FEDEX CORP
Form 10-K
July 15, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended May 31, 2010.

OR

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

For the transition period from __________ to __________.

Commission file number 1-15829

FEDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware	**62-1721435**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
942 South Shady Grove Road, Memphis, Tennessee	**38120**
(Address of Principal Executive Offices)	*(ZIP Code)*

Registrant s telephone number, including area code: **(901) 818-7500**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the Registrant is not required to file reports pursuant to Rule 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Date File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the common stock held by non-affiliates of the Registrant, computed by reference to the closing price as of the last business day of the Registrant s most recently completed second fiscal quarter, November 30, 2009, was approximately $24.7 billion. The Registrant has no non-voting stock.

As of July 12, 2010, 314,540,141 shares of the Registrant s common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s definitive proxy statement to be delivered to stockholders in connection with the 2010 annual meeting of stockholders to be held on September 27, 2010 are incorporated by reference in response to Part III of this Report.

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PART I

ITEM 1. BUSINESS

Overview

FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. These companies are included in four reportable business segments:

FedEx Express: Federal Express Corporation (FedEx Express) is the world s largest express transportation company, offering time-certain delivery within one to three business days and serving markets that comprise more than 90% of the world s gross domestic product. The FedEx Express segment also includes FedEx Trade Networks, Inc., which provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding, and FedEx SupplyChain Systems, Inc., which offers a range of supply chain solutions.

FedEx Ground: FedEx Ground Package System, Inc. (FedEx Ground) is a leading provider of small-package ground delivery service. FedEx Ground provides low-cost, day-certain service to every business address in the United States and Canada, as well as residential delivery to nearly 100% of U.S. residences through its FedEx Home Delivery service. The FedEx Ground segment also includes FedEx SmartPost, Inc., which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages using the U.S. Postal Service or Canada Post Corporation for final delivery to any residential address or PO Box in the United States and Canada.

FedEx Freight: FedEx Freight Corporation is a leading U.S. provider of less-than-truckload (LTL) freight services through its FedEx Freight business (fast-transit LTL freight services) and its FedEx National LTL business (economical LTL freight services). The FedEx Freight segment also includes FedEx Freight Canada, which offers freight delivery service throughout Canada, and FedEx Custom Critical, Inc., North America s largest time-specific, critical shipment carrier.

FedEx Services: FedEx Corporate Services, Inc. (FedEx Services) provides our other companies with sales, marketing and information technology support, as well as customer service support through FedEx Customer Information Services, Inc. The FedEx Services segment also includes FedEx Office and Print Services, Inc. (FedEx Office), which provides an array of printing and business services and retail access to FedEx Express and FedEx Ground services.

For financial information concerning our reportable business segments, refer to the accompanying financial section, which includes management s discussion and analysis of results of operations and financial condition and our consolidated financial statements.

Our Web site is located at *fedex.com*. Detailed information about our services, e-commerce tools and solutions, and citizenship efforts can be found on our Web site. In addition, we make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to such reports available, free of charge, through our Web site, as soon as reasonably practicable after they are filed with or furnished to the SEC. These and other SEC filings are available through the Investor Relations page of our Web site, the address of which is *http://www.fedex.com/us/investorrelations*. The information on our Web site, however, is not incorporated by reference in, and does not form part of, this Annual Report on Form 10-K.

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Except as otherwise specified, any reference to a year indicates our fiscal year ended May 31 of the year referenced.

Strategy

FedEx was incorporated in Delaware on October 2, 1997 to serve as the parent holding company of our operating companies. Through our holding company, we provide strategic direction to, and coordination of, the FedEx portfolio of companies. We intend to continue leveraging and extending the FedEx brand and providing our customers with convenient, seamless access to our entire portfolio of integrated services.

We believe that sales and marketing activities, as well as the information systems that support the extensive automation of our package delivery services, are functions that are best coordinated across operating companies. Through the use of advanced information systems that connect the FedEx companies, we make it convenient for customers to use the full range of FedEx services. We believe that seamless information integration is critical to obtain business synergies from multiple operating units. For example, our Web site, *fedex.com*, provides a single point of contact for our customers to access FedEx Express, FedEx Ground and FedEx Freight shipment tracking, customer service and invoicing information, as well as FedEx Office services. Similarly, by making one call to FedEx Expedited Freight Services, our customers can quickly and easily evaluate surface and air freight shipping options available from FedEx Express, FedEx Freight and FedEx Custom Critical in order to select the service best meeting their needs. Through this one point of contact, customers can select from a broad range of freight services, based on their pickup and delivery requirements, time sensitivity and the characteristics of the products being shipped.

We manage our business as a portfolio in the long-term best interest of FedEx as a whole, not a particular operating company. As a result, we base decisions on capital investment, expansion of delivery, information technology and retail networks, and service additions or enhancements on achieving the highest overall long-term return on capital for our business as a whole. For each FedEx company, we focus on making appropriate investments in the technology and assets necessary to optimize our long-term earnings performance and cash flow. As an example of our commitment to managing collaboratively, our management incentive compensation programs are tied to the performance of FedEx as a whole.

While we have increased our emphasis on competing collectively and managing collaboratively, we continue to believe that operating independent networks, each focused on its own respective markets, results in optimal service quality, reliability and profitability from each business unit. Each FedEx company focuses exclusively on the market sectors in which it has the most expertise. Each company s operations, cost structure and culture are designed to serve the unique customer needs of a particular market segment.

Our compete collectively, operate independently, manage collaboratively strategy also provides flexibility in sizing our various operating companies to align with varying macro-economic conditions and customer demand for the market segments in which they operate. For example, to accommodate recent and anticipated international growth at FedEx Express, we are adding flights, purchasing aircraft and improving services to and from Asia, Europe and Latin America based on the long-term growth prospects of these regions. We have agreed, subject to certain conditions, to purchase a total of 38 Boeing 777 Freighter (B777F)

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aircraft, a new high-capacity, long-range airplane, six of which have already been delivered. We also hold an option to purchase an additional 15 B777F aircraft. The B777F enables us to fly between major world markets with lower operating costs, more freight and in less time than before, allowing later cut-off times for customers in these markets to drop off their shipments. In addition, we continue to expand network capacity at our growing FedEx Ground segment.

The following four trends have driven world commerce and shaped the global marketplace, and despite the uncertainty of the current economic environment, we believe they will continue to do so over the long term:

Increase in High-Tech and High-Value-Added Businesses: High-tech and high-value-added goods have increased as a percentage of total economic output, and our various operating companies offer a unique menu of services to fit virtually all shipping needs of high-tech and high-value-added industries.

Globalization: As the world s economy has become more fully integrated, companies are sourcing and selling globally. With customers in more than 220 countries and territories, we facilitate this supply chain through our global reach, delivery services and information capabilities.

Supply Chain Acceleration: As the economy has become increasingly global, it has also become more fast-paced, and companies of all sizes now depend on the delivery of just-in-time inventory to help them compete. We have taken advantage of the move toward faster, more efficient supply chains by helping customers obtain near real-time information to manage inventory in motion, thereby reducing overhead and obsolescence and speeding time-to-market.

Growth of E-Commerce: E-commerce acts as a catalyst for the other three trends and is a vital growth engine for businesses, as the Internet is increasingly being used to purchase goods and services. Through our global transportation and technology networks, we contribute to and benefit from the growth of e-commerce.

These trends have produced an unprecedented expansion of customer access to goods, services and information. Through our global transportation, information technology and retail networks, we help to make this access possible. We continue to position our companies to facilitate and capitalize on this access and move toward stronger long-term growth, productivity and profitability. To this end, we are investing in long-term strategic projects focused on expanding our global networks to accommodate future volume growth and increase customer convenience, such as investments in B777F aircraft. We also continue to broaden and more effectively bundle our portfolio of services in response to the needs and desires of our customers. For example, in 2010, we:

Enhanced FedEx Express overnight services between Asia and Europe, with the introduction of a new next-business-day service connecting mainland China, Hong Kong and Singapore with France and Germany, and expanded FedEx International Economy and FedEx International Economy Freight services to more parts of the world.

Initiated an aggressive plan to expand the global freight forwarding presence of FedEx Trade Networks by opening additional facilities (over two dozen new freight forwarding offices have already been opened) and establishing new alliances throughout the world.

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Introduced FedEx SmartPost Returns Services, which provides a convenient way for consumers to return merchandise back to retailers using the U.S. Postal Service for package pickup.

Began offering U.S. domestic FedEx Express and FedEx Ground shipping services at all U.S. OfficeMax retail locations (over 900 locations). These additional staffed drop-off locations complement our existing retail network, including our FedEx Office centers, and further expand customer access to our services.

Reputation and Responsibility

By competing collectively under the FedEx brand, our operating companies benefit from one of the world s most recognized brands. FedEx is one of the most trusted and respected companies in the world, and the FedEx brand name is a powerful sales and marketing tool. Among the many reputation awards we received during 2010, FedEx ranked 13th in *FORTUNE* magazine s World s Most Admired Companies list the ninth consecutive year we have been ranked in the top 20 on the list. In addition, FedEx continued to rank highest in customer satisfaction in the University of Michigan Business School National Quality Research Center s *American Customer Satisfaction Index* in the express delivery category.

FedEx is well recognized as a leader, not only in the transportation industry and technological innovation, but also in global citizenship. We understand that a sustainable global business is tied to our global citizenship, and we are committed to connecting the world responsibly and resourcefully. During 2010, we published an update to our inaugural global citizenship report (available at *http://csr.fedex.com*). These reports describe how we think about our responsibilities in the area of global citizenship and include important goals and metrics that demonstrate our commitment to fulfilling these responsibilities.

Our People

Along with a strong reputation among customers and the general public, FedEx is widely acknowledged as a great place to work. In 2010, we were listed among FORTUNE s 100 Best Companies to Work for in America a list that we have made in 12 of the past 13 years and *Black Enterprise* magazine s 40 Best Companies for Diversity a list that we have made every year since its inception. It is our people our greatest asset that give us our strong reputation. In addition to superior physical and information networks, FedEx has an exemplary human network, with more than 280,000 team members who are absolutely, positively focused on safety, the highest ethical and professional standards, and the needs of their customers and communities. Through our internal Purple Promise and Humanitarian Award programs, we recognize and reward employees who enhance customer service and promote human welfare.

For additional information on our people-first philosophy and workplace initiatives, see *http://csr.fedex.com*.

Our Community

FedEx is committed to causes that help improve the communities where we live and work worldwide. We leverage our infrastructure, our people and our philanthropic resources to help these communities achieve their goals. As an example, we believe that the United Way of America offers one of the most effective and efficient ways of meeting community needs and have supported the annual United Way fundraising campaign since 1975. In addition to corporate philanthropy and employee volunteerism, we maintain relationships with charitable organizations that enable us to have a strategic impact in key areas, including disaster relief (American Red Cross, Salvation Army and Heart to Heart International), pedestrian safety (Safe Kids Worldwide), education (Teach for America and Junior Achievement) and diversity. We support minority access to higher education by funding scholarships and are a major sponsor of the National Civil Rights Museum. For additional information on our community involvement and disaster relief efforts, see *http://csr.fedex.com*.

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The Environment

In furtherance of our commitment to protecting the environment, we have set long-term goals to reduce aircraft emissions by 20 percent by 2020 on an emissions per available-ton-mile basis, increase FedEx Express vehicle efficiency by 20 percent by 2020, and expand on-site renewable energy generation and procurement of renewable energy credits. To meet our future international operational needs, as discussed above, we have selected and are beginning to add to our aircraft fleet the more fuel-efficient B777F. In addition, we are retiring and replacing older Boeing 727s with more fuel-efficient and quieter Boeing 757s. The use of newer and more fuel efficient aircraft is reducing our greenhouse gas emissions and airport noise and increasing our jet fuel efficiency. Our hybrid electric delivery fleet is the largest in our industry and has logged more than five million miles of revenue service. Our solar power generation systems represent another step we are taking toward progressive environmental stewardship and resource sustainability. We also continue to evaluate the environmental impacts of our packaging and copy and print services, and minimize waste generation through efforts that include recycling, pollution prevention and the use of copy paper with a high recycled content. For additional information on the ways we are minimizing our impact on the environment, see *http://csr.fedex.com*.

Governance

FedEx has an independent Board of Directors committed to the highest quality corporate governance. Within the past few years, we have added a number of highly qualified, independent directors to the Board, including: Steven R. Loranger, the CEO of ITT Corporation; Gary W. Loveman, the CEO of Harrah s Entertainment; Ambassador Susan C. Schwab, former U.S. Trade Representative; and David P. Steiner, the CEO of Waste Management. Our Board of Directors periodically reviews all aspects of our governance policies and practices, including our Corporate Governance Guidelines and our Code of Business Conduct and Ethics, in light of best practices and makes whatever changes are necessary to further our longstanding commitment to the highest standards of corporate governance. The Guidelines and the Code, which applies to all of our directors, officers and employees, including our principal executive officer and senior financial officers, are available in the corporate governance section of the Investor Relations page of our Web site at *http://www.fedex.com/us/investorrelations*. We will post in the corporate governance section of the Investor Relations page of our Web site information regarding any amendment to, or waiver from, the provisions of the Code to the extent such disclosure is required.

Business Segments

The following describes in more detail the operations of each of our reportable segments:

FedEx Express Segment

FedEx Express

Overview

FedEx Express invented express distribution in 1973 and remains the industry leader, providing rapid, reliable, time-definite delivery of packages and freight to more than 220 countries and territories through one integrated global network. FedEx Express offers time-certain delivery within one to three business days, serving markets that generate more than 90% of the world s gross domestic product through door-to-door, customs-cleared service, with a money-back guarantee. FedEx Express s unmatched air route authorities and extensive transportation infrastructure, combined with leading-edge information technologies, make it the world s largest express transportation company. FedEx Express employs approximately 141,000 employees and has approximately 59,000 drop-off locations (including FedEx Office centers), 664 aircraft and approximately 49,000 vehicles and trailers in its integrated global network.

Services

FedEx Express offers a wide range of shipping services for delivery of packages and freight. Overnight and deferred package services are backed by money-back guarantees and extend to virtually the entire United States population. FedEx Express offers three U.S. overnight package delivery services: FedEx First Overnight, FedEx Priority Overnight and FedEx Standard Overnight. FedEx SameDay service is available for urgent shipments up to 70 pounds to virtually any U.S. destination. FedEx Express also offers U.S. express and deferred freight services backed by money-back guarantees to handle the needs of the time-definite global freight market.

International express and deferred package delivery with a money-back guarantee is available to more than 220 countries and territories, with a variety of time-definite services to meet distinct customer needs. FedEx Express also offers comprehensive international express and deferred freight services, backed by a money-back guarantee, real-time tracking and advanced customs clearance.

For information regarding FedEx Express e-shipping tools and solutions, see FedEx Services Technology.

International Expansion

We are focused on the long-term expansion of our international presence, especially in key markets such as China, India, Europe and Latin America.

We began serving mainland China in 1984, and since that time, we have expanded our service to cover more than 400 cities across the country. Within the past few years, we have taken several important actions that increase our presence there and bolster our leadership in the global air cargo industry:

- In 2009, we began operations at our new Asia-Pacific hub at the Guangzhou Baiyun International Airport in Southern China. The new hub assumed and expanded the activities of our previous hub in Subic Bay, Philippines. The new hub better serves our global customers doing business in and with the China and Asia-Pacific markets.
- In 2007, we initiated time-certain domestic delivery service in mainland China. Our China domestic network relies on a hub-and-spoke system centered at the Hangzhou Xiaoshan International Airport, located in East China s Zhejiang Province, and an extensive ground network.

In addition to the aircraft purchases and service enhancements discussed earlier, in support of our international operations, we recently expanded and substantially increased capacity at our European hub at Roissy-Charles de Gaulle Airport in Paris, France, and at our bonded warehouse at Guadalajara International Airport in Jalisco, Mexico.

To facilitate the use of our growing international network, we offer a full range of international trade consulting services and a variety of online tools that enable customers to more easily determine and comply with international shipping requirements. In 2010, we began offering a new technology solution, named FedEx Electronic Trade Documents, to automate and simplify the preparation and submission of customs documentation.

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U.S. Postal Service Agreement

Under an agreement with the U.S. Postal Service that runs through September 2013, FedEx Express provides domestic air transportation services to the U.S. Postal Service, including for its First-Class, Priority and Express Mail. FedEx Express also has approximately 5,000 drop boxes at U.S. Post Offices in approximately 340 metropolitan areas and provides transportation and delivery for the U.S. Postal Service s international delivery service called Global Express Guaranteed (GXG).

Pricing

FedEx Express periodically publishes list prices in its Service Guides for the majority of its services. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the shipment was picked up by a FedEx Express courier or dropped off by the customer at a FedEx Express, FedEx Office or FedEx Authorized ShipCenter location. International rates are based on the type of service provided and vary with size, weight, destination and, whenever applicable, whether the shipment was picked up by a FedEx Express courier or dropped off by the customer at a FedEx Express, FedEx Office or FedEx Authorized ShipCenter location. FedEx Express offers its customers discounts generally based on actual or potential average daily revenue produced.

FedEx Express has an indexed fuel surcharge for U.S. domestic and U.S. outbound shipments and for shipments originating internationally, where legally and contractually possible. The surcharge percentage is subject to monthly adjustment based on a rounded average of a certain spot price for jet fuel. For example, the fuel surcharge for June 2010 was based on the average spot price for jet fuel published for April 2010. Changes to the FedEx Express fuel surcharge, when calculated according to the average spot price for jet fuel and FedEx Express trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable. The weighted average U.S. domestic and U.S. outbound fuel surcharge as a percentage of the base rates for the past three years was: 2010 6%; 2009 17%; and 2008 17%. These percentages reflect certain fuel surcharge reductions that are associated with our annual base rate increases.

Operations

FedEx Express s primary sorting facility, located in Memphis, serves as the center of the company s multiple hub-and-spoke system. A second national hub facility is located in Indianapolis. In addition to these national hubs, FedEx Express operates regional hubs in Newark, Oakland, Fort Worth and Greensboro and major metropolitan sorting facilities in Los Angeles and Chicago.

Facilities in Anchorage, Paris and Guangzhou serve as sorting facilities for express package and freight traffic moving to and from Asia, Europe and North America. Additional major sorting and freight handling facilities are located at Narita Airport in Tokyo, Stansted Airport outside London and Pearson Airport in Toronto. The facilities in Guangzhou and Paris are also designed to serve as regional hubs for their respective market areas. A facility in Miami the Miami Gateway Hub serves our South Florida, Latin American and Caribbean markets.

Throughout its worldwide network, FedEx Express operates city stations and employs a staff of customer service agents, cargo handlers and couriers who pick up and deliver shipments in the station s service area. In some international areas, independent agents (Global Service Participants) have been selected to complete deliveries and to pick up packages. For more information about our sorting and handling facilities, see Part I, Item 2 of this Annual Report on Form 10-K under the caption FedEx Express Segment.

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FedEx Office offers retail access to FedEx Express shipping services at all of its U.S. locations. FedEx Express also has alliances with certain other retailers to provide in-store drop-off sites. Our unmanned FedEx Drop Boxes provide customers the opportunity to drop off packages in office buildings, shopping centers, corporate or industrial parks and outside some U.S. Post Offices.

Fuel Supplies and Costs

During 2010, FedEx Express purchased jet fuel from various suppliers under contracts that vary in length and which provide for specific amounts of fuel to be delivered. The fuel represented by these contracts is purchased at market prices. Because of our indexed fuel surcharge, we do not have any jet fuel hedging contracts. See FedEx Express Pricing.

The following table sets forth FedEx Express s costs for jet fuel and its percentage of consolidated revenues for the last five fiscal years:

Fiscal Year	**Total Cost (in millions)**	**Percentage of Consolidated Revenues**
2010	$ 2,342	6.7%
2009	2,932	8.3
2008	3,396	8.9
2007	2,639	7.5
2006	2,497	7.7

Approximately 10% of FedEx Express s requirement for vehicle fuel is purchased in bulk. The remainder of FedEx Express s requirement is satisfied by retail purchases with various discounts.

Competition

As described in Item 1A of this Annual Report on Form 10-K (Risk Factors), the express package and freight markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. The ability to compete effectively depends upon price, frequency and capacity of scheduled service, ability to track packages, extent of geographic coverage, reliability and innovative service offerings.

Competitors within the United States include other package delivery concerns, principally United Parcel Service, Inc. (UPS), passenger airlines offering express package services, regional express delivery concerns, airfreight forwarders and the U.S. Postal Service. FedEx Express s principal international competitors are DHL, UPS, TNT, other foreign postal authorities, freight forwarders, passenger airlines and all-cargo airlines. Many of FedEx Express s international competitors are government-owned, -controlled or -subsidized carriers, which may have greater resources, lower costs, less profit sensitivity and more favorable operating conditions than FedEx Express.

Employees

David J. Bronczek is the President and Chief Executive Officer of FedEx Express, which is headquartered in Memphis, Tennessee. As of May 31, 2010, FedEx Express employed approximately 93,000 permanent full-time and 48,000 permanent part-time employees, of which approximately 16% are employed in the Memphis area. FedEx Express s international employees in the aggregate represent approximately 27% of all employees. FedEx Express believes its relationship with its employees is excellent.

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The pilots of FedEx Express, who constitute a small percentage of our total employees, are represented by the Air Line Pilots Association, International (ALPA), and are employed under a four-year collective bargaining agreement that will become amendable on October 31, 2010. In accordance with applicable labor law, we will continue to operate under our current agreement while we negotiate with our pilots. We cannot predict the outcome of these negotiations or estimate the impact, if any, that such outcome may have on our operating costs.

Attempts by other labor organizations to organize certain other groups of employees occur from time to time. Although these organizing attempts have not resulted in any certification of a U.S. domestic collective bargaining representative (other than ALPA), we cannot predict the outcome of these labor activities or their effect, if any, on FedEx Express or its employees.

FedEx Trade Networks

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. During 2010, FedEx Trade Networks initiated an aggressive plan to expand its global freight forwarding presence by opening additional facilities (over two dozen new freight forwarding offices have already been opened) and establishing new alliances throughout the world. FedEx Trade Networks provides customs clearance services for FedEx Express at its major hub facilities. Value-added services include Global Trade Data, an information tool that allows customers to track and manage imports. FedEx Trade Networks provides international trade advisory services, including assistance with the Customs-Trade Partnership Against Terrorism (C-TPAT) program, and through its WorldTariff subsidiary, FedEx Trade Networks publishes customs duty and tax information for over 100 customs areas worldwide. FedEx Trade Networks has approximately 3,500 employees and 120 offices in 95 service locations throughout North America and in Asia, Europe, the Middle East and Latin America. Other offices are maintained through dedicated agents.

FedEx SupplyChain Systems

Effective September 1, 2009, FedEx SupplyChain Systems (formerly known as FedEx Global Supply Chain Services and formerly included in the FedEx Services segment) was reorganized as part of the FedEx Express segment. The company offers a range of supply chain solutions, including critical inventory logistics, transportation management, fulfillment and fleet services. The company focuses on information technology-sensitive business to meet the needs of its customers and to drive transportation business to other FedEx operating companies.

FedEx Ground Segment

FedEx Ground

Overview

By leveraging the FedEx brand, maintaining a low cost structure and efficiently using information technology and advanced automation systems, FedEx Ground continues to enhance its competitive position as a leading provider of business and residential money-back-guaranteed ground package delivery services. FedEx Ground serves customers in the North American small-package market, focusing on business and residential delivery of packages weighing up to 150 pounds. Ground service is provided to 100% of the continental United States population and overnight service of up to 400 miles to nearly 100% of the continental United States population. Service is also provided to nearly 100% of the Canadian population. In addition, FedEx Ground offers service to Alaska and Hawaii through a ground and air network operation coordinated with other transportation providers.

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FedEx Ground continues to improve the speed, reach and service capabilities of its network, by reducing transit time for many of its lanes and introducing or expanding overnight ground service in many metropolitan areas. For example, during the most recent two-year period, FedEx Ground has reduced the transit times of approximately 7,000 of its lanes. FedEx Ground s ongoing network expansion program is substantially increasing the company s daily pick-up capacity through the addition of new hubs featuring the latest automated sorting technology, the expansion of existing hubs, and the expansion or relocation of other existing facilities.

The company offers FedEx Home Delivery, which reaches nearly 100% of U.S. residences. FedEx Home Delivery is dedicated exclusively to meeting the delivery needs of residential customers and provides routine Saturday and evening delivery and premium options such as day-specific, appointment and signature delivery. FedEx Home Delivery brings unmatched services to residential shippers and their customers and is the first residential ground package delivery service to have offered a money-back guarantee.

Pricing

FedEx Ground periodically publishes list prices for the majority of its services in its Service Guide. In general, U.S. shipping rates are based on the service selected, destination zone, weight, size, any ancillary service charge and whether the shipment was picked up by a FedEx Ground contractor or dropped off by the customer at a FedEx Office center or FedEx Authorized ShipCenter.

FedEx Ground has an indexed fuel surcharge, which is subject to a monthly adjustment. The surcharge percentage is based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel as published monthly by the U.S. Department of Energy. For example, the fuel surcharge for June 2010 was based on the average diesel fuel price published for April 2010. Changes to the FedEx Ground fuel surcharge, when calculated according to the rounded index average and FedEx Ground trigger points, are applied effective from the first Monday of the month. These trigger points may change from time to time, but information on the fuel surcharge for each month is available at *fedex.com* approximately two weeks before the surcharge is applicable.

Operations

FedEx Ground operates a multiple hub-and-spoke sorting and distribution system consisting of 520 facilities, including 32 hubs, in the U.S. and Canada. FedEx Ground conducts its operations primarily with approximately 26,300 owner-operated vehicles and 30,400 company-owned trailers. To provide FedEx Home Delivery service, FedEx Ground leverages its existing pickup operation and hub and linehaul network. FedEx Home Delivery s operations are often co-located with existing FedEx Ground facilities to achieve further cost efficiencies.

Advanced automated sorting technology is used to streamline the handling of millions of packages daily. Using overhead laser and six-sided camera-based bar code scan technology, hub conveyors electronically guide packages to their appropriate destination chute, where they are loaded for transport to their respective destination terminals for local delivery. Software systems and Internet-based applications are also deployed to offer customers new ways to connect internal package data with external delivery information. FedEx Ground provides shipment tracing and proof-of-delivery signature functionality through the FedEx Web site, *fedex.com*. For additional information regarding FedEx Ground e-shipping tools and solutions, see FedEx Services Technology.

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FedEx Office offers retail access to FedEx Ground shipping services at all of its U.S. locations. FedEx Ground is also available as a service option at many FedEx Authorized ShipCenters in the U.S.

As of May 31, 2010, FedEx Ground had approximately 44,900 employees and 12,100 independent contractors. David F. Rebholz is the President and Chief Executive Officer of FedEx Ground. FedEx Ground is headquartered in Pittsburgh, Pennsylvania, and its primary competitors are UPS and the U.S. Postal Service.

Evolution of Independent Contractor Model

FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. Although FedEx Ground believes its relationship with its independent contractors is generally excellent, the company is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of the contractors is at issue. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K (Risk Factors) and Note 16 of the accompanying consolidated financial statements.

FedEx Ground has made changes to its relationships with contractors that, among other things, provide incentives for improved service and enhanced regulatory and other compliance by the contractors. For example:

- FedEx Ground has an ongoing nationwide program to provide greater incentives to contractors who choose to grow their businesses by adding routes.
- In New Hampshire and Maryland, because of state-specific legal and regulatory issues, FedEx Ground has implemented its Independent Service Provider (ISP) model, which requires pickup-and-delivery contractors based in those states to, among other things: (i) assume responsibility for the pickup-and-delivery operations of an entire geographic service area that includes multiple routes, and (ii) negotiate independent agreements with FedEx Ground, rather than agree to a standard contract. FedEx Ground is transitioning to the ISP model in Tennessee, Illinois, Massachusetts, Minnesota, Rhode Island and Vermont during 2011 and, based upon the success of this model, may in the company s ordinary course transition to it in other states as well.
- Because of state-specific legal and regulatory issues, FedEx Ground is requiring its contractors to (i) be organized as corporations registered and in good standing under applicable state law, and (ii) treat their personnel who provide services under their operating agreement with FedEx Ground as their employees. While many contractors already satisfy these requirements, other contractors will be required to meet these requirements prior to renewal of their contract, and special incentives are being offered to those who adopt the change and meet the requirements by the end of February 2011.
- As of May 31, 2010, two thirds of all FedEx Ground service areas nationwide were supported by multiple-route contractors, which comprise approximately 39% of all FedEx Ground pickup-and-delivery contractors.

FedEx SmartPost

FedEx SmartPost (a subsidiary of FedEx Ground) is a leading national small-parcel consolidator, which specializes in the consolidation and delivery of high volumes of low-weight, less time-sensitive business-to-consumer packages, using the U.S. Postal Service for final delivery to residences. The company picks up shipments from customers (including e-tailers and catalog companies), provides sorting and linehaul services and then delivers the packages to a U.S. Postal Service facility for final delivery by a postal carrier. Through its network of 25 distribution hubs and approximately 4,500 employees, FedEx SmartPost provides delivery Monday through Saturday to all residential addresses in the U.S., including PO Boxes and military destinations. FedEx SmartPost also provides service into Canada for U.S. shippers by using the residential delivery capabilities of the Canada Post Corporation. This service (known as FedEx SmartPost International) is available to all residential addresses, including PO Boxes, in Canada and includes around-the-clock shipment tracking status updates via *fedex.com*.

FedEx Freight Segment

FedEx Freight Corporation

FedEx Freight Corporation provides a full range of LTL freight services through its FedEx Freight (fast-transit LTL freight services), FedEx National LTL (economical LTL freight services) and FedEx Freight Canada businesses, and is known for its exceptional service, reliability and on-time performance.

Through a comprehensive network of service centers and advanced information systems, FedEx Freight provides service to virtually all U.S. ZIP Codes (including Alaska and Hawaii) with industry-leading transit times. FedEx Freight s services are supported by a no-fee money-back guarantee on eligible shipments. Internationally, FedEx Freight Canada offers freight delivery service throughout Canada, and FedEx Freight serves Mexico, Puerto Rico, Central and South America, the Caribbean, Europe and Asia via alliances and purchased transportation. FedEx National LTL provides economical service options for the LTL freight market segment.

FedEx Freight specializes in fast-cycle distribution and provides tailored shipping solutions to help shippers meet tight deadlines. Through its many service offerings, FedEx Freight can match customers time-critical needs with reduced transit times or after-hours pickup or delivery. FedEx Freight s fully integrated Web site and other e-tools, including a bill of lading generator and e-mail delivery notification, make freight shipping easier and bring customers closer to their own account information. The FedEx Freight Advance Notice service feature uses the company s innovative technology systems to proactively notify FedEx Freight customers via the Internet, e-mail or fax when a shipment may be delayed beyond its estimated delivery date, providing customers with greater visibility and control of their LTL freight shipments. The FedEx Freight A.M. service offers freight delivery by 10:30 a.m. backed by a money-back guarantee. FedEx Freight and FedEx National LTL have an indexed fuel surcharge, which is subject to weekly adjustment based on a rounded average of the national U.S. on-highway average price for a gallon of diesel fuel.

As of May 31, 2010, FedEx Freight Corporation was operating approximately 60,000 vehicles and trailers from a network of 492 service centers, and the FedEx Freight segment had approximately 34,000 employees. William J. Logue is the President and Chief Executive Officer of FedEx Freight Corporation, which is based in Memphis, Tennessee. FedEx Freight s primary multiregional LTL freight competitors are Con-Way Freight, a subsidiary of Con-way Inc., YRC Regional Transportation, a division of YRC Worldwide Inc., and UPS Freight. FedEx National LTL s primary LTL freight competitors are YRC National Transportation, a division of YRC Worldwide Inc., and ABF Freight System, Inc.

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FedEx Custom Critical

FedEx Custom Critical provides a range of expedited, time-specific freight-shipping services throughout the United States, Canada and Mexico. Among its divisions are Surface Expedite, for exclusive-use and network-based transport of critical shipments and expedited LTL shipments; Air Expedite, which offers an array of air solutions to meet customers critical delivery times; White Glove Services, for shipments that require extra care in handling, temperature control or specialized security; and FedEx Truckload Brokerage, which provides freight brokerage solutions within the United States and into and out of Canada and Mexico. Service is available 24 hours a day, 365 days a year, including weekends and holidays at no extra cost. FedEx Custom Critical continuously monitors shipments through an integrated proprietary shipment-control system, including two-way satellite communications on exclusive-use shipments. Through the company s Shipping Toolkit, customers can quote, ship, track and map shipments; view and print out copies of a shipment s bill of lading, proof of delivery and invoice; and manage their online accounts. FedEx Custom Critical utilizes approximately 1,400 vehicles, operated by owner-operators and their drivers, which are dispatched out of approximately 150 geographically-based staging areas.

FedEx Services Segment

FedEx Services

FedEx Services provides our other companies with sales, marketing, information technology and customer service support. Through FedEx Services and its subsidiary FedEx Customer Information Services, Inc., we provide a convenient single point of access for many customer support functions, enabling us to more effectively sell the entire portfolio of transportation services and to help ensure a consistent and outstanding experience for our customers.

T. Michael Glenn is the President and Chief Executive Officer of FedEx Services, which is based in Memphis, Tennessee. As of May 31, 2010, the FedEx Services segment had approximately 37,100 employees (including 18,700 at FedEx Office).

Technology

FedEx is a world leader in technology, and FedEx founder Frederick W. Smith s vision that the information about a package is as important as the delivery of the package itself remains at the core of our comprehensive technology strategy.

Our technology strategy is driven by our desire for customer satisfaction. We strive to build technology solutions that will solve our customers business problems with simplicity, convenience, speed and reliability. The focal point of our strategy is our award-winning Web site, together with our customer integrated solutions.

The *fedex.com* Web site was launched over fifteen years ago, and during that time, customers have shipped and tracked billions of packages at *fedex.com*. The *fedex.com* Web site is widely recognized for its speed, ease of use and customer-focused features. At *fedex.com*, our customers ship packages, determine international documentation requirements, track package status, pay invoices and access FedEx Office services. The advanced tracking capability within My FedEx provides customers with a consolidated view of inbound, outbound and third-party shipments. FedEx Desktop provides customers the benefit of working offline and having real-time shipment updates sent directly to their computer desktop.

FedEx Mobile is a suite of services available on most Web-enabled mobile devices, such as the BlackBerry, and includes enhanced support for Apple products, such as the iPhone, iPod Touch and iPad. FedEx Mobile allows customers to track the status of packages, create shipping labels, get account-specific rate quotes and access drop-off location data for FedEx shipments. FedEx also uses wireless data collection devices to scan bar codes on shipments, thereby enhancing and accelerating the package information available to our customers.

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We design our e-commerce tools and solutions to be easily integrated into our customers applications, as well as into third-party software being developed by leading e-procurement, systems integration and enterprise resource planning companies. Our FedEx Ship Manager suite of solutions offers a wide range of options to help our customers manage their shipping and associated processes.

Marketing

The FedEx brand name is a symbol for high-quality service, reliability and speed. FedEx is one of the most widely recognized brands in the world. Special emphasis is placed on promoting and protecting the FedEx brand, one of our most important assets. In addition to traditional print and broadcast advertising, we promote the FedEx brand through corporate sponsorships and special events. For example, FedEx sponsors:

- The National Football League (NFL), as its Official Delivery Service Sponsor
- FedExField, home of the NFL s Washington Redskins
- The #11 Joe Gibbs Racing Toyota Camry driven by Denny Hamlin in the NASCAR Sprint Cup Series
- PGA TOUR and the Champions Tour golf organizations, as the Official Shipping Company
- FedExCup, a season-long points competition for PGA TOUR players
- Pebble Beach Golf Resorts, as the official shipping company
- FedExForum, home of the NBA s Memphis Grizzlies
- Vodafone McLaren Mercedes Formula One team
- French Open tennis tournament

Information Security

FedEx Services has a team of highly qualified professionals dedicated to securing information about our customers shipments and protecting our customers privacy, and we strive to provide a safe, secure online environment for our customers.

ISO 9001 Certification

FedEx Services provides our customers with a high level of service quality, as evidenced by our ISO 9001 certification for our global express and ground operations. ISO 9001 registration is required by thousands of customers around the world. FedEx s global certification, encompassing the processes of FedEx Express, FedEx Ground and FedEx Services, enhances our single-point-of-access strategy and solidifies our reputation as the quality leader in the transportation industry. ISO 9001 is currently the most rigorous international standard for Quality Management and Assurance. ISO standards were developed by the International Organization for Standardization in Geneva, Switzerland to promote and facilitate international trade. More than 150 countries, including European Union members, the United States and Japan, recognize ISO standards.

FedEx Office

FedEx Office s global network of digitally-connected locations offers access to copying and digital printing through retail and Web-based platforms, signs and graphics, professional finishing, computer rentals, and the full range of FedEx day-definite ground shipping and time-definite global express shipping services.

FedEx Office offers the full range of FedEx Express and FedEx Ground services at virtually all U.S. locations. In addition, FedEx Office offers packing services at virtually all U.S. Office and Print Centers, and packing supplies and boxes are included in FedEx Office s retail product assortment. By allowing customers to have unpackaged items professionally packed by specially trained FedEx Office team members and then shipped using any of the full range of FedEx day-definite ground shipping and time-definite global express shipping services, FedEx Office provides a complete pack-and-ship solution.

As of May 31, 2010, FedEx Office operated approximately 1,950 locations, including 135 locations in seven foreign countries, as well as 30 commercial production centers. FedEx Office is headquartered in Dallas, Texas.

Trademarks

The FedEx trademark, service mark and trade name is essential to our worldwide business. FedEx, FedEx Express, FedEx Ground, FedEx Freight, FedEx Office, FedEx Services, FedEx SupplyChain Systems, FedEx Customer Information Services, FedEx National LTL, FedEx Trade Networks, FedEx SmartPost and FedEx Custom Critical, among others, are trademarks, service marks and trade names of Federal Express Corporation for which registrations, or applications for registration, are on file. We have authorized, through licensing arrangements, the use of certain of our trademarks, service marks and trade names by our contractors and Global Service Participants to support our business. In addition, we license the use of certain of our trademarks, service marks and trade names on promotional items for the primary purpose of enhancing brand awareness.

Regulation

Air. Under the Federal Aviation Act of 1958, as amended, both the U.S. Department of Transportation (DOT) and the Federal Aviation Administration (FAA) exercise regulatory authority over FedEx Express.

The FAA s regulatory authority relates primarily to operational aspects of air transportation, including aircraft standards and maintenance, as well as personnel and ground facilities, which may from time to time affect the ability of FedEx Express to operate its aircraft in the most efficient manner. FedEx Express holds an air carrier certificate granted by the FAA pursuant to Part 119 of the federal aviation regulations. This certificate is of unlimited duration and remains in effect so long as FedEx Express maintains its standards of safety and meets the operational requirements of the regulations.

The DOT s authority relates primarily to economic aspects of air transportation. The DOT s jurisdiction extends to aviation route authority and to other regulatory matters, including the transfer of route authority between carriers. FedEx Express holds various certificates issued by the DOT, authorizing FedEx Express to engage in U.S. and international air transportation of property and mail on a worldwide basis.

Under the Aviation and Transportation Security Act of 2001, as amended, the Transportation Security Administration (TSA), an agency within the Department of Homeland Security, has responsibility for aviation security. In July 2007, the TSA issued to us a Full All-Cargo Aircraft Operator Standard Security Plan, which contained many new and enhanced security requirements. These requirements are not static, but will change periodically as the result of regulatory and legislative requirements, and to respond to evolving threats. Until these requirements are adopted, we cannot determine the effect that these new rules will have on our cost structure or our operating results. It is reasonably possible, however, that these rules or other future security requirements could impose material costs on us.

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FedEx Express participates in the Civil Reserve Air Fleet (CRAF) program. Under this program, the U.S. Department of Defense may requisition for military use certain of FedEx Express s wide-bodied aircraft in the event of a declared need, including a national emergency. FedEx Express is compensated for the operation of any aircraft requisitioned under the CRAF program at standard contract rates established each year in the normal course of awarding contracts. Through its participation in the CRAF program, FedEx Express is entitled to bid on peacetime military cargo charter business. FedEx Express, together with a consortium of other carriers, currently contracts with the U.S. Government for such charter flights.

Ground. The ground transportation performed by FedEx Express is integral to its air transportation services. The enactment of the Federal Aviation Administration Authorization Act of 1994 abrogated the authority of states to regulate the rates, routes or services of intermodal all-cargo air carriers and most motor carriers. States may now only exercise jurisdiction over safety and insurance. FedEx Express is registered in those states that require registration.

The operations of FedEx Ground, FedEx Freight, FedEx National LTL and FedEx Custom Critical in interstate commerce are currently regulated by the DOT and the Federal Motor Carrier Safety Administration, which retain limited oversight authority over motor carriers. Federal legislation preempts regulation by the states of rates and service in intrastate freight transportation.

Like other interstate motor carriers, our operations, including those at FedEx Express, are subject to certain DOT safety requirements governing interstate operations. In addition, vehicle weight and dimensions remain subject to both federal and state regulations.

International. FedEx Express s international authority permits it to carry cargo and mail from points in its U.S. route system to numerous points throughout the world. The DOT regulates international routes and practices and is authorized to investigate and take action against discriminatory treatment of United States air carriers abroad. The right of a United States carrier to serve foreign points is subject to the DOT s approval and generally requires a bilateral agreement between the United States and the foreign government. The carrier must then be granted the permission of such foreign government to provide specific flights and services. The regulatory environment for global aviation rights may from time to time impair the ability of FedEx Express to operate its air network in the most efficient manner. Additionally, global air cargo carriers, such as FedEx Express, are subject to current and potential additional aviation security regulation by foreign governments.

Our operations within foreign countries, such as FedEx Express s growing international domestic operations, are also subject to current and potential regulations that restrict, and sometimes prohibit, our ability to compete in parts of the transportation and logistics market. As an example, in 2009, the Chinese government adopted postal regulation that excludes foreign-invested companies such as FedEx from competing in the mainland China domestic document delivery market.

Communication. Because of the extensive use of radio and other communication facilities in its aircraft and ground transportation operations, FedEx Express is subject to the Federal Communications Commission Act of 1934, as amended. Additionally, the Federal Communications Commission regulates and licenses FedEx Express s activities pertaining to satellite communications.

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Environmental. Pursuant to the Federal Aviation Act, the FAA, with the assistance of the U.S. Environmental Protection Agency, is authorized to establish standards governing aircraft noise. FedEx Express s aircraft fleet is in compliance with current noise standards of the federal aviation regulations. In addition to federal regulation of aircraft noise, certain airport operators have local noise regulations, which limit aircraft operations by type of aircraft and time of day. These regulations have had a restrictive effect on FedEx Express s aircraft operations in some of the localities where they apply but do not have a material effect on any of FedEx Express s significant markets. Congress s passage of the Airport Noise and Capacity Act of 1990 established a National Noise Policy, which enabled FedEx Express to plan for noise reduction and better respond to local noise constraints. FedEx Express s international operations are also subject to noise regulations in certain of the countries in which it operates.

Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas emissions, including our aircraft and diesel engine emissions. For a description of such efforts and their potential effect on our cost structure and operating results, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

We are subject to federal, state and local environmental laws and regulations relating to, among other things, contingency planning for spills of petroleum products, the disposal of waste oil and the disposal of toners and other products used in FedEx Office s copy machines. Additionally, we are subject to numerous regulations dealing with underground fuel storage tanks, hazardous waste handling, vehicle and equipment emissions and noise and the discharge of effluents from our properties and equipment. We have environmental management programs to ensure compliance with these regulations.

Customs. Our activities, including customs brokerage and freight forwarding, are subject to regulation by the Bureau of Customs and Border Protection and the TSA within the Department of Homeland Security (customs brokerage and security issues), the U.S. Federal Maritime Commission (ocean freight forwarding) and the DOT (airfreight forwarding). Our offshore operations are subject to similar regulation by the regulatory authorities of foreign jurisdictions.

Labor. All U.S. employees at FedEx Express are covered by the Railway Labor Act of 1926, as amended (the RLA), while labor relations within the United States at most of our companies are governed by the National Labor Relations Act of 1935, as amended (the NLRA). Under the RLA, groups that wish to unionize must do so across nationwide classes of employees. The RLA also requires mandatory government-led mediation of contract disputes supervised by the National Mediation Board before a union can strike or an employer can replace employees or impose contract terms. This part of the RLA helps minimize the risk of strikes that would shut down large portions of the economy. Under the NLRA, employees can unionize in small localized groups, and government-led mediation is not a required step in the negotiation process.

The RLA was originally passed to govern railroad and express carrier labor negotiations. As transportation systems evolved, the law expanded to cover airlines, which are the dominant national transportation systems of today. As an air express carrier with an integrated air/ground network, FedEx Express and its employees have been covered by the RLA since the founding of the company in 1971. The purpose of the RLA is to offer employees a process by which to unionize (if they choose) and engage in collective bargaining while also protecting national (now global) commerce from damaging work stoppages and delays. Specifically, the RLA ensures that an entire transportation system, such as at FedEx Express, cannot be shut down by the actions of a local segment of the network.

The U.S. Congress is considering adopting changes in labor laws that would make it easier for unions to organize small units of our employees. For example, there is a possibility that Congress could remove most FedEx Express employees from the jurisdiction of the RLA, thereby exposing the FedEx Express network to sporadic labor disputes and the risk that small groups of employees could disrupt the entire air/ground network. For a description of these potential labor law changes, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

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ITEM 1A. RISK FACTORS

We present information about our risk factors on pages 71 through 75 of this Annual Report on Form 10-K.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

FedEx Express Segment

FedEx Express s principal owned and leased properties include its aircraft, vehicles, national, regional and metropolitan sorting facilities, administration buildings, FedEx Drop Boxes and data processing and telecommunications equipment.

Aircraft and Vehicles

As of May 31, 2010, FedEx Express s aircraft fleet consisted of the following:

Description	Owned	Leased	Total	Maximum Operational Revenue Payload (Pounds per Aircraft) (1)
Boeing B777F	6	0	6(2)	178,000
Boeing MD11	33	26	59	164,200
Boeing MD10-30 (3)	10	5	15	114,200
Boeing DC10-30	0	2	2(4)	114,200
Boeing MD10-10 (3)	58	0	58	108,700
Airbus A300-600	35	36	71	85,600
Airbus A310-200/300	43	6	49	61,900
Boeing B757-200	36	0	36(5)	45,800
Boeing B727-200	75	2	77	38,200
ATR 72-202/212	13	0	13	14,660
ATR 42-300/320	26	0	26	10,880
Cessna 208B	242	0	242	2,500
Cessna 208A	10	0	10	1,900
Total	587	77	664	

(1) Maximum operational revenue payload is the lesser of the net volume-limited payload and the net maximum structural payload.

(2)

Includes two aircraft not currently in operation and awaiting completion of modification.

(3) The MD10-30s and MD10-10s are DC10-30s and DC10-10s, respectively, that have been converted to an MD10 configuration.

(4) Not currently in operation and awaiting conversion to MD10 configuration.

(5) Includes 14 aircraft not currently in operation and awaiting completion of modification.

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The B777s are two-engine, wide-bodied cargo aircraft that have a longer range and larger capacity than any aircraft we operate.
The MD11s are three-engine, wide-bodied aircraft that have a longer range and larger capacity than DC10s or MD10s.
The DC10s are three-engine, wide-bodied aircraft that have been specially modified to meet FedEx Express s cargo requirements.
The MD10s are three-engine, wide-bodied DC10 aircraft that have received an Advanced Common Flightdeck (ACF) modification, which includes a conversion to a two-pilot cockpit, as well as upgrades of electrical and other systems.
The A300s and A310s are two-engine, wide-bodied aircraft that have a longer range and more capacity than B757s and B727s.
The B757s are two-engine, narrow-bodied aircraft configured for cargo service.
The B727s are three-engine, narrow-bodied aircraft configured for cargo service.
The ATR and Cessna 208 turbo-prop aircraft are leased to independent operators to support FedEx Express operations in areas where demand does not justify use of a larger aircraft.

An inventory of spare engines and parts is maintained for each aircraft type.

In addition, FedEx Express wet leases 46 smaller piston-engine and turbo-prop aircraft, which feed packages to and from airports primarily outside the U.S. served by FedEx Express s larger jet aircraft. The wet lease agreements call for the owner-lessor to provide the aircraft, flight crews, insurance and maintenance, as well as fuel and other supplies required to operate the aircraft. FedEx Express s wet lease agreements are for terms not exceeding one year and are generally cancelable upon 30 days notice.

At May 31, 2010, FedEx Express operated approximately 49,000 ground transport vehicles, including pickup and delivery vans, larger trucks called container transport vehicles and over-the-road tractors and trailers.

Aircraft Purchase Commitments

The following table is a summary of the number and type of aircraft we were committed to purchase as of May 31, 2010, with the year of expected delivery:

	B757	B777F[1]	ATR 72	Total
2011	16	4	8	28
2012	8	5		13
2013		5		5
2014		3		3
2015		3		3
Thereafter		10		10
Total	24	30	8	62

(1) Our obligation to purchase 15 of these aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be

covered by the RLA. Also, subsequent to May 31, 2010, we entered into an agreement replacing the previously disclosed non-binding letter of intent with another party to acquire two additional B777Fs and expect to take delivery of these aircraft in 2011. These aircraft are not included in the table above.

As of May 31, 2010, deposits and progress payments of $437 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 15 of the accompanying consolidated financial statements for more information about our purchase commitments.

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Sorting and Handling Facilities
At May 31, 2010, FedEx Express operated the following major sorting and handling facilities:

Location	Acres	Square Feet	Sorting Capacity (per hour) (1)	Lessor	Lease Expiration Year
National					
Memphis, Tennessee	518	3,450,000	465,000	Memphis-Shelby County Airport Authority	2036
Indianapolis, Indiana	335	2,509,000	212,000	Indianapolis Airport Authority	2028
Regional					
Fort Worth, Texas	168	948,000	76,000	Fort Worth Alliance Airport Authority	2021
Newark, New Jersey	70	595,000	154,000	Port Authority of New York and New Jersey	2011
Oakland, California	75	320,000	54,000	City of Oakland	2031
Greensboro, N. Carolina	165	593,000	29,000	Piedmont Triad Airport Authority	2031
Metropolitan					
Chicago, Illinois	51	419,000	52,000	City of Chicago	2028
Los Angeles, California	34	305,000	57,000	City of Los Angeles	Month-to-month/2025 (5)
International					
Anchorage, Alaska (2)	64	332,000	24,000	Alaska Department of Transportation and Public Facilities	2023
Paris, France (3)	87	861,000	63,000	Aeroports de Paris	2029
Guangzhou, China (4)	155	882,000	61,000	Guangdong Airport Management Corp.	2029

(1) Documents and packages.

(2)

Handles international express package and freight shipments to and from Asia, Europe and North America.

(3) Handles intra-Europe express package and freight shipments, as well as international express package and freight shipments to and from Europe.

(4) Handles intra-Asia express package and freight shipments, as well as international express package and freight shipments to and from Asia.

(5) Property is held under two separate leases lease for sorting and handling facility (23 acres) is month-to-month, and lease for ramp expansion (11 acres) expires in 2025.

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FedEx Express s primary sorting facility, which serves as the center of its multiple hub-and-spoke system, is located at the Memphis International Airport. FedEx Express s facilities at the Memphis International Airport also include aircraft hangars, aircraft ramp areas, vehicle parking areas, flight training and fuel facilities, administrative offices and warehouse space. FedEx Express leases these facilities from the Memphis-Shelby County Airport Authority (the Authority). The lease obligates FedEx Express to maintain and insure the leased property and to pay all related taxes, assessments and other charges. The lease is subordinate to, and FedEx Express s rights thereunder could be affected by, any future lease or agreement between the Authority and the U.S. Government.

FedEx Express has additional international sorting-and-handling facilities located at Narita Airport in Tokyo, Stansted Airport outside London, and Pearson Airport in Toronto. FedEx Express also has a substantial presence at airports in Hong Kong; Taiwan; Dubai; Frankfurt; and Miami. FedEx Express is constructing a state-of-the-art, solar-electric sorting-and-handling facility in Germany at the Cologne/Bonn airport and intends to relocate the Frankfurt operations there, beginning later this calendar year.

Administrative and Other Properties and Facilities

The World Headquarters of FedEx Express is located in southeastern Shelby County, Tennessee. The headquarters campus comprises nine separate buildings with approximately 1.3 million square feet of space. FedEx Express also leases 34 facilities in the Memphis area for administrative offices and warehouses.

FedEx Express owns or leases approximately 700 facilities for city station operations in the United States. In addition, approximately 400 city stations are owned or leased throughout FedEx Express s international network. The majority of these leases are for terms of five to ten years. City stations serve as a sorting and distribution center for a particular city or region. We believe that suitable alternative facilities are available in each locale on satisfactory terms, if necessary.

As of May 31, 2010, FedEx Express had approximately 46,000 Drop Boxes, including 5,000 Drop Boxes outside U.S. Post Offices. As of May 31, 2010, FedEx Express also had approximately 13,000 FedEx Authorized ShipCenters and other types of staffed drop-off locations, such as FedEx Office centers. Internationally, FedEx Express had approximately 4,000 drop-off locations.

FedEx Ground Segment

FedEx Ground s corporate offices and information and data centers are located in the Pittsburgh, Pennsylvania, area in an approximately 500,000 square-foot building owned by FedEx Ground. As of May 31, 2010, FedEx Ground had approximately 30,400 company-owned trailers and owned or leased 520 facilities, including 32 hubs. In addition, approximately 26,300 owner-operated vehicles support FedEx Ground s business. Of the 320 facilities that support FedEx Home Delivery, 225 are co-located with existing FedEx Ground facilities. Leased facilities generally have terms of five years or less. The 32 hub facilities are strategically located to cover the geographic area served by FedEx Ground. The hub facilities average approximately 325,000 square feet and range in size from 54,000 to 715,000 square feet.

FedEx Freight Segment

FedEx Freight Corporation s corporate headquarters are located in Memphis, Tennessee. Administrative offices for the FedEx Freight business are in Harrison, Arkansas, and for the FedEx National LTL business are in Lakeland, Florida. As of May 31, 2010, FedEx Freight Corporation operated approximately 60,000 vehicles and trailers and 492 service centers, which are strategically located to provide service to virtually all U.S. ZIP Codes. These facilities range in size from 850 to 221,300 square feet of office and dock space. FedEx Custom Critical s headquarters are located in Green, Ohio.

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FedEx Services Segment

FedEx Services corporate headquarters are located in Memphis, Tennessee. FedEx Services and FedEx Express lease state-of-the-art technology centers in Collierville, Tennessee, Irving, Texas, Colorado Springs, Colorado, and Orlando, Florida. These facilities house personnel responsible for strategic software development and other functions that support FedEx s technology and e-commerce solutions. FedEx Office s corporate headquarters are located in Dallas, Texas in leased facilities. As of May 31, 2010, FedEx Office operated approximately 1,950 locations, including 135 locations in seven foreign countries, as well as 30 commercial production centers. Substantially all FedEx Office centers are leased, generally for terms of five to ten years with varying renewal options. FedEx Office centers are generally located in strip malls, office buildings or stand-alone structures and average approximately 4,000 square feet in size. We have a multi-year agreement with OfficeMax to offer U.S. domestic FedEx Express and FedEx Ground shipping services at all U.S. OfficeMax retail locations (over 900 locations).

ITEM 3. LEGAL PROCEEDINGS

FedEx and its subsidiaries are subject to legal proceedings and claims that arise in the ordinary course of their business. For a description of material pending legal proceedings, see Note 16 of the accompanying consolidated financial statements.

As described below, we have received requests for information from various governmental agencies over the past four years related to possible anti-competitive behavior in several freight transportation segments. We do not believe that we have engaged in any anti-competitive activities, and we are cooperating with these investigations.

In June 2006, we received a grand jury subpoena for the production of documents in connection with a criminal investigation by the Antitrust Division of the U.S. Department of Justice (DOJ) into possible anti-competitive behavior in the air freight transportation industry. In July 2007, we received a notice from the Australian Competition and Consumer Commission (ACCC) requesting certain information and documents in connection with the ACCC s investigation into possible anti-competitive behavior relating to air cargo transportation services in Australia. In December 2007, we received a grand jury subpoena for the production of documents in connection with a criminal investigation by the DOJ into possible anti-competitive behavior in the international freight forwarding industry. In March 2008, we received an additional subpoena from the DOJ relating to its investigation of the international freight forwarding industry. In July 2008, we received a notice from the Korea Fair Trade Commission (KFTC) requesting certain information and documents in connection with the KFTC s investigation into possible anti-competitive behavior relating to air cargo transportation services in South Korea. In May 2010, the KFTC determined that we were not culpable. The DOJ and ACCC investigations are ongoing.

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ITEM 4. RESERVED

EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding executive officers of FedEx is as follows (included herein pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K):

Name and Office	Age	Positions and Offices Held and Business Experience
Frederick W. Smith Chairman, President and Chief Executive Officer	65	Chairman, President and Chief Executive Officer of FedEx since January 1998; Chairman of FedEx Express since 1975; Chairman, President and Chief Executive Officer of FedEx Express from April 1983 to January 1998; Chief Executive Officer of FedEx Express from 1977 to January 1998; and President of FedEx Express from June 1971 to February 1975.
David J. Bronczek President and Chief Executive Officer, FedEx Express	56	President and Chief Executive Officer of FedEx Express since January 2000; Executive Vice President and Chief Operating Officer of FedEx Express from January 1998 to January 2000; Senior Vice President Europe, Middle East and Africa of FedEx Express from June 1995 to January 1998; Senior Vice President Europe, Africa and Mediterranean of FedEx Express from June 1993 to June 1995; Vice President Canadian Operations of FedEx Express from February 1987 to March 1993; and several sales and operations managerial positions at FedEx Express from 1976 to 1987. Mr. Bronczek serves as a director of International Paper Company, an uncoated paper and packaging company.
Robert B. Carter Executive Vice President FedEx Information Services and Chief Information Officer	51	Executive Vice President FedEx Information Services and Chief Information Officer of FedEx since January 2007; Executive Vice President and Chief Information Officer of FedEx from June 2000 to January 2007; Corporate Vice President and Chief Technology Officer of FedEx from February 1998 to June 2000; Vice President Corporate Systems Development of FedEx Express from September 1993 to February 1998; Managing Director Systems Development of FedEx Express from April 1993 to September 1993. Mr. Carter serves as a director of Saks Incorporated, a retailer operating luxury, specialty and traditional department stores, and as a director of First Horizon National Corporation, a financial services holding company.

Name and Office	Age	Positions and Offices Held and Business Experience
T. Michael Glenn Executive Vice President Market Development and Corporate Communications	54	Executive Vice President Market Development and Corporate Communications of FedEx since January 1998; Senior Vice President Marketing, Customer Service and Corporate Communications of FedEx Express from June 1994 to January 1998; Senior Vice President Marketing and Corporate Communications of FedEx Express from December 1993 to June 1994; Senior Vice President Worldwide Marketing Catalog Services and Corporate Communications of FedEx Express from June 1993 to December 1993; Senior Vice President Catalog and Remail Services of FedEx Express from September 1992 to June 1993; Vice President Marketing of FedEx Express from August 1985 to September 1992; and various management positions in sales and marketing and senior sales specialist of FedEx Express from 1981 to 1985. Mr. Glenn serves as a director of Pentair, Inc., a diversified industrial manufacturing company operating in water and technical products business segments, and as a director of Renasant Corporation, a financial services holding company.
Alan B. Graf, Jr. Executive Vice President and Chief Financial Officer	56	Executive Vice President and Chief Financial Officer of FedEx since January 1998; Executive Vice President and Chief Financial Officer of FedEx Express from February 1996 to January 1998; Senior Vice President and Chief Financial Officer of FedEx Express from December 1991 to February 1996; Vice President and Treasurer of FedEx Express from August 1987 to December 1991; and various management positions in finance and a senior financial analyst of FedEx Express from 1980 to 1987. Mr. Graf serves as a director of Mid-America Apartment Communities Inc., a real estate investment trust that focuses on acquiring, constructing, developing, owning and operating apartment communities, and as a director of NIKE, Inc., a designer and marketer of athletic footwear, apparel, equipment and accessories for sports and fitness activities.
William J. Logue President and Chief Executive Officer, FedEx Freight Corporation	52	President and Chief Executive Officer of FedEx Freight Corporation since March 2010; President of FedEx Freight Corporation from December 2009 to February 2010; Executive Vice President and Chief Operating Officer U.S. of FedEx Express from March 2008 to November 2009; Executive Vice President U.S. Operations and System Support of FedEx Express from September 2006 to March 2008; Senior Vice President U.S. Operations of FedEx Express from August 2004 to September 2006; Senior Vice President Air-Ground and Freight Services of FedEx Express

from 1999 to August 2004; Vice President National Hub Operations, Memphis Hub of FedEx Express from 1995 to 1999; and various operations management positions with FedEx Express from 1989 to 1995.

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Name and Office	Age	Positions and Offices Held and Business Experience
David F. Rebholz President and Chief Executive Officer, FedEx Ground	57	President and Chief Executive Officer of FedEx Ground since January 2007; President of FedEx Ground from September 2006 to January 2007; Executive Vice President Operations & Systems Support of FedEx Express from December 1999 to September 2006; Senior Vice President U.S. of FedEx Express from January 1997 to November 1999; Senior Vice President Sales & Customer Service of FedEx Express from June 1993 to December 1996; Vice President Regional Operations of FedEx Express from October 1991 to June 1993; Vice President Customer Services of FedEx Express from December 1988 to October 1991; and various other positions with FedEx Express from 1976 to 1988.
Christine P. Richards Executive Vice President, General Counsel and Secretary	55	Executive Vice President, General Counsel and Secretary of FedEx since June 2005; Corporate Vice President Customer and Business Transactions of FedEx from March 2001 to June 2005; Senior Vice President and General Counsel of FedEx Services from March 2000 to June 2005; Staff Vice President Customer and Business Transactions of FedEx from November 1999 to March 2001; Vice President Customer and Business Transactions of FedEx Express from 1998 to November 1999; and various legal positions with FedEx Express from 1984 to 1998.

Executive officers are elected by, and serve at the discretion of, the Board of Directors. There is no arrangement or understanding between any executive officer and any person, other than a director or executive officer of FedEx or of any of its subsidiaries acting in his or her official capacity, pursuant to which any executive officer was selected. There are no family relationships between any executive officer and any other executive officer or director of FedEx or of any of its subsidiaries.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

FedEx s common stock is listed on the New York Stock Exchange under the symbol FDX. As of July 12, 2010, there were 14,926 holders of record of our common stock. The following table sets forth, for the periods indicated, the high and low sale prices, as reported on the NYSE, and the cash dividends paid per share of common stock.

	Sale Prices					
		High		**Low**		**Dividend**
Fiscal Year Ended May 31, 2010						
First Quarter	$	70.27	$	49.76	$	0.11
Second Quarter		85.43		68.06		0.11
Third Quarter		92.59		75.17		0.11
Fourth Quarter		97.75		78.29		0.11
Fiscal Year Ended May 31, 2009						
First Quarter	$	93.69	$	71.33	$	0.11
Second Quarter		96.65		53.90		0.11
Third Quarter		76.94		42.37		0.11
Fourth Quarter		62.16		34.02		0.11

FedEx also paid a cash dividend on July 1, 2010 ($0.12 per share). We expect to continue to pay regular quarterly cash dividends, though each subsequent quarterly dividend is subject to review and approval by our Board of Directors. We evaluate the dividend payment amount on an annual basis at the end of each fiscal year. There are no material restrictions on our ability to declare dividends, nor are there any material restrictions on the ability of our subsidiaries to transfer funds to us in the form of cash dividends, loans or advances.

The following table provides information on FedEx s repurchases of its common stock during the fourth quarter of 2010:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased**		**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Programs**	**Maximum Number of Shares That May Yet Be Purchased Under the Programs (in millions)**
Mar. 1-31, 2010	42,000	$	90.16	42,000	5.708
Apr. 1-30, 2010					5.708
May 1-31, 2010					5.708
Total	42,000	$	90.16	42,000	

All of the shares repurchased during the fourth quarter of

2010 were used to grant restricted stock awards under our equity compensation program. The repurchases were made under share repurchase programs that were approved by our Board of Directors and announced in calendar years 1999, 2001, 2002 and 2004 and through which FedEx was authorized to purchase, in the open market or in negotiated or block transactions, up to an aggregate of 30 million shares of its common stock. A total of 5.708 million shares remain authorized for purchase under these share repurchase programs, which are the only such programs that currently exist. These programs do not have an expiration date.

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ITEM 6. SELECTED FINANCIAL DATA

Selected financial data as of and for the five years ended May 31, 2010 is presented on page 124 of this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Management s discussion and analysis of results of operations and financial condition is presented on pages 36 through 75 of this Annual Report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative and qualitative information about market risk is presented on page 123 of this Annual Report on Form 10-K.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FedEx s consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 15, 2010 thereon, are presented on pages 78 through 122 of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

The management of FedEx, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures in ensuring that the information required to be disclosed in our filings under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective as of May 31, 2010 (the end of the period covered by this Annual Report on Form 10-K).

Assessment of Internal Control Over Financial Reporting

Management s report on our internal control over financial reporting is presented on page 76 of this Annual Report on Form 10-K. The report of Ernst & Young LLP with respect to our internal control over financial reporting is presented on page 77 of this Annual Report on Form 10-K.

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Changes in Internal Control Over Financial Reporting

During our fiscal quarter ended May 31, 2010, no change occurred in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information regarding members of the Board of Directors, compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, FedEx s Code of Business Conduct and Ethics and certain other aspects of FedEx s corporate governance (such as the procedures by which FedEx s stockholders may recommend nominees to the Board of Directors and information about the Audit Committee, including its members and our audit committee financial expert) will be presented in FedEx s definitive proxy statement for its 2010 annual meeting of stockholders, which will be held on September 27, 2010, and is incorporated herein by reference. Information regarding executive officers of FedEx is included above in Part I of this Annual Report on Form 10-K under the caption Executive Officers of the Registrant pursuant to Instruction 3 to Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K. Information regarding FedEx s Code of Business Conduct and Ethics is included above in Part I, Item 1 of this Annual Report on Form 10-K under the caption Reputation and Responsibility Governance.

ITEM 11. EXECUTIVE COMPENSATION

Information regarding director and executive compensation will be presented in FedEx s definitive proxy statement for its 2010 annual meeting of stockholders, which will be held on September 27, 2010, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding security ownership of certain beneficial owners and management and related stockholder matters, as well as equity compensation plan information, will be presented in FedEx s definitive proxy statement for its 2010 annual meeting of stockholders, which will be held on September 27, 2010, and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information regarding certain relationships and transactions with related persons (including FedEx s policies and procedures for the review and preapproval of related person transactions) and director independence will be presented in FedEx s definitive proxy statement for its 2010 annual meeting of stockholders, which will be held on September 27, 2010, and is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the fees for services provided by Ernst & Young LLP during 2010 and 2009 and the Audit Committee s administration of the engagement of Ernst & Young LLP, including the Committee s preapproval policies and procedures (such as FedEx s Policy on Engagement of Independent Auditor), will be presented in FedEx s definitive proxy statement for its 2010 annual meeting of stockholders, which will be held on September 27, 2010, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) Financial Statements; Financial Statement Schedules

FedEx s consolidated financial statements, together with the notes thereto and the report of Ernst & Young LLP dated July 15, 2010 thereon, are listed on pages 34 through 35 and presented on pages 78 through 122 of this Annual Report on Form 10-K. FedEx s Schedule II Valuation and Qualifying Accounts, together with the report of Ernst & Young LLP dated July 15, 2010 thereon, is presented on pages 125 through 126 of this Annual Report on Form 10-K. All other financial statement schedules have been omitted because they are not applicable or the required information is included in FedEx s consolidated financial statements or the notes thereto.

(a)(3) Exhibits

See the Exhibit Index on pages E-1 through E-7 for a list of the exhibits being filed or furnished with or incorporated by reference into this Annual Report on Form 10-K.

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SIGNATURES

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

FEDEX CORPORATION

Dated: July 15, 2010

By: /s/ FREDERICK W. SMITH
Frederick W. Smith
Chairman, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Signature	Capacity	Date
/s/ FREDERICK W. SMITH Frederick W. Smith	Chairman, President and Chief Executive Officer and Director *(Principal Executive Officer)*	July 15, 2010
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	July 15, 2010
/s/ JOHN L. MERINO John L. Merino	Corporate Vice President and Principal Accounting Officer *(Principal Accounting Officer)*	July 15, 2010
/s/ JAMES L. BARKSDALE * James L. Barksdale	Director	July 15, 2010
/s/ JOHN A. EDWARDSON * John A. Edwardson	Director	July 15, 2010
/s/ JUDITH L. ESTRIN * Judith L. Estrin	Director	July 15, 2010
/s/ J. R. HYDE, III * J. R. Hyde, III	Director	July 15, 2010
/s/ SHIRLEY ANN JACKSON * Shirley Ann Jackson	Director	July 15, 2010

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Signature	Capacity	Date
/s/ STEVEN R. LORANGER *	Director	July 15, 2010
Steven R. Loranger		
/s/ GARY W. LOVEMAN *	Director	July 15, 2010
Gary W. Loveman		
/s/ SUSAN C. SCHWAB *	Director	July 15, 2010
Susan C. Schwab		
/s/ JOSHUA I. SMITH *	Director	July 15, 2010
Joshua I. Smith		
/s/ DAVID P. STEINER *	Director	July 15, 2010
David P. Steiner		
/s/ PAUL S. WALSH *	Director	July 15, 2010
Paul S. Walsh		

*By: /s/ JOHN L. MERINO	July 15, 2010
John L. Merino Attorney-in-Fact	

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FINANCIAL SECTION TABLE OF CONTENTS

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MANAGEMENT S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

OVERVIEW OF FINANCIAL SECTION

The financial section of the FedEx Corporation (FedEx) Annual Report on Form 10-K (Annual Report) consists of the following Management s Discussion and Analysis of Results of Operations and Financial Condition (MD&A), the Consolidated Financial Statements and the notes to the Consolidated Financial Statements, and Other Financial Information, all of which include information about our significant accounting policies, practices and the transactions that underlie our financial results. The following MD&A describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and the critical accounting estimates of FedEx. The discussion in the financial section should be read in conjunction with the other sections of this Annual Report, particularly Item 1: Business and our detailed discussion of risk factors included in this MD&A.

ORGANIZATION OF INFORMATION

Our MD&A is comprised of three major sections: Results of Operations, Financial Condition and Critical Accounting Estimates. These sections include the following information:

- Results of Operations includes an overview of our consolidated 2010 results compared to 2009, and 2009 results compared to 2008. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2011.
- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2011) for each of our reportable transportation segments.
- Our financial condition is reviewed through an analysis of key elements of our liquidity, capital resources and contractual cash obligations, including a discussion of our cash flow statements and our financial commitments.
- We conclude with a discussion of the critical accounting estimates that we believe are important to understanding certain of the material judgments and assumptions incorporated in our reported financial results.

DESCRIPTION OF BUSINESS

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation (FedEx Express), the world s largest express transportation company; FedEx Ground Package System, Inc. (FedEx Ground), a leading provider of small-package ground delivery services; and the FedEx Freight LTL Group, which comprises the FedEx Freight and FedEx National LTL businesses of FedEx Freight Corporation, a leading U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing, information technology and customer service support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. (FedEx Office). See Reportable Segments for further discussion and refer to Item 1: Business for a more detailed description of each of our operating companies.

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The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services;
- the volumes of transportation services provided through our networks, primarily measured by our average daily volume and shipment weight;
- the mix of services purchased by our customers;
- the prices we obtain for our services, primarily measured by yield (revenue per package or pound or revenue per hundredweight for LTL freight shipments);
- our ability to manage our cost structure (capital expenditures and operating expenses) to match shifting volume levels; and
- the timing and amount of fluctuations in fuel prices and our ability to recover incremental fuel costs through our fuel surcharges.

The majority of our operating expenses are directly impacted by revenue and volume levels. Accordingly, we expect these operating expenses to fluctuate on a year-over-year basis consistent with the change in revenues and volumes. Therefore, the discussion of operating expense captions focuses on the key drivers and trends impacting expenses other than changes in revenues and volume.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2010 or ended May 31 of the year referenced and comparisons are to the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares summary operating results (dollars in millions, except per share amounts) for the years ended May 31:

	2010	2009 [(1)]	2008 [(2)]	Percent Change 2010/2009	Percent Change 2009/2008
Revenues	$ 34,734	$ 35,497	$ 37,953	(2)	(6)
Operating income	1,998	747	2,075	167	(64)
Operating margin	5.8%	2.1%	5.5%	370bp	(340)bp
Net income	$ 1,184	$ 98	$ 1,125	NM	(91)
Diluted earnings per share	$ 3.76	$ 0.31	$ 3.60	NM	(91)

(1) Operating expenses include charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily related to impairment charges associated with

goodwill and aircraft (described below).

(2) Operating expenses include a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share), predominantly related to impairment charges associated with intangible assets from the FedEx Office acquisition (described below).

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The following table shows changes in revenues and operating income by reportable segment for 2010 compared to 2009, and 2009 compared to 2008 (dollars in millions):

	Revenues				Operating Income			
	Dollar Change		Percent Change		Dollar Change		Percent Change	
	2010/ 2009	2009/ 2008	2010/ 2009	2009/ 2008	2010/ 2009	2009/ 2008	2010/ 2009	2009/ 2008
FedEx Express segment[1]	$ (809)	$ (2,057)	(4)	(8)	$ 333	$ (1,107)	42	(58)
FedEx Ground segment	392	296	6	4	217	71	27	10
FedEx Freight segment[2]	(94)	(519)	(2)	(11)	(109)	(373)	(248)	(113)
FedEx Services segment[3]	(207)	(161)	(10)	(8)	810	81	100	9
Other and eliminations	(45)	(15)	NM	NM				
	$ (763)	$ (2,456)	(2)	(6)	$ 1,251	$ (1,328)	167	(64)

(1) FedEx Express segment 2009 operating expenses include a charge of $260 million, primarily related to aircraft-related asset impairments.

(2) FedEx Freight segment 2009 operating expenses include a charge of $100 million, primarily related to impairment charges associated with goodwill related to the FedEx National LTL acquisition.

(3) FedEx Services segment 2009 operating expenses include a charge

of $810 million, related to impairment charges associated with goodwill related to the FedEx Office acquisition. FedEx Services segment 2008 operating expenses include a charge of $891 million, predominantly related to impairment charges associated with intangible assets from the FedEx Office acquisition. The normal, ongoing net operating costs of the FedEx Services segment are allocated back to the transportation segments.

Overview

Our results for 2010 reflect the continued impact of the global recession, which negatively impacted volumes and yields principally in the first half of the fiscal year. A gradual improvement in economic conditions during the third quarter and a strong fourth quarter performance, particularly in international shipping volumes at FedEx Express, allowed us to end 2010 with positive momentum. Although revenues declined, our earnings improved in 2010 due to the inclusion in 2009 of a $1.2 billion charge related to goodwill and other asset impairments. As the global and U.S. economies began to emerge from recession in the second half of 2010, we experienced significant volume growth across all of our transportation segments. Our FedEx Ground segment continued to grow throughout the recession, as customers opted for lower-priced ground transportation services and we continued to gain market share. Despite higher shipment volumes in 2010, our FedEx Freight segment had a difficult year resulting in an operating loss, as the pricing environment in the LTL market remained highly competitive due to excess industry capacity.

Changes in fuel surcharges and fuel prices also had a significant negative impact on our earnings year over year, particularly in the first half of 2010. In addition, our results in 2010 were impacted by costs associated with the partial reinstatement of several of our employee compensation programs as a result of improved global economic conditions. The benefits of numerous cost containment activities implemented in 2009 continued to favorably impact our 2010 results, principally in the first half of the fiscal year.

In 2009, global economic conditions deteriorated significantly, resulting in lower revenue and earnings. Our results for 2009 reflected reduced demand for most of our services. Declines in U.S. domestic volumes at FedEx Express were partially mitigated by the exit of a key competitor (DHL) from the market, as we gained approximately half of this competitor s total U.S. domestic shipments. FedEx Express package yields and FedEx Freight LTL Group yields were negatively impacted by a more competitive pricing environment, as competitors were aggressively seeking to protect market share and sustain operations during the recession.

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Our operating results for 2009 were also negatively impacted by fourth quarter charges of $1.2 billion, related primarily to the impairment of goodwill related to the Kinko s, Inc. (now FedEx Office) and Watkins Motor Lines (now FedEx National LTL) acquisitions and certain aircraft-related assets at FedEx Express. In response to weak business conditions, we implemented several actions in 2009 to lower our cost structure, including base salary reductions for U.S. salaried personnel, a suspension of 401(k) company-matching contributions, elimination of variable compensation payouts, and significant volume-related reductions in labor hours and linehaul expenses. These cost-reduction activities partially mitigated the impact of the weak global economy on our results for 2009. Rapidly declining fuel costs during 2009 and the timing lag between such declines and adjustments to our fuel surcharges provided a significant benefit to our results, predominantly at FedEx Express and FedEx Ground.
The following graphs for FedEx Express, FedEx Ground and the FedEx Freight LTL Group show selected volume trends (in thousands) for the years ended May 31:

(1) Package statistics do not include the operations of FedEx SmartPost.

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The following graphs for FedEx Express, FedEx Ground and the FedEx Freight LTL Group show selected yield trends for the years ended May 31:

(1) Package statistics do not include the operations of FedEx SmartPost.

Revenue

Revenues decreased 2% during 2010 primarily due to yield decreases at FedEx Express and the FedEx Freight LTL Group as a result of lower fuel surcharges and a continued competitive pricing environment for our services. At FedEx Express, our weighted-average U.S. domestic and outbound fuel surcharge was 6.20% in 2010 versus 17.45% in 2009. Increased volumes at all of our transportation segments due to improved economic conditions in the second half of the fiscal year partially offset the yield decreases in 2010. At FedEx Express, International Priority (IP) package volume increased 10%, led by volume growth in Asia. IP freight and U.S. domestic package volume growth also contributed to the revenue increase in 2010. At the FedEx Ground segment, market share gains resulted in a 3% increase in volumes at FedEx Ground and a 48% increase in volumes at FedEx SmartPost during 2010. At the FedEx Freight LTL Group, discounted pricing drove an increase in average daily LTL freight shipments, but also resulted in significant yield declines during 2010.

Revenues decreased during 2009 due to significantly lower volumes at FedEx Express and the FedEx Freight LTL Group as a result of reduced demand due to weak economic conditions and lower yields resulting from an aggressive pricing environment. At FedEx Express, U.S. domestic package and freight volumes declined and IP volume declined in every major region of the world. However, declines in U.S. domestic package volumes were partially offset by volumes gained from DHL s exit from the U.S. market. These volume decreases were also partially offset by yield increases in FedEx Express freight services driven by higher base rates and higher fuel surcharges in the first half of 2009. FedEx Freight LTL Group volumes decreased as a result of the recession. Within our FedEx Ground segment, volumes increased during 2009 due to market share gains, including volumes gained from DHL and FedEx Express customers who chose to use our more economical ground delivery services during the recession.

Impairment and Other Charges

In 2010, we recorded a charge of $18 million for the impairment of goodwill related to the FedEx National LTL acquisition. Our operating results for 2009 included charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share) recorded during the fourth quarter, primarily related to the impairment of goodwill related to the FedEx Office and FedEx National LTL acquisitions and certain aircraft-related assets at FedEx Express. The key factor contributing to the goodwill impairment was a decline in FedEx Office s and FedEx National LTL s actual and forecasted financial performance as a result of weak economic conditions. The FedEx National LTL 2009 goodwill impairment charge was included in the results of the FedEx Freight segment. The FedEx Office 2009 goodwill impairment charge was included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of those businesses.

The majority of our property and equipment impairment charges during 2009 resulted from our decision to permanently remove from service certain aircraft that we own, along with certain excess aircraft engines, at FedEx Express. This decision was the result of efforts to optimize our express network in light of excess aircraft capacity due to weak economic conditions and the delivery of newer, more fuel-efficient aircraft.

Our operating results for 2008 included a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly related to the impairment of the Kinko s trade name and goodwill resulting from the FedEx Office acquisition.

The impairment of the Kinko s trade name was due to the decision to minimize the use of the Kinko s trade name and rebrand the company as FedEx Office. The goodwill impairment charge resulted from a decline in the fair value of the FedEx Office reporting unit in light of economic conditions, the unit s recent and forecasted financial performance and the decision to reduce the rate of network expansion. The charges were included in the results of the FedEx Services segment and were not allocated to our transportation segments, as the charges were unrelated to the core performance of those businesses.

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Operating Income

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the years ended May 31:

	2010	2009	2008
Operating expenses:			
Salaries and employee benefits	$ 14,027	$ 13,767	$ 14,202
Purchased transportation	4,728	4,534	4,634
Rentals and landing fees	2,359	2,429	2,441
Depreciation and amortization	1,958	1,975	1,946
Fuel	3,106	3,811	4,409
Maintenance and repairs	1,715	1,898	2,068
Impairment and other charges	18	1,204(1)	882(2)
Other	4,825	5,132	5,296
Total operating expenses	$ 32,736	$ 34,750	$ 35,878

(1) Includes a charge of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily related to impairment charges associated with goodwill and aircraft (described above).

(2) Includes a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share), predominantly related to impairment charges associated with intangible assets from the FedEx

Office acquisition (described above).

	Percent of Revenue[1]		
	2010	2009	2008
Operating expenses:			
Salaries and employee benefits	40.4%	38.8%	37.4%
Purchased transportation	13.6	12.8	12.2
Rentals and landing fees	6.8	6.8	6.4
Depreciation and amortization	5.6	5.6	5.1
Fuel	8.9	10.7	11.6
Maintenance and repairs	4.9	5.3	5.5
Impairment and other charges	0.1	3.4	2.3
Other	13.9	14.5	14.0
Total operating expenses	94.2	97.9	94.5
Operating margin	5.8%	2.1%	5.5%

(1) Given the fixed-cost structure of our transportation networks, the year-over-year comparison of our operating expenses as a percentage of revenue has been affected by a number of factors, including the impact of lower fuel surcharges, weak economic conditions and our cost-containment activities. Collectively, these factors have distorted the comparability of certain of our operating

expense captions
on a relative
basis.

Operating income and operating margin increased in 2010 primarily as a result of the inclusion in 2009 of the impairment and other charges described above. Volume increases at our package businesses, particularly in higher-margin IP package and freight services at FedEx Express, also benefited our 2010 results. Additionally, we continued to benefit in 2010 from several actions implemented in 2009 to lower our cost structure, including reducing base salaries, optimizing our networks by adjusting routes and equipment types, permanently and temporarily idling certain equipment and consolidating facilities; however, these benefits were partially offset by increased costs in 2010 associated with our variable incentive compensation programs. An operating loss at the FedEx Freight segment due to continued weakness in the LTL freight market partially offset the earnings increase.

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Maintenance and repairs expense decreased 10% in 2010 primarily due to the timing of maintenance events, as lower aircraft utilization as a result of weak economic conditions in the first half of 2010 lengthened maintenance cycles. Other operating expense decreased 6% in 2010 due to actions to control spending and the inclusion in the prior year of higher self-insurance reserve requirements at FedEx Ground. Purchased transportation costs increased 4% in 2010 due to increased utilization of third-party transportation providers associated primarily with our LTL freight service as a result of higher shipment volumes.

The following graph for our transportation segments shows our average cost of jet and vehicle fuel per gallon for the years ended May 31:

Fuel expense decreased 18% during 2010 primarily due to decreases in the average price per gallon of fuel and fuel consumption, as we lowered flight hours and improved route efficiencies. In 2010, fuel prices rose during the beginning of the first quarter and slowly increased, with significantly less volatility than in 2009. The change in our fuel surcharges for FedEx Express and FedEx Ground lagged the price increase by approximately six to eight weeks. Accordingly, based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact to operating income in 2010. In contrast, we experienced significant fuel price and fuel surcharge volatility in 2009, when fuel prices peaked at their historical highs before beginning to rapidly decrease, which resulted in a significant benefit to operating income in 2009.

Our analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services. However, this analysis does not consider the negative effects that fuel surcharge levels may have on our business, including reduced demand and shifts by our customers to lower-yielding services. While fluctuations in fuel surcharge rates can be significant from period to period, fuel surcharges represent one of the many individual components of our pricing structure that impact our overall revenue and yield. Additional components include the mix of services sold, the base price and extra service charges we obtain for these services and the level of pricing discounts offered. In order to provide information about the impact of fuel surcharges on the trends in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for 2010, 2009 and 2008 in the accompanying discussions of each of our transportation segments.

Operating income and operating margin declined significantly in 2009, as weak economic conditions drove decreases in volumes at FedEx Express and the FedEx Freight LTL Group and contributed to a more competitive pricing environment that pressured yields. The impairment and other charges described above also negatively impacted operating income and margin in 2009. Operating income and margin in 2009 were also negatively impacted by reduced base copy revenues and expenses associated with organizational changes at FedEx Office. Cost-reduction initiatives partially mitigated the negative impact of these factors.

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Fuel expenses decreased 14% during 2009, primarily due to decreases in fuel consumption and the average price per gallon of fuel. Jet fuel usage decreased 9% during 2009, as we reduced flight hours in light of lower business levels. Fuel prices decreased rapidly and significantly during 2009 after peaking during the first quarter, while changes in fuel surcharges for FedEx Express and FedEx Ground lagged these decreases by approximately six to eight weeks. We experienced the opposite effect during 2008, as fuel prices significantly increased. This volatility in fuel prices and fuel surcharges resulted in a net benefit to income in 2009, based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to changes in fuel surcharges.

Other Income and Expense

Interest expense decreased $6 million during 2010 due to increased capitalized interest primarily related to progress payments on aircraft purchases. Interest income decreased $18 million during 2010 primarily due to lower interest rates and invested balances. Other expense increased $22 million during 2010 primarily due to higher amortization of financing fees and foreign currency losses. Interest expense decreased during 2009 due to increased capitalized interest, partially offset by interest costs on higher debt balances. Interest income decreased during 2009 primarily due to lower interest rates.

Income Taxes

Our effective tax rate was 37.5% in 2010, 85.6% in 2009 and 44.2% in 2008. Our 2009 and 2008 rates were significantly impacted by goodwill impairment charges that are not deductible for income tax purposes. For 2011, we expect our effective tax rate to be between 37.0% and 38.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income. Additional information on income taxes, including our effective tax rate reconciliation and liabilities for uncertain tax positions, can be found in Note 10 of the accompanying consolidated financial statements.

Outlook

We expect stronger demand for our services in 2011 and continued growth in revenue and earnings as global economic conditions continue to improve. We believe the improving economy will result in a more stable pricing environment, enhancing our ability to execute our strategy to improve yields across our transportation segments. These yield management initiatives, combined with continued growth in volumes, are anticipated to improve our margins in 2011. However, we expect our earnings growth in 2011 to be constrained by a significant increase in pension and retiree medical expenses ($260 million) primarily as a result of a significantly lower discount rate at our May 31, 2010 measurement date. In addition, we anticipate that volume-related increases in aircraft maintenance expenses, the reinstatement of employee compensation programs and higher healthcare expense due to continued inflation in the cost of medical services will dampen our earnings growth in 2011. Our expectations for continued improvement in our results in 2011 are based on a continued recovery in global economic conditions, the sustainability of which is difficult to predict, and fuel prices remaining at current forecasted levels.

Our capital expenditures for 2011 are expected to be approximately $3.2 billion, as we will continue to make strategic investments in Boeing 777 Freighter (B777F) and Boeing 757 (B757) aircraft, which are substantially more fuel-efficient per unit than the aircraft type they are replacing. We are committed to investing in critical long-term strategic projects focused on enhancing and broadening our service offerings to position us for stronger growth as global economic conditions continue to improve. For additional details on key 2011 capital projects, refer to the Liquidity Outlook section of this MD&A.

All of our businesses operate in a competitive pricing environment, exacerbated by continuing volatile fuel prices, which impact our fuel surcharge levels. Historically, our fuel surcharges have largely offset incremental fuel costs; however, volatility in fuel costs may impact earnings because adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, the trailing impact of adjustments to our fuel surcharges can significantly affect our earnings either positively or negatively in the short-term.

As described in Note 16 of the accompanying consolidated financial statements and the Independent Contractor Matters section of our FedEx Ground segment MD&A, we are involved in a number of lawsuits and other proceedings that challenge the status of FedEx Ground s owner-operators as independent contractors. FedEx Ground anticipates continuing changes to its relationships with its contractors. The nature, timing and amount of any changes are dependent on the outcome of numerous future events. We cannot reasonably estimate the potential impact of any such changes or a meaningful range of potential outcomes, although they could be material. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

See Risk Factors for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

Seasonality of Business

Our businesses are seasonal in nature. Seasonal fluctuations affect volumes, revenues and earnings. Historically, the U.S. express package business experiences an increase in volumes in late November and December. International business, particularly in the Asia-to-U.S. market, peaks in October and November in advance of the U.S. holiday sales season. Our first and third fiscal quarters, because they are summer vacation and post winter-holiday seasons, have historically experienced lower volumes relative to other periods. Normally, the fall is the busiest shipping period for FedEx Ground, while late December, June and July are the slowest periods. For the FedEx Freight LTL Group, the spring and fall are the busiest periods and the latter part of December, January and February are the slowest periods. For FedEx Office, the summer months are normally the slowest periods. Shipment levels, operating costs and earnings for each of our companies can also be adversely affected by inclement weather, particularly in our third fiscal quarter.

NEW ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. New accounting guidance that has impacted our financial statements can be found in Note 2 of the accompanying consolidated financial statements. We believe that there is no new accounting guidance adopted but not yet effective that is relevant to the readers of our financial statements. However, there are numerous new proposals under development which, if and when enacted, may have a significant impact on our financial reporting.

REPORTABLE SEGMENTS

FedEx Express, FedEx Ground and the FedEx Freight LTL Group represent our major service lines and, along with FedEx Services, form the core of our reportable segments. Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services) FedEx SupplyChain Systems (logistics services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator)
FedEx Freight Segment	FedEx Freight LTL Group: FedEx Freight (fast-transit LTL freight transportation) FedEx National LTL (economical LTL freight transportation) FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	FedEx Services (sales, marketing and information technology functions) FedEx Office (document and business services and package acceptance) FedEx Customer Information Services (FCIS) (customer service, billings and collections)

FEDEX SERVICES SEGMENT

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to pursue synergies from the combination of these functions. The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support to our other companies; FCIS, which is responsible for customer service, billings and collections for U.S. customers of our major business units; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses.
Effective September 1, 2009, FedEx SupplyChain Systems, formerly included in the FedEx Services reporting segment, was realigned to become part of the FedEx Express reporting segment. Prior year amounts have not been reclassified to conform to the current year segment presentation, as the financial results are materially comparable.
The FedEx Services segment provides direct and indirect support to our transportation businesses and accordingly we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office are allocated to FedEx Express and FedEx Ground. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of the total allocated net operating costs of the FedEx Services segment on our transportation segments.
The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided.
We believe these allocations approximate the net cost of providing these functions. The $810 million 2009 impairment charge for the FedEx Office goodwill and the $891 million 2008 charge predominantly associated with impairment of the Kinko s trade name and goodwill were not allocated to the FedEx Express or FedEx Ground segments, as the charges were unrelated to the core performance of those businesses.

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The operating expenses line item Intercompany charges on the accompanying unaudited financial summaries of our transportation segments reflects the allocations from the FedEx Services segment to the respective transportation segments. The Intercompany charges caption also includes charges and credits for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. We believe these allocations approximate the net cost of providing these functions.

Effective August 1, 2009, approximately 3,600 employees (predominantly from the FedEx Freight segment) were transferred to entities within the FedEx Services segment. This internal reorganization further centralized most customer support functions, such as sales, customer service and information technology, into our shared services organizations. While the reorganization had no impact on the net operating results of any of our transportation segments, the net intercompany charges to our FedEx Freight segment increased significantly with corresponding decreases to other expense captions, such as salaries and employee benefits. The impact of this internal reorganization to the expense captions in our other segments was immaterial.

FedEx Services segment revenues, which reflect the operations of only FedEx Office as of September 1, 2009, decreased 10% during 2010 due to revenue declines at FedEx Office and the realignment of FedEx SupplyChain Systems into the FedEx Express segment effective September 1, 2009. Although revenue at FedEx Office declined during 2010 due to lower demand for copy services, the allocated net loss of FedEx Office decreased, as we continued to see benefits from initiatives implemented in 2009 to reduce that company s cost structure. FedEx Services segment revenues decreased 8% during 2009 as revenue generated from new FedEx Office locations added in 2008 and 2009 did not offset declines in base copy revenues, incremental operating costs associated with the new locations and expenses associated with organizational changes. Therefore, the allocated net loss of FedEx Office increased during 2009 despite ongoing cost management efforts.

OTHER INTERSEGMENT TRANSACTIONS

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in the consolidated results and are not separately identified in the following segment information, as the amounts are not material.

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FEDEX EXPRESS SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) for the years ended May 31:

				Percent Change	
	2010	2009	2008	2010/2009	2009/2008
Revenues:					
Package:					
U.S. overnight box	$ 5,602	$ 6,074	$ 6,578	(8)	(8)
U.S. overnight envelope	1,640	1,855	2,012	(12)	(8)
U.S. deferred	2,589	2,789	2,995	(7)	(7)
Total U.S. domestic package revenue	9,831	10,718	11,585	(8)	(7)
International priority	7,087	6,978	7,666	2	(9)
International domestic [(1)]	578	565	663	2	(15)
Total package revenue	17,496	18,261	19,914	(4)	(8)
Freight:					
U.S.	1,980	2,165	2,398	(9)	(10)
International priority	1,303	1,104	1,243	18	(11)
International airfreight	251	369	406	(32)	(9)
Total freight revenue	3,534	3,638	4,047	(3)	(10)
Other [(2)]	525	465	460	13	1
Total revenues	21,555	22,364	24,421	(4)	(8)
Operating expenses:					
Salaries and employee benefits	8,402	8,217	8,451	2	(3)
Purchased transportation	1,177	1,112	1,208	6	(8)
Rentals and landing fees	1,577	1,613	1,673	(2)	(4)
Depreciation and amortization	1,016	961	944	6	2
Fuel	2,651	3,281	3,785	(19)	(13)
Maintenance and repairs	1,131	1,351	1,512	(16)	(11)
Impairment and other charges		260(3)		NM	NM
Intercompany charges	1,940	2,103	2,134	(8)	(1)
Other	2,534	2,672	2,813	(5)	(5)
Total operating expenses	20,428	21,570	22,520	(5)	(4)
Operating income	$ 1,127	$ 794	$ 1,901	42	(58)
Operating margin	5.2%	3.6%	7.8%	160bp	(420)bp

(1) International domestic revenues

include our international domestic express operations, primarily in the United Kingdom, Canada, China, India and Mexico.

(2) Other revenues includes FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.

(3) Represents charges associated with aircraft-related asset impairments and other charges primarily associated with aircraft-related lease and contract termination costs and employee severance.

	Percent of Revenue[1]		
	2010	2009	2008
Operating expenses:			
Salaries and employee benefits	39.0%	36.7%	34.6%
Purchased transportation	5.5	5.0	4.9
Rentals and landing fees	7.3	7.2	6.9
Depreciation and amortization	4.7	4.3	3.9
Fuel	12.3	14.7	15.5
Maintenance and repairs	5.2	6.0	6.2
Impairment and other charges		1.2[2]	
Intercompany charges	9.0	9.4	8.7
Other	11.8	11.9	11.5
Total operating expenses	94.8	96.4	92.2
Operating margin	5.2%	3.6%	7.8%

(1) Given the fixed-cost structure of our transportation networks, the year-over-year comparison of our operating expenses as a percentage of revenue has been affected by a number of factors, including the impact of lower fuel surcharges, weak economic conditions and our cost-containment activities. Collectively, these factors have distorted the comparability of certain of our operating expense captions

on a relative basis.

(2) Includes a charge of $260 million related to aircraft-related asset impairments and other charges primarily associated with aircraft-related lease and contract termination costs and employee severance.

The following table compares selected statistics (in thousands, except yield amounts) for the years ended May 31:

	2010	2009	2008	Percent Change 2010/2009	Percent Change 2009/2008
Package Statistics[1]					
Average daily package volume (ADV):					
U.S. overnight box	1,157	1,127	1,151	3	(2)
U.S. overnight envelope	614	627	677	(2)	(7)
U.S. deferred	867	849	895	2	(5)
Total U.S. domestic ADV	2,638	2,603	2,723	1	(4)
International priority	523	475	517	10	(8)
International domestic[2]	318	298	296	7	1
Total ADV	3,479	3,376	3,536	3	(5)
Revenue per package (yield):					
U.S. overnight box	$ 19.00	$ 21.21	$ 22.40	(10)	(5)
U.S. overnight envelope	10.47	11.65	11.66	(10)	
U.S. deferred	11.70	12.94	13.12	(10)	(1)
U.S. domestic composite	14.61	16.21	16.68	(10)	(3)
International priority	53.10	57.81	58.11	(8)	(1)
International domestic[2]	7.14	7.50	8.80	(5)	(15)
Composite package yield	19.72	21.30	22.08	(7)	(4)
Freight Statistics[1]					
Average daily freight pounds:					
U.S.	7,141	7,287	8,648	(2)	(16)
International priority	2,544	1,959	2,220	30	(12)
International airfreight	1,222	1,475	1,817	(17)	(19)
Total average daily freight pounds	10,907	10,721	12,685	2	(15)
Revenue per pound (yield):					

U.S.	$	1.09	$	1.17	$	1.09	(7)	7
International priority		2.01		2.22		2.20	(9)	1
International airfreight		0.81		0.99		0.88	(18)	13
Composite freight yield		1.27		1.34		1.25	(5)	7

(1) Package and freight statistics include only the operations of FedEx Express.

(2) International domestic statistics include our international domestic express operations, primarily in the United Kingdom, Canada, China, India and Mexico.

FedEx Express Segment Revenues

FedEx Express segment revenues decreased 4% in 2010 due to lower yields primarily driven by a decrease in fuel surcharges. Yield decreases during 2010 were partially offset by increased IP package volume, particularly from Asia, IP freight volume and U.S. domestic package volume due to improved global economic conditions.

Lower fuel surcharges were the primary driver of decreased composite package and freight yield in 2010. Our weighted-average U.S. domestic and outbound fuel surcharge was 6.20% in 2010, compared with 17.45% in 2009. U.S. domestic package yield also decreased 10% during 2010 due to lower rates and lower package weights. In addition to lower fuel surcharges, IP package yield decreased 8% during 2010 due to lower rates, partially offset by higher package weights and favorable exchange rates.

FedEx Express segment revenues decreased in 2009 due to a decrease in volumes in virtually all services as a result of the significant deterioration in global economic conditions and lower yields driven by unfavorable exchange rates, lower package weights and a more competitive pricing environment. IP volume declined in every major region of the world. During 2009, volume gains resulting from DHL s exit from the U.S. domestic market were not enough to offset the negative impact of weak global economic conditions.

The decrease in composite package yield in 2009 was driven by decreases in U.S. domestic package, international domestic and IP yields. U.S. domestic package yield decreased in 2009 due to lower package weights and a lower rate per pound. International domestic yield decreased during 2009 due to unfavorable exchange rates and a lower rate per pound. IP yield decreased during 2009 due to unfavorable exchange rates and lower package weights, partially offset by a higher rate per pound. Composite freight yield increased in 2009 due to general rate increases and higher fuel surcharges.

Our fuel surcharges are indexed to the spot price for jet fuel. Using this index, the U.S. domestic and outbound fuel surcharge and the international fuel surcharges ranged as follows for the years ended May 31:

	2010	2009	2008
U.S. Domestic and Outbound Fuel Surcharge:			
Low	1.00%	%	13.50%
High	8.50	34.50	25.00
Weighted-average	6.20	17.45	17.06
International Fuel Surcharges:			
Low	1.00		12.00
High	13.50	34.50	25.00
Weighted-average	9.47	16.75	16.11

In January 2010, we implemented a 5.9% average list price increase on FedEx Express U.S. domestic and U.S. outbound express package and freight shipments and made various changes to other surcharges, while we lowered our fuel surcharge index by two percentage points. Furthermore, in connection with these changes, the structure of the FedEx Express fuel surcharge table was modified. In January 2009, we implemented a 6.9% average list price increase on FedEx Express U.S. domestic and U.S. outbound express package and freight shipments and made various changes to other surcharges, while we lowered our fuel surcharge index by two percentage points.

FedEx Express Segment Operating Income

FedEx Express segment operating income and operating margin increased during 2010 due to volume growth, particularly in higher-margin IP package and freight services. Continued reductions in network operating costs driven by lower flight hours and improved route efficiencies, as well as other actions to control spending, positively impacted our results for 2010. Our 2010 year-over-year results were also positively impacted by a $260 million charge in 2009 related to aircraft-related asset impairments and other charges primarily associated with aircraft-related lease and contract termination costs and employee severance.

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Fuel costs decreased 19% in 2010 due to decreases in the average price per gallon of fuel and fuel consumption. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a significant negative impact to operating income in 2010. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services. Maintenance and repairs expense decreased 16% in 2010 primarily due to the timing of maintenance events, as lower aircraft utilization as a result of weak economic conditions, particularly in the first half of 2010, lengthened maintenance cycles. Purchased transportation costs increased 6% in 2010 primarily due to higher air volume and costs in our freight forwarding business at FedEx Trade Networks. Depreciation expense increased 6% in 2010 primarily due to the addition of 21 aircraft placed into service during the year. Intercompany charges decreased 8% in 2010 primarily due to lower allocated information technology costs and lower net operating costs at FedEx Office.

FedEx Express segment operating income and operating margin declined in 2009 as a result of the weak global economy and high fuel prices in the first half of 2009, both of which limited demand for our U.S. domestic package and IP services.

During 2009, in response to weak business conditions, we implemented several actions to lower our cost structure, including significant volume-related reductions in flight and labor hours. We also lowered fuel consumption and maintenance costs, as we temporarily grounded a limited number of aircraft due to excess capacity. Our cost-containment activities also included deferral of merit-based pay increases. All of these actions partially mitigated the impact of lower volumes on our results.

During the fourth quarter of 2009, we took additional actions to align the size of our networks to current demand levels by removing equipment and facilities from service and reducing personnel. As a result of these actions, we recorded charges of $199 million for the impairment of certain aircraft and aircraft engines and $57 million for aircraft-related lease and contract termination and employee severance costs related to workforce reductions.

Fuel costs decreased in 2009 due to decreases in fuel consumption and the average price per gallon of fuel. Fuel surcharges were sufficient to offset fuel costs for 2009, based on a static analysis of the impact to operating income of the year-over-year changes in fuel prices compared to changes in fuel surcharges. This analysis considers the estimated benefits of the reduction in fuel surcharges included in the base rates charged for FedEx Express services. However, this analysis does not consider the negative effects that the significantly higher fuel surcharge levels have on our business, including reduced demand and shifts to lower-yielding services. Maintenance and repairs expense decreased primarily due to a volume-related reduction in flight hours and the permanent and temporary grounding of certain aircraft due to excess capacity.

FedEx Express Segment Outlook

We expect revenue growth at FedEx Express in 2011 to be driven by international package and freight volumes as global economic conditions continue to improve. Revenue growth in 2011 will also be driven by continued expansion of our international economy services, as well as improved yields primarily due to higher fuel surcharges.

FedEx Express segment operating income and operating margin are expected to increase in 2011, driven by continued growth in international package and freight services and productivity enhancements. However, we anticipate that volume-related increases in aircraft maintenance expenses, the reinstatement of several employee compensation programs, increased pension and retiree medical expenses and higher healthcare expense due to continued inflation in the cost of medical services will dampen our earnings growth in 2011.

Capital expenditures at FedEx Express are expected to increase in 2011, driven by incremental investments for the new B777F aircraft. These aircraft capital expenditures are necessary to achieve significant long-term operating savings and to support projected long-term international volume growth.

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FEDEX GROUND SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the years ended May 31:

	2010	2009	2008	Percent Change 2010/2009	Percent Change 2009/2008
Revenues	$ 7,439	$ 7,047	$ 6,751	6	4
Operating expenses:					
Salaries and employee benefits	1,158	1,102	1,073	5	3
Purchased transportation	2,966	2,918	2,878	2	1
Rentals	244	222	189	10	17
Depreciation and amortization	334	337	305	(1)	10
Fuel	8	9	14	(11)	(36)
Maintenance and repairs	166	147	145	13	1
Intercompany charges	795	710	658	12	8
Other	744	795	753	(6)	6
Total operating expenses	6,415	6,240	6,015	3	4
Operating income	$ 1,024	$ 807	$ 736	27	10
Operating margin	13.8%	11.5%	10.9%	230bp	60bp
Average daily package volume					
FedEx Ground	3,523	3,404	3,365	3	1
FedEx SmartPost	1,222	827	618	48	34
Revenue per package (yield)					
FedEx Ground	$ 7.73	$ 7.70	$ 7.48		3
FedEx SmartPost	$ 1.56	$ 1.81	$ 2.09	(14)	(13)

	2010	2009	2008
Operating expenses:			
Salaries and employee benefits	15.5%	15.6%	15.9%
Purchased transportation	39.9	41.4	42.6
Rentals	3.3	3.1	2.8
Depreciation and amortization	4.5	4.8	4.5
Fuel	0.1	0.1	0.2
Maintenance and repairs	2.2	2.1	2.1
Intercompany charges	10.7	10.1	9.8
Other	10.0	11.3	11.2
Total operating expenses	86.2	88.5	89.1
Operating margin	13.8%	11.5%	10.9%

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 6% during 2010 due to volume growth at both FedEx Ground and FedEx SmartPost, partially offset by declines in yield at FedEx SmartPost.

FedEx Ground average daily volume increased 3% during 2010 due to continued growth in our commercial business and our FedEx Home Delivery service. The slight yield improvement at FedEx Ground during 2010 was primarily due to higher base rates and increased extra service revenue, but was mostly offset by higher customer discounts and lower fuel surcharges.

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FedEx SmartPost volumes grew 48% during 2010 primarily as a result of market share gains, while yields decreased 14% during 2010 due to changes in customer and service mix. For example, certain customers elected to utilize lower-yielding service offerings that did not require standard pickup and linehaul services.

FedEx Ground segment revenues increased in 2009 due to yield improvement at FedEx Ground and volume growth at both FedEx SmartPost and FedEx Ground. FedEx Ground volume growth during 2009 resulted from market share gains, including volumes gained from DHL s exit from the U.S. market, and continued growth in the FedEx Home Delivery service. FedEx Ground volumes also benefited from existing FedEx Express customers opting for lower-cost FedEx Ground offerings. Yield improvement at FedEx Ground during 2009 was primarily due to higher base rates (partially offset by higher customer discounts), increased extra service revenue and higher fuel surcharges. FedEx SmartPost volume growth during 2009 resulted from market share gains, including volumes gained from DHL s exit from the U.S. market. Yields at FedEx SmartPost decreased during 2009 due to changes in customer and service mix.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. Our fuel surcharge ranged as follows for the years ended May 31:

	2010	2009	2008
Low	2.75%	2.25%	4.50%
High	5.50	10.50	7.75
Weighted-average	4.23	6.61	5.47

In January 2010, we implemented a 4.9% average list price increase and made various changes to other surcharges, including modifying the fuel surcharge table, on FedEx Ground shipments. In January 2009, we implemented a 5.9% average list price increase and made various changes to other surcharges on FedEx Ground shipments.

FedEx Ground Segment Operating Income

FedEx Ground segment operating income and operating margin increased during 2010 due to higher package volume, lower self-insurance expenses and improved productivity. Improved performance at FedEx SmartPost also contributed to the operating income and operating margin increase. In 2010, FedEx Ground segment operating income exceeded $1 billion on an annual basis for the first time.

The increase in salaries and employee benefits expense during 2010 was primarily due to accruals for our variable incentive compensation programs, increased staffing at FedEx SmartPost to support volume growth and increased healthcare costs. Purchased transportation costs increased 2% during 2010 primarily as a result of higher package volume. Rent expense increased during 2010 primarily due to higher spending on facilities associated with our multi-year network expansion plan. Intercompany charges increased 12% in 2010 primarily due to higher allocated information technology costs (formerly direct charges). Other operating expense decreased during 2010 due to higher self-insurance reserve requirements in 2009.

FedEx Ground segment operating income and operating margin increased during 2009 primarily due to the timing impact of fuel surcharges and yield growth. Rapidly declining fuel costs and the timing lag between such declines and adjustments to our fuel surcharges provided a significant benefit to FedEx Ground results for 2009.

Rent expense and depreciation expense increased during 2009 primarily due to higher spending on material handling equipment and facilities associated with our multi-year network expansion plan. Purchased transportation costs increased in 2009 as a result of higher rates paid to our independent contractors and costs associated with our independent contractor programs (described below), partially offset by a decrease in fuel costs. The increase in salaries and employee benefits expense during 2009 was partially offset by the base salary reductions and suspension of 401(k) company matching contributions described in the Overview section. Intercompany charges increased during 2009 primarily due to allocated telecommunication expenses (formerly a direct charge), higher general and administrative costs and higher allocated customer service costs. Other operating expenses increased during 2009 primarily due to higher reserve requirements for liability insurance. Lower legal costs, including settlements, partially offset the increase in other operating expenses in 2009.

Independent Contractor Matters

FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, as the use of independent contractors is well suited to the needs of the ground delivery business and its customers. Although FedEx Ground believes its relationship with independent contractors is generally excellent, the company is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of the contractors is at issue. For a description of these proceedings, see Note 16 of the accompanying consolidated financial statements.

FedEx Ground has made changes to its relationships with contractors that, among other things, provide incentives for improved service and enhanced regulatory and other compliance by the contractors. For example:

- FedEx Ground has an ongoing nationwide program to provide greater incentives to contractors who choose to grow their businesses by adding routes.
- In New Hampshire and Maryland, because of state-specific legal and regulatory issues, FedEx Ground has implemented its Independent Service Provider (ISP) model, which requires pickup-and-delivery contractors based in those states to, among other things: (i) assume responsibility for the pickup-and-delivery operations of an entire geographic service area that includes multiple routes, and (ii) negotiate independent agreements with FedEx Ground, rather than agree to a standard contract. FedEx Ground is transitioning to the ISP model in Tennessee, Illinois, Massachusetts, Minnesota, Rhode Island and Vermont during 2011 and, based upon the success of this model, may in the company s ordinary course transition to it in other states as well.
- Because of state-specific legal and regulatory issues, FedEx Ground is requiring its contractors to (i) be organized as corporations registered and in good standing under applicable state law, and (ii) treat their personnel who provide services under their operating agreement with FedEx Ground as their employees. While many contractors already satisfy these requirements, other contractors will be required to meet these requirements prior to renewal of their contract, and special incentives are being offered to those who adopt the change and meet the requirements by the end of February 2011.
- As of May 31, 2010, two thirds of all FedEx Ground service areas nationwide were supported by multiple-route contractors, which comprise approximately 39% of all FedEx Ground pickup-and-delivery contractors.

We anticipate continuing changes to FedEx Ground s relationships with its contractors, the nature, timing and amount of which are dependent on the outcome of numerous future events. We do not believe that any of these changes will impair our ability to operate and profitably grow our FedEx Ground business.

FedEx Ground Segment Outlook

We expect the FedEx Ground segment to have continued revenue growth in 2011, led by increases in commercial, FedEx Home Delivery and FedEx SmartPost volumes due to market share gains. Yields for all services at FedEx Ground are expected to improve in 2011 as a result of increases in list prices.

FedEx Ground segment operating income in 2011 is expected to increase due to revenue growth and productivity enhancements. Higher purchased transportation costs due to higher rates paid to our independent contractors will offset a portion of these benefits.

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Capital spending is expected to increase in 2011 with the majority of our spending resulting from our continued network expansion and productivity-enhancing technologies. We are committed to investing in the FedEx Ground network because of the long-term benefits we will experience from these investments.

We will continue to vigorously defend various attacks against our independent contractor model and incur ongoing legal costs as a part of this process. While we believe that FedEx Ground s owner-operators are properly classified as independent contractors, it is reasonably possible that we could incur a material loss in connection with one or more of these matters or be required to make material changes to our contractor model. However, we do not believe that any such changes will impair our ability to operate and profitably grow our FedEx Ground business.

FEDEX FREIGHT SEGMENT

The following tables compare revenues, operating expenses, operating expenses as a percent of revenue, operating (loss)/income and operating margin (dollars in millions) and selected statistics for the years ended May 31:

				Percent Change	
	2010	2009 [2]	2008 [2]	2010/2009	2009/2008
Revenues	$ 4,321	$ 4,415	$ 4,934	(2)	(11)
Operating expenses:					
Salaries and employee benefits	2,128	2,247	2,381	(5)	(6)
Purchased transportation	690	540	582	28	(7)
Rentals	116	139	119	(17)	17
Depreciation and amortization	198	224	227	(12)	(1)
Fuel	445	520	608	(14)	(14)
Maintenance and repairs	148	153	175	(3)	(13)
Impairment and other charges[3]	18	100		(82)	NM
Intercompany charges[1]	351	109	81	222	35
Other	380	427	432	(11)	(1)
Total operating expenses	4,474	4,459	4,605		(3)
Operating (loss)/income	$ (153)	$ (44)	$ 329	(248)	(113)
Operating margin	(3.5)%	(1.0)%	6.7%	(250)bp	(770)bp
Average daily LTL shipments (in thousands)	82.3	74.4	79.7	11	(7)
Weight per LTL shipment (lbs)	1,134	1,126	1,136	1	(1)
LTL yield (revenue per hundredweight)	$ 17.07	$ 19.07	$ 19.65	(10)	(3)

(1) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FCIS effective August 1, 2009

(as described below). For 2010, the costs associated with these functions, previously a direct charge, were allocated to the FedEx Freight segment through intercompany allocations.

(2) Includes Caribbean Transportation Services, which was merged into FedEx Express effective June 1, 2009.

(3) Represents impairment charges associated with goodwill related to the FedEx National LTL acquisition. The charge in 2009 also includes other charges primarily associated with employee severance.

	Percent of Revenue[1]		
	2010	2009	2008
Operating expenses:			
Salaries and employee benefits	49.2%	50.9%	48.3%
Purchased transportation	16.0	12.2	11.8
Rentals	2.7	3.1	2.4
Depreciation and amortization	4.6	5.0	4.6
Fuel	10.3	11.8	12.3
Maintenance and repairs	3.4	3.5	3.5
Impairment and other charges[2]	0.4	2.3	
Intercompany charges[3]	8.1	2.5	1.6
Other	8.8	9.7	8.8
Total operating expenses	103.5	101.0	93.3
Operating margin	(3.5)%	(1.0)%	6.7%

(1) Given the fixed-cost structure of our transportation networks, the year-over-year comparison of our operating expenses as a percentage of revenue has been affected by a number of factors, including the impact of lower fuel surcharges, the competitive pricing environment, weak economic conditions and our cost-containment activities. Collectively, these factors have distorted the comparability of

certain of our operating expense captions on a relative basis.

(2) Represents impairment charges associated with goodwill related to the FedEx National LTL acquisition. The charge in 2009 also includes other charges primarily associated with employee severance.

(3) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FCIS effective August 1, 2009 (as described below). For 2010, the costs associated with these functions, previously a direct charge, were allocated to the FedEx Freight segment through intercompany allocations.

FedEx Freight Segment Revenues

FedEx Freight segment revenues decreased 2% during 2010 due to lower LTL yield and the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009, mostly offset by higher average daily LTL shipments. LTL yield decreased 10% during 2010 due to a continuing highly competitive LTL freight market, resulting from excess capacity and lower fuel surcharges. Discounted pricing drove an increase in average daily LTL shipments of 11% during 2010.

FedEx Freight segment revenues decreased in 2009 primarily due to a decrease in average daily LTL shipments and lower LTL yield. Average daily LTL shipments decreased during 2009 as a result of the economic recession, which resulted in the weakest LTL environment in decades. LTL yield decreased during 2009 due to the effects of the competitive pricing environment and lower fuel surcharges.

The indexed LTL fuel surcharge is based on the average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. The indexed LTL fuel surcharge ranged as follows for the years ended May 31:

	2010	2009	2008
Low	10.80%	8.30%	14.50%
High	16.10	23.90	23.70
Weighted-average	14.00	15.70	17.70

In February 2010, we implemented 5.9% general rate increases for FedEx Freight and FedEx National LTL shipments. In January 2009, we implemented 5.7% general rate increases for FedEx Freight and FedEx National LTL shipments.

FedEx Freight Segment Operating (Loss)/Income

A weak pricing environment, which led to aggressive discounting for our LTL freight services, resulted in an operating loss in 2010 at the FedEx Freight segment. The actions implemented in 2009 to lower our cost structure were more than offset by the negative impacts of lower LTL yields and higher volume-related costs, as significantly higher shipment levels required increased purchased transportation and other expenses during 2010. In addition, we recorded a charge of $18 million for the impairment of the remaining goodwill related to the FedEx National LTL acquisition. Year-over-year comparisons in 2010 were affected by a $90 million goodwill impairment charge in 2009 related to the FedEx National LTL acquisition and a $10 million charge in 2009 primarily related to employee severance.

Intercompany charges increased in 2010 due to expenses associated with the functions of approximately 2,700 FedEx Freight segment employees that were transferred to FedEx Services and FCIS in the first quarter of 2010. The costs of these functions were previously a direct charge. As described above in the FedEx Services Segment section, these employees represented the sales, information technology, marketing, pricing, customer service, claims and credit and collection functions of the FedEx Freight segment and were transferred to allow further centralization of these functions into the FedEx Services segment shared service organization. For 2010, the costs of the functions were charged to the FedEx Freight segment through intercompany charges with an offsetting reduction in direct charges, primarily salaries and employee benefits. These transfers had no net impact to operating income, although they significantly increased our intercompany allocations.

Purchased transportation costs increased 28% in 2010 due to increased utilization of third-party transportation providers, which were required to support higher shipment volumes. Fuel costs decreased 14% during 2010 due to a lower average price per gallon of diesel fuel, partially offset by increased fuel consumption as a result of higher shipment volumes. Based on a static analysis of the net impact of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel had a negative impact to operating income in 2010. Rent expense decreased 17% and other operating expense decreased 11% in 2010 due to the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009. Depreciation and amortization expense decreased 12% in 2010 due to the impact of the transfer of employees from the FedEx Freight segment to FedEx Services and FCIS during the first quarter of 2010.

In 2009, the decrease in average daily LTL shipments and the competitive pricing environment driven by the U.S. recession and excess capacity in the market had a significant negative impact on operating income and operating margin. In addition, during 2009, we recorded a charge of $90 million related to the impairment of goodwill related to the FedEx National LTL acquisition and a charge of $10 million primarily related to employee severance.

Fuel costs decreased during 2009 due primarily to a lower average price per gallon of diesel fuel and decreased fuel consumption due to lower volume levels. Based on a static analysis of the year-over-year changes in fuel costs compared to changes in fuel surcharges, fuel surcharges offset the impact of fuel costs for 2009. However, this analysis does not consider other effects that fuel prices and related fuel surcharge levels have on our business, including changes in customer demand and the impact on base rates and rates paid to our third-party transportation providers. Purchased transportation costs decreased during 2009 primarily due to lower shipment volumes and decreased utilization of third-party providers. Maintenance and repairs expense decreased in 2009 primarily due to lower shipment volumes and rebranding costs for FedEx National LTL incurred in 2008. Rent expense increased during 2009 primarily due to service center expansions related to strategically investing in key markets for long-term growth. Intercompany charges increased during 2009 primarily due to allocated telecommunication expenses (formerly a direct charge) and higher allocated information technology costs from FedEx Services.

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FedEx Freight Segment Outlook

During 2011, the FedEx Freight segment will focus on several strategic initiatives to improve productivity and yields. We expect volume growth to moderate later in 2011 as we continue to enhance our pricing discipline in an improving economy. This pricing discipline, which will come through a combination of general rate increases and renewal of terms with contractual customers, is expected to improve yields in 2011. Even with these expected improvements in yield, excess industry capacity is likely to remain and will continue to negatively impact our short-term operating performance. We expect productivity to improve as our LTL networks stabilize and we continue to evaluate our networks in light of the pricing environment and the competitive landscape, and will make changes where appropriate to improve our long-term profitability.

Capital spending is expected to decline in 2011 with the majority of our spending resulting from the replacement of transportation and handling equipment.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $2.0 billion at May 31, 2010, compared to $2.3 billion at May 31, 2009. The following table provides a summary of our cash flows for the years ended May 31 (in millions):

	2010	2009	2008
Operating activities:			
Net income	$ 1,184	$ 98	$ 1,125
Noncash impairment charges	18	1,103	882
Other noncash charges and credits	2,514	2,554	2,305
Changes in assets and liabilities	(578)	(1,002)	(847)
Cash provided by operating activities	3,138	2,753	3,465
Investing activities:			
Capital expenditures	(2,816)	(2,459)	(2,947)
Proceeds from asset dispositions and other	35	76	50
Cash used in investing activities	(2,781)	(2,383)	(2,897)
Financing activities:			
Proceeds from debt issuance		1,000	
Principal payments on debt	(653)	(501)	(639)
Dividends paid	(138)	(137)	(124)
Other	99	38	146
Cash (used in) provided by financing activities	(692)	400	(617)
Effect of exchange rate changes on cash	(5)	(17)	19
Net (decrease) increase in cash and cash equivalents	$ (340)	$ 753	$ (30)

Cash Provided by Operating Activities. Cash flows from operating activities increased $385 million in 2010 primarily due to the receipt of income tax refunds of $279 million and increased income. Cash flows from operating activities decreased $712 million in 2009 primarily due to reduced income and a $600 million increase in contributions to our tax-qualified U.S. domestic pension plans (U.S. Retirement Plans), partially offset by a $307 million reduction in income tax payments. We made tax-deductible contributions of $848 million to our U.S. Retirement Plans during 2010, including $495 million in voluntary contributions. We made tax-deductible voluntary contributions of $1.1 billion to our U.S. Retirement Plans during 2009 and $479 million during 2008.

Cash Used in Investing Activities. Capital expenditures during 2010 were 15% higher largely due to increased spending at FedEx Express. Capital expenditures during 2009 were 17% lower largely due to decreased spending at FedEx Express and FedEx Services. See Capital Resources for a discussion of capital expenditures during 2010 and 2009.

Debt Financing Activities. We have a shelf registration statement filed with the SEC that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock. During 2010, we repaid our $500 million 5.50% notes that matured on August 15, 2009 using cash from operations and a portion of the proceeds of our January 2009 $1 billion senior unsecured debt offering. During 2010, we made principal payments in the amount of $153 million related to capital lease obligations.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in July 2012. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters rentals and landing fees) to capital (adjusted debt plus total common stockholders investment) that does not exceed 0.7 to 1.0. Our leverage ratio of adjusted debt to capital was 0.5 at May 31, 2010. Under this financial covenant, our additional borrowing capacity is capped, although this covenant continues to provide us with ample liquidity, if needed. We are in compliance with this and all other restrictive covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or borrowing capacity. As of May 31, 2010, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

Dividends. We paid cash dividends of $138 million in 2010, $137 million in 2009 and $124 million in 2008. On June 7, 2010, our Board of Directors declared a quarterly dividend of $0.12 per share of common stock, an increase of $0.01 per share. The dividend was paid on July 1, 2010 to stockholders of record as of the close of business on June 17, 2010. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

CAPITAL RESOURCES

Our operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, facilities, package-handling and sort equipment. The amount and timing of capital additions depend on various factors, including pre-existing contractual commitments, anticipated volume growth, domestic and international economic conditions, new or enhanced services, geographical expansion of services, availability of satisfactory financing and actions of regulatory authorities.

The following table compares capital expenditures by asset category and reportable segment for the years ended May 31 (in millions):

	2010	2009	2008	Percent Change 2010/2009	Percent Change 2009/2008
Aircraft and related equipment	$ 1,537	$ 925	$ 998	66	(7)
Facilities and sort equipment	630	742	900	(15)	(18)
Vehicles	220	319	404	(31)	(21)
Information and technology investments	289	298	366	(3)	(19)
Other equipment	140	175	279	(20)	(37)
Total capital expenditures	$ 2,816	$ 2,459	$ 2,947	15	(17)
FedEx Express segment	1,864	1,348	1,716	38	(21)
FedEx Ground segment	400	636	509	(37)	25
FedEx Freight segment	212	240	266	(12)	(10)
FedEx Services segment	340	235	455	45	(48)
Other			1		NM
Total capital expenditures	$ 2,816	$ 2,459	$ 2,947	15	(17)

Capital expenditures during 2010 were higher than the prior year primarily due to increased spending at FedEx Express for aircraft and aircraft-related equipment. Aircraft and aircraft-related equipment purchases at FedEx Express during 2010 included six new B777Fs, the first of which entered revenue service during the second quarter of 2010, and 12 B757s. FedEx Services capital expenditures increased in 2010 due to information technology facility expansions and projects. Capital spending at FedEx Ground decreased in 2010 due to decreased spending for facilities and sort equipment and vehicles. Capital expenditures decreased during 2009 primarily due to decreased spending at FedEx Express for facilities and aircraft and aircraft-related equipment and decreased spending at FedEx Services due to the planned reduction in FedEx Office network expansion, as well as decreased spending and the postponement of several information technology projects.

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LIQUIDITY OUTLOOK

We believe that our existing cash and cash equivalents, cash flow from operations, and available financing sources will be adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Although we expect higher capital expenditures in 2011, we anticipate that our cash flow from operations will be sufficient to fund these expenditures. Historically, we have been successful in obtaining unsecured financing, from both domestic and international sources, although the marketplace for such investment capital can become restricted depending on a variety of economic factors.

Our capital expenditures are expected to be $3.2 billion in 2011 and will include spending for aircraft and related equipment at FedEx Express, network expansion at FedEx Ground and revenue equipment at the FedEx Freight segment. We expect approximately 65% of capital expenditures in 2011 will be designated for growth initiatives and 35% for ongoing maintenance activities. Our expected capital expenditures for 2011 include $1.7 billion in investments for aircraft and related equipment at FedEx Express, such as the new B777Fs and the B757s, which are substantially more fuel-efficient per unit than the aircraft type they are replacing. Our aircraft spending is expected to be higher in 2011 than in previous years due to the acceleration of delivery and additional acquisitions of B777Fs. We have agreed to purchase a total of 38 B777F aircraft (34 from Boeing and four from other parties), six of which have been delivered, and hold options to purchase up to 15 additional B777F aircraft from Boeing. Our obligation to purchase 15 of these aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. These aircraft-related capital expenditures are necessary to achieve significant long-term operating savings and to support projected long-term international volume growth. Our ability to delay the timing of these aircraft-related expenditures is limited without incurring significant costs to modify existing purchase agreements.

As noted above, during 2010, we made $848 million in tax-deductible contributions to our U.S. Retirement Plans, including $495 million in voluntary contributions. Our U.S. Retirement Plans have ample funds to meet expected benefit payments. For 2011, we anticipate making required contributions to our U.S. Retirement Plans totaling approximately $500 million, a reduction from 2010 due to the use of an available credit balance to reduce otherwise required pension contributions.

Standard & Poor s has assigned us a senior unsecured debt credit rating of BBB and commercial paper rating of A-2 and a ratings outlook of stable. During the third quarter of 2010, Moody s Investors Service reaffirmed our senior unsecured debt credit rating of Baa2 and commercial paper rating of P-2 and raised our ratings outlook to stable. If our credit ratings drop, our interest expense may increase. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt credit ratings drop below investment grade, our access to financing may become limited.

In 2011, we have scheduled debt payments of $270 million, which includes $250 million of principal payments on unsecured notes maturing in February 2011 and principal and interest payments on capital leases.

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CONTRACTUAL CASH OBLIGATIONS

The following table sets forth a summary of our contractual cash obligations as of May 31, 2010. Certain of these contractual obligations are reflected in our balance sheet, while others are disclosed as future obligations under accounting principles generally accepted in the United States. Except for the current portion of long-term debt and capital lease obligations, this table does not include amounts already recorded in our balance sheet as current liabilities at May 31, 2010. Accordingly, this table is not meant to represent a forecast of our total cash expenditures for any of the periods presented.

	Payments Due by Fiscal Year (Undiscounted) (in millions)						
	2011	2012	2013	2014	2015	Thereafter	Total
Operating activities:							
Operating leases	$ 1,776	$ 1,589	$ 1,425	$ 1,259	$ 1,172	$ 6,550	$ 13,771
Non-capital purchase obligations and other	226	165	66	14	12	113	596
Interest on long-term debt	144	126	98	97	78	1,737	2,280
Quarterly contributions to our U.S. Retirement Plans	500						500
Investing activities:							
Aircraft and aircraft-related capital commitments[1]	928	849	641	480	493	1,431	4,822
Other capital purchase obligations	46	1					47
Financing activities:							
Debt	250		300	250		989	1,789
Capital lease obligations	20	8	119	2	1	14	164
Total	$ 3,890	$ 2,738	$ 2,649	$ 2,102	$ 1,756	$ 10,834	$ 23,969

(1) Subsequent to May 31, 2010, we entered into an agreement replacing the previously disclosed non-binding letter of intent to acquire two additional B777Fs and expect to take delivery of these

aircraft in 2011. These aircraft are not included in the table above.

We have certain contingent liabilities that are not accrued in our balance sheet in accordance with accounting principles generally accepted in the United States. These contingent liabilities are not included in the table above.

We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, qualified and nonqualified pension and postretirement healthcare plan liabilities and other self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. Therefore, the timing of these payments cannot be determined, except for amounts estimated to be payable within 12 months, which are included in current liabilities. Included in the table above are anticipated quarterly contributions to our U.S. Retirement Plans totaling approximately $500 million for 2011 that begin in the first quarter.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases are not recorded in our balance sheet. Credit rating agencies routinely use information concerning minimum lease payments required for our operating leases to calculate our debt capacity. The amounts reflected in the table above for operating leases represent future minimum lease payments under noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 2010. In the past, we financed a significant portion of our aircraft needs (and certain other equipment needs) using operating leases (a type of off-balance sheet financing). At the time that the decision to lease was made, we determined that these operating leases would provide economic benefits favorable to ownership with respect to market values, liquidity or after-tax cash flows.

The amounts reflected for purchase obligations represent noncancelable agreements to purchase goods or services that are not capital related. Such contracts include those for printing and advertising and promotions contracts. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements. See Note 15 of the accompanying consolidated financial statements for more information.

Included in the table above within the caption entitled Non-capital purchase obligations and other is our estimate of the current portion of the liability ($1 million) for uncertain tax positions. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability will increase or decrease over time; therefore, the long-term portion of the liability ($81 million) is excluded from the table. See Note 10 of the accompanying consolidated financial statements for further information.

The amounts reflected in the table above for interest on long-term debt represent future interest payments due on our long-term debt, all of which are fixed rate.

Investing Activities

The amounts reflected in the table above for capital purchase obligations represent noncancelable agreements to purchase capital-related equipment. Such contracts include those for certain purchases of aircraft, aircraft modifications, vehicles, facilities, computers and other equipment contracts. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above. Such purchase orders often represent authorizations to purchase rather than binding agreements. See Note 15 of the accompanying consolidated financial statements for more information.

Financing Activities

We have certain financial instruments representing potential commitments, not reflected in the table above, that were incurred in the normal course of business to support our operations, including surety bonds and standby letters of credit. These instruments are generally required under certain U.S. self-insurance programs and are also used in the normal course of international operations. The underlying liabilities insured by these instruments are reflected in our balance sheets, where applicable. Therefore, no additional liability is reflected for the surety bonds and letters of credit themselves.

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. In 2011, we have scheduled debt payments of $270 million, which includes $250 million of principal payments on our 7.25% unsecured notes maturing in February 2011, and principal and interest payments on capital leases.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare the financial statements of a complex, global corporation. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and new or better information.

The estimates discussed below include the financial statement elements that are either the most judgmental or involve the selection or application of alternative accounting policies and are material to our financial statements. Management has discussed the development and selection of these critical accounting estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm.

RETIREMENT PLANS

OVERVIEW. We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans.

We made significant changes to our retirement plans during 2008 and 2009. Beginning January 1, 2008, we increased the annual company-matching contribution under the largest of our 401(k) plans covering most employees from a maximum of $500 to a maximum of 3.5% of eligible compensation. Employees not participating in the 401(k) plan as of January 1, 2008 were automatically enrolled at 3% of eligible pay with a company match of 2% of eligible pay effective March 1, 2008. As a temporary cost-control measure, we suspended 401(k) company-matching contributions effective February 1, 2009. We reinstated these contributions at 50% of previous levels for most employees effective January 1, 2010.

Effective May 31, 2008, benefits previously accrued under our primary pension plans using a traditional pension benefit formula (based on average earnings and years of service) were capped for most employees, and those benefits will be payable beginning at retirement. Effective June 1, 2008, future pension benefits for most employees began to be accrued under a cash balance formula we call the Portable Pension Account. These changes did not affect the benefits of previously retired and terminated vested participants. In addition, these pension plans were modified to accelerate vesting from five years to three years for most participants.

Under the Portable Pension Account, the retirement benefit is expressed as a dollar amount in a notional account that grows with annual credits based on pay, age and years of credited service, and interest on the notional account balance. Under the tax-qualified plans, the pension benefit is payable as a lump sum or an annuity at retirement at the election of the employee. An employee s pay credits are determined each year under a graded formula that combines age with years of service for points. The plan interest credit rate varies from year to year based on a U.S. Treasury index.

ACCOUNTING AND REPORTING. The current rules for pension accounting are complex and can produce tremendous volatility in our results, financial condition and liquidity. Our pension expense is primarily a function of the value of our plan assets and the discount rate used to measure our pension liability at a single point in time at the end of our fiscal year (the measurement date). Both of these factors are significantly influenced by the stock and bond markets, which in recent years have experienced substantial volatility.

In addition to expense volatility, we are required to record mark-to-market adjustments to our balance sheet on an annual basis for the net funded status of our pension and postretirement healthcare plans. These adjustments have fluctuated significantly over the past several years and like our pension expense, are a result of the discount rate and value of our plan assets at the measurement date. The funded status of our plans also impacts our liquidity, as current funding laws require increasingly aggressive funding levels for our pension plans.

Our retirement plans cost is included in the Salaries and Employee Benefits caption in our consolidated income statements. A summary of our retirement plans costs over the past three years is as follows (in millions):

	2010	2009	2008
U.S. domestic and international pension plans	$ 308	$ 177	$ 323
U.S. domestic and international defined contribution plans	136	237	216
Postretirement healthcare plans	42	57	77
	$ 486	$ 471	$ 616

Total retirement plans cost increased $15 million in 2010, primarily due to the negative impact of market conditions on our pension plan assets at our May 31, 2009 measurement date, mostly offset by lower expenses for our 401(k) plans due to the temporary suspension of the company-matching contributions. Those matching contributions were reinstated generally at 50% of their normal levels on January 1, 2010. Total retirement plans cost decreased $145 million in 2009, primarily due to a higher discount rate.

Retirement plans cost in 2011 is expected to increase significantly. This increase is attributable to an increase in pension plan and retiree medical expense of approximately $260 million, primarily as a result of a significantly lower discount rate.

PENSION COST. The accounting for pension and postretirement healthcare plans includes numerous assumptions, such as: discount rates; expected long-term investment returns on plan assets; future salary increases; employee turnover; mortality; and retirement ages. These assumptions most significantly impact our U.S. domestic pension plans. The components of pension cost for all pension plans are as follows (in millions):

	2010	2009	2008
Service cost	$ 417	$ 499	$ 518
Interest cost	823	798	720
Expected return on plan assets	(955)	(1,059)	(985)
Recognized actuarial (gains) losses and other	23	(61)	70
Net periodic benefit cost	$ 308	$ 177	$ 323

Pension cost was higher in 2010 by $131 million due to significant declines in the value of our plan assets due to market conditions at the end of 2009, partially offset by a higher discount rate.

Following is a discussion of the key estimates we consider in determining our pension cost:

DISCOUNT RATE. This is the interest rate used to discount the estimated future benefit payments that have been accrued to date (the projected benefit obligation, or PBO) to their net present value and to determine the succeeding year s pension expense. The discount rate is determined each year at the plan measurement date. A decrease in the discount rate increases pension expense. The discount rate affects the PBO and pension expense based on the measurement dates, as described below.

Measurement Date [(1)]	Discount Rate	Amounts Determined by Measurement Date and Discount Rate
5/31/2010	6.37%	2010 PBO and 2011 expense
5/31/2009	7.68	2009 PBO and 2010 expense
6/01/2008	7.15	2009 expense
2/29/2008	6.96	2008 PBO
2/28/2007	6.01	2007 PBO and 2008 expense

(1) Accounting rules required us to change our measurement date to May 31, beginning in 2009.

We determine the discount rate with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that generally match our expected benefit payments in future years. In developing this theoretical portfolio, we select bonds that match cash flows to benefit payments, limit our concentration by industry and issuer, and apply screening criteria to ensure bonds with a call feature have a low probability of being called. To the extent scheduled bond proceeds exceed the estimated benefit payments in a given period, the calculation assumes those excess proceeds are reinvested at one-year forward rates.

The decrease in the discount rate for 2011 was driven by conditions in the market for high-grade corporate bonds, where yields have decreased significantly since May 31, 2009. The discount rate assumption is highly sensitive, as the following table illustrates with our largest tax-qualified U.S. domestic pension plan:

Sensitivity (in millions)

	Effect on 2011 Pension Expense	Effect on 2010 Pension Expense
One-basis-point change in discount rate	$ 1.7	$ 1.5

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At our May 31, 2010 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2010 PBO by approximately $900 million and a 50-basis-point decrease in the discount rate would have increased our 2010 PBO by approximately $1.0 billion.

PLAN ASSETS. The estimated average rate of return on plan assets is a long-term, forward-looking assumption that also materially affects our pension cost. It is required to be the expected future long-term rate of earnings on plan assets. Our pension plan assets are invested primarily in listed securities, and our pension plans hold only a minimal investment in FedEx common stock that is entirely at the discretion of third-party pension fund investment managers. As part of our strategy to manage future pension costs and net funded status volatility, we have transitioned to a liability-driven investment strategy with a greater concentration of fixed-income securities to better align plan assets with liabilities.

Establishing the expected future rate of investment return on our pension assets is a judgmental matter. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over time; and
- the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

We review the expected long-term rate of return on an annual basis and revise it as appropriate.

To support our conclusions, we periodically commission asset/liability studies performed by third-party professional investment advisors and actuaries to assist us in our reviews. These studies project our estimated future pension payments and evaluate the efficiency of the allocation of our pension plan assets into various investment categories. These studies also generate probability-adjusted expected future returns on those assets. The following table summarizes our current asset allocation strategy (dollars in millions):

	Plan Assets at Measurement Date					
	2010			2009		
Asset Class	Actual	Actual %	Target %	Actual	Actual %	Target %
Domestic equities	$ 4,569	35%	33%	$ 4,029	38%	33%
International equities	1,502	12	12	1,668	16	12
Private equities	399	3	5	341	3	5
Total equities	6,470	50	50	6,038	57	50
Fixed-income securities	6,205	47	49	3,456	33	49
Cash and other	380	3	1	1,112	10	1
	$ 13,055	100%	100%	$ 10,606	100%	100%

We have assumed an 8% compound geometric long-term rate of return on our U.S. domestic pension plan assets for 2011 and 2010 and 8.5% in 2009 and 2008, as described in Note 11 of the accompanying consolidated financial statements. A one-basis-point change in our expected return on plan assets impacts our pension expense by $1.3 million.

The actual historical return on our U.S. pension plan assets, calculated on a compound geometric basis, was approximately 7.9%, net of investment manager fees, for the 15-year period ended May 31, 2010 and 7.5%, net of investment manager fees, for the 15-year period ended May 31, 2009.

Pension expense is also affected by the accounting policy used to determine the value of plan assets at the measurement date. We use a calculated-value method to determine the value of plan assets, which helps mitigate short-term volatility in market performance (both increases and decreases) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. The calculated-value method significantly mitigated the impact of asset value declines in the determination of our 2010 pension expense, reducing our 2010 expense by approximately $135 million. For purposes of valuing plan assets for determining 2011 pension expense, the calculated-value method will result in the same value as the market value, as it did in 2009.

FUNDED STATUS. Following is information concerning the funded status of our pension plans as of May 31 (in millions):

	2010	2009
Funded Status of Plans:		
Projected benefit obligation (PBO)	$ 14,484	$ 11,050
Fair value of plan assets	13,295	10,812
Funded status of the plans	$ (1,189)	$ (238)
Components of Funded Status by Plans:		
U.S. qualified plans	$ (580)	$ 278
U.S. nonqualified plans	(348)	(318)
International plans	(261)	(198)
Net funded status	$ (1,189)	$ (238)
Components of Amounts Included in Balance Sheets:		
Noncurrent pension assets	$	$ 311
Current pension and other benefit obligations	(30)	(31)
Noncurrent pension and other benefit obligations	(1,159)	(518)
Net amount recognized	$ (1,189)	$ (238)
Cash Amounts:		
Cash contributions during the year	$ 900	$ 1,146
Benefit payments during the year	$ 391	$ 351

The amounts recognized in the balance sheet reflect a snapshot of the state of our long-term pension liabilities at the plan measurement date and the effect of mark-to-market accounting on plan assets. At May 31, 2010, we recorded a decrease to equity through OCI of $1.0 billion (net of tax) to reflect unrealized actuarial losses during 2010. Those losses are subject to amortization over future years and may be reflected in future income statements unless they are recovered. At May 31, 2009, we recorded a decrease to equity through OCI of $1.2 billion (net of tax) attributable to our pension plans.

The funding requirements for our tax-qualified U.S. domestic pension plans are governed by the Pension Protection Act of 2006, which has aggressive funding requirements in order to avoid benefit payment restrictions that become effective if the funded status determined under IRS rules falls below 80% at the beginning of a plan year. All of our qualified U.S. domestic pension plans had funded status levels in excess of 80% and our plans remain adequately funded to provide benefits to our employees as they come due. Additionally, current benefit payments are nominal compared to our total plan assets (benefit payments for our tax-qualified U.S. domestic pension plans for 2010 were approximately $355 million or 3% of plan assets).

During 2010, we made $848 million in tax-deductible contributions to our U.S. Retirement Plans, including $495 million in voluntary contributions. Over the past several years, we have made voluntary contributions to our U.S. Retirement Plans in excess of the minimum required contributions. Amounts contributed in excess of the minimum required result in a credit balance for funding purposes that can be used to meet minimum contribution requirements in future years. For 2011, we anticipate making required contributions to our U.S. Retirement Plans totaling approximately $500 million, a reduction from 2010 due to the use of a portion of our credit balance.

Cumulative unrecognized actuarial losses were $5.2 billion through May 31, 2010, compared to $3.7 billion through May 31, 2009. These unrecognized losses reflect changes in the discount rates and differences between expected and actual asset returns, which are being amortized over future periods. These unrecognized losses may be recovered in future periods through actuarial gains. However, unless they are below a corridor amount, these unrecognized actuarial losses are required to be amortized and recognized in future periods. For example, projected U.S. domestic pension plan expense for 2011 includes $276 million of amortization of these actuarial losses versus $125 million in 2010, $44 million in 2009 and $162 million in 2008.

SELF-INSURANCE ACCRUALS

We are self-insured up to certain limits for costs associated with workers compensation claims, vehicle accidents and general business liabilities, and benefits paid under employee healthcare and long-term disability programs. Our reserves are established for estimates of loss on reported claims, including incurred-but-not-reported claims. At May 31, 2010, there were $1.6 billion of self-insurance accruals reflected in our balance sheet ($1.5 billion at May 31, 2009). Approximately 40% of these accruals were classified as current liabilities in 2010 and 2009.

Our self-insurance accruals are primarily based on the actuarially estimated, undiscounted cost of claims to provide us with estimates of future claim costs based on claims incurred as of the balance sheet date. These estimates include consideration of factors such as severity of claims, frequency of claims and future healthcare costs. Cost trends on material accruals are updated each quarter. We self-insure up to certain limits that vary by operating company and type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense. Historically, it has been infrequent that incurred claims exceeded our self-insured limits. Other acceptable methods of accounting for these accruals include measurement of claims outstanding and projected payments based on historical development factors.

We believe the use of actuarial methods to account for these liabilities provides a consistent and effective way to measure these highly judgmental accruals. However, the use of any estimation technique in this area is inherently sensitive given the magnitude of claims involved and the length of time until the ultimate cost is known. We believe our recorded obligations for these expenses are consistently measured on a conservative basis. Nevertheless, changes in healthcare costs, accident frequency and severity, insurance retention levels and other factors can materially affect the estimates for these liabilities. For example, during 2009, FedEx Ground recorded $70 million in incremental self-insurance reserves for liability insurance based on adverse experience on bodily injury claims.

LONG-LIVED ASSETS

PROPERTY AND EQUIPMENT. Our key businesses are capital intensive, with approximately 58% of our total assets invested in our transportation and information systems infrastructures. We capitalize only those costs that meet the definition of capital assets under accounting standards. Accordingly, repair and maintenance costs that do not extend the useful life of an asset or are not part of the cost of acquiring the asset are expensed as incurred. However, consistent with industry practice, we capitalize certain aircraft-related major maintenance costs on one of our aircraft fleet types and amortize these costs over their estimated service lives.

The depreciation or amortization of our capital assets over their estimated useful lives, and the determination of any salvage values, requires management to make judgments about future events. Because we utilize many of our capital assets over relatively long periods (the majority of aircraft costs are depreciated over 15 to 18 years), we periodically evaluate whether adjustments to our estimated service lives or salvage values are necessary to ensure these estimates properly match the economic use of the asset. This evaluation may result in changes in the estimated lives and residual values used to depreciate our aircraft and other equipment. For our aircraft, we typically assign no residual value due to the utilization of these assets in cargo configuration, which results in little to no value at the end of their useful life. These estimates affect the amount of depreciation expense recognized in a period and, ultimately, the gain or loss on the disposal of the asset. Changes in the estimated lives of assets will result in an increase or decrease in the amount of depreciation recognized in future periods and could have a material impact on our results of operations. Historically, gains and losses on operating equipment have not been material (typically aggregating less than $10 million annually). However, such amounts may differ materially in the future due to changes in business levels, technological obsolescence, accident frequency, regulatory changes and other factors beyond our control.

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Because of the lengthy lead times for aircraft manufacture and modifications, we must anticipate volume levels and plan our fleet requirements years in advance, and make commitments for aircraft based on those projections. Furthermore, the timing and availability of certain used aircraft types (particularly those with better fuel efficiency) may create limited opportunities to acquire these aircraft at favorable prices in advance of our capacity needs. These activities create risks that asset capacity may exceed demand and that an impairment of our assets may occur. Aircraft purchases (primarily aircraft in passenger configuration) that have not been placed in service totaled $101 million at May 31, 2010 and $130 million at May 31, 2009. We plan to modify these assets in the future and place them into operations.

The accounting test for whether an asset held for use is impaired involves first comparing the carrying value of the asset with its estimated future undiscounted cash flows. If the cash flows do not exceed the carrying value, the asset must be adjusted to its current fair value. We operate integrated transportation networks and, accordingly, cash flows for most of our operating assets are assessed at a network level, not at an individual asset level for our analysis of impairment. Further, decisions about capital investments are evaluated based on the impact to the overall network rather than the return on an individual asset. We make decisions to remove certain long-lived assets from service based on projections of reduced capacity needs or lower operating costs of newer aircraft types, and those decisions may result in an impairment charge. Assets held for disposal must be adjusted to their estimated fair values less costs to sell when the decision is made to dispose of the asset and certain other criteria are met. The fair value determinations for such aircraft may require management estimates, as there may not be active markets for some of these aircraft. Such estimates are subject to revision from period to period.

There were no material property and equipment impairment charges recognized in 2010 or 2008. However, during 2009, we recorded $202 million in property and equipment impairment charges. These charges were primarily related to our decision to permanently remove from service certain aircraft, along with certain excess aircraft engines, at FedEx Express.

LEASES. We utilize operating leases to finance certain of our aircraft, facilities and equipment. Such arrangements typically shift the risk of loss on the residual value of the assets at the end of the lease period to the lessor. As disclosed in Contractual Cash Obligations and Note 6 to the accompanying consolidated financial statements, at May 31, 2010 we had approximately $14 billion (on an undiscounted basis) of future commitments for payments under operating leases. The weighted-average remaining lease term of all operating leases outstanding at May 31, 2010 was approximately six years.

The future commitments for operating leases are not reflected as a liability in our balance sheet under current U.S. accounting rules. The determination of whether a lease is accounted for as a capital lease or an operating lease requires management to make estimates primarily about the fair value of the asset and its estimated economic useful life. In addition, our evaluation includes ensuring we properly account for build-to-suit lease arrangements and making judgments about whether various forms of lessee involvement during the construction period make the lessee an agent for the owner-lessor or, in substance, the owner of the asset during the construction period. We believe we have well-defined and controlled processes for making these evaluations, including obtaining third-party appraisals for material transactions to assist us in making these evaluations.

GOODWILL. We have $2.2 billion of goodwill in our balance sheet from our acquisitions, representing the excess of cost over the fair value of the net assets we have acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired entity.

Our annual evaluation of goodwill impairment requires management judgment and the use of estimates and assumptions to determine the fair value of our reporting units. Fair value is estimated using standard valuation methodologies (principally the income or market approach) incorporating market participant considerations and management s assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Estimates used by management can significantly affect the outcome of the impairment test. Changes in forecasted operating results and other assumptions could materially affect these estimates. We perform our annual impairment tests in the fourth quarter unless circumstances indicate the need to accelerate the timing of the test.

In connection with our annual impairment testing of goodwill and other intangible assets conducted in the fourth quarter of 2010, we recorded an impairment charge of $18 million for the remaining value of goodwill attributable to our FedEx National LTL reporting unit. Beginning in 2009, the U.S. recession had a significant negative impact on the LTL industry resulting in volume declines, yield pressures and operating losses. These difficult conditions have continued in 2010 and the resulting excess capacity and competitive pricing environment has continued to negatively impact our FedEx National LTL reporting unit. Given these market conditions and our forecast for this business, we concluded the remaining goodwill was not recoverable.

Our other reporting units with significant recorded goodwill include our FedEx Express, FedEx Freight (excluding FedEx National LTL) and FedEx Office reporting units. We evaluated these remaining reporting units during the fourth quarter of 2010. The estimated fair value of each of these reporting units significantly exceeded their carrying values in 2010. Although we recorded goodwill impairment charges associated with our FedEx Office reporting unit in 2009 and 2008, better-than-expected results in 2010, combined with an improved long-term outlook, drove an increase in the valuation of this reporting unit. As a result, no additional testing or impairment charges were necessary and we do not believe that any of these reporting units are at risk.

FEDEX OFFICE GOODWILL. During 2009 and 2008, we recorded aggregate charges of $1.7 billion for impairment of the Kinko s trade name and the goodwill recorded as a result of the FedEx Office acquisition. In 2008, we recorded a charge of $891 million predominantly related to a $515 million impairment of the Kinko s trade name and a $367 million impairment of goodwill. This charge was a result of the decision to phase out the use of the Kinko s trade name and reduced profitability at FedEx Office over the forecast period. In 2009, despite several actions taken to reduce FedEx Office s cost structure and the initiation of an internal reorganization designed to improve revenue-generating capabilities and reduce costs, we recorded a goodwill impairment charge of $810 million. This charge was a result of reduced profitability at FedEx Office over the forecast period. Additional discussion of the key assumptions related to these charges is included in Note 3 to our consolidated financial statements.

FEDEX NATIONAL LTL GOODWILL. In 2009, we recorded a goodwill impairment charge of $90 million at our FedEx National LTL reporting unit. This charge was a result of reduced revenues and increased operating losses due to the negative impact of the U.S. recession. The forecast used in the valuation assumed operating losses would continue in the near-term due to the weak economic conditions and excess capacity in the industry which had a significant negative impact on the valuation of the FedEx National LTL reporting unit. Additional discussion of the key assumptions related to these charges is included in Note 3 to our consolidated financial statements.

CONTINGENCIES

We are subject to various loss contingencies, including tax proceedings and litigation, in connection with our operations. Contingent liabilities are difficult to measure, as their measurement is subject to multiple factors that are not easily predicted or projected. Further, additional complexity in measuring these liabilities arises due to the various jurisdictions in which these matters occur, which makes our ability to predict their outcome highly uncertain. Moreover, different accounting rules must be employed to account for these items based on the nature of the contingency. Accordingly, significant management judgment is required to assess these matters and to make determinations about the measurement of a liability, if any. Our material pending loss contingencies are described in Note 16 to our consolidated financial statements. In the opinion of management, the aggregate liability, if any, of individual matters or groups of matters not specifically described in Note 16 is not expected to be material to our financial position, results of operations or cash flows. The following describes our method and associated processes for evaluating these matters.

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TAX CONTINGENCIES. We are subject to income and operating tax rules of the U.S., and its states and municipalities, and of the foreign jurisdictions in which we operate. Significant judgment is required in determining income tax provisions, as well as deferred tax asset and liability balances and related deferred tax valuation allowances, if necessary, due to the complexity of these rules and their interaction with one another. We account for income taxes by recording both current taxes payable and deferred tax assets and liabilities. Our provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which we operate, applied to taxable income, reduced by applicable tax credits.

We account for operating taxes based on multi-state, local and foreign taxing jurisdiction rules in those areas in which we operate. Provisions for operating taxes are estimated based upon these rules, asset acquisitions and disposals, historical spend and other variables. These provisions are consistently evaluated for reasonableness against compliance and risk factors.

Tax contingencies arise from uncertainty in the application of tax rules throughout the many jurisdictions in which we operate. These tax contingencies are impacted by several factors, including tax audits, appeals, litigation, changes in tax laws and other rules, and their interpretations, and changes in our business, among other things, in the various federal, state, local and foreign tax jurisdictions in which we operate. We regularly assess the potential impact of these factors for the current and prior years to determine the adequacy of our tax provisions. We continually evaluate the likelihood and amount of potential adjustments and adjust our tax positions, including the current and deferred tax liabilities, in the period in which the facts that give rise to a revision become known. In addition, management considers the advice of third parties in making conclusions regarding tax consequences.

We recognize liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we must determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the related provision.

We classify interest related to income tax liabilities as interest expense, and if applicable, penalties are recognized as a component of income tax expense. The income tax liabilities and accrued interest and penalties that are due within one year of the balance sheet date are presented as current liabilities. The remaining portion of our income tax liabilities and accrued interest and penalties are presented as noncurrent liabilities because payment of cash is not anticipated within one year of the balance sheet date. These noncurrent income tax liabilities are recorded in the caption Other liabilities in our consolidated balance sheets.

We measure and record operating tax contingency accruals in accordance with accounting guidance for contingencies. As discussed below, this guidance requires an accrual of estimated loss from a contingency, such as a tax or other legal proceeding or claim, when it is probable that a loss will be incurred and the amount of the loss can be reasonably estimated.

OTHER CONTINGENCIES. Because of the complex environment in which we operate, we are subject to other legal proceedings and claims, including those relating to general commercial matters, employment-related claims and FedEx Ground s owner-operators. Accounting guidance for contingencies requires an accrual of estimated loss from a contingency, such as a tax or other legal proceeding or claim, when it is probable (i.e., the future event or events are likely to occur) that a loss will be incurred and the amount of the loss can be reasonably estimated. This guidance also requires disclosure of a loss contingency matter when, in management s judgment, a material loss is reasonably possible or probable of occurring.

Our legal department maintains thorough processes to identify, evaluate and monitor the status of litigation and other loss contingencies as they arise and develop. Management has regular, comprehensive litigation and contingency reviews, including updates from internal and external counsel, to assess the need for accounting recognition of a loss or disclosure of these contingencies. In determining whether a loss should be accrued or a loss contingency disclosed, we evaluate, among other factors, the degree of probability of an unfavorable outcome or settlement and the ability to make a reasonable estimate of the amount of loss. Events may arise that were not anticipated and the outcome of a contingency may result in a loss to us that differs materially from our previously estimated liability.

RISK FACTORS

Our financial and operating results are subject to many risks and uncertainties, as described below.

Our businesses depend on our strong reputation and the value of the FedEx brand. The FedEx brand name symbolizes high-quality service, reliability and speed. FedEx is one of the most widely recognized, trusted and respected brands in the world, and the FedEx brand is one of our most important and valuable assets. In addition, we have a strong reputation among customers and the general public for high standards of social and environmental responsibility and corporate governance and ethics. The FedEx brand name and our corporate reputation are powerful sales and marketing tools, and we devote significant resources to promoting and protecting them. Adverse publicity (whether or not justified) relating to activities by our employees, contractors or agents could tarnish our reputation and reduce the value of our brand. Damage to our reputation and loss of brand equity could reduce demand for our services and thus have an adverse effect on our financial condition, liquidity and results of operations, as well as require additional resources to rebuild our reputation and restore the value of our brand.

Labor organizations attempt to organize groups of our employees from time to time, and potential changes in labor laws could make it easier for them to do so. If we are unable to continue to maintain good relationships with our employees and prevent labor organizations from organizing groups of our employees, our operating costs could significantly increase and our operational flexibility could be significantly reduced. Despite continual organizing attempts by labor unions, other than the pilots of FedEx Express, all of our U.S. employees have thus far chosen not to unionize. The U.S. Congress is considering adopting changes in labor laws, however, that would make it easier for unions to organize small units of our employees. For example, in May 2009, the U.S. House of Representatives passed the FAA Reauthorization Act, which includes a provision that would remove most FedEx Express employees from the purview of the Railway Labor Act of 1926, as amended (the RLA). For additional discussion of the RLA, see Part I, Item 1 of this Annual Report on Form 10-K under the caption Regulation. This labor provision was not in the version of the bill passed in March 2010 by the U.S. Senate. Should the House version of the FAA Reauthorization Act (or a similar bill removing FedEx Express from RLA jurisdiction) be passed by the entire Congress and signed into law by the President, it could expose our customers to the type of service disruptions that the RLA was designed to prevent local work stoppages in key areas that interrupt the timely flow of shipments of time-sensitive, high-value goods throughout our global network. Such disruptions could threaten our ability to provide competitively priced shipping options and ready access to global markets. There is also the possibility that the U.S. Congress could pass other labor legislation, such as the currently proposed Employee Free Choice Act (the EFCA) (also called card-check legislation), that could adversely affect our companies, such as FedEx Ground and FedEx Freight, whose employees are governed by the National Labor Relations Act of 1935, as amended (the NLRA). The EFCA would amend the NLRA to substantially liberalize the procedures for union organization for example, by eliminating employees absolute right to a secret ballot vote in union elections. The EFCA could also require imposition of an arbitrated initial contract that could include pay, benefit and work rules that could adversely impact employers. Finally, changes to federal or state laws governing employee classification could impact the status of FedEx Ground s owner-operators as independent contractors.

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We rely heavily on technology to operate our transportation and business networks, and any disruption to our technology infrastructure or the Internet could harm our operations and our reputation among customers. Our ability to attract and retain customers and to compete effectively depends in part upon the sophistication and reliability of our technology network, including our ability to provide features of service that are important to our customers. Any disruption to the Internet or our technology infrastructure, including those impacting our computer systems and Web site, could adversely impact our customer service and our volumes and revenues and result in increased costs. While we have invested and continue to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruptions and the resulting adverse effect on our operations and financial results.

Our transportation businesses may be impacted by the price and availability of fuel. We must purchase large quantities of fuel to operate our aircraft and vehicles, and the price and availability of fuel can be unpredictable and beyond our control. To date, we have been mostly successful in mitigating over time the expense impact of higher fuel costs through our indexed fuel surcharges, as the amount of the surcharges is closely linked to the market prices for fuel. If we are unable to maintain or increase our fuel surcharges because of competitive pricing pressures or some other reason, fuel costs could adversely impact our operating results. Even if we are able to offset the cost of fuel with our surcharges, high fuel surcharges could move our customers, especially in the U.S. domestic market, away from our higher-yielding express services to our lower-yielding ground services or even reduce customer demand for our services altogether. These effects were evident in the first quarter of 2009, as fuel prices reached all-time highs. In addition, disruptions in the supply of fuel could have a negative impact on our ability to operate our transportation networks.

Our businesses are capital intensive, and we must make capital expenditures based upon projected volume levels. We make significant investments in aircraft, vehicles, technology, package handling facilities, sort equipment, copy equipment and other assets to support our transportation and business networks. We also make significant investments to rebrand, integrate and grow the companies that we acquire. The amount and timing of capital investments depend on various factors, including our anticipated volume growth. For example, we must make commitments to purchase or modify aircraft years before the aircraft are actually needed. We must predict volume levels and fleet requirements and make commitments for aircraft based on those projections. Missing our projections could result in too much or too little capacity relative to our shipping volumes. Overcapacity could lead to asset dispositions or write-downs and undercapacity could negatively impact service levels. For example, during 2009, as a result of excess aircraft capacity at FedEx Express, we permanently removed certain aircraft and certain excess aircraft engines from service and thus recorded a charge of $199 million.

We face intense competition, especially in the LTL freight industry. The transportation and business services markets are both highly competitive and sensitive to price and service, especially in periods of little or no macro-economic growth. Some of our competitors have more financial resources than we do, or they are controlled or subsidized by foreign governments, which enables them to raise capital more easily. We believe we compete effectively with these companies for example, by providing more reliable service at compensatory prices. However, our competitors determine the charges for their services, and weak economic conditions have led to excess capacity and a very competitive pricing environment, especially in the LTL freight industry. As a result, the FedEx Freight segment experienced yield declines and operating losses during 2009 and 2010. An irrational pricing environment can limit our ability not only to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs), but also to maintain or grow our market share. In addition, maintaining a broad portfolio of services is important to keeping and attracting customers. While we believe we compete effectively through our current service offerings, if our competitors offer a broader range of services or more effectively bundle their services, it could impede our ability to maintain or grow our market share.

If we do not effectively operate, integrate, leverage and grow acquired businesses, our financial results and reputation may suffer. Our strategy for long-term growth, productivity and profitability depends in part on our ability to make prudent strategic acquisitions and to realize the benefits we expect when we make those acquisitions. In furtherance of this strategy, during 2007 we acquired the LTL freight operations of Watkins Motor Lines (renamed FedEx National LTL) and made strategic acquisitions in China, the United Kingdom and India. During 2004, we acquired Kinko s, Inc. (now known as FedEx Office). While we expect our past and future acquisitions to enhance our value proposition to customers and improve our long-term profitability, there can be no assurance that we will realize our expectations within the time frame we have established, if at all, or that we can continue to support the value we allocate to these acquired businesses, including their goodwill or other intangible assets. As an example, during 2008, 2009 and 2010, we recorded aggregate charges of $1.8 billion for impairment of the value of the Kinko s trade name and portions of the goodwill recorded as a result of the FedEx Office and FedEx National LTL acquisitions. These charges were necessary, among other reasons, because the recent and forecasted financial performance of those companies did not meet our original expectations as a result of weak economic conditions.

FedEx Ground relies on owner-operators to conduct its linehaul and pickup-and-delivery operations, and the status of these owner-operators as independent contractors, rather than employees, is being challenged. FedEx Ground s use of independent contractors is well suited to the needs of the ground delivery business and its customers, as evidenced by the strong growth of this business segment. We are involved in numerous lawsuits (including many that have been certified as class actions) and state tax and other administrative proceedings that claim that the company s owner-operators or their drivers should be treated as our employees, rather than independent contractors. We expect to incur certain costs, including legal fees, in defending the status of FedEx Ground s owner-operators as independent contractors. We believe that FedEx Ground s owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company s independent contractors. However, adverse determinations in these matters could, among other things, entitle certain of our contractors and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground s owner-operators. If FedEx Ground is compelled to convert its independent contractors to employees, labor organizations could more easily organize these individuals, our operating costs could increase materially and we could incur significant capital outlays.

Increased security requirements could impose substantial costs on us, especially at FedEx Express. As a result of concerns about global terrorism and homeland security, governments around the world are adopting or are considering adopting stricter security requirements that will increase operating costs for businesses, including those in the transportation industry. For example, in July 2007, the U.S. Transportation Security Administration issued to us a Full All-Cargo Aircraft Operator Standard Security Plan, which contained many new and enhanced security requirements. These requirements are not static, but will change periodically as the result of regulatory and legislative requirements, and to respond to evolving threats. Until these requirements are adopted, we cannot determine the effect that these new rules will have on our cost structure or our operating results. It is reasonably possible, however, that these rules or other future security requirements could impose material costs on us.

The regulatory environment for global aviation rights may impact our air operations. Our extensive air network is critical to our success. Our right to serve foreign points is subject to the approval of the Department of Transportation and generally requires a bilateral agreement between the United States and foreign governments. In addition, we must obtain the permission of foreign governments to provide specific flights and services. Regulatory actions affecting global aviation rights or a failure to obtain or maintain aviation rights in important international markets could impair our ability to operate our air network.

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We may be affected by global climate change or by legal, regulatory or market responses to such change. Concern over climate change, including the impact of global warming, has led to significant U.S. and international legislative and regulatory efforts to limit greenhouse gas (GHG) emissions. For example, during 2009, the European Commission approved the extension of the European Union Emissions Trading Scheme (ETS) for GHG emissions, to the airline industry. Under this decision, all FedEx Express flights to and from any airport in any member state of the European Union will be covered by the ETS requirements beginning in 2012, and each year we will be required to submit emission allowances in an amount equal to the carbon dioxide emissions from such flights. In addition, the U.S. House of Representatives has passed and the Senate continues to consider a bill that would regulate GHG emissions, and some form of federal climate change legislation is possible in the relatively near future. Increased regulation regarding GHG emissions, especially aircraft or diesel engine emissions, could impose substantial costs on us, especially at FedEx Express. These costs include an increase in the cost of the fuel and other energy we purchase and capital costs associated with updating or replacing our aircraft or vehicles prematurely. Until the timing, scope and extent of such regulation becomes known, we cannot predict its effect on our cost structure or our operating results. It is reasonably possible, however, that it could impose material costs on us. Moreover, even without such regulation, increased awareness and any adverse publicity in the global marketplace about the GHGs emitted by companies in the airline and transportation industries could harm our reputation and reduce customer demand for our services, especially our air express services. Finally, given the broad and global scope of our operations and our susceptibility to global macro-economic trends, we are particularly vulnerable to the physical risks of climate change that could affect all of humankind, such as shifts in world ecosystems.

We will soon be negotiating a new collective bargaining agreement with the union that represents the pilots of FedEx Express. FedEx Express pilots are employed under a collective bargaining agreement that becomes amendable on October 31, 2010. In accordance with applicable labor law, we will continue to operate under our current agreement while we negotiate with our pilots. We cannot predict the outcome of these negotiations. The terms of any new collective bargaining agreement could increase our operating costs and adversely affect our ability to compete with other providers of express delivery services. On the other hand, if we are unable to reach agreement on a new collective bargaining agreement, we may be subject to a strike or work stoppages by our pilots, subject to the requirements of the RLA. These actions could have a negative impact on our ability to operate our express transportation network and ultimately cause us to lose customers.

We are also subject to risks and uncertainties that affect many other businesses, including:

- increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;
- the impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry or us in particular, and what effects these events will have on our costs or the demand for our services;
- any impacts on our businesses resulting from new domestic or international government laws and regulation;
- changes in foreign currency exchange rates, especially in the euro, Chinese yuan, Canadian dollar, British pound and Japanese yen, which can affect our sales levels and foreign currency sales prices;
- market acceptance of our new service and growth initiatives;
- any liability resulting from and the costs of defending against class-action litigation, such as wage-and-hour and discrimination and retaliation claims, and any other legal proceedings;
- the impact of technology developments on our operations and on demand for our services, and our ability to continue to identify and eliminate unnecessary information technology redundancy and complexity throughout the organization;
- adverse weather conditions or natural disasters, such as earthquakes, volcanoes, and hurricanes, which can disrupt our electrical service, damage our property, disrupt our operations, increase our fuel costs and adversely affect our shipment levels;
- widespread outbreak of an illness or any other communicable disease, or any other public health crisis; and

availability of financing on terms acceptable to us and our ability to maintain our current credit ratings, especially given the capital intensity of our operations.

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We are directly affected by the state of the economy. While the global, or macro-economic, risks listed above apply to most companies, we are particularly vulnerable. The transportation industry is highly cyclical and especially susceptible to trends in economic activity, such as the recent global recession. Our primary business is to transport goods, so our business levels are directly tied to the purchase and production of goods key macro-economic measurements. When individuals and companies purchase and produce fewer goods, we transport fewer goods. In addition, we have a relatively high fixed-cost structure, which is difficult to quickly adjust to match shifting volume levels. Moreover, as we grow our international business, we are increasingly affected by the health of the global economy. As a result, the recent global recession has had a disproportionately negative impact on us and our recent financial results.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in Outlook (including segment outlooks), Liquidity, Capital Resources, Liquidity Outlook, Contractual Cash Obligations and Critical Accountin Estimates, and the Retirement Plans and Contingencies notes to the consolidated financial statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words may, could, would, should, believes, expects, anticipates, plans, estimates, targets, projects, intends or similar expressio forward-looking statements involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, the risk factors identified above and the other risks and uncertainties you can find in our press releases and other SEC filings. As a result of these and other factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances and those future events or circumstances may not occur. You should not place undue reliance on the forward-looking statements, which speak only as of the date of this report. We are under no obligation, and we expressly disclaim any obligation, to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting includes, among other things, defined policies and procedures for conducting and governing our business, sophisticated information systems for processing transactions and a properly staffed, professional internal audit department. Mechanisms are in place to monitor the effectiveness of our internal control over financial reporting and actions are taken to correct all identified deficiencies. Our procedures for financial reporting include the active involvement of senior management, our Audit Committee and our staff of highly qualified financial and legal professionals.

Management, with the participation of our principal executive and financial officers, assessed our internal control over financial reporting as of May 31, 2010, the end of our fiscal year. Management based its assessment on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria).

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of May 31, 2010.

The effectiveness of our internal control over financial reporting as of May 31, 2010, has been audited by Ernst & Young LLP, the independent registered public accounting firm who also audited the Company s consolidated financial statements included in this Annual Report on Form 10-K. Ernst & Young LLP s report on the Company s internal control over financial reporting is included in this Annual Report on Form 10-K.

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REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited FedEx Corporation s internal control over financial reporting as of May 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). FedEx Corporation s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, FedEx Corporation maintained, in all material respects, effective internal control over financial reporting as of May 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of FedEx Corporation as of May 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders investment and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2010 of FedEx Corporation and our report dated July 15, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Memphis, Tennessee
July 15, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited the accompanying consolidated balance sheets of FedEx Corporation as of May 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders investment and comprehensive income, and cash flows for each of the three years in the period ended May 31, 2010. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FedEx Corporation at May 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended May 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 11 to the consolidated financial statements, in 2008 the Company adopted the measurement date provisions originally issued in Statement of Financial Accounting Standards No. 158, Employer s Accounting for Defined Benefit Pension and Other Post Retirement Benefit Plans An Amendment of FASB Statements No. 87, 88, 106 and 132(R), (codified in FASB Accounting Standards Codification 715, Compensation Retirement Benefits).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), FedEx Corporation s internal control over financial reporting as of May 31, 2010, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated July 15, 2010 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Memphis, Tennessee
July 15, 2010

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FEDEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	May 31, 2010	May 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,952	$ 2,292
Receivables, less allowances of $166 and $196	4,163	3,391
Spare parts, supplies and fuel, less allowances of $170 and $175	389	367
Deferred income taxes	529	511
Prepaid expenses and other	251	555
Total current assets	7,284	7,116
PROPERTY AND EQUIPMENT, AT COST		
Aircraft and related equipment	11,640	10,118
Package handling and ground support equipment	5,193	4,960
Computer and electronic equipment	4,218	4,280
Vehicles	3,170	3,078
Facilities and other	7,081	6,824
	31,302	29,260
Less accumulated depreciation and amortization	16,917	15,843
Net property and equipment	14,385	13,417
OTHER LONG-TERM ASSETS		
Goodwill	2,200	2,229
Pension assets		311
Other assets	1,033	1,171
Total other long-term assets	3,233	3,711
	$ 24,902	$ 24,244

The accompanying notes are an integral part of these consolidated financial statements.

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FEDEX CORPORATION
CONSOLIDATED BALANCE SHEETS
(IN MILLIONS, EXCEPT SHARE DATA)

	May 31, 2010	May 31, 2009
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 262	$ 653
Accrued salaries and employee benefits	1,146	861
Accounts payable	1,522	1,372
Accrued expenses	1,715	1,638
Total current liabilities	4,645	4,524
LONG-TERM DEBT, LESS CURRENT PORTION	1,668	1,930
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	891	1,071
Pension, postretirement healthcare and other benefit obligations	1,705	934
Self-insurance accruals	960	904
Deferred lease obligations	804	802
Deferred gains, principally related to aircraft transactions	267	289
Other liabilities	151	164
Total other long-term liabilities	4,778	4,164
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 314 million shares issued as of May 31, 2010 and 312 million shares issued as of May 31, 2009	31	31
Additional paid-in capital	2,261	2,053
Retained earnings	13,966	12,919
Accumulated other comprehensive loss	(2,440)	(1,373)
Treasury stock, at cost	(7)	(4)
Total common stockholders investment	13,811	13,626
	$ 24,902	$ 24,244

The accompanying notes are an integral part of these consolidated financial statements.

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FEDEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Years ended May 31, 2010	2009	2008
REVENUES	$ 34,734	$ 35,497	$ 37,953
OPERATING EXPENSES:			
Salaries and employee benefits	14,027	13,767	14,202
Purchased transportation	4,728	4,534	4,634
Rentals and landing fees	2,359	2,429	2,441
Depreciation and amortization	1,958	1,975	1,946
Fuel	3,106	3,811	4,409
Maintenance and repairs	1,715	1,898	2,068
Impairment and other charges	18	1,204	882
Other	4,825	5,132	5,296
	32,736	34,750	35,878
OPERATING INCOME	1,998	747	2,075
OTHER INCOME (EXPENSE):			
Interest expense	(79)	(85)	(98)
Interest income	8	26	44
Other, net	(33)	(11)	(5)
	(104)	(70)	(59)
INCOME BEFORE INCOME TAXES	1,894	677	2,016
PROVISION FOR INCOME TAXES	710	579	891
NET INCOME	$ 1,184	$ 98	$ 1,125
BASIC EARNINGS PER COMMON SHARE	$ 3.78	$ 0.31	$ 3.64
DILUTED EARNINGS PER COMMON SHARE	$ 3.76	$ 0.31	$ 3.60

The accompanying notes are an integral part of these consolidated financial statements.

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FEDEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN MILLIONS)

	Years ended May 31, 2010	2009	2008
OPERATING ACTIVITIES			
Net income	$ 1,184	$ 98	$ 1,125
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	1,958	1,975	1,946
Provision for uncollectible accounts	124	181	134
Deferred income taxes and other noncash items	331	299	124
Noncash impairment charges	18	1,103	882
Stock-based compensation	101	99	101
Changes in assets and liabilities:			
Receivables	(906)	762	(447)
Other assets	276	(196)	(237)
Pension assets and liabilities, net	(611)	(913)	(273)
Accounts payable and other liabilities	710	(628)	190
Other, net	(47)	(27)	(80)
Cash provided by operating activities	3,138	2,753	3,465
INVESTING ACTIVITIES			
Capital expenditures	(2,816)	(2,459)	(2,947)
Proceeds from asset dispositions and other	35	76	50
Cash used in investing activities	(2,781)	(2,383)	(2,897)
FINANCING ACTIVITIES			
Principal payments on debt	(653)	(501)	(639)
Proceeds from debt issuance		1,000	
Proceeds from stock issuances	94	41	108
Excess tax benefit on the exercise of stock options	25	4	38
Dividends paid	(138)	(137)	(124)
Other, net	(20)	(7)	
Cash (used in) provided by financing activities	(692)	400	(617)
Effect of exchange rate changes on cash	(5)	(17)	19
Net (decrease) increase in cash and cash equivalents	(340)	753	(30)
Cash and cash equivalents at beginning of period	2,292	1,539	1,569

Cash and cash equivalents at end of period	$ 1,952	$ 2,292	$ 1,539

The accompanying notes are an integral part of these consolidated financial statements.

FEDEX CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS
INVESTMENT AND COMPREHENSIVE INCOME
(IN MILLIONS, EXCEPT SHARE DATA)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at May 31, 2007	**$ 31**	**$ 1,689**	**$ 11,970**	**$ (1,030)**	**$ (4)**	**$ 12,656**
Net income			1,125			1,125
Foreign currency translation adjustment, net of tax of $15				99		99
Retirement plans adjustments, net of tax of $296				506		506
Total comprehensive income						1,730
Cash dividends declared ($0.30 per share)			(93)			(93)
Employee incentive plans and other (2,556,318 shares issued)		233				233
Balance at May 31, 2008	**31**	**1,922**	**13,002**	**(425)**	**(4)**	**14,526**
Adjustment to opening balances for retirement plans measurement date transition, net of tax benefit of $26 and expense of $220, respectively			(44)	369		325
Balance at June 1, 2008	**31**	**1,922**	**12,958**	**(56)**	**(4)**	**14,851**
Net income			98			98
Foreign currency translation adjustment, net of tax of $28				(112)		(112)
Retirement plans adjustments, net of tax of $718				(1,205)		(1,205)
Total comprehensive loss						(1,219)
Cash dividends declared ($0.44 per share)			(137)			(137)
Employee incentive plans and other (995,271 shares issued)		131				131
Balance at May 31, 2009	**31**	**2,053**	**12,919**	**(1,373)**	**(4)**	**13,626**
Net income			1,184			1,184
Foreign currency translation adjustment, net of tax of $2				(25)		(25)

Retirement plans adjustments, net of tax of $617				(1,042)		(1,042)
Total comprehensive income						117
Purchase of treasury stock					(3)	(3)
Cash dividends declared ($0.44 per share)			(137)			(137)
Employee incentive plans and other (2,375,753 shares issued)		208				208
Balance at May 31, 2010	**$ 31**	**$ 2,261**	**$ 13,966**	**$ (2,440)**	**$ (7)**	**$ 13,811**

The accompanying notes are an integral part of these consolidated financial statements.

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FEDEX CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF BUSINESS. FedEx Corporation (FedEx) provides a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies are Federal Express Corporation (FedEx Express), the world s largest express transportation company; FedEx Ground Package System, Inc. (FedEx Ground), a leading provider of small-package ground delivery services; and the FedEx Freight LTL Group, which comprises the FedEx Freight and FedEx National LTL businesses of FedEx Freight Corporation, a leading U.S. provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments. Our FedEx Services segment provides sales, marketing, information technology and customer service support to our transportation segments. In addition, the FedEx Services segment provides customers with retail access to FedEx Express and FedEx Ground shipping services through FedEx Office and Print Services, Inc. (FedEx Office).

FISCAL YEARS. Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2010 or ended May 31 of the year referenced.

PRINCIPLES OF CONSOLIDATION. The consolidated financial statements include the accounts of FedEx and its subsidiaries, substantially all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated in consolidation.

REVENUE RECOGNITION. We recognize revenue upon delivery of shipments for our transportation businesses and upon completion of services for our business services, logistics and trade services businesses. Certain of our transportation services are provided with the use of independent contractors. FedEx is the principal to the transaction in most instances and in those cases revenue from these transactions is recognized on a gross basis. Costs associated with independent contractor settlements are recognized as incurred and included in the caption Purchased transportation in the accompanying consolidated statements of income. For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date. Estimates for future billing adjustments to revenue and accounts receivable are recognized at the time of shipment for money-back service guarantees and billing corrections. Delivery costs are accrued as incurred.

Our contract logistics, global trade services and certain transportation businesses, such as FedEx SmartPost, engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions, and taxes and duties.

Certain of our revenue-producing transactions are subject to taxes, such as sales tax, assessed by governmental authorities. We present these revenues net of tax.

CREDIT RISK. We routinely grant credit to many of our customers for transportation and business services without collateral. The risk of credit loss in our trade receivables is substantially mitigated by our credit evaluation process, short collection terms and sales to a large number of customers, as well as the low revenue per transaction for most of our services. Allowances for potential credit losses are determined based on historical experience and the impact of current economic factors on the composition of accounts receivable. Historically, credit losses have been within management s expectations.

ADVERTISING. Advertising and promotion costs are expensed as incurred and are classified in other operating expenses. Advertising and promotion expenses were $374 million in 2010, $379 million in 2009 and $445 million in 2008.

CASH EQUIVALENTS. Cash in excess of current operating requirements is invested in short-term, interest-bearing instruments with maturities of three months or less at the date of purchase and is stated at cost, which approximates market value.

SPARE PARTS, SUPPLIES AND FUEL. Spare parts (principally aircraft related) are reported at weighted-average cost. Allowances for obsolescence are provided for spare parts expected to be on hand at the date the aircraft are retired from service. These allowances are provided over the estimated useful life of the related aircraft and engines. Additionally, allowances for obsolescence are provided for spare parts currently identified as excess or obsolete. These allowances are based on management estimates, which are subject to change. Supplies and fuel are reported at cost on a first-in, first-out basis.

PROPERTY AND EQUIPMENT. Expenditures for major additions, improvements, flight equipment modifications and certain equipment overhaul costs are capitalized when such costs are determined to extend the useful life of the asset or are part of the cost of acquiring the asset. Maintenance and repairs are charged to expense as incurred, except for certain aircraft-related major maintenance costs on one of our aircraft fleet types, which are capitalized as incurred and amortized over their estimated service lives. We capitalize certain direct internal and external costs associated with the development of internal-use software. Gains and losses on sales of property used in operations are classified within operating expenses.

For financial reporting purposes, we record depreciation and amortization of property and equipment on a straight-line basis over the asset s service life or related lease term, if shorter. For income tax purposes, depreciation is computed using accelerated methods when applicable. The depreciable lives and net book value of our property and equipment are as follows (dollars in millions):

		Net Book Value at May 31,	
	Range	2010	2009
Wide-body aircraft and related equipment	15 to 30 years	$ 5,897	$ 5,139
Narrow-body and feeder aircraft and related equipment	5 to 18 years	1,049	709
Package handling and ground support equipment	3 to 30 years	1,895	1,928
Computer and electronic equipment	2 to 10 years	649	782
Vehicles	2 to 15 years	1,095	1,107
Facilities and other	2 to 40 years	3,800	3,752

Substantially all property and equipment have no material residual values. The majority of aircraft costs are depreciated on a straight-line basis over 15 to 18 years. We periodically evaluate the estimated service lives and residual values used to depreciate our property and equipment. This evaluation may result in changes in the estimated lives and residual values. Such changes did not materially affect depreciation expense in any period presented. Depreciation expense, excluding gains and losses on sales of property and equipment used in operations, was $1.9 billion in 2010, $1.8 billion in 2009 and $1.8 billion in 2008. Depreciation and amortization expense includes amortization of assets under capital lease.

CAPITALIZED INTEREST. Interest on funds used to finance the acquisition and modification of aircraft, including purchase deposits, construction of certain facilities, and development of certain software up to the date the asset is ready for its intended use is capitalized and included in the cost of the asset if the asset is actively under construction. Capitalized interest was $80 million in 2010, $71 million in 2009 and $50 million in 2008.

IMPAIRMENT OF LONG-LIVED ASSETS. Long-lived assets are reviewed for impairment when circumstances indicate the carrying value of an asset may not be recoverable. For assets that are to be held and used, an impairment is recognized when the estimated undiscounted cash flows associated with the asset or group of assets is less than their carrying value. If impairment exists, an adjustment is made to write the asset down to its fair value, and a loss is recorded as the difference between the carrying value and fair value. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable. Assets to be disposed of are carried at the lower of carrying value or estimated net realizable value. We operate integrated transportation networks, and accordingly, cash flows for most of our operating assets are assessed at a network level, not at an individual asset level, for our analysis of impairment.

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There were no material property and equipment impairment charges recognized in 2010 or 2008. During 2009, we recorded $202 million in property and equipment impairment charges. These charges were primarily related to our decision to permanently remove from service certain aircraft, along with certain excess aircraft engines, at FedEx Express.

GOODWILL. Goodwill is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible net assets of businesses acquired. Several factors give rise to goodwill in our acquisitions, such as the expected benefit from synergies of the combination and the existing workforce of the acquired entity. Goodwill is reviewed at least annually for impairment by comparing the fair value of each reporting unit with its carrying value (including attributable goodwill). Fair value for our reporting units is determined using an income or market approach incorporating market participant considerations and management s assumptions on revenue growth rates, operating margins, discount rates and expected capital expenditures. Fair value determinations may include both internal and third-party valuations. Unless circumstances otherwise dictate, we perform our annual impairment testing in the fourth quarter.

INTANGIBLE ASSETS. Intangible assets include customer relationships, trade names, technology assets and contract-based intangibles acquired in business combinations. Intangible assets are amortized over periods ranging from 2 to 15 years, either on a straight-line basis or an accelerated basis depending upon the pattern in which the economic benefits are realized.

PENSION AND POSTRETIREMENT HEALTHCARE PLANS. Our defined benefit plans are measured using actuarial techniques that reflect management s assumptions for discount rate, expected long-term investment returns on plan assets, salary increases, expected retirement, mortality, employee turnover and future increases in healthcare costs. We determine the discount rate (which is required to be the rate at which the projected benefit obligation could be effectively settled as of the measurement date) with the assistance of actuaries, who calculate the yield on a theoretical portfolio of high-grade corporate bonds (rated Aa or better) with cash flows that generally match our expected benefit payments in future years. A calculated-value method is employed for purposes of determining the expected return on the plan asset component of net periodic pension cost for our qualified U.S. pension plans.

The accounting guidance related to employers accounting for defined benefit pension and other postretirement plans requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in other comprehensive income (OCI) of unrecognized gains or losses and prior service costs or credits. Additionally, the guidance requires the measurement date for plan assets and liabilities to coincide with the plan sponsor s year end.

At May 31, 2010, we recorded a decrease to equity through OCI of $1.0 billion (net of tax) based primarily on mark-to-market adjustments related to increases in our projected benefit obligation due to a decrease in the discount rate used to measure the liability at May 31, 2010. At May 31, 2009, we recorded a decrease of $1.2 billion based primarily on mark-to-market adjustments related to unrealized losses in our pension plan assets during 2009.

INCOME TAXES. Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. The liability method is used to account for income taxes, which requires deferred taxes to be recorded at the statutory rate expected to be in effect when the taxes are paid.

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We recognize liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as we must determine the probability of various possible outcomes. We reevaluate these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the related provision.

We classify interest related to income tax liabilities as interest expense, and if applicable, penalties are recognized as a component of income tax expense. The income tax liabilities and accrued interest and penalties that are due within one year of the balance sheet date are presented as current liabilities. The remaining portion of our income tax liabilities and accrued interest and penalties are presented as noncurrent liabilities because payment of cash is not anticipated within one year of the balance sheet date. These noncurrent income tax liabilities are recorded in the caption Other liabilities in our consolidated balance sheets.

SELF-INSURANCE ACCRUALS. We are self-insured for workers compensation claims, vehicle accidents and general liabilities, benefits paid under employee healthcare programs and long-term disability benefits. Accruals are primarily based on the actuarially estimated, undiscounted cost of claims, which includes incurred-but-not-reported claims. Current workers compensation claims, vehicle and general liability, employee healthcare claims and long-term disability are included in accrued expenses. We self-insure up to certain limits that vary by operating company and type of risk. Periodically, we evaluate the level of insurance coverage and adjust insurance levels based on risk tolerance and premium expense.

LEASES. We lease certain aircraft, facilities, equipment and vehicles under capital and operating leases. The commencement date of all leases is the earlier of the date we become legally obligated to make rent payments or the date we may exercise control over the use of the property. In addition to minimum rental payments, certain leases provide for contingent rentals based on equipment usage principally related to aircraft leases at FedEx Express and copier usage at FedEx Office. Rent expense associated with contingent rentals is recorded as incurred. Certain of our leases contain fluctuating or escalating payments and rent holiday periods. The related rent expense is recorded on a straight-line basis over the lease term. The cumulative excess of rent payments over rent expense is accounted for as a deferred lease asset and recorded in Other assets in the accompanying consolidated balance sheets. The cumulative excess of rent expense over rent payments is accounted for as a deferred lease obligation. Leasehold improvements associated with assets utilized under capital or operating leases are amortized over the shorter of the asset s useful life or the lease term.

DEFERRED GAINS. Gains on the sale and leaseback of aircraft and other property and equipment are deferred and amortized ratably over the life of the lease as a reduction of rent expense. Substantially all of these deferred gains are related to aircraft transactions.

FOREIGN CURRENCY TRANSLATION. Translation gains and losses of foreign operations that use local currencies as the functional currency are accumulated and reported, net of applicable deferred income taxes, as a component of accumulated other comprehensive income within common stockholders investment. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the local currency are included in the caption Other, net in the accompanying consolidated statements of income and were immaterial for each period presented. Cumulative net foreign currency translation gains in accumulated other comprehensive income were $30 million at May 31, 2010, $56 million at May 31, 2009 and $167 million at May 31, 2008.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, which represent a small number of FedEx Express total employees, are employed under a collective bargaining agreement that will become amendable during the second quarter of 2011. In accordance with applicable labor law, we will continue to operate under our current agreement while we negotiate with our pilots. We cannot estimate the financial impact, if any, the results of these negotiations may have on our future results of operations.

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STOCK-BASED COMPENSATION. We recognize compensation expense for stock-based awards under the provisions of the accounting guidance related to share-based payments. This guidance requires recognition of compensation expense for stock-based awards using a fair value method.

DIVIDENDS DECLARED PER COMMON SHARE. On June 7, 2010, our Board of Directors declared a quarterly dividend of $0.12 per share of common stock. The dividend was paid on July 1, 2010 to stockholders of record as of the close of business on June 17, 2010. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

USE OF ESTIMATES. The preparation of our consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent liabilities. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: self-insurance accruals; retirement plan obligations; long-term incentive accruals; tax liabilities; accounts receivable allowances; obsolescence of spare parts; contingent liabilities; loss contingencies, such as litigation and other claims; and impairment assessments on long-lived assets (including goodwill).

NOTE 2: RECENT ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. We believe the following new accounting guidance, which has been adopted by us, is relevant to the readers of our financial statements.

On June 1, 2008, we adopted the authoritative guidance issued by the Financial Accounting Standards Board (FASB) on fair value measurements, which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements. On June 1, 2009, we implemented the previously deferred provisions of this guidance for nonfinancial assets and liabilities recorded at fair value, as required. The adoption of this new guidance had no impact on our financial statements.

In December 2007, the FASB issued authoritative guidance on business combinations and the accounting and reporting for noncontrolling interests (previously referred to as minority interests). This guidance significantly changed the accounting for and reporting of business combination transactions, including noncontrolling interests. For example, the acquiring entity is now required to recognize the full fair value of assets acquired and liabilities assumed in the transaction, and the expensing of most transaction and restructuring costs is now required. This guidance became effective for us beginning June 1, 2009 and had no material impact on our financial statements because we have not had any significant business combinations since that date.

In December 2008, the FASB issued authoritative guidance on employers disclosures about postretirement benefit plan assets. This guidance provides objectives that an employer should consider when providing detailed disclosures about assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, significant concentrations of risk and the inputs and valuation techniques used to measure the fair value of plan assets. This guidance became effective for our 2010 Annual Report. See Note 11 for related disclosures.

In April 2009, the FASB issued new accounting guidance related to interim disclosures about the fair value of financial instruments. This guidance requires disclosures about the fair value of financial instruments for interim reporting periods in addition to annual reporting periods and became effective for us beginning with the first quarter of fiscal year 2010.

NOTE 3: GOODWILL AND OTHER INTANGIBLE ASSETS

GOODWILL. The carrying amount of goodwill attributable to each reportable operating segment and changes therein are as follows (in millions):

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Total
Goodwill at May 31, 2008	$ 1,123	$ 90	$ 802	$ 1,542	$ 3,557
Accumulated impairment charges			(25)	(367)	(392)
Balance as of May 31, 2008	1,123	90	777	1,175	3,165
Impairment charges			(90)	(810)	(900)
Purchase adjustments and other[1]	(33)			(3)	(36)
Balance as of May 31, 2009	1,090	90	687	362	2,229
Impairment charge			(18)		(18)
Purchase adjustments and other[1]	(11)				(11)
Transfer between segments[2]	66		(66)		
Balance as of May 31, 2010	$ 1,145	$ 90	$ 603	$ 362	$ 2,200
Accumulated goodwill impairment charges as of May 31, 2010	$	$	$ (133)	$ (1,177)	$ (1,310)

(1) Primarily currency translation adjustments.

(2) Transfer of goodwill related to the merger of Caribbean Transportation Services into FedEx Express effective June 1, 2009.

In connection with our annual impairment testing of goodwill conducted in the fourth quarter of 2010, we recorded a charge of $18 million for impairment of the value of the remaining goodwill at our FedEx National LTL reporting unit. Beginning in 2009, the U.S. recession had a significant negative impact on the LTL industry, resulting in volume declines, yield pressures and operating losses. These difficult conditions continued in 2010 and the resulting excess capacity and competitive pricing environment had a significant negative impact on our FedEx National LTL reporting unit. Given these market conditions, our forecast for this business did not support the recoverability of the remaining goodwill attributable to our FedEx National LTL reporting unit.

We evaluated our remaining reporting units during the fourth quarter of 2010, and the estimated fair value of each of our other reporting units significantly exceeded their carrying values in 2010. Although we recorded goodwill impairment charges associated with our FedEx Office reporting unit in 2009 and 2008, better-than-expected results in 2010 combined with an improved long-term outlook drove an improvement in the valuation of this reporting unit. As a result, no additional testing or impairment charges were necessary and we do not believe that any of these reporting units are at risk.

Goodwill Impairment Charges 2009

FEDEX OFFICE. During 2009, in response to the lower revenues and continued operating losses at FedEx Office resulting from the U.S. recession, the company initiated an internal reorganization designed to improve revenue-generating capabilities and reduce costs. This reorganization resulted in actions that included headcount reductions, domestic store closures and the termination of operations in some international locations. In addition, we substantially curtailed future network expansion in light of weak economic conditions.

In connection with our annual impairment testing in 2009, the valuation methodology to estimate the fair value of the FedEx Office reporting unit was based primarily on an income approach that considered market participant assumptions to estimate fair value. Key assumptions considered were the revenue and operating income forecast, the assessed growth rate in the periods beyond the detailed forecast period, and the discount rate.

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For 2009, our discount rate of 12.0% represented our estimated weighted-average cost of capital (WACC) of the FedEx Office reporting unit adjusted for company-specific risk premium to account for the estimated uncertainty associated with our future cash flows. The development of the WACC used in our estimate of fair value considered the current market conditions for the equity-risk premium and risk-free interest rate, the size and industry of the FedEx Office reporting unit, and the risks related to the forecast of future revenues and profitability of the FedEx Office reporting unit.

Upon completion of the impairment test, we concluded that the recorded goodwill was impaired and recorded an impairment charge of $810 million during the fourth quarter of 2009. The goodwill impairment charge is included in 2009 operating expenses in the accompanying consolidated statements of income. This charge was included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of those businesses.

FEDEX NATIONAL LTL. In 2009, we recorded a goodwill impairment charge of $90 million at our FedEx National LTL unit. This charge was a result of reduced revenues and increased operating losses due to the negative impact of the U.S. recession.

The valuation methodology to estimate the fair value of the FedEx National LTL reporting unit was based primarily on a market approach (revenue multiples and/or earnings multiples) that considered market participant assumptions. We believe use of the market approach for FedEx National LTL was appropriate due to the forecast risk associated with the projections used under the income approach, particularly in the outer years of the forecast period (as described below). Further, there are directly comparable companies to the FedEx National LTL reporting unit for consideration under the market approach. The income approach also was incorporated into the impairment test to ensure the reasonableness of our conclusions under the market approach. Key assumptions considered were the revenue, operating income and capital expenditure forecasts and market participant assumptions on multiples related to revenue and earnings forecasts.

The forecast used in the valuation assumed operating losses would continue in the near-term due to weak economic conditions and excess capacity in the industry. However, the long-term outlook assumed that this excess capacity would exit the market. This assumption drove significant volume and yield improvement into the FedEx National LTL reporting unit in future periods. The decision to include an assumption related to the elimination of excess capacity from the market and the associated cash flows was significant to the valuation and reflected management s outlook on the industry for future periods as of the valuation date.

Goodwill Impairment Charges 2008

FEDEX OFFICE. During 2008, several developments and strategic decisions occurred at FedEx Office, including a reorganization of FedEx Office into the FedEx Services segment, a reorganization of senior management, as well as a decision to minimize the use of the Kinko s trade name over the next several years. We also began implementing revenue growth and cost management plans to improve financial performance and pursuing a more disciplined approach to the long-term expansion of the retail network, reducing the overall level of expansion.

Upon completion of the impairment test, these factors, combined with forecasted losses resulted in our conclusion that the recorded goodwill was impaired and we recorded an impairment charge of $367 million during the fourth quarter of 2008. The goodwill impairment charge is included in 2008 operating expenses in the accompanying consolidated statements of income. This charge was included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of those businesses.

The valuation methodology to estimate the fair value of the FedEx Office reporting unit was based primarily on an income approach that considered market participant assumptions to estimate fair value. Key assumptions considered were the revenue and operating income forecast, the assessed growth rate in the periods beyond the detailed forecast period, and the discount rate.

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In performing our annual impairment test, the most significant assumption used to estimate the fair value of the FedEx Office reporting unit was the discount rate. We used a discount rate of 12.5%, representing the estimated WACC of the FedEx Office reporting unit.

OTHER INTANGIBLE ASSETS. The components of our identifiable intangible assets were as follows (in millions):

	May 31, 2010			May 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Book Value	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Customer relationships	$ 209	$ (160)	$ 49	$ 207	$ (133)	$ 74
Trade name and other	195	(175)	20	205	(161)	44
Total	$ 404	$ (335)	$ 69	$ 412	$ (294)	$ 118

Prior to 2008, we had an indefinite-lived intangible asset associated with the Kinko s trade name. During the fourth quarter of 2008, we made the decision to change the name of FedEx Kinko s to FedEx Office and rebrand our retail locations over the next several years. This change converted this asset to a finite life asset and resulted in an impairment charge of $515 million. We estimated the fair value of this intangible asset based on an income approach using the relief-from-royalty method. This change resulted in a remaining trade name balance of $52 million, which we began amortizing in the fourth quarter of 2008 on an accelerated basis, and which will be fully amortized by May 2011. The trade name impairment charge is included in 2008 operating expenses in the accompanying consolidated statements of income. The charge was included in the results of the FedEx Services segment and was not allocated to our transportation segments, as the charge was unrelated to the core performance of those businesses.

Amortization expense for intangible assets was $51 million in 2010, $73 million in 2009 and $60 million in 2008. Estimated amortization expense is expected to be $33 million in 2011 and immaterial in subsequent years.

NOTE 4: SELECTED CURRENT LIABILITIES

The components of selected current liability captions were as follows (in millions):

	May 31, 2010	May 31, 2009
Accrued Salaries and Employee Benefits		
Salaries	$ 230	$ 201
Employee benefits, including variable compensation	386	143
Compensated absences	530	517
	$ 1,146	$ 861
Accrued Expenses		
Self-insurance accruals	$ 675	$ 626
Taxes other than income taxes	347	338
Other	693	674
	$ 1,715	$ 1,638

NOTE 5: LONG-TERM DEBT AND OTHER FINANCING ARRANGEMENTS
The components of long-term debt (net of discounts), along with maturity dates for the years subsequent to May 31, 2010, are as follows (in millions):

	May 31, 2010	May 31, 2009
Senior unsecured debt		
Interest rate of 5.50%, due in 2010	$	$ 500
Interest rate of 7.25%, due in 2011	250	250
Interest rate of 9.65%, due in 2013	300	300
Interest rate of 7.38%, due in 2014	250	250
Interest rate of 8.00%, due in 2019	750	750
Interest rate of 7.60%, due in 2098	239	239
	1,789	2,289
Capital lease obligations	141	294
	1,930	2,583
Less current portion	262	653
	$ 1,668	$ 1,930

Interest on our fixed-rate notes is paid semi-annually. Long-term debt, exclusive of capital leases, had carrying values of $1.8 billion compared with estimated fair values of $2.1 billion at May 31, 2010, and $2.3 billion compared with estimated fair values of $2.4 billion at May 31, 2009. The estimated fair values were determined based on quoted market prices or on the current rates offered for debt with similar terms and maturities.
We have a shelf registration statement filed with the Securities and Exchange Commission that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock.
In January 2009, we issued $1 billion of senior unsecured debt under our shelf registration statement, comprised of fixed-rate notes totaling $250 million due in January 2014 and $750 million due in January 2019. The fixed-rate notes due in January 2014 bear interest at an annual rate of 7.375%, payable semi-annually, and the fixed-rate notes due in January 2019 bear interest at an annual rate of 8.00%, payable semi-annually. During 2010, we repaid our $500 million 5.50% notes that matured on August 15, 2009 using cash from operations and a portion of the proceeds of our January 2009 $1 billion senior unsecured debt offering.
A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in July 2012. The agreement contains a financial covenant, which requires us to maintain a leverage ratio of adjusted debt (long-term debt, including the current portion of such debt, plus six times our last four fiscal quarters rentals and landing fees) to capital (adjusted debt plus total common stockholders investment) that does not exceed 0.7 to 1.0. Our leverage ratio of adjusted debt to capital was 0.5 at May 31, 2010. We are in compliance with this and all other restrictive covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or borrowing capacity. As of May 31, 2010, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.
We issue other financial instruments in the normal course of business to support our operations, including letters of credit. We had a total of $553 million in letters of credit outstanding at May 31, 2010, with $94 million unused under our primary $500 million letter of credit facility. These instruments are required under certain U.S. self-insurance programs and are also used in the normal course of international operations. The underlying liabilities insured by these instruments are reflected in our balance sheets, where applicable. Therefore, no additional liability is reflected for the

letters of credit.

Our capital lease obligations include leases for aircraft and facilities. Our facility leases include leases that guarantee the repayment of certain special facility revenue bonds that have been issued by municipalities primarily to finance the acquisition and construction of various airport facilities and equipment. These bonds require interest payments at least annually, with principal payments due at the end of the related lease agreement.

NOTE 6: LEASES

We utilize certain aircraft, land, facilities, retail locations and equipment under capital and operating leases that expire at various dates through 2040. We leased 12% of our total aircraft fleet under capital or operating leases as of May 31, 2010 as compared to 13% as of May 31, 2009. A portion of our supplemental aircraft are leased by us under agreements that provide for cancellation upon 30 days notice. Our leased facilities include national, regional and metropolitan sorting facilities, retail facilities and administrative buildings.

The components of property and equipment recorded under capital leases were as follows (in millions):

	May 31, 2010	May 31, 2009
Aircraft	$ 15	$ 50
Package handling and ground support equipment	165	165
Vehicles	17	17
Other, principally facilities	146	147
	343	379
Less accumulated amortization	312	300
	$ 31	$ 79

Rent expense under operating leases for the years ended May 31 was as follows (in millions):

	2010	2009	2008
Minimum rentals	$ 2,001	$ 2,047	$ 1,990
Contingent rentals[1]	152	181	228
	$ 2,153	$ 2,228	$ 2,218

(1) Contingent rentals are based on equipment usage.

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A summary of future minimum lease payments under capital leases and noncancelable operating leases with an initial or remaining term in excess of one year at May 31, 2010 is as follows (in millions):

	Capital Leases	Operating Leases: Aircraft and Related Equipment	Operating Leases: Facilities and Other	Operating Leases: Total Operating Leases
2011	$ 20	$ 526	$ 1,250	$ 1,776
2012	8	504	1,085	1,589
2013	119	499	926	1,425
2014	2	473	786	1,259
2015	1	455	717	1,172
Thereafter	14	2,003	4,547	6,550
Total	164	$ 4,460	$ 9,311	$ 13,771
Less amount representing interest	23			
Present value of net minimum lease payments	$ 141			

The weighted-average remaining lease term of all operating leases outstanding at May 31, 2010 was approximately six years. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations. FedEx Express makes payments under certain leveraged operating leases that are sufficient to pay principal and interest on certain pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, FedEx or FedEx Express.

We are the lessee in a series of operating leases covering a portion of our leased aircraft. The lessors are trusts established specifically to purchase, finance and lease aircraft to us. These leasing entities meet the criteria for variable interest entities. We are not the primary beneficiary of the leasing entities, as the lease terms are consistent with market terms at the inception of the lease and do not include a residual value guarantee, fixed-price purchase option or similar feature that obligates us to absorb decreases in value or entitles us to participate in increases in the value of the aircraft. As such, we are not required to consolidate the entity as the primary beneficiary. Our maximum exposure under these leases is included in the summary of future minimum lease payments shown above.

NOTE 7: PREFERRED STOCK

Our Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of preferred stock. The stock is issuable in series, which may vary as to certain rights and preferences, and has no par value. As of May 31, 2010, none of these shares had been issued.

NOTE 8: STOCK-BASED COMPENSATION

Our total stock-based compensation expense for the years ended May 31 was as follows (in millions):

	2010	2009	2008
Stock-based compensation expense	$ 101	$ 99	$ 101

We have two types of equity-based compensation: stock options and restricted stock.

STOCK OPTIONS. Under the provisions of our incentive stock plans, key employees and non-employee directors may be granted options to purchase shares of our common stock at a price not less than its fair market value on the date of grant. Options granted have a maximum term of 10 years. Vesting requirements are determined at the discretion of the Compensation Committee of our Board of Directors. Option-vesting periods range from one to four years, with 83% of our options vesting ratably over four years. Compensation expense associated with these awards is recognized on a straight-line basis over the requisite service period of the award.

RESTRICTED STOCK. Under the terms of our incentive stock plans, restricted shares of our common stock are awarded to key employees. All restrictions on the shares expire ratably over a four-year period. Shares are valued at the market price on the date of award. The terms of our restricted stock provide for continued vesting subsequent to the employee s retirement. Compensation expense associated with these awards is recognized on a straight-line basis over the shorter of the remaining service or vesting period.

VALUATION AND ASSUMPTIONS. We use the Black-Scholes option pricing model to calculate the fair value of stock options. The value of restricted stock awards is based on the stock price of the award on the grant date. We record stock-based compensation expense in the Salaries and employee benefits caption in the accompanying consolidated statements of income.

The key assumptions for the Black-Scholes valuation method include the expected life of the option, stock price volatility, a risk-free interest rate, and dividend yield. Many of these assumptions are judgmental and highly sensitive. Following is a table of the weighted-average Black-Scholes value of our stock option grants, the intrinsic value of options exercised (in millions), and the key weighted-average assumptions used in the valuation calculations for the options granted during the years ended May 31, and then a discussion of our methodology for developing each of the assumptions used in the valuation model:

	2010	2009	2008
Weighted-average Black-Scholes value	$ 20.47	$ 23.66	$ 29.88
Intrinsic value of options exercised	$ 77	$ 7	$ 126
Black-Scholes Assumptions:			
Expected lives	5.7 years	5.5 years	5 years
Expected volatility	32%	23%	19%
Risk-free interest rate	3.24%	3.28%	4.76%
Dividend yield	0.742%	0.492%	0.337%

Expected Lives. This is the period of time over which the options granted are expected to remain outstanding. Generally, options granted have a maximum term of 10 years. We examine actual stock option exercises to determine the expected life of the options. An increase in the expected term will increase compensation expense.

Expected Volatility. Actual changes in the market value of our stock are used to calculate the volatility assumption. We calculate daily market value changes from the date of grant over a past period equal to the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-Free Interest Rate. This is the U.S. Treasury Strip rate posted at the date of grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Dividend Yield. This is the annual rate of dividends per share over the exercise price of the option. An increase in the dividend yield will decrease compensation expense.

The following table summarizes information about stock option activity for the year ended May 31, 2010:

	Stock Options			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)[1]
Outstanding at June 1, 2009	17,643,089	$ 79.90		
Granted	5,017,361	60.53		
Exercised	(1,993,967)	47.08		
Forfeited	(428,427)	101.95		
Outstanding at May 31, 2010	20,238,056	$ 78.32	6.0 years	$ 259
Exercisable	12,379,940	$ 80.06	4.4 years	$ 143
Expected to vest	7,229,467	$ 75.58	8.5 years	$ 107
Available for future grants	7,302,029			

(1) Only presented for options with market value at May 31, 2010 in excess of the exercise price of the option.

The options granted during the year ended May 31, 2010 are primarily related to our principal annual stock option grant in June 2009.

The following table summarizes information about vested and unvested restricted stock for the year ended May 31, 2010:

	Restricted Stock	
	Shares	Weighted-Average Grant Date Fair Value
Unvested at June 1, 2009	442,741	$ 100.40
Granted	391,786	57.07
Vested	(193,095)	100.07
Forfeited	(4,136)	76.58
Unvested at May 31, 2010	637,296	$ 74.02

During the year ended May 31, 2009, there were 197,180 shares of restricted stock granted with a weighted-average fair value of $90.57. During the year ended May 31, 2008, there were 174,418 shares of restricted stock granted with a weighted-average fair value of $114.40.

The following table summarizes information about stock option vesting during the years ended May 31:

	Stock Options	
	Vested during the year	Fair value (in millions)
2008	2,694,602	$ 64
2009	2,414,815	64
2010	2,296,211	63

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As of May 31, 2010, there was $139 million of total unrecognized compensation cost, net of estimated forfeitures, related to unvested share-based compensation arrangements. This compensation expense is expected to be recognized on a straight-line basis over the remaining weighted-average vesting period of approximately three years.

Total shares outstanding or available for grant related to equity compensation at May 31, 2010 represented 8% of the total outstanding common and equity compensation shares and equity compensation shares available for grant.

NOTE 9: COMPUTATION OF EARNINGS PER SHARE

The calculation of basic and diluted earnings per common share for the years ended May 31 was as follows (in millions, except per share amounts):

	2010	2009	2008
Basic earnings per common share:			
Net earnings allocable to common shares	$ 1,182	$ 97	$ 1,123
Weighted-average common shares	312	311	309
Basic earnings per common share	$ 3.78	$ 0.31	$ 3.64
Diluted earnings per common share:			
Net earnings allocable to common shares	$ 1,182	$ 97	$ 1,123
Weighted-average common shares	312	311	309
Dilutive effect of share-based awards	2	1	3
Weighted-average diluted shares	314	312	312
Diluted earnings per common share	$ 3.76	$ 0.31	$ 3.60
Anti-dilutive options excluded from diluted earnings per common share	11.5	12.6	4.8

NOTE 10: INCOME TAXES

The components of the provision for income taxes for the years ended May 31 were as follows (in millions):

	2010	2009	2008
Current provision (benefit)			
Domestic:			
Federal	$ 36	$ (35)	$ 514
State and local	54	18	74
Foreign	207	214	242
	297	197	830
Deferred provision (benefit)			
Domestic:			
Federal	408	327	31
State and local	15	48	(2)
Foreign	(10)	7	32
	413	382	61

	$	710	$	579	$	891

Pretax earnings of foreign operations for 2010, 2009 and 2008 were $555 million, $106 million and $803 million, respectively, which represents only a portion of total results associated with international shipments.

A reconciliation of the statutory federal income tax rate to the effective income tax rate for the years ended May 31 was as follows:

	2010	2009	2008
Statutory U.S. income tax rate	35.0%	35.0%	35.0%
Increase resulting from:			
Goodwill impairment		48.0	6.8
State and local income taxes, net of federal benefit	2.4	1.9	2.1
Other, net	0.1	0.7	0.3
Effective tax rate	37.5%	85.6%	44.2%

Our 2009 and 2008 effective tax rates were significantly impacted by goodwill impairment charges related to the FedEx Office acquisition, which are not deductible for income tax purposes.
The significant components of deferred tax assets and liabilities as of May 31 were as follows (in millions):

	2010		2009	
	Deferred Tax Assets	Deferred Tax Liabilities	Deferred Tax Assets	Deferred Tax Liabilities
Property, equipment, leases and intangibles	$ 377	$ 2,157	$ 406	$ 1,862
Employee benefits	783	36	384	143
Self-insurance accruals	416		392	
Other	490	238	491	222
Net operating loss/credit carryforwards	142		131	
Valuation allowances	(139)		(137)	
	$ 2,069	$ 2,431	$ 1,667	$ 2,227

The net deferred tax liabilities as of May 31 have been classified in the balance sheets as follows (in millions):

	2010	2009
Current deferred tax asset	$ 529	$ 511
Noncurrent deferred tax liability	(891)	(1,071)
	$ (362)	$ (560)

We have $394 million of net operating loss carryovers in various foreign jurisdictions and $489 million of state operating loss carryovers. The valuation allowances primarily represent amounts reserved for operating loss and tax credit carryforwards, which expire over varying periods starting in 2011. As a result of this and other factors, we believe that a substantial portion of these deferred tax assets may not be realized.
Unremitted earnings of our foreign subsidiaries amounted to $325 million in 2010 and $191 million in 2009. We have not recognized deferred taxes for U.S. federal income tax purposes on the unremitted earnings of our foreign subsidiaries that are permanently reinvested. Upon distribution, in the form of dividends or otherwise, these unremitted earnings would be subject to U.S. federal income tax. Unrecognized foreign tax credits would be available to reduce a portion of the U.S. tax liability. Determination of the amount of unrecognized deferred U.S. income tax liability is not practicable.

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Our liabilities recorded for uncertain tax positions totaled $82 million at May 31, 2010 and $72 million at May 31, 2009, including $67 million at May 31, 2010 and $59 million at May 31, 2009 associated with positions that if favorably resolved would provide a benefit to our effective tax rate. We classify interest related to income tax liabilities as interest expense, and if applicable, penalties are recognized as a component of income tax expense. The balance of accrued interest and penalties was $20 million on May 31, 2010 and $19 million on May 31, 2009. Total interest and penalties included in our consolidated statements of income is immaterial.

We file income tax returns in the U.S., various U.S. state and local jurisdictions, and various foreign jurisdictions. During 2010, the Internal Revenue Service (IRS) commenced its audit of our consolidated U.S. income tax returns for the 2007 through 2009 tax years. We are no longer subject to U.S. federal income tax examination for years through 2006 except for specific U.S. federal income tax positions that are in various stages of appeal and/or litigation. No resolution date can be reasonably estimated at this time for these appeals and litigation, but their resolution is not expected to have a material effect on our consolidated financial statements. We are also subject to ongoing audits in state, local and foreign tax jurisdictions throughout the world.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in millions):

	2010	2009	2008
Balance at beginning of year	$ 72	$ 88	$ 72
Increases for tax positions taken in the current year	3	7	16
Increases for tax positions taken in prior years	14	10	12
Decreases for tax positions taken in prior years	(4)	(30)	(9)
Settlements	(3)	(3)	(3)
Balance at end of year	$ 82	$ 72	$ 88

Included in the May 31, 2010 and May 31, 2009 balances are $9 million and $7 million, respectively, of tax positions for which the ultimate deductibility or income inclusion is certain but for which there may be uncertainty about the timing of such deductibility or income inclusion. It is difficult to predict the ultimate outcome or the timing of resolution for tax positions. Changes may result from the conclusion of ongoing audits, appeals or litigation in state, local, federal and foreign tax jurisdictions, or from the resolution of various proceedings between the U.S. and foreign tax authorities. Our liability for uncertain tax positions includes no matters that are individually material to us. It is reasonably possible that the amount of the benefit with respect to certain of our unrecognized tax positions will increase or decrease within the next 12 months, but an estimate of the range of the reasonably possible changes cannot be made. However, we do not expect that the resolution of any of our uncertain tax positions will be material.

NOTE 11: RETIREMENT PLANS

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. The accounting for pension and postretirement healthcare plans includes numerous assumptions, such as: discount rates; expected long-term investment returns on plan assets; future salary increases; employee turnover; mortality; and retirement ages. These assumptions most significantly impact our U.S. domestic pension plans.

We made significant changes to our retirement plans during 2008 and 2009. Beginning January 1, 2008, we increased the annual company-matching contribution under the largest of our 401(k) plans covering most employees from a maximum of $500 to a maximum of 3.5% of eligible compensation. Employees not participating in the 401(k) plan as of January 1, 2008 were automatically enrolled at 3% of eligible pay with a company match of 2% of eligible pay effective March 1, 2008. As a temporary cost-control measure, we suspended 401(k) company-matching contributions effective February 1, 2009. We reinstated these contributions at 50% of previous levels for most employees effective January 1, 2010.

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Effective May 31, 2008, benefits previously accrued under our primary pension plans using a traditional pension benefit formula (based on average earnings and years of service) were capped for most employees, and those benefits will be payable beginning at retirement. Effective June 1, 2008, future pension benefits for most employees began to be accrued under a cash balance formula we call the Portable Pension Account. These changes did not affect the benefits of previously retired and terminated vested participants. In addition, these pension plans were modified to accelerate vesting from five years to three years for most participants.

Under the Portable Pension Account, the retirement benefit is expressed as a dollar amount in a notional account that grows with annual credits based on pay, age and years of credited service, and interest on the notional account balance. Under the tax-qualified plans, the pension benefit is payable as a lump sum or an annuity at retirement at the election of the employee. An employee s pay credits are determined each year under a graded formula that combines age with years of service for points. The plan interest credit rate varies from year to year based on a U.S. Treasury index.

The accounting guidance related to postretirement benefits requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement benefit plans, and the recognition in accumulated other comprehensive income (AOCI) of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan s assets and the projected benefit obligation (PBO) of the plan. At May 31, 2010, under the provisions of this guidance, we recorded a decrease to equity of $1 billion (net of tax) to reflect unrealized actuarial losses during 2010. At May 31, 2009, we recorded a decrease to equity of $1.2 billion (net of tax) attributable to our plans.

Additionally, the accounting guidance requires the measurement date for plan assets and liabilities to coincide with the plan sponsor s year end. On June 1, 2008, we made our transition election for the measurement date provision using the two-measurement approach. Under this approach, we completed two actuarial measurements, one at February 29, 2008 and the other at June 1, 2008. This approach required us to record the net periodic benefit cost for the transition period from March 1, 2008 through May 31, 2008 as an adjustment to beginning retained earnings ($44 million, net of tax) and actuarial gains and losses for the period (a gain of $369 million, net of tax) as an adjustment to the opening balance of AOCI.

A summary of our retirement plans costs over the past three years is as follows (in millions):

	2010	2009	2008
U.S. domestic and international pension plans	$ 308	$ 177	$ 323
U.S. domestic and international defined contribution plans	136	237	216
Postretirement healthcare plans	42	57	77
	$ 486	$ 471	$ 616

PENSION PLANS. Our largest pension plan covers certain U.S. employees age 21 and over, with at least one year of service. We also sponsor or participate in nonqualified benefit plans covering certain of our U.S. employee groups and other pension plans covering certain of our international employees. The international defined benefit pension plans provide benefits primarily based on final earnings and years of service and are funded in compliance with local laws and practices.

POSTRETIREMENT HEALTHCARE PLANS. Certain of our subsidiaries offer medical, dental and vision coverage to eligible U.S. retirees and their eligible dependents. U.S. employees covered by the principal plan become eligible for these benefits at age 55 and older, if they have permanent, continuous service of at least 10 years after attainment of age 45 if hired prior to January 1, 1988, or at least 20 years after attainment of age 35 if hired on or after January 1, 1988. Postretirement healthcare benefits are capped at 150% of the 1993 per capita projected employer cost, which has been reached and, therefore, these benefits are not subject to additional future inflation.

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PENSION PLAN ASSUMPTIONS. Our pension cost is materially affected by the discount rate used to measure pension obligations, the level of plan assets available to fund those obligations and the expected long-term rate of return on plan assets.

Beginning in 2009, we use a measurement date of May 31 for our pension and postretirement healthcare plans. Prior to 2009, our measurement date was February 28 (February 29 in 2008). Management reviews the assumptions used to measure pension costs on an annual basis. Economic and market conditions at the measurement date impact these assumptions from year to year and it is reasonably possible that material changes in pension cost may be experienced in the future. Additional information about our pension plans can be found in the Critical Accounting Estimates section of Management s Discussion and Analysis in this Annual Report.

Actuarial gains or losses are generated for changes in assumptions and to the extent that actual results differ from those assumed. These actuarial gains and losses are amortized over the remaining average service lives of our active employees if they exceed a corridor amount in the aggregate.

The investment strategy for pension plan assets is to utilize a diversified mix of global public and private equity portfolios, together with public and private fixed-income portfolios, to earn a long-term investment return that meets our pension plan obligations. Our pension plan assets are invested primarily in listed securities, and our pension plans hold only a minimal investment in FedEx common stock that is entirely at the discretion of third-party pension fund investment managers. Our largest holding classes, Corporate Fixed Income Securities and U.S. Large Cap Equities, are indexed to an S&P 500 fund. Accordingly, we do not have any significant concentrations of risk. Active management strategies are utilized within the plan in an effort to realize investment returns in excess of market indices. As part of our strategy to manage future pension costs and net funded status volatility, we have transitioned to a liability-driven investment strategy with a greater concentration of fixed-income securities to better align plan assets with liabilities. Our investment strategy also includes the limited use of derivative financial instruments on a discretionary basis to improve investment returns and manage exposure to market risk. In all cases, our investment managers are prohibited from using derivatives for speculative purposes and are not permitted to use derivatives to leverage a portfolio.

The estimated average rate of return on plan assets is a long-term, forward-looking assumption that materially affects our pension cost. It is required to be the expected future long-term rate of earnings on plan assets. Establishing the expected future rate of investment return on our pension assets is a judgmental matter. Management considers the following factors in determining this assumption:

- the duration of our pension plan liabilities, which drives the investment strategy we can employ with our pension plan assets;
- the types of investment classes in which we invest our pension plan assets and the expected compound geometric return we can reasonably expect those investment classes to earn over time; and
- the investment returns we can reasonably expect our investment management program to achieve in excess of the returns we could expect if investments were made strictly in indexed funds.

We review the expected long-term rate of return on an annual basis and revise it as appropriate.

To support our conclusions, we periodically commission asset/liability studies performed by third-party professional investment advisors and actuaries to assist us in our reviews. These studies project our estimated future pension payments and evaluate the efficiency of the allocation of our pension plan assets into various investment categories. These studies also generate probability-adjusted expected future returns on those assets. The studies performed or updated supported the reasonableness of our expected rate of return of 8.0% for 2010 and 8.5% for 2009 and 2008. Our estimated long-term rate of return on plan assets remains at 8.0% for 2011. For the 15-year period ended May 31, 2010, our actual returns were 7.9%.

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Pension expense is also affected by the accounting policy used to determine the value of plan assets at the measurement date. We use a calculated-value method to determine the value of plan assets, which helps mitigate short-term volatility in market performance (both increases and decreases) by amortizing certain actuarial gains or losses over a period no longer than four years. Another method used in practice applies the market value of plan assets at the measurement date. The calculated-value method significantly mitigated the impact of asset value declines in the determination of our 2010 pension expense, reducing our 2010 expense by approximately $135 million. For purposes of valuing plan assets for determining 2011 pension expense, the calculated-value method will result in the same value as the market value, as it did in 2009.

Following is a description of the valuation methodologies used for investments measured at fair value:

Cash and cash equivalents. These investments include cash equivalents valued using exchange rates provided by an industry pricing vendor and commingled funds valued using the net asset value. These investments also include cash.

Domestic and international equities. These investments are valued at the closing price or last trade reported on the major market on which the individual securities are traded. In addition, commingled funds are valued using the net asset value.

Private equity. The valuation of these investments requires significant judgment due to the absence of quoted market prices, the inherent lack of liquidity and the long-term nature of such assets. Investments are valued based upon recommendations of our investment managers incorporating factors such as contributions and distributions, market transactions, market comparables and performance multiples.

Fixed income. The fair values of Corporate, U.S. government securities and other fixed income securities are estimated by using bid evaluation pricing models or quoted prices of securities with similar characteristics.

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The fair values of investments by level and asset category and the weighted-average asset allocations for our domestic pension plans at the measurement date are presented in the following table (in millions):

	Plan Assets at Measurement Date					
	2010					
Asset Class	Fair Value	Actual %	Target %	Quoted Prices in Active Markets Level 1	Other Observable Inputs Level 2	Unobservable Inputs Level 3
Cash and cash equivalents	$ 427	3%	1%	$ 145	$ 282	
Domestic equities						
U.S. large cap equity	3,374	26	24		3,374	
U.S. SMID cap equity	1,195	9	9	1,195		
International equities	1,502	12	12	1,262	240	
Private equities	399	3	5			$ 399
Fixed income securities			49			
Corporate	3,546	27			3,546	
U.S. government	2,537	19			2,537	
Mortgage backed and other	122	1			122	
Other	(47)			(46)	(1)	
	$ 13,055	100%	100%	$ 2,556	$ 10,100	$ 399

	2009		
Asset Class	Fair Value	Actual %	Target %
Cash and cash equivalents	$ 1,022	10%	1%
Domestic equities			
U.S. large cap equity	2,908	27	24
U.S. SMID cap equity	794	8	9
U.S. small cap equity	327	3	
International equities	1,668	16	12
Private equities	341	3	5
Fixed income securities			49
Corporate	1,946	18	
U.S. government	842	8	
Mortgage backed and other	668	6	
Other	90	1	
	$ 10,606	100%	100%

The change in fair value of Level 3 assets that use significant unobservable inputs is shown in the table below (in millions):

Beginning balance May 31, 2009	$	341
Actual return on plan assets:		
Assets held at May 31, 2010		38
Assets sold during the year		24
Purchases, sales and settlements		(4)
Ending balance May 31, 2010	$	399

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The following table provides a reconciliation of the changes in the pension and postretirement healthcare plans benefit obligations and fair value of assets over the two-year period ended May 31, 2010 and a statement of the funded status as of May 31, 2010 and 2009 (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2010	2009	2010	2009
Accumulated Benefit Obligation (ABO)	$ 14,041	$ 10,745		
Changes in Projected Benefit Obligation (PBO) and Accumulated Postretirement Benefit Obligation (APBO)				
PBO/APBO at the beginning of year	$ 11,050	$ 11,617	$ 433	$ 492
Adjustments due to change in measurement date				
Service cost plus interest cost during gap period		309		16
Additional experience during gap period		(302)		(19)
Changes due to gap period cash flow		(83)		(5)
Service cost	417	499	24	31
Interest cost	823	798	30	33
Actuarial loss (gain)	2,607	(1,420)	102	(94)
Benefits paid	(391)	(351)	(45)	(42)
Other	(22)	(17)	21	21
PBO/APBO at the end of year	$ 14,484	$ 11,050	$ 565	$ 433
Change in Plan Assets				
Fair value of plan assets at the beginning of year	$ 10,812	$ 11,879	$	$
Adjustments due to change in measurement date				
Additional experience during gap period		522		
Changes due to gap period cash flow		(76)		
Actual return on plan assets	1,994	(2,306)		
Company contributions	900	1,146	24	21
Benefits paid	(391)	(351)	(45)	(42)
Other	(20)	(2)	21	21
Fair value of plan assets at the end of year	$ 13,295	$ 10,812	$	$
Funded Status of the Plans	$ (1,189)	$ (238)	$ (565)	$ (433)
Amount Recognized in the Balance Sheet at May 31:				
Noncurrent pension assets	$	$ 311	$	$

Current pension, postretirement healthcare and other benefit obligations		(30)		(31)		(28)		(26)
Noncurrent pension, postretirement healthcare and other benefit obligations		(1,159)		(518)		(537)		(407)
Net amount recognized	$	(1,189)	$	(238)	$	(565)	$	(433)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost:								
Net actuarial loss (gain)	$	5,157	$	3,731	$	(134)	$	(248)
Prior service (credit) cost and other		(1,106)		(1,220)		2		2
Total	$	4,051	$	2,511	$	(132)	$	(246)
Amounts Recognized in AOCI and not yet reflected in Net Periodic Benefit Cost expected to be amortized in next year s Net Periodic Benefit Cost:								
Net actuarial loss (gain)	$	284	$	130	$	(5)	$	(12)
Prior service (credit) cost and other		(113)		(113)				
Total	$	171	$	17	$	(5)	$	(12)

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Our pension plans included the following components at May 31, 2010 and 2009 (in millions):

	ABO	PBO	Fair Value of Plan Assets	Funded Status
2010				
Qualified	$ 13,311	$ 13,635	$ 13,055	$ (580)
Nonqualified	346	348		(348)
International Plans	384	501	240	(261)
Total	$ 14,041	$ 14,484	$ 13,295	$ (1,189)
2009				
Qualified	$ 10,113	$ 10,328	$ 10,606	$ 278
Nonqualified	317	318		(318)
International Plans	315	404	206	(198)
Total	$ 10,745	$ 11,050	$ 10,812	$ (238)

The table above provides the ABO, PBO, fair value of plan assets and funded status of our plans on an aggregated basis. The following table presents our plans on a disaggregated basis to show those plans (as a group) whose assets did not exceed their liabilities. The increase in plans included in the table in 2010 was driven by the decrease in our discount rate at our May 31, 2010 measurement date, which increased the number of plans whose assets did not exceed their liability, including our U.S. domestic pension plans (U.S. Retirement Plans). At May 31, 2010 and 2009, the fair value of plan assets for pension plans with a PBO or ABO in excess of plan assets were as follows (in millions):

	PBO Exceeds the Fair Value of Plan Assets	
	2010	2009
Pension Benefits		
Fair value of plan assets	$ 13,295	$ 375
PBO	(14,484)	(923)
Net funded status	$ (1,189)	$ (548)

	ABO Exceeds the Fair Value of Plan Assets	
	2010	2009
Pension Benefits		
ABO[(1)]	$ (14,014)	$ (778)
Fair value of plan assets	$ 13,263	$ 325
PBO	(14,441)	(869)

Net funded status	$	(1,178)	$	(544)

(1) ABO not used in determination of funded status.

The APBO exceeds plan assets for each of our postretirement healthcare plans.

We made $848 million in tax-deductible contributions, including $495 million in voluntary contributions, to our U.S. Retirement Plans during 2010. During 2009, we made $1.1 billion in tax-deductible voluntary contributions to our U.S. Retirement Plans. Our U.S. Retirement Plans have ample funds to meet expected benefits. For 2011, we anticipate making required contributions to our U.S. Retirement Plans totaling approximately $500 million, a reduction from 2010 due to the use of a portion of our credit balance.

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Net periodic benefit cost for the three years ended May 31 were as follows (in millions):

	Pension Plans			Postretirement Healthcare Plans		
	2010	2009	2008	2010	2009	2008
Service cost	$ 417	$ 499	$ 518	$ 24	$ 31	$ 35
Interest cost	823	798	720	30	33	31
Expected return on plan assets	(955)	(1,059)	(985)			
Recognized actuarial losses (gains) and other	23	(61)	70	(12)	(7)	11
Net periodic benefit cost	$ 308	$ 177	$ 323	$ 42	$ 57	$ 77

The increase in pension costs from 2009 to 2010 was due to the negative impact of market conditions on our pension plan assets at our May 31, 2009 measurement date. The reduction in pension costs from 2008 to 2009 was attributable to the significantly higher discount rate that was used to determine our 2009 expense.

Amounts recognized in OCI for all plans were as follows (in millions):

	2010				2009			
	Pension Plans		Postretirement Healthcare Plans		Pension Plans		Postretirement Healthcare Plans	
	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount	Gross Amount	Net of Tax Amount
Net gain (loss) and other arising during period	$ 1,562	$ 986	$ 102	$ 59	$ 1,944	$ 1,220	$ (94)	$ (61)
Gain from settlements and curtailments					2	1		
Amortizations:								
Prior services credit	113	99			113	71		
Actuarial (losses) gains and other	(130)	(114)	12	12	(49)	(30)	7	4
Total recognized in OCI	$ 1,545	$ 971	$ 114	$ 71	$ 2,010	$ 1,262	$ (87)	$ (57)

Weighted-average actuarial assumptions for our primary U.S. pension plans, which represent substantially all of our PBO, are as follows:

	Pension Plans			Postretirement Healthcare Plans		
	2010	2009	2008	2010	2009	2008
	6.37%	7.68%	6.96%	6.11%	7.27%	6.81%

Discount rate used to determine benefit obligation(1)						
Discount rate used to determine net periodic benefit cost	7.68	7.15	6.01	7.27	7.13	6.08
Rate of increase in future compensation levels used to determine benefit obligation(2)	4.63	4.42	4.51			
Rate of increase in future compensation levels used to determine net periodic benefit cost(2)	4.42	4.49	4.47			
Expected long-term rate of return on assets	8.00	8.50	8.50			

(1) The assumed interest rate used to discount the estimated future benefit payments that have been accrued to date (the PBO) to their present value.

(2) Average future salary increases based on age and years of service.

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Benefit payments, which reflect expected future service, are expected to be paid as follows for the years ending May 31 (millions):

	Pension Plans	Postretirement Healthcare Plans
2011	$ 475	$ 28
2012	532	31
2013	596	32
2014	663	33
2015	732	35
2016-2020	4,988	209

These estimates are based on assumptions about future events. Actual benefit payments may vary significantly from these estimates.

Future medical benefit claims costs are estimated to increase at an annual rate of 8.5% during 2011, decreasing to an annual growth rate of 4.5% in 2029 and thereafter. Future dental benefit costs are estimated to increase at an annual rate of 7% during 2011, decreasing to an annual growth rate of 4.5% in 2029 and thereafter. A 1% change in these annual trend rates would not have a significant impact on the APBO at May 31, 2010 or 2010 benefit expense because the level of these benefits is capped.

NOTE 12: BUSINESS SEGMENT INFORMATION

FedEx Express, FedEx Ground and the FedEx Freight LTL Group represent our major service lines and, along with FedEx Services, form the core of our reportable segments. Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services) FedEx SupplyChain Systems (logistics services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator)
FedEx Freight Segment	FedEx Freight LTL Group: FedEx Freight (fast-transit LTL freight transportation) FedEx National LTL (economical LTL freight transportation) FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	FedEx Services (sales, marketing and information technology functions) FedEx Office (document and business services and package acceptance) FedEx Customer Information Services (FCIS) (customer service, billings and collections)

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to pursue synergies from the combination of these functions. The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support to our other companies; FCIS, which is responsible for customer service, billings and collections for U.S. customers of our major business units; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses. Effective September 1, 2009, FedEx SupplyChain Systems, formerly included in the FedEx Services reporting segment, was realigned to become part of the FedEx Express reporting segment. Prior year amounts have not been reclassified to conform to the current year segment presentation, as the financial results are materially comparable.

The FedEx Services segment provides direct and indirect support to our transportation businesses and accordingly we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office are allocated to FedEx Express and FedEx Ground. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of the total allocated net operating costs of the FedEx Services segment on our transportation segments. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. The $810 million 2009 impairment charge for the FedEx Office goodwill and the $891 million 2008 charge predominantly associated with impairment of the Kinko s trade name and goodwill were not allocated to the FedEx Express or FedEx Ground segments, as the charges were unrelated to the core performance of those businesses.

The operating expenses line item Intercompany charges on the accompanying unaudited financial summaries of our transportation segments in Management s Discussion and Analysis of Operations and Financial Condition (MD&A) reflects the allocations from the FedEx Services segment to the respective transportation segments. The Intercompany charges caption also includes charges and credits for administrative services provided between operating companies and certain other costs such as corporate management fees related to services received for general corporate oversight, including executive officers and certain legal and finance functions. We believe these allocations approximate the net cost of providing these functions.

Effective August 1, 2009, approximately 3,600 employees (predominantly from the FedEx Freight segment) were transferred to entities within the FedEx Services segment. This internal reorganization further centralizes most customer support functions, such as sales, customer service and information technology, into our shared services organizations. While the reorganization had no impact on the net operating results of any of our transportation segments, the net intercompany charges to our FedEx Freight segment increased significantly with corresponding decreases to other expense captions, such as salaries and employee benefits. The impact of this internal reorganization to the expense captions in our other segments was immaterial.

Other Intersegment Transactions

Certain FedEx operating companies provide transportation and related services for other FedEx companies outside their reportable segment. Billings for such services are based on negotiated rates, which we believe approximate fair value, and are reflected as revenues of the billing segment. These rates are adjusted from time to time based on market conditions. Such intersegment revenues and expenses are eliminated in the consolidated results and are not separately identified in the following segment information, as the amounts are not material.

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The following table provides a reconciliation of reportable segment revenues, depreciation and amortization, operating income (loss) and segment assets to consolidated financial statement totals for the years ended or as of May 31 (in millions):

	FedEx Express Segment[1]	FedEx Ground Segment	FedEx Freight Segment[2]	FedEx Services Segment[3]	Other and Eliminations	Consolidated Total
Revenues						
2010	$ 21,555	$ 7,439	$ 4,321	$ 1,770	$ (351)	$ 34,734
2009	22,364	7,047	4,415	1,977	(306)	35,497
2008	24,421	6,751	4,934	2,138	(291)	37,953
Depreciation and amortization						
2010	$ 1,016	$ 334	$ 198	$ 408	$ 2	$ 1,958
2009	961	337	224	451	2	1,975
2008	944	305	227	469	1	1,946
Operating income (loss)						
2010	$ 1,127	$ 1,024	$ (153)	$	$	$ 1,998
2009	794	807	(44)	(810)		747
2008	1,901	736	329	(891)		2,075
Segment assets[4]						
2010	$ 14,819	$ 4,118	$ 2,786	$ 4,079	$ (900)	$ 24,902
2009	13,483	3,291	3,044	3,240	1,186	24,244
2008	13,416	2,770	3,276	4,651	1,520	25,633

(1) FedEx Express segment 2009 operating expenses include a charge of $260 million primarily related to aircraft-related asset impairments.

(2) FedEx Freight segment 2009 operating expenses include a charge of $100 million primarily related to impairment of goodwill related to the Watkins Motor

Lines (now known as FedEx National LTL) acquisition.

(3) FedEx Services segment 2009 operating expenses include a charge of $810 million related to impairment of goodwill related to the Kinko s (now known as FedEx Office) acquisition. FedEx Services segment 2008 operating expenses include a charge of $891 million predominantly related to impairment of intangible assets from the Kinko s acquisition. The normal, ongoing net operating costs of the FedEx Services segment are allocated back to the transportation segments.

(4) Segment assets include intercompany receivables.

The following table provides a reconciliation of reportable segment capital expenditures to consolidated totals for the years ended May 31 (in millions):

	FedEx Express Segment	FedEx Ground Segment	FedEx Freight Segment	FedEx Services Segment	Other	Consolidated Total

2010	$ 1,864	$ 400	$ 212	$ 340	$	$ 2,816
2009	1,348	636	240	235		2,459
2008	1,716	509	266	455	1	2,947

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The following table presents revenue by service type and geographic information for the years ended or as of May 31 (in millions):

	2010	2009	2008
REVENUE BY SERVICE TYPE			
FedEx Express segment:			
Package:			
U.S. overnight box	$ 5,602	$ 6,074	$ 6,578
U.S. overnight envelope	1,640	1,855	2,012
U.S. deferred	2,589	2,789	2,995
Total domestic package revenue	9,831	10,718	11,585
International Priority (IP)	7,087	6,978	7,666
International domestic[1]	578	565	663
Total package revenue	17,496	18,261	19,914
Freight:			
U.S.	1,980	2,165	2,398
International priority freight	1,303	1,104	1,243
International airfreight	251	369	406
Total freight revenue	3,534	3,638	4,047
Other[2]	525	465	460
Total FedEx Express segment	21,555	22,364	24,421
FedEx Ground segment	7,439	7,047	6,751
FedEx Freight segment	4,321	4,415	4,934
FedEx Services segment	1,770	1,977	2,138
Other and eliminations	(351)	(306)	(291)
	$ 34,734	$ 35,497	$ 37,953
GEOGRAPHICAL INFORMATION[3]			
Revenues:			
U.S.	$ 24,852	$ 25,819	$ 27,306
International:			
FedEx Express segment	9,547	9,363	10,298
FedEx Ground segment	140	124	129
FedEx Freight segment	60	39	36
FedEx Services segment	135	152	184
Total international revenue	9,882	9,678	10,647

	$ 34,734	$ 35,497	$ 37,953
Noncurrent assets:			
U.S.	$ 13,343	$ 13,560	$ 14,920
International	4,275	3,568	3,469
	$ 17,618	$ 17,128	$ 18,389

(1) International domestic revenues include our international domestic express operations, primarily in the United Kingdom, Canada, China, India and Mexico. We reclassified the prior period international domestic revenues previously included within other revenues to conform to the current period presentation.

(2) Other revenues includes FedEx Trade Networks and, beginning in the second quarter of 2010, FedEx SupplyChain Systems.

(3) International revenue

includes shipments that either originate in or are destined to locations outside the United States. Noncurrent assets include property and equipment, goodwill and other long-term assets. Flight equipment is allocated between geographic areas based on usage.

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NOTE 13: SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest expense and income taxes for the years ended May 31 was as follows (in millions):

	2010	2009	2008
Cash payments for:			
Interest (net of capitalized interest)	$ 88	$ 61	$ 105
Income taxes	$ 322	$ 517	$ 821
Income tax refunds received	(279)	(8)	(5)
Cash tax payments, net	$ 43	$ 509	$ 816

NOTE 14: GUARANTEES AND INDEMNIFICATIONS

In conjunction with certain transactions, primarily the lease, sale or purchase of operating assets or services in the ordinary course of business, we may provide routine guarantees or indemnifications (e.g., environmental, fuel, tax and software infringement), the terms of which range in duration, and often they are not limited and have no specified maximum obligation. As a result, the overall maximum potential amount of the obligation under such guarantees and indemnifications cannot be reasonably estimated. Historically, we have not been required to make significant payments under our guarantee or indemnification obligations and no amounts have been recognized in our financial statements for the underlying fair value of these obligations.

Special facility revenue bonds have been issued by certain municipalities primarily to finance the acquisition and construction of various airport facilities and equipment. These facilities were leased to us and are accounted for as either capital leases or operating leases. FedEx Express has unconditionally guaranteed $667 million in principal of these bonds (with total future principal and interest payments of approximately $919 million as of May 31, 2010) through these leases. Of the $667 million bond principal guaranteed, $116 million was included in capital lease obligations in our balance sheet at May 31, 2010. The remaining $551 million has been accounted for as operating leases.

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NOTE 15: COMMITMENTS

Annual purchase commitments under various contracts as of May 31, 2010 were as follows (in millions):

	Aircraft[1]	Aircraft-Related[2]	Other[3]	Total
2011	$ 824	$ 104	$ 771	$ 1,699
2012	839	10	166	1,015
2013	622	19	66	707
2014	480		14	494
2015	493		12	505
Thereafter	1,431		113	1,544

(1) Our obligation to purchase 15 of these aircraft (Boeing 777 Freighters, or B777Fs) is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. Also, subsequent to May 31, 2010, we entered into an agreement replacing the previously disclosed non-binding letter of intent with another party to acquire two additional B777Fs and expect to take delivery of these aircraft in 2011. These aircraft are not included in the table

above.

(2) Primarily aircraft modifications.

(3) Primarily vehicles, facilities, advertising, promotions contracts and for 2011, a total of $500 million of required quarterly contributions to our U.S. domestic pension plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

We had $437 million in deposits and progress payments as of May 31, 2010 (a decrease of $107 million from May 31, 2009) on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the Other assets caption of our consolidated balance sheets. In addition to our commitment to purchase B777Fs, our aircraft purchase commitments include the Boeing 757 (B757) in passenger configuration, which will require additional costs to modify for cargo transport. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the number and type of aircraft we are committed to purchase as of May 31, 2010, with the year of expected delivery:

	B757	B777F(1)	ATR 72	Total
2011	16	4	8	28
2012	8	5		13
2013		5		5
2014		3		3
2015		3		3
Thereafter		10		10
Total	24	30	8	62

(1) Our obligation to purchase 15 of these aircraft is conditioned upon there being no event

that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. Also, subsequent to May 31, 2010, we entered into an agreement replacing the previously disclosed non-binding letter of intent with another party to acquire two additional B777Fs and expect to take delivery of these aircraft in 2011. These aircraft are not included in the table above.

NOTE 16: CONTINGENCIES

Wage-and-Hour. We are a defendant in a number of lawsuits containing various class-action allegations of wage-and-hour violations. The plaintiffs in these lawsuits allege, among other things, that they were forced to work off the clock, were not paid overtime or were not provided work breaks or other benefits. The complaints generally seek unspecified monetary damages, injunctive relief, or both. The following describes the wage-and-hour matters that have been certified as class actions.

In February 2008, *Wiegele v. FedEx Ground* was certified as a class action by a California federal court, and in April 2008, the U.S. Court of Appeals for the Ninth Circuit denied our petition to review the class certification ruling. The certified class initially included FedEx Ground sort managers and dock service managers in California from May 10, 2002 to the present, but the court subsequently approved the dismissal of the sort managers, leaving only the dock service managers in the class. The plaintiffs allege that FedEx Ground has misclassified the managers as exempt from the overtime requirements of California wage-and-hour laws and is correspondingly liable for failing to pay them overtime compensation and provide them with rest and meal breaks. In April 2010, the court granted our motion to decertify the class, and thus the lawsuit continues as a non-class matter. Therefore, any potential loss in this matter is immaterial.

In September 2008, in *Tidd v. Adecco USA, Kelly Services and FedEx Ground*, a Massachusetts federal court conditionally certified a class limited to individuals who were employed by two temporary employment agencies and who worked as temporary pick-up-and-delivery drivers for FedEx Ground in the New England region within the past three years. Potential claimants must voluntarily opt in to the lawsuit in order to be considered part of the class. In addition, in the same opinion, the court granted summary judgment in favor of FedEx Ground with respect to the plaintiffs claims for unpaid overtime wages. The court has since granted judgment in favor of the other two defendants with respect to the overtime claims. Accordingly, the conditionally certified class of plaintiffs is now limited to a claim of failure to pay regular wages due under the federal Fair Labor Standards Act.

In April 2009, in *Bibo v. FedEx Express*, a California federal court granted class certification, certifying several subclasses of FedEx Express couriers in California from April 14, 2006 (the date of the settlement of the *Foster* class action) to the present. The plaintiffs allege that FedEx Express violated California wage-and-hour laws after the date of the *Foster* settlement. In particular, the plaintiffs allege, among other things, that they were forced to work off the clock and were not provided with required meal breaks or split-shift premiums. We asked the U.S. Court of Appeals for the Ninth Circuit to accept a discretionary appeal of the class certification order, but the court refused to accept it at this time.

In September 2009, in *Taylor v. FedEx Freight*, a California state court granted class certification, certifying a class of all current and former drivers employed by FedEx Freight in California who performed linehaul services since June 2003. The plaintiffs allege, among other things, that they were forced to work off the clock and were not provided with required rest or meal breaks. In May 2010, we filed a notice to remove this matter to federal court in California.

These class certification rulings do not address whether we will ultimately be held liable. We have denied any liability and intend to vigorously defend ourselves in these wage-and-hour lawsuits. Given the nature and status of these lawsuits, we cannot yet determine the amount or a reasonable range of potential loss, if any. However, we do not believe that any loss is probable in these lawsuits.

Independent Contractor Lawsuits and State Administrative Proceedings. FedEx Ground is involved in approximately 50 class-action lawsuits (including 29 that are certified as class actions), several individual lawsuits and approximately 40 state tax and other administrative proceedings that claim that the company s owner-operators should be treated as employees, rather than independent contractors.

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Most of the class-action lawsuits have been consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. With the exception of more recently filed cases that have been or will be transferred to the multidistrict litigation, discovery on class certification and classification issues is now complete. Thus far, the court has granted class certification in 28 cases and denied it in 14 cases. In June 2010, the court dismissed without prejudice the previously certified nationwide class claim under the Employee Retirement Income Security Act of 1974 based on the plaintiff s failure to exhaust administrative remedies; this claim had been asserted as part of a Kansas case, and the judge has not yet issued a summary judgment decision on the remaining state law claims in that case. Motions for summary judgment on the classification issue (*i.e.,* independent contractor vs. employee) are pending in all 28 of the pending multidistrict litigation cases that are certified as class actions.

In May 2010, in an Illinois case pending in the multidistrict litigation in which class certification was denied, the court granted the three named plaintiffs motion for summary judgment on their claim under the Illinois wage law, holding that the three plaintiffs were employees under that law. The court has not yet ruled on the plaintiffs motion for summary judgment on any of the remaining claims in that case. The classification issue is state-law specific and varies from state to state and from law to law within each state. Accordingly, the court s ruling in the Illinois case is not binding authority for any of the remaining claims in that case or for any of the other cases pending in the multidistrict litigation.

In January 2008, one of the contractor-model lawsuits that is not part of the multidistrict litigation, *Anfinson v. FedEx Ground*, was certified as a class action by a Washington state court. The plaintiffs in *Anfinson* represent a class of FedEx Ground single-route, pickup-and-delivery owner-operators in Washington from December 21, 2001 through December 31, 2005 and allege that the class members should be reimbursed as employees for their uniform expenses and should receive overtime pay. In March 2009, a jury trial in the *Anfinson* case was held, and the jury returned a verdict in favor of FedEx Ground, finding that all 320 class members were independent contractors, not employees. The plaintiffs have appealed the verdict. The other contractor-model purported class actions that are not part of the multidistrict litigation are not as far along procedurally as *Anfinson* and many of the lawsuits are currently stayed pending further developments in the multidistrict litigation.

Adverse determinations in these matters could, among other things, entitle certain of our contractors and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground s owner-operators. We believe that FedEx Ground s owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company s independent contractors. Given the nature and status of these lawsuits, we cannot yet determine the amount or a reasonable range of potential loss, if any, but it is reasonably possible that such potential loss or such changes to the independent contractor status of FedEx Ground s owner-operators could be material. However, we do not believe that a material loss is probable in any of these matters.

ATA Airlines. ATA Airlines has sued FedEx Express in Indiana federal court alleging, among other things, that we breached a contract by not including ATA on our 2009 Civil Reserve Air Fleet (CRAF)/Air Mobility Command (AMC) team, which provides cargo and passenger service to the U.S. military. After being advised that it would not be a part of the 2009 team, ATA ceased operations and filed for bankruptcy. ATA has alleged damages of $94 million, including lost profits and aircraft acquisition costs. We have denied any liability and contend that ATA has suffered no damages. In April 2010, the court granted our motion for partial judgment on the pleadings and dismissed all of ATA s claims except for the breach of contract claim. In June 2010, the court denied our motion for summary judgment on the breach of contract claim, so that claim is still pending. Trial is currently scheduled for August 2010, and we still do not believe that any material loss is probable.

Other. FedEx and its subsidiaries are subject to other legal proceedings that arise in the ordinary course of their business. In the opinion of management, the aggregate liability, if any, with respect to these other actions will not have a material adverse effect on our financial position, results of operations or cash flows.

Additional information about our contingencies can be found in the Critical Accounting Estimates section of Management s Discussion and Analysis.

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NOTE 17: RELATED PARTY TRANSACTIONS

Our Chairman, President and Chief Executive Officer, Frederick W. Smith, currently holds an approximate 10% ownership interest in the National Football League Washington Redskins professional football team (Redskins) and is a member of its board of directors. FedEx has a multi-year naming rights agreement with the Redskins granting us certain marketing rights, including the right to name the Redskins stadium FedExField.

NOTE 18: SUMMARY OF QUARTERLY OPERATING RESULTS (UNAUDITED)

(in millions, except per share amounts)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010				
Revenues	$ 8,009	$ 8,596	$ 8,701	$ 9,428
Operating income	315	571	416	696
Net income	181	345	239	419
Basic earnings per common share	0.58	1.10	0.76	1.34
Diluted earnings per common share(2)	0.58	1.10	0.76	1.33
2009 (1)				
Revenues	$ 9,970	$ 9,538	$ 8,137	$ 7,852
Operating income (loss)	630	784	182	(849)
Net income (loss)	384	493	97	(876)
Basic earnings (loss) per common share	1.23	1.59	0.31	(2.82)
Diluted earnings (loss) per common share(2)	1.23	1.58	0.31	(2.82)

(1) Operating expenses for the fourth quarter of 2009 include charges of $1.2 billion ($1.1 billion, net of tax, or $3.46 per diluted share) primarily related to noncash impairment charges associated with goodwill and aircraft-related asset impairments.

(2) The sum of the quarterly diluted earnings per share may not equal annual amounts due to differences in the weighted-average

number of shares
outstanding
during the
respective period.

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NOTE 19: CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

We are required to present condensed consolidating financial information in order for the subsidiary guarantors (other than FedEx Express) of our public debt to continue to be exempt from reporting under the Securities Exchange Act of 1934.

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $1.2 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the Guarantor and Non-Guarantor columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

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Condensed consolidating financial statements for our guarantor subsidiaries and non-guarantor subsidiaries are presented in the following tables (in millions):

CONDENSED CONSOLIDATING BALANCE SHEETS
May 31, 2010

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,310	$ 258	$ 443	$ (59)	$ 1,952
Receivables, less allowances	1	3,425	782	(45)	4,163
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	5	581	54		640
Deferred income taxes		492	37		529
Total current assets	1,316	4,756	1,316	(104)	7,284
PROPERTY AND EQUIPMENT, AT COST	23	29,193	2,086		31,302
Less accumulated depreciation and amortization	18	15,801	1,098		16,917
Net property and equipment	5	13,392	988		14,385
INTERCOMPANY RECEIVABLE			1,132	(1,132)	
GOODWILL		1,551	649		2,200
INVESTMENT IN SUBSIDIARIES	13,850	2,619		(16,469)	
OTHER ASSETS	1,527	801	99	(1,394)	1,033
	$ 16,698	$ 23,119	$ 4,184	$ (19,099)	$ 24,902
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$ 250	$ 12	$	$	$ 262
Accrued salaries and employee benefits	36	955	155		1,146
Accounts payable	8	1,196	422	(104)	1,522
Accrued expenses	47	1,488	180		1,715
Total current liabilities	341	3,651	757	(104)	4,645
	1,000	668			1,668

LONG-TERM DEBT, LESS CURRENT PORTION					
INTERCOMPANY PAYABLE	702	430		(1,132)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		2,253	32	(1,394)	891
Other liabilities	844	2,921	122		3,887
Total other long-term liabilities	844	5,174	154	(1,394)	4,778
STOCKHOLDERS INVESTMENT	13,811	13,196	3,273	(16,469)	13,811
	$ 16,698	$ 23,119	$ 4,184	$ (19,099)	$ 24,902

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CONDENSED CONSOLIDATING BALANCE SHEETS
May 31, 2009

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 1,768	$ 272	$ 304	$ (52)	$ 2,292
Receivables, less allowances	1	2,717	712	(39)	3,391
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	1	838	83		922
Deferred income taxes		486	25		511
Total current assets	1,770	4,313	1,124	(91)	7,116
PROPERTY AND EQUIPMENT, AT COST	23	26,984	2,253		29,260
Less accumulated depreciation and amortization	17	14,659	1,167		15,843
Net property and equipment	6	12,325	1,086		13,417
INTERCOMPANY RECEIVABLE	758		379	(1,137)	
GOODWILL		1,485	744		2,229
INVESTMENT IN SUBSIDIARIES	11,973	2,129		(14,102)	
PENSION ASSETS	311				311
OTHER ASSETS	911	994	121	(855)	1,171
	$ 15,729	$ 21,246	$ 3,454	$ (16,185)	$ 24,244
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$ 500	$ 153	$	$	$ 653
Accrued salaries and employee benefits	26	711	124		861
Accounts payable	5	1,078	380	(91)	1,372
Accrued expenses	51	1,426	161		1,638
Total current liabilities	582	3,368	665	(91)	4,524
LONG-TERM DEBT, LESS CURRENT PORTION	1,250	680			1,930

INTERCOMPANY PAYABLE				1,137				(1,137)		
OTHER LONG-TERM LIABILITIES										
Deferred income taxes				1,875		51		(855)		1,071
Other liabilities		271		2,732		90				3,093
Total other long-term liabilities		271		4,607		141		(855)		4,164
STOCKHOLDERS INVESTMENT		13,626		11,454		2,648		(14,102)		13,626
	$	15,729	$	21,246	$	3,454	$	(16,185)	$	24,244

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended May 31, 2010

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 29,360	$ 5,700	$ (326)	$ 34,734
OPERATING EXPENSES:					
Salaries and employee benefits	91	12,026	1,910		14,027
Purchased transportation		3,424	1,392	(88)	4,728
Rentals and landing fees	4	2,118	240	(3)	2,359
Depreciation and amortization	1	1,751	206		1,958
Fuel		2,946	160		3,106
Maintenance and repairs	1	1,589	125		1,715
Impairment and other charges			18		18
Intercompany charges, net	(202)	(109)	311		
Other	105	3,950	1,005	(235)	4,825
		27,695	5,367	(326)	32,736
OPERATING INCOME		1,665	333		1,998
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,184	161		(1,345)	
Interest, net	(100)	41	(12)		(71)
Intercompany charges, net	114	(147)	33		
Other, net	(14)	(18)	(1)		(33)
INCOME BEFORE INCOME TAXES	1,184	1,702	353	(1,345)	1,894
Provision for income taxes		625	85		710
NET INCOME	$ 1,184	$ 1,077	$ 268	$ (1,345)	$ 1,184

CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended May 31, 2009

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 29,923	$ 5,851	$ (277)	$ 35,497

OPERATING EXPENSES:					
Salaries and employee benefits	82	11,483	2,202		13,767
Purchased transportation		3,362	1,211	(39)	4,534
Rentals and landing fees	4	2,134	296	(5)	2,429
Depreciation and amortization	2	1,706	267		1,975
Fuel		3,554	257		3,811
Maintenance and repairs	1	1,755	142		1,898
Impairment and other charges		1,098	106		1,204
Intercompany charges, net	(193)	81	112		
Other	104	4,198	1,063	(233)	5,132
		29,371	5,656	(277)	34,750
OPERATING INCOME		552	195		747
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	98	103		(201)	
Interest, net	(73)	28	(14)		(59)
Intercompany charges, net	90	(118)	28		
Other, net	(17)	(3)	9		(11)
INCOME BEFORE INCOME TAXES	98	562	218	(201)	677
Provision for income taxes		514	65		579
NET INCOME	$ 98	$ 48	$ 153	$ (201)	$ 98

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CONDENSED CONSOLIDATING STATEMENTS OF INCOME
Year Ended May 31, 2008

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 31,464	$ 6,860	$ (371)	$ 37,953
OPERATING EXPENSES:					
Salaries and employee benefits	98	11,660	2,444		14,202
Purchased transportation		3,392	1,333	(91)	4,634
Rentals and landing fees	4	2,127	313	(3)	2,441
Depreciation and amortization	2	1,651	293		1,946
Fuel		4,095	314		4,409
Maintenance and repairs	1	1,907	160		2,068
Impairment charges		882			882
Intercompany charges, net	(204)	(94)	298		
Other	99	4,400	1,074	(277)	5,296
		30,020	6,229	(371)	35,878
OPERATING INCOME		1,444	631		2,075
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,125	310		(1,435)	
Interest, net	(44)	4	(14)		(54)
Intercompany charges, net	51	(66)	15		
Other, net	(7)	3	(1)		(5)
INCOME BEFORE INCOME TAXES	1,125	1,695	631	(1,435)	2,016
Provision for income taxes		687	204		891
NET INCOME	$ 1,125	$ 1,008	$ 427	$ (1,435)	$ 1,125

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended May 31, 2010

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (450)	$ 2,942	$ 653	$ (7)	$ 3,138
INVESTING ACTIVITIES					
Capital expenditures		(2,661)	(155)		(2,816)
Proceeds from asset dispositions and other		38	(3)		35
CASH USED IN INVESTING ACTIVITIES		(2,623)	(158)		(2,781)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	531	(397)	(134)		
Payment on loan between subsidiaries		72	(72)		
Intercompany dividends		158	(158)		
Principal payments on debt	(500)	(153)			(653)
Proceeds from stock issuances	94				94
Excess tax benefit on the exercise of stock options	25				25
Dividends paid	(138)				(138)
Other, net	(20)	(5)	5		(20)
CASH USED IN FINANCING ACTIVITIES	(8)	(325)	(359)		(692)
Effect of exchange rate changes on cash		(8)	3		(5)
Net (decrease) increase in cash and cash equivalents	(458)	(14)	139	(7)	(340)
Cash and cash equivalents at beginning of period	1,768	272	304	(52)	2,292
Cash and cash equivalents at end of period	$ 1,310	$ 258	$ 443	$ (59)	$ 1,952

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended May 31, 2009

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (924)	$ 3,156	$ 573	$ (52)	$ 2,753
INVESTING ACTIVITIES					
Capital expenditures		(2,248)	(211)		(2,459)
Proceeds from asset dispositions and other		69	7		76
CASH USED IN INVESTING ACTIVITIES		(2,179)	(204)		(2,383)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	1,173	(1,066)	(107)		
Payment on loan from Parent	17		(17)		
Payment on loan between subsidiaries		36	(36)		
Intercompany dividends		165	(165)		
Principal payments on debt	(500)		(1)		(501)
Proceeds from debt issuance	1,000				1,000
Proceeds from stock issuances	41				41
Excess tax benefit on the exercise of stock options	4				4
Dividends paid	(137)				(137)
Other, net	(7)				(7)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	1,591	(865)	(326)		400
Effect of exchange rate changes on cash		(6)	(11)		(17)
Net increase (decrease) in cash and cash equivalents	667	106	32	(52)	753
Cash and cash equivalents at beginning of period	1,101	166	272		1,539
Cash and cash equivalents at end of period	$ 1,768	$ 272	$ 304	$ (52)	$ 2,292

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CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
Year Ended May 31, 2008

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (44)	$ 2,889	$ 620	$	$ 3,465
INVESTING ACTIVITIES					
Capital expenditures	(1)	(2,683)	(263)		(2,947)
Collection on (payment of) loan to Parent	(5,971)	5,971			
Proceeds from asset dispositions and other		34	16		50
CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(5,972)	3,322	(247)		(2,897)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	463	(296)	(167)		
Payment on loans between subsidiaries		16	(16)		
Dividend paid (to) from Parent	5,971	(5,971)			
Intercompany dividends		165	(165)		
Principal payments on debt	(551)	(85)	(3)		(639)
Proceeds from stock issuances	108				108
Excess tax benefit on the exercise of stock options	38				38
Dividends paid	(124)				(124)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	5,905	(6,171)	(351)		(617)
Effect of exchange rate changes on cash		2	17		19
Net (decrease) increase in cash and cash equivalents	(111)	42	39		(30)
Cash and cash equivalents at beginning of period	1,212	124	233		1,569
Cash and cash equivalents at end of period	$ 1,101	$ 166	$ 272	$	$ 1,539

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QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

INTEREST RATES. While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our long-term debt because the interest rates are fixed on all of our long-term debt. As disclosed in Note 5 to the accompanying consolidated financial statements, we had outstanding fixed-rate, long-term debt (exclusive of capital leases) with estimated fair values of $2.1 billion at May 31, 2010 and $2.4 billion at May 31, 2009. Market risk for fixed-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 10% increase in interest rates and amounts to $41 million as of May 31, 2010 and $35 million as of May 31, 2009. The underlying fair values of our long-term debt were estimated based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

FOREIGN CURRENCY. While we are a global provider of transportation, e-commerce and business services, the substantial majority of our transactions are denominated in U.S. dollars. The principal foreign currency exchange rate risks to which we are exposed are in the euro, Chinese yuan, Canadian dollar, British pound and Japanese yen. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During 2010, operating income was positively impacted due to foreign currency fluctuations. During 2009, foreign currency fluctuations negatively impacted operating income. However, favorable foreign currency fluctuations also may have had an offsetting impact on the price we obtained or the demand for our services, which is not quantifiable. At May 31, 2010, the result of a uniform 10% strengthening in the value of the dollar relative to the currencies in which our transactions are denominated would result in a decrease in operating income of $33 million for 2011. This theoretical calculation assumes that each exchange rate would change in the same direction relative to the U.S. dollar. This calculation is not indicative of our actual experience in foreign currency transactions. In addition to the direct effects of changes in exchange rates, fluctuations in exchange rates also affect the volume of sales or the foreign currency sales price as competitors services become more or less attractive. The sensitivity analysis of the effects of changes in foreign currency exchange rates does not factor in a potential change in sales levels or local currency prices.

COMMODITY. While we have market risk for changes in the price of jet and vehicle fuel, this risk is largely mitigated by our fuel surcharges because our fuel surcharges are closely linked to market prices for fuel. Therefore, a hypothetical 10% change in the price of fuel would not be expected to materially affect our earnings.

However, our fuel surcharges have a timing lag (approximately six to eight weeks for FedEx Express and FedEx Ground) before they are adjusted for changes in fuel prices. Our fuel surcharge index also allows fuel prices to fluctuate approximately 2% for FedEx Express and approximately 5% for FedEx Ground before an adjustment to the fuel surcharge occurs. Accordingly, our operating income in a specific period may be significantly affected should the spot price of fuel suddenly change by a substantial amount or change by amounts that do not result in an adjustment in our fuel surcharges.

OTHER. We do not purchase or hold any derivative financial instruments for trading purposes.

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SELECTED FINANCIAL DATA

The following table sets forth (in millions, except per share amounts and other operating data) certain selected consolidated financial and operating data for FedEx as of and for the five years ended May 31, 2010. This information should be read in conjunction with the Consolidated Financial Statements, Management s Discussion and Analysis of Results of Operations and Financial Condition and other financial data appearing elsewhere in this Annual Report.

	2010	2009 (1)	2008 (2)	2007 (3)	2006 (4)
Operating Results					
Revenues	$ 34,734	$ 35,497	$ 37,953	$ 35,214	$ 32,294
Operating income	1,998	747	2,075	3,276	3,014
Income before income taxes	1,894	677	2,016	3,215	2,899
Net income	1,184	98	1,125	2,016	1,806
Per Share Data					
Earnings per share:					
Basic	$ 3.78	$ 0.31	$ 3.64	$ 6.57	$ 5.94
Diluted	$ 3.76	$ 0.31	$ 3.60	$ 6.48	$ 5.83
Average shares of common stock outstanding	312	311	309	307	304
Average common and common equivalent shares outstanding	314	312	312	311	310
Cash dividends declared	$ 0.44	$ 0.44	$ 0.30	$ 0.37	$ 0.33
Financial Position					
Property and equipment, net	$ 14,385	$ 13,417	$ 13,478	$ 12,636	$ 10,770
Total assets	24,902	24,244	25,633	24,000	22,690
Long-term debt, less current portion	1,668	1,930	1,506	2,007	1,592
Common stockholders investment	13,811	13,626	14,526	12,656	11,511
Other Operating Data					
FedEx Express aircraft fleet	664	654	677	669	671
Average full-time equivalent employees and contractors	245,109	247,908	254,142	241,903	221,677

(1) Results for 2009 include a charge of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share) primarily related to impairment charges associated with goodwill and aircraft. See

Note 3 to the accompanying consolidated financial statements. Additionally, common stockholders investment includes an other comprehensive income charge of $1.2 billion, net of tax, related to the funded status of our retirement plans at May 31, 2009.

(2) Results for 2008 include a charge of $891 million ($696 million, net of tax, or $2.23 per diluted share) recorded during the fourth quarter, predominantly related to impairment charges associated with intangible assets from the FedEx Office acquisition. See Note 3 to the accompanying consolidated financial statements. Additionally, results for 2008 and 2007 include several 2007 acquisitions.

(3) Results for 2007 include a charge of $143 million at FedEx Express associated with upfront compensation and benefits under our labor contract with our pilots.

(4) Results for 2006 include a charge of $79 million ($49 million, net of tax, or $0.16 per diluted share) to adjust the accounting for certain facility leases, predominantly at FedEx Express.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
FedEx Corporation

We have audited the consolidated financial statements of FedEx Corporation as of May 31, 2010 and 2009, and for each of the three years in the period ended May 31, 2010, and have issued our report thereon dated July 15, 2010 (included elsewhere in this Annual Report on Form 10-K). Our audits also included the financial statement schedule listed in Item 15(a) in this Annual Report on Form 10-K. This schedule is the responsibility of the Company s management. Our responsibility is to express an opinion based on our audits.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP
Memphis, Tennessee
July 15, 2010

SCHEDULE II

FEDEX CORPORATION
VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED MAY 31, 2010, 2009, AND 2008
(IN MILLIONS)

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS EXPENSES	ADDITIONS CHARGED TO OTHER ACCOUNTS	DEDUCTIONS	BALANCE AT END OF YEAR
Accounts Receivable Reserves:					
Allowance for Doubtful Accounts					
2010	$ 114	$ 124	$	$ 145(a)	$ 93
2009	88	181		155(a)	114
2008	79	134		125(a)	88
Allowance for Revenue Adjustments					
2010	$ 82	$	$ 430(b)	$ 439(c)	$ 73
2009	70		466(b)	454(c)	82
2008	57		486(b)	473(c)	70
Inventory Valuation Allowance:					
2010	$ 175	$ 12	$	$ 17	$ 170
2009	163	15		3	175
2008	156	10		3	163

(a) Uncollectible accounts written off, net of recoveries.

(b) Principally charged against revenue.

(c) Service failures, rebills and other.

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FEDEX CORPORATION
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(UNAUDITED)
(IN MILLIONS, EXCEPT RATIOS)

	Year Ended May 31,				
	2010	2009	2008	2007	2006
Earnings:					
Income before income taxes	$ 1,894	$ 677	$ 2,016	$ 3,215	$ 2,899
Add back:					
Interest expense, net of capitalized interest	79	85	98	136	142
Amortization of debt issuance costs	14	5	5	6	5
Portion of rent expense representative of interest factor	806	795	784	766	842
Earnings as adjusted	$ 2,793	$ 1,562	$ 2,903	$ 4,123	$ 3,888
Fixed Charges:					
Interest expense, net of capitalized interest	$ 79	$ 85	$ 98	$ 136	$ 142
Capitalized interest	80	71	50	34	33
Amortization of debt issuance costs	14	5	5	6	5
Portion of rent expense representative of interest factor	806	795	784	766	842
	$ 979	$ 956	$ 937	$ 942	$ 1,022
Ratio of Earnings to Fixed Charges	2.9	1.6	3.1	4.4	3.8

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EXHIBIT INDEX

Exhibit Number	Description of Exhibit
	Certificate of Incorporation and Bylaws
3.1	Second Amended and Restated Certificate of Incorporation of FedEx. (Filed as Exhibit 3.1 to FedEx s FY07 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
3.2	Amended and Restated Bylaws of FedEx. (Filed as Exhibit 3.1 to FedEx s Current Report on Form 8-K dated September 29, 2008 and filed October 3, 2008, and incorporated herein by reference.)
	Facility Lease Agreements
10.1	Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Memphis-Shelby County Airport Authority (the Authority) and FedEx Express. (Filed as Exhibit 10.1 to FedEx s FY07 Annual Report on Form 10-K, and incorporated herein by reference).
10.2	First Amendment dated December 29, 2009 (but effective as of September 1, 2008) to the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Authority and FedEx Express. (Filed as Exhibit 10.1 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.3	Second Amendment dated March 30, 2010 (but effective as of June 1, 2009) and Third Amendment dated April 27, 2010 (but effective as of July 1, 2009), each amending the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Authority and FedEx Express.
10.4	Special Facility Lease Agreement dated as of August 1, 1979 between the Authority and FedEx Express. (Filed as Exhibit 10.15 to FedEx Express s FY90 Annual Report on Form 10-K, and incorporated herein by reference.)
10.5	First Special Facility Supplemental Lease Agreement dated as of May 1, 1982 between the Authority and FedEx Express. (Filed as Exhibit 10.25 to FedEx Express s FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
10.6	Second Special Facility Supplemental Lease Agreement dated as of November 1, 1982 between the Authority and FedEx Express. (Filed as Exhibit 10.26 to FedEx Express s FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
10.7	Third Special Facility Supplemental Lease Agreement dated as of December 1, 1984 between the Authority and FedEx Express. (Filed as Exhibit 10.25 to FedEx Express s FY95 Annual Report on Form 10-K, and incorporated herein by reference.)
10.8	Fourth Special Facility Supplemental Lease Agreement dated as of July 1, 1992 between the Authority and FedEx Express. (Filed as Exhibit 10.20 to FedEx Express s FY92 Annual Report on

Form 10-K, and incorporated herein by reference.)

10.9	Fifth Special Facility Supplemental Lease Agreement dated as of July 1, 1997 between the Authority and FedEx Express. (Filed as Exhibit 10.35 to FedEx Express s FY97 Annual Report on Form 10-K, and incorporated herein by reference.)

Exhibit Number	Description of Exhibit
10.10	Sixth Special Facility Supplemental Lease Agreement dated as of December 1, 2001 between the Authority and FedEx Express. (Filed as Exhibit 10.28 to FedEx s FY02 Annual Report on Form 10-K, and incorporated herein by reference.)
10.11	Seventh Special Facility Supplemental Lease Agreement dated as of June 1, 2002 between the Authority and FedEx Express. (Filed as Exhibit 10.3 to FedEx s FY03 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.12	Special Facility Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.29 to FedEx Express s FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
10.13	Special Facility Ground Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.30 to FedEx Express s FY93 Annual Report on Form 10-K, and incorporated herein by reference.)
10.14	First Amendment dated December 29, 2009 (but effective as of September 1, 2008) to the Special Facility Ground Lease Agreement dated as of July 1, 1993 between the Authority and FedEx Express. (Filed as Exhibit 10.2 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
	Aircraft-Related Agreement
10.15	Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY07 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.16	Supplemental Agreement No. 1 dated as of June 16, 2008 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. (Filed as Exhibit 10.13 to FedEx s FY08 Annual Report on Form 10-K, and incorporated herein by reference.)
10.17	Supplemental Agreement No. 2 dated as of July 14, 2008 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. (Filed as Exhibit 10.3 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.18	Supplemental Agreement No. 3 dated as of December 15, 2008 (and related side letters) to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.4 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)

10.19	Supplemental Agreement No. 4 dated as of January 9, 2009 (and related side letters) to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY09 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)

Exhibit Number	Description of Exhibit
10.20	Side letters dated May 29, 2009 and May 19, 2009, amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.17 to FedEx s FY09 Annual Report on Form 10-K, and incorporated herein by reference.)
10.21	Supplemental Agreement No. 5 dated as of January 11, 2010 to the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.3 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
*10.22	Supplemental Agreement No. 6 dated as of March 17, 2010, Supplemental Agreement No. 7 dated as of March 17, 2010, and Supplemental Agreement No. 8 (and related side letters) dated as of April 30, 2010, each amending the Boeing 777 Freighter Purchase Agreement dated as of November 7, 2006 between The Boeing Company and FedEx Express. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended.
	U.S. Postal Service Agreement
10.23	Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx s FY07 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.24	Amendment dated November 30, 2006 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.2 to FedEx s FY07 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.25	Letter Agreement dated March 8, 2007 and Letter Agreement dated May 14, 2007, each amending the Transportation Agreement dated July 31, 2006, as amended, between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.15 to FedEx s FY07 Annual Report on Form 10-K, and incorporated herein by reference.)
10.26	Amendment dated June 20, 2007 and Amendment dated July 31, 2007, each amending the Transportation Agreement dated July 31, 2006, as amended, between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential

	commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY08 First Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.27	Amendment dated December 4, 2007 to the Transportation Agreement dated July 31, 2006, as amended, between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY08 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)

Exhibit Number	Description of Exhibit
10.28	Letter Agreement dated October 23, 2008 and Amendment dated October 23, 2008, each amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.29	Letter Agreement dated March 4, 2009, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. (Filed as Exhibit 10.24 to FedEx s FY09 Annual Report on Form 10-K, and incorporated herein by reference.)
10.30	Letter Agreement dated September 29, 2009, amending the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.1 to FedEx s FY10 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.31	Amendment dated December 8, 2009 to the Transportation Agreement dated July 31, 2006 between the United States Postal Service and FedEx Express. Confidential treatment has been granted for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. (Filed as Exhibit 10.4 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)
	Financing Agreement
10.32	Three-Year Credit Agreement dated as of July 22, 2009 among FedEx, JPMorgan Chase Bank, N.A., individually and as administrative agent, and certain lenders. (Filed as Exhibit 99.1 to FedEx s Current Report on Form 8-K dated July 22, 2009, and incorporated herein by reference.)
	FedEx is not filing any other instruments evidencing any indebtedness because the total amount of securities authorized under any single such instrument does not exceed 10% of the total assets of FedEx and its subsidiaries on a consolidated basis. Copies of such instruments will be furnished to the Securities and Exchange Commission upon request.
	Management Contracts/Compensatory Plans or Arrangements
10.33	1993 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1993 Stock Incentive Plan, as amended. (The 1993 Stock Incentive Plan was filed as Exhibit A to FedEx Express s FY93 Definitive Proxy Statement, Commission File No. 1-7806, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 10.61 to FedEx Express s FY94 Annual Report on Form 10-K, and is incorporated herein by reference.)
10.34	Amendment to 1993 Stock Incentive Plan. (Filed as Exhibit 10.63 to FedEx Express s FY94 Annual Report on Form 10-K, and incorporated herein by reference.)

10.35	1995 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1995 Stock Incentive Plan. (The 1995 Stock Incentive Plan was filed as Exhibit A to FedEx Express s FY95 Definitive Proxy Statement, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 99.2 to FedEx Express s Registration Statement No. 333-03443 on Form S-8, and is incorporated herein by reference.)

Exhibit Number	Description of Exhibit
10.36	Amendment to 1993 and 1995 Stock Incentive Plans. (Filed as Exhibit 10.79 to FedEx Express s FY97 Annual Report on Form 10-K, and incorporated herein by reference.)
10.37	1997 Stock Incentive Plan, as amended, and Form of Stock Option Agreement pursuant to 1997 Stock Incentive Plan. (The 1997 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement on Form S-8, Registration No. 333-71065, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-71065 on Form S-8, and is incorporated herein by reference.)
10.38	Amendment to 1997 Stock Incentive Plan. (Filed as Exhibit A to FedEx s FY98 Definitive Proxy Statement, and incorporated herein by reference.)
10.39	1999 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 1999 Stock Incentive Plan. (The 1999 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-34934 on Form S-8, and is incorporated herein by reference.)
10.40	2002 Stock Incentive Plan and Form of Stock Option Agreement pursuant to 2002 Stock Incentive Plan. (The 2002 Stock Incentive Plan was filed as Exhibit 4.3 to FedEx s Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference, and the form of stock option agreement was filed as Exhibit 4.4 to FedEx s Registration Statement No. 333-100572 on Form S-8, and is incorporated herein by reference.)
10.41	1997 Restricted Stock Plan and Form of Restricted Stock Agreement pursuant to 1997 Restricted Stock Plan. (Filed as Exhibit 10.82 to FedEx Express s FY97 Annual Report on Form 10-K, and incorporated herein by reference.)
10.42	Amendment to 1997 Restricted Stock Plan. (Filed as Exhibit 10.65 to FedEx s FY02 Annual Report on Form 10-K, and incorporated herein by reference.)
10.43	2001 Restricted Stock Plan and Form of Restricted Stock Agreement pursuant to 2001 Restricted Stock Plan. (Filed as Exhibit 10.60 to FedEx s FY01 Annual Report on Form 10-K, and incorporated herein by reference.)
10.44	Amendment to 2001 Restricted Stock Plan. (Filed as Exhibit 10.67 to FedEx s FY02 Annual Report on Form 10-K, and incorporated herein by reference.)
10.45	Amendment to 1995, 1997, 1999 and 2002 Stock Incentive Plans and 1997 and 2001 Restricted Stock Plans. (Filed as Exhibit 10.3 to FedEx s FY04 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)

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Exhibit Number	Description of Exhibit
10.46	FedEx Corporation Incentive Stock Plan, as amended; Amendment to FedEx Corporation Incentive Stock Plan, as amended, and 1997, 1999 and 2002 Stock Incentive Plans; Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation Incentive Stock Plan, as amended; and Form of Restricted Stock Agreement pursuant to FedEx Corporation Incentive Stock Plan, as amended. (The FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.1 to FedEx Corporation s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Amendment to FedEx Corporation Incentive Stock Plan, as amended, and 1997, 1999 and 2002 Stock Incentive Plans was filed as Exhibit 4.2 to FedEx Corporation s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; the Form of Terms and Conditions of stock option grant pursuant to FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.3 to FedEx Corporation s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference; and the Form of Restricted Stock Agreement pursuant to FedEx Corporation Incentive Stock Plan, as amended, was filed as Exhibit 4.4 to FedEx Corporation s Registration Statement No. 333-156333 on Form S-8, and is incorporated herein by reference.)
10.47	FedEx Corporation Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom and Form of Share Option Agreement pursuant to the FedEx Corporation Incentive Stock Plan 2005 Inland Revenue Approved Sub-Plan for the United Kingdom. (The United Kingdom Sub-Plan was filed as Exhibit 4.2 to FedEx Corporation s Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference, and the form of share option agreement pursuant to the UK Sub-Plan was filed as Exhibit 4.3 to FedEx Corporation s Registration Statement No. 333-130619 on Form S-8, and is incorporated herein by reference.)
*10.48	Amendments to 1993, 1995, 1997, 1999 and 2002 Stock Incentive Plans, as amended, 2001 Restricted Stock Plan, as amended, and FedEx Corporation Incentive Stock Plan, as amended.
10.49	Amended and Restated FedEx Corporation Retirement Parity Pension Plan. (Filed as Exhibit 10.35 to FedEx s FY08 Annual Report on Form 10-K, and incorporated herein by reference.)
*10.50	Compensation Arrangements with Named Executive Officers.
10.51	Compensation Arrangements with Outside Directors. (Filed as Exhibit 10.43 to FedEx s FY09 Annual Report on Form 10-K, and incorporated herein by reference.)
10.52	FedEx s Amended and Restated Retirement Plan for Outside Directors. (Filed as Exhibit 10.2 to FedEx s FY09 Second Quarter Report on Form 10-Q, and incorporated herein by reference.)
10.53	Form of revised Management Retention Agreement, dated March 18, 2010, entered into between FedEx Corporation and each of Frederick W. Smith, David J. Bronczek, Robert B. Carter, T. Michael Glenn, Alan B. Graf, Jr., William J. Logue, David F. Rebholz and Christine P. Richards. (Filed as Exhibit 10.5 to FedEx s FY10 Third Quarter Report on Form 10-Q, and incorporated herein by reference.)

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Exhibit Number	Description of Exhibit
	Other Exhibits
*12	Statement re Computation of Ratio of Earnings to Fixed Charges (presented on page 127 of this Annual Report on Form 10-K).
*21	Subsidiaries of Registrant.
*23	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
*24	Powers of Attorney.
*31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
*32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*101.1	Interactive Data Files.

* Filed herewith.