanding</b>	<b>13,288,421</b>	<b>13,112,966</b>	<b>13,031,052</b>
<b>Per Share</b>			
Income from continuing operations	\$ 4.81	\$ 3.99	\$ 3.68
Income (loss) from discontinued operations	(.65)	(.79)	1.38
Gain on sale of discontinued operations	5.40	—	—
Income before extraordinary items	9.56	3.20	5.06
Extraordinary items	1.07	(2.45)	—
Net income	\$ 10.63	\$ .75	\$ 5.06

\*Restated for discontinued operations.

The accompanying notes are an integral part of these statements.

## STATEMENTS OF CHANGES IN CONSOLIDATED FINANCIAL POSITION

Years Ended December 31	1981	1980*	1979*
		(In thousands)	
<b>Sources of Working Capital</b>			
Continuing operations			
Income from continuing operations	\$ 63,946	\$ 52,336	\$ 47,988
Depreciation and amortization	47,825	44,886	37,725
Deferred income taxes	10,968	8,034	5,028
Working capital provided by continuing operations	122,739	105,256	90,741
Working capital provided (used) by discontinued operations	(4,178)	(3,342)	23,745
Extraordinary item — tax benefit related to write-off of U.S. motor carrier operating rights, net	6,696	—	—
Working capital provided by operations	125,257	101,914	114,486
Proceeds from sale of discontinued operations, net of related expenses and current income taxes	236,337	—	—
Proceeds from long-term financing	17,100	8,313	73,915
Sale of property and equipment	4,749	6,477	7,219
Issuance of common stock	5,534	1,862	1,029
Miscellaneous, net**	(619)	7,439	(77,321)
<b>Total Sources of Working Capital</b>	<b>388,358</b>	<b>126,005</b>	<b>119,328</b>
<b>Uses of Working Capital</b>			
Capital expenditures			
Land and buildings	19,141	23,008	36,406
Motor carrier equipment	53,947	43,150	53,009
Other equipment	23,588	12,059	8,876
Total capital expenditures	96,676	78,217	98,291
Note receivable from sale of discontinued operations	30,000	—	—
Purchase of tax benefit leases, net of recoveries	11,859	—	—
Dividends on common stock	19,796	18,033	16,294
Retirement of long-term debt	4,847	26,700	3,200
<b>Total Uses of Working Capital</b>	<b>163,178</b>	<b>122,950</b>	<b>117,785</b>
<b>Increase in Working Capital</b>	<b>\$225,180</b>	<b>\$ 3,055</b>	<b>\$ 1,543</b>

### Changes in Components of Working Capital

Increase (decrease) in current assets			
Cash and temporary investments	\$154,333	\$ 12,061	\$(11,931)
Receivables	60,707	(107)	10,637
Operating supplies	504	1,578	11,232
Prepaid expenses	1,763	1,077	3,034
Prepaid income taxes	2,012	2,125	3,107
(Increase) decrease in current liabilities			
Accounts payable and accrued liabilities	(13,293)	(4,465)	(16,787)
Federal and other incomes taxes	16,136	(3,746)	4,308
Accrued claims cost	2,622	(4,040)	(4,432)
Current maturities of long-term debt	396	(1,428)	2,375
<b>Increase in Working Capital</b>	<b>\$225,180</b>	<b>\$ 3,055</b>	<b>\$ 1,543</b>

\*Restated for discontinued operations.

\*\*Includes net change in net assets of discontinued operations (net assets increased \$72 million in 1979 principally as the result of capital expenditures related to North Carolina plants and the acquisition of Volvo truck inventory).

The accompanying notes are an integral part of these statements.

## CONSOLIDATED BALANCE SHEETS

December 31	1981	1980*
(In thousands)		
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 19,859	\$ 16,482
Temporary investments, at cost (Note 2)	169,754	18,798
	<b>189,613</b>	35,280
Receivables		
Trade accounts receivable, net of allowances	96,380	88,445
Other accounts and notes receivable, net of unamortized discount (Note 2)	55,207	2,435
	<b>151,587</b>	90,880
Operating supplies, at lower of average cost or market	23,057	22,553
Prepaid expenses	28,413	26,650
Prepaid income taxes (Note 6)	16,460	14,448
Total Current Assets	<b>409,130</b>	189,811
<b>Other Assets</b>		
Notes receivable, due through 1988, net of unamortized discount (Note 2)	33,208	575
Investment in tax benefit leases	11,859	—
Deferred charges and other assets	12,552	13,372
	<b>57,619</b>	13,947
<b>Property, Plant and Equipment, at cost</b>		
Land	36,494	33,318
Buildings and improvements	165,370	142,907
Motor carrier equipment	311,882	281,216
Other equipment and leasehold improvements	58,489	38,252
	<b>572,235</b>	495,693
Less accumulated depreciation	<b>(210,646)</b>	(184,100)
	<b>361,589</b>	311,593
<b>Assets of Discontinued Operations</b> (Note 2)	—	268,709
<b>Total Assets</b>	<b>\$828,338</b>	\$784,060

\*Restated for discontinued operations.

The accompanying notes are an integral part of these balance sheets.

	1981	1980*
(In thousands)		
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<b>\$144,313</b>	\$131,020
Federal and other income taxes (Note 6)	<b>1,814</b>	17,950
Accrued claims cost	<b>32,482</b>	35,104
Current maturities of long-term debt (Note 4)	<b>2,674</b>	3,070
Total Current Liabilities	<b>181,283</b>	187,144
<b>Long-Term Debt</b> (Note 4)		
Commercial paper	<b>10,000</b>	—
10% promissory notes, due 1983 through 1985	<b>30,000</b>	30,000
5% and 9% real estate notes, due through 1990	<b>4,800</b>	5,750
7.95% sinking fund debentures, due through 1996	<b>16,196</b>	18,750
6¼% to 11% installment sales and lease contracts under industrial revenue bonds, due 1984 through 2005	<b>40,345</b>	33,245
Other debt, at various rates, due through 1987	<b>4,296</b>	5,639
	<b>105,637</b>	93,384
<b>Deferred Credits and Other Liabilities</b>	<b>31,900</b>	20,350
<b>Deferred Income Taxes</b> (Note 6)	<b>44,722</b>	39,264
<b>Liabilities of Discontinued Operations</b> (Note 2)	—	106,103
Total Liabilities	<b>363,542</b>	446,245
<b>Shareholders' Equity</b>		
Preferred stock, no par value Authorized 5,000,000 shares; none issued	—	—
Common stock, \$.625 par value Authorized 30,000,000 shares; issued 13,826,641 and 13,609,941 shares, respectively	<b>8,642</b>	8,506
Capital in excess of par value	<b>63,786</b>	57,911
Retained earnings (\$225,987,000 not restricted under loan agreements)	<b>395,720</b>	274,273
	<b>468,148</b>	340,690
Less cost of reacquired common stock (466,047 and 455,144 shares, respectively)	<b>(3,352)</b>	(2,875)
Total Shareholders' Equity	<b>464,796</b>	337,815
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$828,338</b>	\$784,060

## STATEMENTS OF CONSOLIDATED SHAREHOLDERS' EQUITY

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Cost of Reacquired Common Stock	Total
	Number of Shares	Amount				
(Dollars in thousands)						
Balance, December 31, 1978	13,434,941	\$ 8,397	\$ 55,129	\$ 232,919	\$ (2,875)	\$ 293,570
Exercise of stock options	75,625	47	982	—	—	1,029
Net income	—	—	—	65,885	—	65,885
Cash dividends (\$1.25 per share)	—	—	—	(16,294)	—	(16,294)
Balance, December 31, 1979	13,510,566	\$ 8,444	\$ 56,111	\$ 282,510	\$ (2,875)	\$ 344,190
Exercise of stock options	99,375	62	1,800	—	—	1,862
Net income	—	—	—	9,796	—	9,796
Cash dividends (\$1.375 per share)	—	—	—	(18,033)	—	(18,033)
Balance, December 31, 1980	13,609,941	\$ 8,506	\$ 57,911	\$ 274,273	\$ (2,875)	\$ 337,815
Exercise of stock options	<b>216,700</b>	<b>136</b>	<b>5,875</b>	—	<b>(477)</b>	<b>5,534</b>
Net income	—	—	—	<b>141,243</b>	—	<b>141,243</b>
Cash dividends (\$1.49 per share)	—	—	—	<b>(19,796)</b>	—	<b>(19,796)</b>
<b>Balance, December 31, 1981</b>	<b>13,826,641</b>	<b>\$ 8,642</b>	<b>\$63,786</b>	<b>\$395,720</b>	<b>\$(3,352)</b>	<b>\$464,796</b>

The accompanying notes are an integral part of these statements.

## AUDITORS' REPORT

To the Shareholders and Board of Directors,  
Consolidated Freightways, Inc.:

We have examined the consolidated balance sheets of Consolidated Freightways, Inc. (a Delaware corporation) and subsidiaries as of December 31, 1981 and 1980, and the related statements of consolidated income, shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1981. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of Consolidated Freightways, Inc. and subsidiaries as of December 31, 1981 and 1980, and the results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1981, in conformity with generally accepted accounting principles applied on a consistent basis.

ARTHUR ANDERSEN & CO.

San Francisco, California  
January 22, 1982

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Principal Accounting Policies

*Principles of Consolidation*—The accompanying consolidated financial statements include the accounts of Consolidated Freightways, Inc. (the Company) and its wholly owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

*Recognition of Revenues*—Freight charges are recognized as revenue when freight is received for shipment. The estimated costs of performing the total transportation service are then accrued.

*Depreciation*—Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, which are generally 25 years for buildings, 6 or 7 years for power units and trailers and 10 years for all other equipment and fixtures. Leasehold improvements are amortized over the terms of the respective leases or the lives of the assets, whichever is shorter.

Expenditures for maintenance and repairs are charged to operating expenses as incurred; betterments are capitalized. Upon the disposal of property, the cost and accumulated depreciation are removed from the accounts and any gain or loss is recorded as other income (expense).

*Income Taxes*—Investment tax credits are recognized as a reduction of income tax expense during the year in which the benefit is received (flow-through method).

The undistributed earnings of the Company's Canadian motor carrier subsidiary, totaling \$29,509,000 at December 31, 1981, have been reinvested indefinitely. Therefore, no distribution taxes have been provided on these earnings.

*Tax Benefit Leases*—The Company has purchased income tax benefits, consisting of investment tax credits and accelerated tax depreciation, through the investment in tax leases under the provisions of the Economic Recovery Tax Act of 1981. Each investment has been allocated between investment tax credit and accelerated tax depreciation in proportion to the relative benefits expected to be realized from each. The anticipated investment tax credit benefits are being recognized as miscellaneous income using the constant rate of interest method based on the net after tax investment. The anticipated accelerated tax depreciation benefits will be written off ratably over the periods during which the cumulative income tax savings exceed the amounts allocated to this portion of the investment.

*Accrued Claims Cost*—The Company provides for the uninsured cost of property, casualty and liability claims. Such cost is

charged to income each year based on historical claims experience and covers both filed unpaid claims and unfiled claims relating to operations conducted through December 31, 1981. The obligation for claims which are not expected to be paid within one year are classified under deferred credits and other liabilities in the accompanying consolidated balance sheets.

*Net Income per Share*—Net income per share is based on the weighted average number of shares outstanding during each year.

## 2. Discontinued Operations

The Company sold its principal manufacturing and credit subsidiaries to Daimler-Benz AG of West Germany as of July 31, 1981, realizing a gain of \$71,547,000 net of income taxes of \$27,000,000. At closing, it received an initial cash payment of \$204,208,000 and two installment notes, one for \$50 million and the other for \$30 million. The cash after payment of the expenses and current income taxes related to the sale was invested on a short-term basis through the end of 1981. The principal amount of the \$50 million note was subsequently reduced to \$46,659,000 as a result of adjustments for the July losses of the discontinued operations and the final audit. This note has a nominal interest rate of 9½% per annum and has been discounted to yield an effective interest rate of 20%. It is due in two installments during 1982. The \$30 million note has a nominal and effective annual interest rate of 16% and is due in six equal annual installments beginning in March 1983.

The accompanying consolidated financial statements have been restated to report the discontinued operations separately from the continuing operations. Operating results for the discontinued operations prior to the sale are summarized below:

Years Ended December 31	1981	1980	1979
	(In thousands)		
Sales	<b>\$375,699</b>	\$588,089	\$768,198
Income (Loss) from Discontinued Operations Before Income Taxes	<b>\$ (10,916)</b>	\$ (16,189)	\$ 34,043
Income Taxes (Credit)	<b>(2,431)</b>	(5,751)	16,146
Income (Loss) from Discontinued Operations	<b>\$ (8,485)</b>	\$ (10,438)	\$ 17,897

The principal assets and liabilities of the discontinued operations included in the consolidated balance sheet at December 31, 1980 are as follows:

	December 31, 1980
	(In thousands)
Accounts receivable, trade	\$ 22,988
Inventories	107,266
Property, plant and equipment, net	92,927
Investment in Freightliner Credit Corporation	23,645
Other assets	21,883
<b>Total Assets of Discontinued Operations</b>	<b>\$268,709</b>
Accounts payable and accrued liabilities	\$ 99,374
Other liabilities	6,729
<b>Total Liabilities of Discontinued Operations</b>	<b>\$106,103</b>

The Company has agreed to purchase from Freightliner Corporation, the principal manufacturing subsidiary sold, a portion of its tractor requirements (declining from 80% in 1982 to 50% in 1987) and at least 80% of its requirements for Freightliner-manufactured spare parts. This purchase agreement will terminate December 31, 1987. The prices the Company will pay for these products will be at least as favorable as those charged by Freightliner prior to the sale.

### 3. Extraordinary Items

The enactment of the Motor Carrier Act of 1980 virtually eliminated the ongoing market value of U.S. motor carrier operating rights. As a result, the Company wrote off the carrying value of its rights during 1980. This was recorded as an extraordinary charge of \$32,102,000 on which no income tax benefit was taken in the financial statements because of uncertainties associated with the income tax deductibility of the write-off at that time.

Those uncertainties were removed by the Economic Recovery Tax Act of 1981 which specifically allows the write-off to be deducted on the Company's federal income tax return over a five-year period beginning in 1980. Consequently, in 1981 the Company recorded an extraordinary credit of \$14,235,000 representing the income tax benefit pertaining to the write-off.

### 4. Long-Term Debt

The Company may issue up to \$25 million of commercial paper. The \$10 million that was outstanding at December 31, 1981 was classified as long term because management intended to refinance it using existing long-term credit agreements.

The Company has a long-term revolving credit agreement under which \$25 million may be borrowed. Interest on any

amounts borrowed is at  $\frac{1}{2}\%$  over the prime rate, and a fee of  $\frac{3}{8}\%$  is charged on the unused portion of the commitment. There are no compensating balances required. No amounts were outstanding under this agreement at December 31, 1981 and 1980.

One of the Company's Canadian subsidiaries has a \$10 million (Canadian) revolving credit agreement with a Canadian bank. Interest on any amounts borrowed is at the prime rate. This agreement does not require a commitment fee or compensating balances. No amounts were outstanding under this agreement at December 31, 1981 and 1980.

The aggregate annual maturities and sinking fund requirements of long-term debt for each of the next five years ending December 31 are as follows: 1982, \$2,674,000; 1983, \$12,641,000; 1984, \$16,880,000; 1985, \$13,058,000; and 1986, \$2,356,000.

### 5. Stock Option Plans

At December 31, 1981, there were 879,750 shares of common stock reserved for issuance under the Company's stock option plan. Under this plan, officers and key employees have been granted options to purchase the common stock of the Company at prices not less than the fair market value of the stock on the date of grant. Outstanding options become fully exercisable one year after date of grant, and any unexercised options expire after ten years.

The following summarizes the stock option share information for 1981 and 1980:

	Common Share Options	
	1981	1980
Outstanding, January 1	<b>437,885</b>	472,710
Granted	<b>89,075</b>	91,450
Exercised	<b>(216,700)</b>	(99,375)
Expired or cancelled	<b>(3,350)</b>	(26,900)
<b>Outstanding, December 31</b>	<b>306,910</b>	437,885
Options which became exercisable during the year	<b>81,050</b>	157,010
Options exercisable at December 31	<b>220,185</b>	356,835
Shares reserved at December 31 for future option grants	<b>572,840</b>	659,565

Prices related to options outstanding at December 31, 1981 ranged from \$22.375 to \$27.875 per share and aggregated \$7,440,000.



was earned either currently or on a deferred basis by 2,200 participants associated with the continuing operations in 1981 compared with \$7,810,000 earned by 2,300 participants in 1980 and \$6,140,000 earned by 1,700 participants in 1979.

All noncontractual employees in the United States who have been employed for 30 months, other than officers of the Company or any of its subsidiaries, participate in an Employee Stock Ownership Plan. Contributions to this plan, which are funded by an additional 1% of investment tax credit resulting from the purchase of qualified new assets, were \$1,841,000 in 1981 (including \$1,159,000 from the purchase of tax benefit leases), \$728,000 in 1980 and \$778,000 in 1979.

Approximately 73% of the Company's employees are covered by union sponsored, collectively-bargained, multiemployer pension plans. For its continuing operations, the Company contributed and charged to expense \$33,057,000 in 1981, \$31,227,000 in 1980 and \$27,116,000 in 1979 for such plans. These contributions have been made in accordance with negotiated labor contracts and generally have been based on the number of man-weeks worked.

For many years, most of the union collective bargaining agreements have provided for negotiated contributions to various multiemployer pension funds or plans. The trustees of those funds manage the assets and determine the benefit levels for employee participants. In 1980, Congress passed the Multiemployer Pension Plan Amendments Act (the Act) which changed these collective bargaining agreement obligations and substituted certain new employer responsibilities for the funding of vested retirement benefits granted, or to be granted, by the trustees to employee plan participants. These responsibilities include funding of retirement benefits in excess of plan assets of multiemployer plans if the Company withdraws or partially withdraws from such plans, or if such plans are terminated. Additionally, all retirement benefits must be funded over not more than 40 years if the plans continue. The Act provides some relief from withdrawal liability for plans sponsored by motor carriers; however, the extent of this relief cannot be determined until implementing regulations are issued. Legislative efforts are also being made to lessen the burden of the Act, and the increased employer responsibilities under the Act are being litigated in the courts. The outcome of these efforts, however, cannot presently be determined.

With regard to its continuing operations, the Company has not undertaken, and does not intend, to withdraw or partially withdraw from any of the multiemployer plans in which it participates; and there are no known intentions to terminate any of those plans.

For many plans, information on the plan's actuarial assumptions, net assets or the present value of vested and nonvested plan benefits has not been made available even though the Company has attempted to obtain this information from all of the plans to which it contributes. The Company has not been able to evaluate the reasonableness of the limited data provided but has nonetheless attempted to estimate its withdrawal liability.

Should the Company withdraw from all plans, or all plans terminate, and no relief is realized from pending legislation or litigation, and if the limited information received from the plan administrators is realistic and does not change significantly, the Company estimates its aggregate pretax withdrawal liability to be \$120 million as of January 1, 1980.

### **9. Contingencies**

The Company and its subsidiaries are defendants in various lawsuits incidental to their businesses. Based on opinions from counsel retained to defend these actions, management believes the ultimate liability of the Company, if any, will not be material.

### **10. Industry Group Analysis**

The continuing operations of the Company and its subsidiaries, which are conducted in the United States and Canada, encompass principally two industries: motor carrier and air freight forwarding. The business activities of these groups are fully described elsewhere in this Annual Report. The principal manufacturing and credit subsidiaries were sold during 1981 (see Note 2). The Canadian subsidiaries account for less than 10% of consolidated revenues and total assets. Export sales by U.S. subsidiaries are not material.

Following is an analysis by industry group of revenues from continuing operations, income from continuing operations before income taxes, depreciation and amortization, and capital expenditures for the years ended December 31, 1981, 1980 and 1979 and identifiable assets as of those dates. Income from continuing operations before income taxes is net of general corporate expenses, which have been allocated to subsidiaries on a revenue and capital basis. Intergroup sales have been recorded in the same manner as sales to unaffiliated customers and have been eliminated in consolidation. The identifiable assets of the Company consist principally of cash, temporary investments and notes receivable.

(In thousands)	Consolidated	Adjustments, Eliminations and the Company	Industry Group	
			Motor Carrier	Air Freight Forwarding
Year Ended December 31, 1981				
<b>Revenues</b>				
To unaffiliated customers	\$1,143,722	\$ —	\$1,045,918	\$97,804
<b>Income From Continuing Operations Before Income Taxes</b>				
Earnings from operations	\$ 93,286	\$ —	\$ 86,029	\$ 7,257
Other income (expense)	13,555			
Income from continuing operations before income taxes	\$ 106,841			
<b>Depreciation and Amortization</b>	\$ 47,825	\$ (703)	\$ 47,710	\$ 818
<b>Capital Expenditures</b>	\$ 96,676	\$ 1,461	\$ 92,599	\$ 2,616
As of December 31				
<b>Identifiable Assets</b>	\$ 828,338	\$252,424	\$ 550,887	\$25,027
Year Ended December 31, 1980*				
<b>Revenues</b>				
To unaffiliated customers	\$1,065,515	\$ —	\$ 984,281	\$81,234
<b>Income From Continuing Operations Before Income Taxes</b>				
Earnings from operations	\$ 94,695	\$ —	\$ 86,478	\$ 8,217
Other income (expense)	(3,799)			
Income from continuing operations before income taxes	\$ 90,896			
<b>Depreciation and Amortization</b>	\$ 44,886	\$ 147	\$ 43,941	\$ 798
<b>Capital Expenditures</b>	\$ 78,217	\$ 535	\$ 75,995	\$ 1,687
As of December 31*				
<b>Identifiable Assets</b>	\$ 784,060	\$298,514**	\$ 467,481	\$18,065
Year Ended December 31, 1979*				
<b>Revenues</b>				
To unaffiliated customers	\$ 951,770	\$ —	\$ 890,513	\$61,257
<b>Income From Continuing Operations Before Income Taxes</b>				
Earnings from operations	\$ 79,417	\$ 3,324	\$ 69,106	\$ 6,987
Other income (expense)	(1,529)			
Income from continuing operations before income taxes	\$ 77,888			
<b>Depreciation and Amortization</b>	\$ 37,725	\$ (1,227)	\$ 38,375	\$ 577
<b>Capital Expenditures</b>	\$ 98,291	\$ (1,288)	\$ 97,072	\$ 2,507
As of December 31*				
<b>Identifiable Assets</b>	\$ 769,171	\$289,757**	\$ 465,233	\$14,181

\*Restated for discontinued operations.

\*\*Includes identifiable assets of discontinued operations.

### 11. Quarterly Financial Data (Unaudited)

The unaudited quarterly financial data for the years 1981 and 1980 is presented on page 23 of this Annual Report.

### 12. Supplementary Information on Changing Prices (Unaudited)

The unaudited supplementary information on changing prices for 1981 is included in the Financial Review beginning on page 19 of this Annual Report.

## DIRECTORS

### **Robert Alpert** (6)

President and Chief Executive Officer, Alpert Corporation, real estate development and management firm

### **John C. Bolinger, Jr.** (3)

Chairman of the Board and President, Tennessee Natural Gas Lines, Inc., interstate pipeline company

### **Robert L. Chambers\*** (9)

Chairman of the Board, Envirotech Corporation, supplier of equipment and technology for underground mining, industrial processing and pollution control

### **Earl F. Cheit** (6)

Dean of the School of Business Administration, University of California at Berkeley

### **Philip S. Hill\*** (15)

Director and consultant, Hyster Company, manufacturer of materials handling equipment

### **J. Frank Leach\*** (7)

President and Chief Executive Officer, Arcata Corporation, a printing, forest products, food packaging and consumer products company

### **Raymond F. O'Brien\*** (15)

Chairman of the Board, President and Chief Executive Officer, Consolidated Freightways, Inc.

### **John S. Perkins** (3)

General partner of Hampton Properties, Ltd., a real estate and investment firm

### **Ronald E. Poelman** (11)

Member of the First Quorum of the Seventy, The Church of Jesus Christ of Latter-day Saints

### **Edfred L. Shannon, Jr.** (14)

Chairman of the Board and Chief Executive Officer, Santa Fe International Corporation, drilling and construction contractors to the petroleum industry

### **Russell G. Smith\*** (20)

Retired Executive Vice President, Bank of America

### **Isaac M. Stewart** (24)

Attorney at Law

### **W. Maurice Young** (8)

Chairman of the Board and Chief Executive Officer, Finning Tractor & Equipment Co., Ltd., dealer in heavy construction equipment

(Years on Board)

\*Member of Executive Committee

## CORPORATE OFFICERS

### **Raymond F. O'Brien**

Chairman, President and Chief Executive Officer

### **John P. Kelly**

Vice President, General Counsel and Secretary

### **Donald E. Moffitt**

Executive Vice President—Finance & Administration

### **Frank E. Roberts**

Vice President and Treasurer

### **Larry L. Stites**

Vice President and Controller

## OPERATING MANAGEMENT

### CF AIR FREIGHT, INC.

1933 Landings Drive  
Mountain View, California 94043

#### W. Roger Curry

President

#### Donald G. Berger

Vice President— Eastern Area

#### Richard F. Bryner

Vice President— Operations

#### H. John Plaat

Vice President and Secretary

#### Rufus W. Roberts

Vice President— Western Area

#### John W. Veenstra

Vice President— Sales and Marketing

### CF ARROWHEAD SERVICES

175 Linfield Drive  
Menlo Park, California 94025

#### Richard Lucas

General Manager

### CF DATA SERVICES, INC.

1621 N.W. 21st Avenue  
Portland, Oregon 97209

#### James Schlueter

President

### CONSOLIDATED FREIGHTWAYS CORPORATION OF DELAWARE

175 Linfield Drive  
Menlo Park, California 94025

#### Lary R. Scott

President

#### Raymond F. Halloran

Executive Vice President— Marketing  
and Sales

#### Robert H. Lawrence

Executive Vice President— Operations

#### Gene T. West

Senior Vice President

#### Steve J. Bandrowsky

Vice President— Central Area

#### Norman R. Benke

Vice President— Finance

#### Donald E. Billings

Vice President— Southern Area

#### Guy R. Cutler

Vice President— Terminal Operations

#### Einar Gustavson

Vice President— Sales

#### John J. Killilee

Vice President— Safety

#### Peter P. Kiseleff

Vice President— Personnel

#### R. Donald Markland

Vice President— Purchasing

#### William F. McCann

Vice President— Labor Relations

#### John C. Miller

Vice President— Insurance and Claims

#### Robert C. Sands

Vice President— Eastern Area

#### Willard H. Scherrer

Vice President— Maintenance

#### Everett M. Stephens

Vice President— Western Area

#### Robert C. Stetson

Vice President, General Counsel  
and Secretary

#### Edward V. Taylor

Vice President— Pricing

#### Robert E. Wrightson

Vice President and Controller

### CANADIAN FREIGHTWAYS LIMITED

4041 A— 6th Street S.E.  
Calgary, Alberta T2H 2J1

#### Darshan S. Kailly

President

#### Raymond J. Pelletier

Secretary-Treasurer

#### Paul M. Rubak

Vice President— Transportation, Labour  
and Safety

#### Jack W. Schenk

Vice President— Operations

### CANADIAN FREIGHTWAYS EASTERN LIMITED

### INTERPORT SUFFERANCE WAREHOUSE LIMITED

5425 Dixie Road  
Mississauga, Ontario L4W 1E6

#### Peter C. Baird

President

### ROAD SYSTEMS, INC.

8432 Almeria Avenue  
Fontana, California 92335

#### John Boyer

Manager

## ADDITIONAL INFORMATION

### AUDITORS

Arthur Andersen & Co.

### TRANSFER AGENT AND REGISTRAR

Bank of America, San Francisco and  
New York City

### STOCK EXCHANGES

New York and Pacific;  
Ticker Symbol: CNF

### EXECUTIVE OFFICES

3240 Hillview Avenue  
P.O. Box 10340  
Palo Alto, California 94303  
(415) 494-2900

### AVAILABILITY OF FORM 10-K

The company's annual 10-K report filed  
with the Securities and Exchange  
Commission will be available to  
interested shareholders after April 15.  
A copy may be obtained by writing to  
the Corporate Secretary.

### ANNUAL SHAREHOLDERS' MEETING

Shareholders are encouraged to attend  
the Annual Meeting which will be  
held at 10 a.m. Monday, April 26, 1982,  
at the Four Seasons Clift Hotel in  
San Francisco.

### INVESTOR COMMUNICATIONS

The company's 1980 Annual Report was  
named best in its industry by both  
*Financial World* and *Institutional Investor*  
magazines. We also received an award  
from the Financial Analysts Federation for  
"Excellence in Corporate Reporting," one  
of only 25 companies so honored.

**CONSOLIDATED FREIGHTWAYS, INC.**



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