FEDEX CORP
Form 10-K
July 12, 2011

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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, 2011.

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, 2010, was approximately $26.8 billion. The Registrant has no non-voting stock.

As of July 11, 2011, 317,027,077 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 2011 annual meeting of stockholders to be held on September 26, 2011 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 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 services. 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, Inc. (FedEx Freight) is a leading U.S. provider of less-than-truckload (LTL) freight services, offering: FedEx Freight Priority, when speed is critical to meet supply chain needs; and FedEx Freight Economy, for less time-sensitive shipping at a lower cost. The FedEx Freight segment also offers freight delivery service throughout Canada and Mexico and includes 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. The FedEx Services segment also includes FedEx TechConnect, Inc., which is responsible for customer service, billings and collections for our U.S. customers and offers technical support services, and FedEx Office and Print Services, Inc. (FedEx Office), which provides an array of document 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 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 the enterprise, 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, all our management incentive compensation programs across the enterprise 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 45 Boeing 777 Freighter (B777F) aircraft, a new high-capacity, long-range airplane, 12 of which have already been delivered. We also hold options to purchase an additional 13 B777F aircraft. The B777F enables us to fly between major world markets with lower operating costs, more shipments 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.

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

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 global trade has grown, 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.

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.

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 2011, we:

Continued to reduce transit times within FedEx Ground s growing and highly profitable network.

Made a strategic acquisition in India and have one pending in Mexico, which will give us more robust domestic transportation and added capabilities in these important global markets.

Added more daily scheduled transpacific and transatlantic flights, providing needed capacity between Asia, Europe and the United States.

Expanded and enhanced FedEx First Overnight service (which offers next-business-day delivery as early as 8:00 a.m. depending on destination ZIP Code) and introduced FedEx First Overnight Freight (which offers early-morning delivery of critical air freight shipments) and FedEx 2Day A.M. service (which provides a 10:30 a.m. delivery commitment time for shipments with two-day delivery).

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

Introduced an innovative end-to-end service for the shipping of temperature-sensitive healthcare products, such as pharmaceuticals, around the world.

Expanded FedEx Freight s LTL freight service offerings, launching a new unified LTL network and offering customers the choice of two levels of reliable service from a single company: FedEx Freight Priority, the fast-transit choice for time-sensitive freight delivery; and FedEx Freight Economy, the economical choice for less time-sensitive freight delivery.

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 2011, FedEx ranked 8th in *FORTUNE* magazine s World s Most Admired Companies list the tenth consecutive year we have been ranked in the top 20 on the list.

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. Our latest published update to our inaugural global citizenship report is 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. 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 290,000 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 actively supporting the communities we serve worldwide through the strategic investment of our people, resources and network. We provide financial contributions, in-kind charitable shipping services and volunteer efforts by our team members to help a variety of non-profit organizations achieve their goals and make a measurable impact on the world. We have three core focus areas: disaster preparedness, relief and recovery (American Red Cross, Salvation Army and Direct Relief Worldwide); child pedestrian safety (Safe Kids Worldwide); and environmental sustainability (EMBARQ and National Fish & Wildlife Foundation). We support minority access to higher education by funding scholarships, are a major sponsor of the National Civil Rights Museum and also support Teach for America, Junior Achievement and St. Jude Children s Research Hospital. Additionally, 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. 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 operational needs, as discussed above, we are adding to our aircraft fleet the more fuel-efficient B777F and 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 has logged more than nine million miles of revenue service. Our solar power generation systems represent another step we are taking toward progressive environmental stewardship and resource sustainability. In December 2010, the FedEx Express facility in Las Vegas, Nevada became our first FedEx facility to receive certification by Leadership in Energy and Environmental Design (LEED®), the U.S. Green Building Council s system for rating the environmental performance of buildings, and since then, our FedEx Express World Headquarters in Memphis and our enterprise data center in Colorado Springs, Colorado have received the same certification. FedEx Express has made LEED certification the standard for newly built U.S. facilities. 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 recycled content, among other environmentally-responsible available choices. 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. During the past few years, we added a number of highly qualified, independent directors to the Board. The Board has taken significant steps to enhance its accountability to stockholders in recent years. For example, in 2011, the Board determined to submit to stockholders a proposal to amend FedEx s certificate of incorporation in order to allow holders of 20 percent or more of FedEx s common stock the right to call special meetings of stockholders, subject to certain customary conditions. Stockholders will vote on the proposed special meeting right at the 2011 annual meeting of stockholders, which will be held on September 26, 2011, and a full description of the proposal will be contained in FedEx s definitive proxy statement for the meeting.

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.

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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-definite 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 143,000 employees and has approximately 57,000 drop-off locations (including FedEx Office centers), 688 aircraft and approximately 50,000 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 nearly 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 overnight and deferred freight services backed by money-back guarantees to handle the needs of the time-definite 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 domestic pickup-and-delivery services within certain non-U.S. countries, including the United Kingdom, Canada, China, India and Mexico. In addition, FedEx Express 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 recently made strategic moves in India and Mexico:

- In February 2011, we acquired the Indian logistics, distribution and express businesses of AFL Pvt. Ltd. and its affiliate Unifreight India Pvt. Ltd.
- On December 15, 2010, we entered into an agreement to acquire Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company, which we expect to complete in the first quarter of 2012.

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These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets, and are expected to provide important contributions to our long-term growth, productivity and profitability.

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 bolster our presence there. As an example, 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 and better serves our global customers doing business in and with the China and Asia-Pacific markets.

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.

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 2011 was based on the average spot price for jet fuel published for April 2011. 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: 2011 10%; 2010 6%; and 2009 17%. These percentages include certain fuel surcharge reductions that are associated with our annual base rate increases.

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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, Guangzhou and Cologne/Bonn 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, Paris and Cologne/Bonn 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.

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 2011, 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**
2011	$ 3,178	8.1%
2010	2,342	6.7
2009	2,932	8.3
2008	3,396	8.9
2007	2,639	7.5

Approximately 11% 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, capacity and speed of scheduled service, ability to track packages, extent of geographic coverage, reliability and innovative service offerings.

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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, air freight 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, 2011, FedEx Express employed approximately 95,000 permanent full-time and 48,000 permanent part-time employees, of which approximately 15% are employed in the Memphis area. FedEx Express s international employees in the aggregate represent approximately 27% of all employees.

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 collective bargaining agreement. During the fourth quarter of 2011, the pilots ratified a new labor contract that includes safety initiatives, increases in hourly pay rates and travel per diem rates, and provisions for opening a European crew base. The new contract is scheduled to become amendable in March 2013 unless the union exercises its option to shorten the contract, in which case the agreement would be amendable in March 2012 and a portion of the hourly pay increases would be canceled.

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. Certain of FedEx Express s non-U.S. employees are unionized. FedEx Express believes its relationship with all of its employees is excellent.

FedEx Trade Networks

FedEx Trade Networks provides international trade services, specializing in customs brokerage and global ocean and air freight forwarding. During 2011, FedEx Trade Networks continued to execute an aggressive plan to expand its global freight forwarding presence by opening additional facilities (over three 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 U.S. 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 4,000 employees and 132 offices in 106 service locations throughout North America and in Asia, Europe, the Middle East and Latin America. FedEx Trade Networks maintains a network of air and ocean freight-forwarding service providers and strategic alliances to provide services in certain countries in which it does not have owned offices.

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FedEx SupplyChain Systems

FedEx SupplyChain is an integrated logistics provider offering a range of supply chain solutions that leverage FedEx information technology and transportation networks around the world. The company offers services that include critical inventory logistics, transportation management and temperature-controlled transportation through a network of owned and managed resources all tightly integrated via advanced information technology systems.

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.

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 over 8,000 of its lanes. FedEx Ground s ongoing network expansion program is substantially increasing the company s daily pickup 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 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 2011 was based on the average diesel fuel price published for April 2011. 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.

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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 28,100 owner-operated vehicles and 32,600 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.

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, 2011, FedEx Ground had approximately 48,000 employees. In addition, 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. 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

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions have supported the company s classification of them and the company believes its relationship with its contractors is generally excellent. For a description of these proceedings, see Item 1A of this Annual Report on Form 10-K (Risk Factors) and Note 17 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 implemented or is implementing its Independent Service Provider (ISP) model in a number of states. The ISP model 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.

As of May 31, 2011, FedEx Ground has transitioned to the ISP model in Maryland, New Hampshire, Rhode Island and Vermont, and plans to complete transition to the ISP model in Connecticut, Delaware, Illinois, Iowa, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, North Dakota, South Dakota and Tennessee during 2012. Based upon the success of this model, FedEx Ground may possibly transition to it in other states as well.

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In addition, because of state-specific legal and regulatory issues, FedEx Ground only contracts with contractors that (i) are organized as corporations registered and in good standing under applicable state law, and (ii) ensure that their personnel who provide services under an operating agreement with FedEx Ground are treated as their employees. FedEx Ground also has an ongoing nationwide program to incentivize contractors who choose to grow their businesses by adding routes. During May 2011, approximately 80% of FedEx Ground s package volume was delivered by multiple route owner-operators or independent service providers.

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 5,500 employees, FedEx SmartPost provides delivery 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 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

FedEx Freight is a leading U.S. provider of LTL freight services, offering FedEx Freight Priority, when speed is critical to meet supply chain needs, and FedEx Freight Economy, for less time-sensitive shipping at a lower cost, through one LTL company. 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 Priority service is 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 Freight offers choice, simplicity and reliability to meet the needs of LTL shippers. 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 available on Priority shipments 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. Additionally, the FedEx Freight A.M. service offers freight delivery by 10:30 a.m. backed by a money-back guarantee. FedEx Freight has 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.

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As of May 31, 2011, FedEx Freight was operating approximately 58,000 vehicles and trailers from a network of 366 service centers, and the FedEx Freight segment had approximately 33,000 employees. William J. Logue is the President and Chief Executive Officer of FedEx Freight s parent company, FedEx Freight Corporation, which is based in Memphis, Tennessee. FedEx Freight s primary competitors are YRC Worldwide Inc. (which includes YRC Regional Transportation and YRC National Transportation), Con-way Freight (a subsidiary of Con-way Inc.), UPS Freight, Old Dominion Freight Line, Inc. and ABF Freight System, Inc.

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 services 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; and White Glove Services, for shipments that require extra care in handling, temperature control or specialized security. In addition, its subsidiary FedEx Truckload Brokerage 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 independent contractors 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, customer service and certain other back-office support. Through FedEx Services and its subsidiary FedEx TechConnect, 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, 2011, the FedEx Services segment had approximately 36,800 employees (including 19,300 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.

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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.

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, and FedExCup, a season-long points competition for PGA TOUR players
- The FedEx St. Jude Classic, a PGA TOUR event that raises millions of dollars for St. Jude Children s Research Hospital
- FedExForum, home of the NBA s Memphis Grizzlies
- ATP World Tour men s professional tennis circuit and 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. We are committed to compliance with applicable information security laws, regulations and industry standards including, for example, the Payment Card Industry Data Security Standard, a set of comprehensive requirements for enhancing payment account data security developed by the Payment Card Industry Security Standards Council. For a description of risks related to information security, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

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Global 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 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, and packing supplies and boxes are included in its 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, 2011, FedEx Office operated approximately 1,950 locations, including 130 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 TechConnect, 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.

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In September 2010, the FAA proposed rules that would significantly reduce the maximum number of hours on duty and increase the minimum amount of rest time for the pilots of FedEx Express, and thus require us to hire additional pilots and modify certain of our aircraft. It is reasonably possible that these rules, if enacted as currently drafted, or other future flight safety requirements could impose material costs on us.

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. The TSA has issued to us a Full All-Cargo Aircraft Operator Standard Security Plan, which contains 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.

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 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 outside of the United States, 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, the Chinese government has adopted postal regulations that exclude foreign-owned 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.

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 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. 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 (air freight forwarding). Our offshore operations are subject to similar regulation by the regulatory authorities of foreign jurisdictions.

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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 our other 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 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 has, in the past, considered adopting changes in labor laws that would make it easier for unions to organize units of our employees. For example, there is always 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. In addition, federal and state governmental agencies have and may continue to take actions that could make it easier for our employees to organize under the RLA or NLRA. For a description of these potential labor law changes, see Item 1A of this Annual Report on Form 10-K (Risk Factors).

ITEM 1A. RISK FACTORS

We present information about our risk factors on pages 71 through 76 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, 2011, FedEx Express s aircraft fleet consisted of the following:

Description	Owned	Leased	Total	Maximum Operational Revenue Payload (Pounds per Aircraft)(1)
Boeing B777F	12	0	12	178,000
Boeing MD11	38	26	64(2)	164,200
Boeing MD10-30	10	7	17	114,200
Boeing MD10-10	58	0	58	108,700
Airbus A300-600	35	36	71	85,600
Airbus A310-200/300	50	3	53	61,900
Boeing B757-200	58	0	58(3)	45,800
Boeing B727-200	65	2	67	38,200
ATR 72-202/212	21	0	21(4)	14,660
ATR 42-300/320	26	0	26	10,880
Cessna 208B	241	0	241	2,500
Total	614	74	688	

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

(2) Includes 4 aircraft not currently in operation and awaiting completion of modification.

(3) Includes 21 aircraft not currently in operation and awaiting completion of modification.

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

The B777Fs are two-engine, wide-bodied cargo aircraft that have a longer range and larger capacity than any other aircraft we operate.

The MD11s are three-engine, wide-bodied aircraft that have a longer range and larger capacity than MD10s.

The MD10s are three-engine, wide-bodied 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 leases smaller aircraft, which feed packages to and from airports primarily outside the U.S. served by FedEx Express s larger jet aircraft. The lease agreements generally 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. The lease agreements are for terms not exceeding one year and are generally cancelable upon 30 days notice.

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At May 31, 2011, FedEx Express operated approximately 50,000 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, 2011, with the year of expected delivery:

	B757	B777F[(1)]	Total
2012	16	7	23
2013	4	6	10
2014		7	7
2015		3	3
2016		3	3
Thereafter		7	7
Total	20	33	53

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

As of May 31, 2011, deposits and progress payments of $604 million had been made toward aircraft purchases and other planned aircraft-related transactions. Also see Note 16 of the accompanying consolidated financial statements for more information about our purchase commitments.

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Sorting and Handling Facilities
At May 31, 2011, 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	475,000	Memphis-Shelby County Airport Authority	2036
Indianapolis, Indiana	335	2,509,000	215,000	Indianapolis Airport Authority	2017/2028 [5]
Regional					
Fort Worth, Texas	168	948,000	76,000	Fort Worth Alliance Airport Authority	2021
Newark, New Jersey	70	595,000	156,000	Port Authority of New York and New Jersey	2030
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	2021/2025 [6]
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
Cologne, Germany [3]	7	325,000	20,000	Cologne Bonn Airport	2040
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 original hub expires in 2017, and lease for additional buildings expires in 2028.

(6) Property is held under two separate leases lease for sorting and handling facility expires in 2021, and lease for ramp expansion 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 and Miami.

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 39 facilities in the Memphis area for administrative offices and warehouses.

FedEx Express owns or leases approximately 670 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, 2011, FedEx Express had approximately 45,000 Drop Boxes, including 5,000 Drop Boxes outside U.S. Post Offices. As of May 31, 2011, 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 4,500 drop-off locations.

FedEx Ground Segment

FedEx Ground s corporate offices are located in the Pittsburgh, Pennsylvania, area in an approximately 500,000 square-foot building owned by FedEx Ground. As of May 31, 2011, FedEx Ground had approximately 32,600 company-owned trailers and owned or leased 520 facilities, including 32 hubs. In addition, approximately 28,100 owner-operated vehicles support FedEx Ground s business. Of the 520 facilities that support FedEx Home Delivery, 229 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 s corporate headquarters are located in Memphis, Tennessee, and administrative offices for the FedEx Freight business are in Harrison, Arkansas. As of May 31, 2011, FedEx Freight operated approximately 58,000 vehicles and trailers and 366 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, 2011, FedEx Office operated approximately 1,950 locations, including 130 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 17 of the accompanying consolidated financial statements.

As described below, we have received requests for information from various governmental agencies over the past five years related to possible anti-competitive behavior in several package and 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 February 2011, we received a demand for the production of information and documents in connection with a civil investigation by the DOJ into the policies and practices of FedEx and UPS for dealing with third-party consultants who work with shipping customers to negotiate lower rates. Related antitrust litigation with one of these third party consultants was dismissed in early June 2011, but the court granted the plaintiff permission to file an amended complaint, which FedEx received in late June 2011.

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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	66	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	57	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	52	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.

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Name and Office	Age	Positions and Offices Held and Business Experience
T. Michael Glenn Executive Vice President Market Development and Corporate Communications	55	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	57	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	53	President and Chief Executive Officer of FedEx Freight Corporation (parent of FedEx Freight) 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	58	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 Service 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	56	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 11, 2011, there were 14,370 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, 2011			
Fourth Quarter	$ 96.89	$ 85.03	$ 0.12
Third Quarter	98.52	87.54	0.12
Second Quarter	93.03	79.04	0.12
First Quarter	87.74	69.78	0.12
Fiscal Year Ended May 31, 2010			
Fourth Quarter	$ 97.75	$ 78.29	$ 0.11
Third Quarter	92.59	75.17	0.11
Second Quarter	85.43	68.06	0.11
First Quarter	70.27	49.76	0.11

FedEx also paid a cash dividend on July 1, 2011 ($0.13 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. FedEx did not repurchase any of its common stock during the fourth quarter of 2011.

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data as of and for the five years ended May 31, 2011 is presented on page 127 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 76 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 126 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 12, 2011 thereon, are presented on pages 79 through 125 of this Annual Report on Form 10-K.

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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, 2011 (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 77 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 78 of this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

During our fiscal quarter ended May 31, 2011, 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 2011 annual meeting of stockholders, which will be held on September 26, 2011, 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.

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ITEM 11. EXECUTIVE COMPENSATION

Information regarding director and executive compensation will be presented in FedEx s definitive proxy statement for its 2011 annual meeting of stockholders, which will be held on September 26, 2011, 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 2011 annual meeting of stockholders, which will be held on September 26, 2011, 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 2011 annual meeting of stockholders, which will be held on September 26, 2011, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the fees for services provided by Ernst & Young LLP during 2011 and 2010 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 2011 annual meeting of stockholders, which will be held on September 26, 2011, 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 12, 2011 thereon, are listed on pages 34 through 35 and presented on pages 79 through 125 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 12, 2011 thereon, is presented on pages 128 through 129 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-8 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 12, 2011

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 12, 2011
/s/ ALAN B. GRAF, JR. Alan B. Graf, Jr.	Executive Vice President and Chief Financial Officer *(Principal Financial Officer)*	July 12, 2011
/s/ JOHN L. MERINO John L. Merino	Corporate Vice President and Principal Accounting Officer *(Principal Accounting Officer)*	July 12, 2011
/s/ JAMES L. BARKSDALE * James L. Barksdale	Director	July 12, 2011
/s/ JOHN A. EDWARDSON * John A. Edwardson	Director	July 12, 2011
/s/ J. R. HYDE, III * J. R. Hyde, III	Director	July 12, 2011
/s/ SHIRLEY ANN JACKSON * Shirley Ann Jackson	Director	July 12, 2011
/s/ STEVEN R. LORANGER * Steven R. Loranger	Director	July 12, 2011

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Signature	Capacity	Date
/s/ GARY W. LOVEMAN * Gary W. Loveman	Director	July 12, 2011
/s/ SUSAN C. SCHWAB * Susan C. Schwab	Director	July 12, 2011
/s/ JOSHUA I. SMITH * Joshua I. Smith	Director	July 12, 2011
/s/ DAVID P. STEINER * David P. Steiner	Director	July 12, 2011
/s/ PAUL S. WALSH * Paul S. Walsh	Director	July 12, 2011

*By: /s/ JOHN L. MERINO July 12, 2011

John L. Merino
Attorney-in-Fact

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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 composed 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 2011 results compared to 2010, and 2010 results compared to 2009. This section also includes a discussion of key actions and events that impacted our results, as well as our outlook for 2012.
- The overview is followed by a financial summary and analysis (including a discussion of both historical operating results and our outlook for 2012) 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 flows 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 FedEx Freight, Inc. (FedEx Freight), 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 and information technology 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) and provides customer service, technical support and billing and collection services through FedEx TechConnect, Inc. (FedEx TechConnect). 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, 2011 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:

				Percent Change	
	2011 (1)	2010	2009 (2)	2011/2010	2010/2009
Revenues	$ 39,304	$ 34,734	$ 35,497	13	(2)
Operating income	2,378	1,998	747	19	167
Operating margin	6.1%	5.8%	2.1%	30bp	370bp
Net income	$ 1,452	$ 1,184	$ 98	23	NM
Diluted earnings per share	$ 4.57	$ 3.76	$ 0.31	22	NM

(1) Operating expenses include $133 million in costs associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011, and a $66 million legal reserve associated with the ATA Airlines lawsuit against FedEx Express.

(2) Operating expenses include charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily for impairment charges associated with goodwill and aircraft (described below).

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The following table shows changes in revenues and operating income by reportable segment for 2011 compared to 2010, and 2010 compared to 2009 (dollars in millions):

	Revenues				Operating Income			
	Dollar Change		Percent Change		Dollar Change		Percent Change	
	2011/ 2010	2010/ 2009	2011/ 2010	2010/ 2009	2011/ 2010	2010/ 2009	2011/ 2010	2010/ 2009
FedEx Express segment(1)	$ 3,026	$ (809)	14	(4)	$ 101	$ 333	9	42
FedEx Ground segment	1,046	392	14	6	301	217	29	27
FedEx Freight segment(2)	590	(94)	14	(2)	(22)	(109)	(14)	(248)
FedEx Services segment(3)	(86)	(207)	(5)	(10)		810		100
Other and eliminations	(6)	(45)	NM	NM				
	$ 4,570	$ (763)	13	(2)	$ 380	$ 1,251	19	167

(1) FedEx Express segment 2011 operating expenses include a $66 million legal reserve associated with the ATA Airlines lawsuit, and 2009 operating expenses include a charge of $260 million, primarily for aircraft-related asset impairments.

(2) FedEx Freight segment 2011 operating expenses include $133 million in costs associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011, and 2009 operating expenses include a charge of $100 million, primarily for 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 for impairment charges associated with goodwill related to the FedEx Office acquisition.

Overview

Our results for 2011 reflect the momentum of improved global economic conditions and strong demand for our services, which drove yield growth and volume increases across all our transportation segments during 2011, particularly in FedEx International Priority (IP) package shipments at FedEx Express. Our FedEx Ground segment continued its exceptional performance, increasing volume, yield and operating margins. The FedEx Freight segment returned to profitability in the fourth quarter of 2011 primarily due to higher LTL yield. All of our transportation segments benefited from our yield management initiatives in 2011. Despite the strength in our businesses and significantly improved results, we incurred increased retirement plans and medical costs, higher aircraft maintenance expenses, higher costs associated with the restoration of compensation programs curtailed during the recession and one-time costs associated with the combination of our LTL operations (described below) during 2011.

The combination of our FedEx Freight and FedEx National LTL operations was completed on January 30, 2011. Our combined LTL network will increase efficiencies, reduce operational costs and provide customers both Priority and Economy LTL freight services across all lengths of haul from one integrated company. The combination resulted in the following incremental costs and charges which were incurred primarily in the second and third quarters of 2011 (in millions):

	2011
Severance	$ 40
Lease terminations	20
Asset impairments	29
Impairment and other charges	89
Other program costs	44
Total program costs	$ 133

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Other program costs include $15 million in 2011 of accelerated depreciation expense due to a change in the estimated useful life of certain assets impacted by the combination of these operations and other incremental costs directly associated with the program. The net cash effect of the program was immaterial, as cash proceeds from asset sales of $88 million offset severance and other cash outlays for the program.

In 2010, our results reflected the impact of the global recession, which negatively impacted volumes and yields, principally in the first half of the fiscal year. 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 caused by the highly competitive pricing environment in the LTL market due to excess industry capacity.

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

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

Revenue

Revenues increased 13% during 2011 due to yield increases and volume growth across all our transportation segments. Yields improved due to higher fuel surcharges and increased base rates under our yield improvement programs, including our dimensional pricing changes for package shipments effective January 1, 2011. At FedEx Express, revenues increased 14% in 2011 led by IP volume growth in Asia, as well as domestic and IP package yield increases. At the FedEx Ground segment, revenues increased 14% in 2011 due to continued volume growth driven by market share gains and yield growth at both FedEx Ground and FedEx SmartPost. At FedEx Freight, yield increases due to our yield management programs and higher LTL fuel surcharges, and higher average daily LTL volumes led to a 14% increase in revenues in 2011.

Revenues decreased 2% during 2010 primarily due to yield decreases at FedEx Express and FedEx Freight as a result of lower fuel surcharges and a continued competitive pricing environment for our services. 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, 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 FedEx Freight, discounted pricing drove an increase in average daily LTL freight shipments, but also resulted in significant yield declines during 2010.

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Impairment and Other Charges

In 2011, we incurred impairment and other charges of $89 million related to the combination of our LTL operations at FedEx Freight (see Overview above for additional information). In 2010, we recorded a charge of $18 million for the impairment of goodwill related to the FedEx National LTL acquisition, eliminating the remaining goodwill attributable to this reporting unit. 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 for 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 2010 and 2009 goodwill impairment charges were 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, 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.

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:

	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	$ 15,276	$ 14,027	$ 13,767
Purchased transportation	5,674	4,728	4,534
Rentals and landing fees	2,462	2,359	2,429
Depreciation and amortization	1,973	1,958	1,975
Fuel	4,151	3,106	3,811
Maintenance and repairs	1,979	1,715	1,898
Impairment and other charges	89(1)	18	1,204(2)
Other	5,322(3)	4,825	5,132
Total operating expenses	$ 36,926	$ 32,736	$ 34,750

(1) Represents charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011.

(2) Includes charges of $1.2 billion ($1.1 billion, net of tax, or $3.45 per diluted share), primarily for impairment charges associated with goodwill and aircraft (described above).

(3) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit against FedEx Express.

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	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	38.9%	40.4%	38.8%
Purchased transportation	14.4	13.6	12.8
Rentals and landing fees	6.3	6.8	6.8
Depreciation and amortization	5.0	5.6	5.6
Fuel	10.6	8.9	10.7
Maintenance and repairs	5.0	4.9	5.3
Impairment and other charges	0.2	0.1	3.4
Other	13.5	13.9	14.5
Total operating expenses	93.9	94.2	97.9
Operating margin	6.1%	5.8%	2.1%

In 2011, operating income increased 19% primarily due to yield and volume increases across all our transportation segments. Higher compensation and benefits, including retirement plans and medical costs, and increased maintenance and repairs expenses had a negative impact on our performance for 2011. Costs related to the combination of our FedEx Freight and FedEx National LTL operations also negatively impacted our 2011 results by $133 million. Unusually severe weather in the second half of 2011 caused widespread disruptions to our networks, which led to lost revenues and drove higher purchased transportation, salaries and wages and other operational costs. Additionally, a $66 million reserve associated with an adverse jury decision in the ATA Airlines lawsuit against FedEx Express was recognized in 2011.

Salaries and employee benefits increased 9% in 2011 due to the reinstatement of merit salary increases, increases in pension and medical costs and the reinstatement of full 401(k) company-matching contributions effective January 1, 2011. Purchased transportation increased 20% in 2011 due to volume growth, higher fuel surcharges and higher rates paid to our independent contractors at FedEx Ground, as well as costs associated with the expansion of our freight forwarding business at FedEx Trade Networks. Maintenance and repairs expense increased 15% in 2011 primarily due to an increase in maintenance events, as a result of timing, and higher utilization of our fleet driven by increased volumes. Other operating expense increased 10% primarily due to volume- and weather-related expenses.

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

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Fuel expense increased 34% during 2011 primarily due to increases in the average price per gallon of fuel and fuel consumption driven by volume increases. 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 positive impact on operating income in 2011, predominantly at FedEx Express.

Our analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express and FedEx Ground 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 2011, 2010 and 2009 in the accompanying discussions of each of our transportation segments.

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 benefited 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 constrained the earnings increase.

Maintenance and repairs expense decreased 10% in 2010 primarily due to the timing of maintenance events. 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.

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. 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.

Other Income and Expense

Interest expense increased $7 million during 2011 primarily due to a decrease in capitalized interest related to the timing of construction projects and progress payments on aircraft purchases. 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.

Income Taxes

Our effective tax rate was 35.9% in 2011, 37.5% in 2010 and 85.6% in 2009. Our 2011 rate was lower than our 2010 rate primarily due to increased permanently reinvested foreign earnings and a lower state tax rate driven principally by favorable audit and legislative developments. In 2011, our permanent reinvestment strategy with respect to unremitted earnings of our foreign subsidiaries provided a 1.3% benefit to our effective tax rate. Our total permanently reinvested foreign earnings were $640 million at the end of 2011 and $325 million at the end of 2010. Our 2009 rate was significantly impacted by goodwill impairment charges that were not deductible for income tax purposes.

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Our current federal income tax expenses in 2011, 2010, and 2009 were significantly reduced by accelerated depreciation deductions we claimed under provisions of the Tax Relief and the Small Business Jobs Acts of 2010, the American Recovery and Reinvestment Tax Act of 2009, and the Economic Stimulus Act of 2008. Those acts, designed to stimulate new business investment in the U.S., accelerated our depreciation deductions for new qualifying investments, such as our new Boeing 777 Freighter (B777F) aircraft. These are timing benefits only, in that the depreciation would have otherwise been recognized in later years.

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

	2011	2010	2009
Current	$ 79	$ 36	$ (35)
Deferred	485	408	327
Total Federal Provision	$ 564	$ 444	$ 292

For 2012, we expect our effective tax rate to be in the range of 36.0% to 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 11 of the accompanying consolidated financial statements.

Business Acquisitions

On February 22, 2011, FedEx Express completed the acquisition of the Indian logistics, distribution and express businesses of AFL Pvt. Ltd. and its affiliate Unifreight India Pvt. Ltd. for $96 million in cash. The financial results of the acquired businesses are included in the FedEx Express segment from the date of acquisition and were not material to our results of operations or financial condition. Substantially all of the purchase price was allocated to goodwill.

On December 15, 2010, FedEx entered into an agreement to acquire Servicios Nacionales Mupa, S.A. de C.V. (MultiPack), a Mexican domestic express package delivery company. This acquisition will be funded with cash from operations and is expected to be completed during the first quarter of 2012, subject to customary closing conditions. The financial results of the acquired company will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2012 results.

These acquisitions will give us more robust domestic transportation networks and added capabilities in these important global markets.

Outlook

We expect moderate growth in the global economy, combined with ongoing yield improvement actions, to drive a significant improvement in earnings in 2012. Results at FedEx Express, driven by international services, are expected to be the primary driver of earnings growth during 2012. In addition, we expect our FedEx Freight segment to be profitable throughout 2012 and anticipate our FedEx Ground segment to continue to grow significantly. However, our outlook is dependent on continued strengthening in global economic conditions, particularly in industrial production, the pace of which is uncertain due to several factors, including the impact of higher fuel prices on demand. We expect growth in international trade to substantially outpace growth in the U.S. domestic economy, and our unmatched global network is uniquely positioned to service customer needs in this sector. While cost headwinds in pension plans and maintenance and repairs are expected to abate, we expect higher incentive compensation expense as a result of higher earnings and higher expenses related to the full restoration of the company-matching contributions on our 401(k) programs.

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Our capital expenditures for 2012 are expected to be approximately $4.2 billion, an increase over 2011, driven primarily by replacement vehicles and equipment to support international growth at FedEx Express. Our strategic investments in our more fuel efficient B777F and Boeing 757 (B757) aircraft will continue in 2012. 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 2012 capital projects, refer to the Liquidity Outlook section of this MD&A.

Our outlook is dependent upon a stable pricing environment for fuel, as volatility in fuel prices impacts our fuel surcharge levels, fuel expense and demand for our services. 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 17 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 cyclical in nature, as 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 FedEx Freight, 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 the impact of severe winter weather 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.

In June 2011, the Financial Accounting Standards Board issued new guidance to make the presentation of items within other comprehensive income (OCI) more prominent. The new standard will require companies to present items of net income, items of OCI and total comprehensive income in one continuous statement or two separate consecutive statements, and companies will no longer be allowed to present items of OCI in the statement of stockholders equity. Reclassification adjustments between OCI and net income will be presented separately on the face of the financial statements. This new standard is effective for our fiscal year ending May 31, 2013.

We believe there is no additional 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.

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REPORTABLE SEGMENTS

FedEx Express, FedEx Ground and FedEx Freight 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 freight transportation) FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	FedEx Services (sales, marketing and information technology functions) FedEx TechConnect (customer service, technical support, billings and collections) FedEx Office (document and business services and package acceptance)

Effective January 30, 2011, our FedEx Freight and FedEx National LTL businesses were merged into a single operation. FedEx Freight now offers two standard services: FedEx Freight Priority, a faster transit service with a price premium; and FedEx Freight Economy, an economical service.

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 obtain 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; FedEx TechConnect, which is responsible for customer service, technical support, 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 because these reclassifications are immaterial.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and 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. 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. 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 its total allocated net operating costs on our transportation segments.

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.

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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.

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 our consolidated results and are not separately identified in the following segment information, because 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	
	2011	2010	2009	2011/2010	2010/2009
Revenues:					
Package:					
U.S. overnight box	$ 6,128	$ 5,602	$ 6,074	9	(8)
U.S. overnight envelope	1,736	1,640	1,855	6	(12)
U.S. deferred	2,805	2,589	2,789	8	(7)
Total U.S. domestic package revenue	10,669	9,831	10,718	9	(8)
International priority	8,228	7,087	6,978	16	2
International domestic (1)	653	578	565	13	2
Total package revenue	19,550	17,496	18,261	12	(4)
Freight:					
U.S.	2,188	1,980	2,165	11	(9)
International priority	1,722	1,303	1,104	32	18
International airfreight	283	251	369	13	(32)
Total freight revenue	4,193	3,534	3,638	19	(3)
Other (2)	838	525	465	60	13
Total revenues	24,581	21,555	22,364	14	(4)
Operating expenses:					
Salaries and employee benefits	9,183	8,402	8,217	9	2
Purchased transportation	1,573	1,177	1,112	34	6
Rentals and landing fees	1,672	1,577	1,613	6	(2)
Depreciation and amortization	1,059	1,016	961	4	6
Fuel	3,553	2,651	3,281	34	(19)
Maintenance and repairs	1,353	1,131	1,351	20	(16)
Impairment and other charges			260(3)		NM
Intercompany charges	2,043	1,940	2,103	5	(8)
Other	2,917(4)	2,534	2,672	15	(5)
Total operating expenses	23,353	20,428	21,570	14	(5)
Operating income	$ 1,228	$ 1,127	$ 794	9	42
Operating margin	5.0%	5.2%	3.6%	(20)bp	160bp

(1) International domestic revenues include our international intra-country domestic express operations.

(2)

Other revenues include 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.

(4) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit.

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	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	37.4%	39.0%	36.7%
Purchased transportation	6.4	5.5	5.0
Rentals and landing fees	6.8	7.3	7.2
Depreciation and amortization	4.3	4.7	4.3
Fuel	14.4	12.3	14.7
Maintenance and repairs	5.5	5.2	6.0
Impairment and other charges			1.2(1)
Intercompany charges	8.3	9.0	9.4
Other	11.9(2)	11.8	11.9
Total operating expenses	95.0	94.8	96.4
Operating margin	5.0%	5.2%	3.6%

(1) 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.

(2) Includes a $66 million legal reserve associated with the ATA Airlines lawsuit.

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

				Percent Change	
	2011	2010	2009	2011/2010	2010/2009
Package Statistics[1]					
Average daily package volume (ADV):					
U.S. overnight box	1,184	1,157	1,127	2	3
U.S. overnight envelope	627	614	627	2	(2)
U.S. deferred	873	867	849	1	2
Total U.S. domestic ADV	2,684	2,638	2,603	2	1
International priority	575	523	475	10	10
International domestic[2]	348	318	298	9	7
Total ADV	3,607	3,479	3,376	4	3
Revenue per package (yield):					
U.S. overnight box	$ 20.29	$ 19.00	$ 21.21	7	(10)
U.S. overnight envelope	10.86	10.47	11.65	4	(10)
U.S. deferred	12.60	11.70	12.94	8	(10)
U.S. domestic composite	15.59	14.61	16.21	7	(10)
International priority	56.08	53.10	57.81	6	(8)
International domestic[2]	7.38	7.14	7.50	3	(5)

Composite package yield	21.25	19.72	21.30	8	(7)
Freight Statistics[1]					
Average daily freight pounds:					
U.S.	7,340	7,141	7,287	3	(2)
International priority	3,184	2,544	1,959	25	30
International airfreight	1,235	1,222	1,475	1	(17)
Total average daily freight pounds	11,759	10,907	10,721	8	2
Revenue per pound (yield):					
U.S.	$ 1.17	$ 1.09	$ 1.17	7	(7)
International priority	2.12	2.01	2.22	5	(9)
International airfreight	0.90	0.81	0.99	11	(18)
Composite freight yield	1.40	1.27	1.34	10	(5)

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

(2) International domestic statistics include our international intra-country domestic express operations.

FedEx Express Segment Revenues

FedEx Express segment revenues increased 14% in 2011 driven by higher yield and volumes. In 2011, IP package volume increased 10% led by volume growth from Asia, Europe and the U.S. FedEx Express U.S. domestic package yields increased 7% due to higher fuel surcharges, rate increases and increased package weights. IP package yields increased 6% due to higher fuel surcharges, increased package weights and favorable exchange rates. IP freight pounds increased 25% led by volume growth in Europe.

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. U.S. domestic package yield also decreased during 2010 due to lower rates and lower package weights. In addition to lower fuel surcharges, IP package yield decreased during 2010 due to lower rates, partially offset by higher package weights and favorable exchange rates.

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:

	2011	2010	2009
U.S. Domestic and Outbound Fuel Surcharge:			
Low	7.00%	1.00%	%
High	15.50	8.50	34.50
Weighted-average	9.77	6.20	17.45
International Fuel Surcharges:			
Low	7.00	1.00	
High	21.00	13.50	34.50
Weighted-average	12.36	9.47	16.75

In January 2011, 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. 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.

FedEx Express Segment Operating Income

FedEx Express segment operating income increased in 2011 due to yield and volume growth, particularly in our higher-margin IP package services, although operating margin was down slightly. Higher revenues in 2011 were partially offset by higher retirement plans and medical expenses, increased aircraft maintenance costs, the reinstatement of certain employee compensation programs, and the negative impact of severe weather during the second half of the year. Results in 2011 were also negatively impacted by a $66 million legal reserve associated with the ATA Airlines lawsuit (see Note 17 of the accompanying consolidated financial statements).

Salaries and benefits increased 9% in 2011 due to volume-related increases in labor hours, the reinstatement of several employee compensation programs including merit salary increases, higher pension and medical costs, and full 401(k) company-matching contributions. Purchased transportation costs increased 34% in 2011 due to costs associated with the expansion of our freight forwarding business at FedEx Trade Networks and IP package and freight volume growth. Other operating expenses increased 15% due to volume-related expenses and the ATA Airlines legal reserve. Maintenance and repairs expense increased 20% in 2011 primarily due to an increase in aircraft maintenance expenses as a result of timing of maintenance events and higher utilization of our fleet driven by increased volumes.

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Fuel costs increased 34% in 2011 due to increases in the average price per gallon of fuel and fuel consumption driven by volume increases. 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 positive impact in 2011. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.

FedEx Express segment operating income and operating margin increased during 2010 due to volume growth, particularly in higher-margin IP package and freight services. 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 for aircraft-related asset impairments and other charges primarily associated with aircraft-related lease and contract termination costs and employee severance.

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 transportation 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.

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.

FedEx Express Segment Outlook

In 2012, we expect revenue growth at FedEx Express to be driven by continued growth in our international services as international economic conditions are expected to improve at a faster rate than in the U.S. We also anticipate improvement in both domestic and international yields through ongoing yield management initiatives.

FedEx Express segment operating income and operating margin are expected to increase in 2012, driven by continued growth in international package and freight services, and productivity enhancements such as improving on-road productivity, sort efficiency and efficiencies in our aircraft maintenance processes. We anticipate that increases in merit pay, higher incentive compensation and increased depreciation will dampen our earnings growth in 2012.

Capital expenditures at FedEx Express are expected to increase in 2012 driven by replacement vehicle and equipment purchases. In 2012, capital expenditures will also include continued investments for the new B777F and B757 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:

	2011	2010	2009	Percent Change 2011/2010	Percent Change 2010/2009
Revenues:					
FedEx Ground	$ 7,855	$ 6,958	$ 6,670	13	4
FedEx SmartPost	630	481	377	31	28
Total revenues	8,485	7,439	7,047	14	6
Operating expenses:					
Salaries and employee benefits	1,282	1,158	1,102	11	5
Purchased transportation	3,431	2,966	2,918	16	2
Rentals	263	244	222	8	10
Depreciation and amortization	337	334	337	1	(1)
Fuel	12	8	9	50	(11)
Maintenance and repairs	169	166	147	2	13
Intercompany charges	897	795	710	13	12
Other	769	744	795	3	(6)
Total operating expenses	7,160	6,415	6,240	12	3
Operating income	$ 1,325	$ 1,024	$ 807	29	27
Operating margin	15.6%	13.8%	11.5%	180bp	230bp
Average daily package volume:					
FedEx Ground	3,746	3,523	3,404	6	3
FedEx SmartPost	1,432	1,222	827	17	48
Revenue per package (yield):					
FedEx Ground	$ 8.17	$ 7.73	$ 7.70	6	
FedEx SmartPost	$ 1.72	$ 1.56	$ 1.81	10	(14)

	Percent of Revenue 2011	2010	2009
Operating expenses:			
Salaries and employee benefits	15.1%	15.5%	15.6%
Purchased transportation	40.4	39.9	41.4
Rentals	3.1	3.3	3.1
Depreciation and amortization	4.0	4.5	4.8
Fuel	0.1	0.1	0.1
Maintenance and repairs	2.0	2.2	2.1
Intercompany charges	10.6	10.7	10.1

Other	9.1	10.0	11.3
Total operating expenses	84.4	86.2	88.5
Operating margin	15.6%	13.8%	11.5%

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FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 14% during 2011 due to volume and yield increases at both FedEx Ground and FedEx SmartPost.

FedEx Ground average daily package volume increased 6% during 2011 due to continued growth in our commercial business and our FedEx Home Delivery service. The 6% yield improvement at FedEx Ground during 2011 was primarily due to rate increases, higher fuel surcharges and higher extra service revenue, particularly in residential surcharges.

FedEx SmartPost average daily volume grew 17% during 2011 primarily as a result of growth in e-commerce business, gains in market share and the introduction of new service offerings. Yields increased 10% during 2011 primarily due to growth in higher yielding services, improved fuel surcharges and lower postage costs as a result of increased deliveries to United States Postal Service (USPS) final destination facilities.

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 package volume increased 3% during 2010 due to 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. 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.

The FedEx Ground fuel surcharge is based on a rounded average of the national U.S. on-highway average price 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:

	2011	2010	2009
Low	5.50%	2.75%	2.25%
High	8.50	5.50	10.50
Weighted-average	6.20	4.23	6.61

In January 2011, we implemented a 4.9% list price increase for FedEx Ground and FedEx Home Delivery services. The full average rate increase of 5.9% was partially offset by adjusting the fuel price threshold at which the fuel surcharge begins, reducing the fuel surcharge by one percentage point. Additional changes were made to other FedEx Ground surcharges and FedEx SmartPost rates. 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.

FedEx Ground Segment Operating Income

During 2011, FedEx Ground segment operating income increased 29% and operating margin increased 180 basis points due to improved yield and higher volume resulting from market share growth. We have realized a higher retention of our annual rate increase this year as more customers recognize the competitive advantage that we maintain across many shipping lanes in the U.S. We have also improved our customers experience by dramatically reducing our package loss and damage claims while maintaining exceptional service levels. Purchased transportation costs increased 16% in 2011 primarily due to volume growth, higher fuel costs and higher rates paid to our independent contractors. Salaries and employee benefits expense increased 11% in 2011 due primarily to increased staffing at FedEx Ground and FedEx SmartPost to support volume growth and higher pension and medical costs. Intercompany charges increased in 2011 primarily due to higher allocated information technology costs.

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. 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.

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Evolution of Independent Contractor Model

Although FedEx Ground is involved in numerous lawsuits and other proceedings (such as state tax audits or other administrative challenges) where the classification of its independent contractors is at issue, a number of recent judicial decisions support our classification and we believe our relationship with the contractors is generally excellent. For a description of these proceedings, see Risk Factors and Note 17 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 implemented or is implementing its Independent Service Provider (ISP) model in a number of states. The ISP model 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.

As of May 31, 2011, FedEx Ground has transitioned to the ISP model in Maryland, New Hampshire, Rhode Island and Vermont, and plans to complete transition to the ISP model in Connecticut, Delaware, Illinois, Iowa, Maine, Massachusetts, Minnesota, Mississippi, Missouri, Montana, North Dakota, South Dakota and Tennessee during 2012. Based upon the success of this model, FedEx Ground may possibly transition to it in other states as well.

In addition, because of state-specific legal and regulatory issues, FedEx Ground only contracts with contractors that (i) are organized as corporations registered and in good standing under applicable state law, and (ii) ensure that their personnel who provide services under an operating agreement with FedEx Ground are treated as their employees.

FedEx Ground also has an ongoing nationwide program to incentivize contractors who choose to grow their businesses by adding routes. During May 2011, approximately 80% of FedEx Ground s package volume was delivered by multiple route owner-operators or independent service providers.

FedEx Ground Segment Outlook

In 2012, we expect the FedEx Ground segment revenue growth will be led by continued improvement in commercial, FedEx Home Delivery and FedEx SmartPost volumes, resulting in additional market share gains. FedEx SmartPost is expected to continue to strengthen its market position by continuing to leverage the FedEx Ground network to enter the optimal USPS entry point. Yields for FedEx Ground are expected to improve in 2012 as a result of yield management initiatives and growth in our higher yielding FedEx Home Delivery service.

We expect the FedEx Ground segment to provide strong operating income growth in 2012 due to efficiency improvements such as an automated operational planning system and improved transit time across numerous shipping lanes. However, we expect to incur higher purchased transportation costs due to higher rates paid to our independent contractors and higher variable incentive compensation in 2012.

We are committed to investing in the FedEx Ground network because of the anticipated growth opportunities within this market. Capital spending is expected to increase in 2012, with the majority of our spending resulting from our continued network expansion and productivity-enhancing technologies.

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.

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FEDEX FREIGHT SEGMENT

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

				Percent Change	
	2011	2010	2009 [3]	2011/2010	2010/2009
Revenues	$ 4,911	$ 4,321	$ 4,415	14	(2)
Operating expenses:					
Salaries and employee benefits	2,303	2,128	2,247	8	(5)
Purchased transportation	779	690	540	13	28
Rentals	122	116	139	5	(17)
Depreciation and amortization	205	198	224	4	(12)
Fuel	585	445	520	31	(14)
Maintenance and repairs	182	148	153	23	(3)
Impairment and other charges[1]	89	18	100	394	(82)
Intercompany charges[2]	427	351	109	22	222
Other	394	380	427	4	(11)
Total operating expenses	5,086	4,474	4,459	14	
Operating loss	$ (175)	$ (153)	$ (44)	(14)	(248)
Operating margin	(3.6)%	(3.5)%	(1.0)%	(10)bp	(250)bp
Average daily LTL shipments (in thousands)	86.0	82.3	74.4	4	11
Weight per LTL shipment (lbs)	1,144	1,134	1,126	1	1
LTL yield (revenue per hundredweight)	$ 18.24	$ 17.07	$ 19.07	7	(10)

(1) Includes severance, impairment and other charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011. In 2010 and 2009, this charge 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.

(2) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FedEx TechConnect effective August 1, 2009. For 2011 and 2010, the costs associated with these functions, previously a direct charge, were allocated to the FedEx Freight segment through intercompany allocations.

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

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	Percent of Revenue		
	2011	2010	2009
Operating expenses:			
Salaries and employee benefits	46.9%	49.2%	50.9%
Purchased transportation	15.9	16.0	12.2
Rentals	2.5	2.7	3.1
Depreciation and amortization	4.2	4.6	5.0
Fuel	11.9	10.3	11.8
Maintenance and repairs	3.7	3.4	3.5
Impairment and other charges[1]	1.8	0.4	2.3
Intercompany charges[2]	8.7	8.1	2.5
Other	8.0	8.8	9.7
Total operating expenses	103.6	103.5	101.0
Operating margin	(3.6)%	(3.5)%	(1.0)%

(1) Includes severance, impairment and other charges associated with the combination of our FedEx Freight and FedEx National LTL operations, effective January 30, 2011. In 2010 and 2009, this charge 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.

(2) Certain functions were transferred from the FedEx Freight segment to FedEx Services and FedEx TechConnect effective August 1, 2009. For 2011 and 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 increased 14% in 2011 due to higher LTL yield and average daily LTL shipments. LTL yields increased 7% during 2011 due to our yield management programs, which began during the fourth quarter of 2010 and continued throughout 2011, and higher fuel surcharges. Under these programs, LTL yields have increased sequentially in each of the past four quarters, while average daily LTL shipments fell during the second half of 2011. For the full year, average daily LTL shipments increased 4% in 2011 primarily due to volume increases during the first half of 2011 resulting from the impact of discounted pricing in contracts signed during 2010.

In 2010, FedEx Freight segment revenues decreased primarily 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 the 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.

The indexed LTL fuel surcharge is based on the average of the national U.S. on-highway average price 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:

	2011	2010	2009
Low	15.10%	10.80%	8.30%
High	20.70	16.10	23.90
Weighted-average	17.00	14.00	15.70

In November 2010, we implemented a 6.9% general rate increase for FedEx Freight shipments. In February 2010, we implemented 5.9% general rate increases for FedEx Freight and FedEx National LTL shipments.

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FedEx Freight Segment Operating Loss

The FedEx Freight segment operating loss in 2011 included costs associated with the combination of our FedEx Freight and FedEx National LTL operations and the significant impact from severe weather in the second half of the year. We incurred costs associated with the combination of $133 million in 2011, including $89 million recorded in the Impairment and other charges caption of the consolidated income statement (see Overview above for additional information).

Salaries and employee benefits increased 8% in 2011 primarily due to volume-related increases in labor, wage increases, higher healthcare and pension costs, and the reinstatement of full 401(k) company-matching contributions. Purchased transportation costs increased 13% in 2011 due to higher shipment volumes and higher rates. Fuel costs increased 31% in 2011 due to a higher average price per gallon of diesel fuel and 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 slightly favorable impact to operating income in 2011. Maintenance and repairs expense increased 23% in 2011 due to higher volumes and the aging of our fleet. Also, higher intercompany charges in 2011 reflect the transfer of sales and customer service employees from the FedEx Freight segment entities in the first quarter of 2010 (described below).

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.

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 FedEx TechConnect in the first quarter of 2010. The costs of these functions were previously a direct charge. 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 FedEx TechConnect during the first quarter of 2010.

FedEx Freight Segment Outlook

In 2012, we expect revenue growth at the FedEx Freight segment to be driven by continued growth in our Priority and Economy service lines as customers increase their utilization of our new integrated LTL network. We expect yield improvement across all service and customer segments due to our unique value proposition and yield management initiatives.

We expect the FedEx Freight segment to be profitable throughout 2012 due to continued yield management initiatives and the successful integration of our operations and optimization of our LTL network. In addition, we will continue to improve productivity and efficiency across our integrated network through technology investments focused on network and equipment planning and customer automation. These investments will further enhance our already outstanding customer service levels.

Capital expenditures are expected to increase significantly in 2012 with the majority of our spending for replacement of vehicles and freight handling equipment.

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FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $2.3 billion at May 31, 2011, compared to $2.0 billion at May 31, 2010. The following table provides a summary of our cash flows for the periods ended May 31 (in millions):

	2011	2010	2009
Operating activities:			
Net income	$ 1,452	$ 1,184	$ 98
Noncash impairment and other charges	29	18	1,103
Other noncash charges and credits	2,892	2,514	2,554
Changes in assets and liabilities	(332)	(578)	(1,002)
Cash provided by operating activities	4,041	3,138	2,753
Investing activities:			
Capital expenditures	(3,434)	(2,816)	(2,459)
Business acquisition, net of cash acquired	(96)		
Proceeds from asset dispositions and other	111	35	76
Cash used in investing activities	(3,419)	(2,781)	(2,383)
Financing activities:			
Proceeds from debt issuance			1,000
Principal payments on debt	(262)	(653)	(501)
Dividends paid	(151)	(138)	(137)
Other	126	99	38
Cash (used in) provided by financing activities	(287)	(692)	400
Effect of exchange rate changes on cash	41	(5)	(17)
Net increase (decrease) in cash and cash equivalents	$ 376	$ (340)	$ 753

Cash Provided by Operating Activities. Cash flows from operating activities increased $903 million in 2011 primarily due to increased earnings in 2011 and lower pension contributions. 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. We made contributions of $480 million to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) during 2011, including $121 million in voluntary contributions and contributions of $848 million to our U.S. Pension Plans during 2010, including $495 million in voluntary contributions. We made contributions of $1.1 billion to our U.S. Pension Plans during 2009.

Cash Used in Investing Activities. Capital expenditures were 22% higher in 2011 and 15% higher in 2010 largely due to increased spending at FedEx Express. See Capital Resources for a discussion of capital expenditures during 2011 and 2010.

Financing Activities. We have a shelf registration statement filed with the Securities and Exchange Commission (SEC) that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock. During 2011, we repaid our $250 million 7.25% unsecured notes that matured on February 15, 2011. 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 2011, we made principal payments in the amount of $12 million related to capital lease obligations. During 2010, we made principal payments in the amount of $153 million related to capital lease obligations.

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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. This five-year credit agreement was entered into on April 26, 2011, and replaced the $1 billion three-year credit agreement dated July 22, 2009. 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, 2011. 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, 2011, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

CAPITAL RESOURCES

Our operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, facilities, and 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):

				Percent Change	
	2011	2010	2009	2011/2010	2010/2009
Aircraft and related equipment	$ 1,988	$ 1,537	$ 925	29	66
Facilities and sort equipment	555	630	742	(12)	(15)
Vehicles	282	220	319	28	(31)
Information and technology investments	455	289	298	57	(3)
Other equipment	154	140	175	10	(20)
Total capital expenditures	$ 3,434	$ 2,816	$ 2,459	22	15
FedEx Express segment	2,467	1,864	1,348	32	38
FedEx Ground segment	426	400	636	7	(37)
FedEx Freight segment	153	212	240	(28)	(12)
FedEx Services segment	387	340	235	14	45
Other	1				
Total capital expenditures	$ 3,434	$ 2,816	$ 2,459	22	15

Capital expenditures during 2011 were higher than the prior-year period primarily due to increased spending at FedEx Express for aircraft and aircraft-related equipment and at FedEx Services for information technology investments. Aircraft and aircraft-related equipment purchases at FedEx Express during 2011 included the delivery of six new B777Fs and 22 B757s. 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 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.

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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. Our cash and cash equivalents balance at May 31, 2011 includes $300 million of cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. Although we expect higher capital expenditures in 2012, 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 $4.2 billion in 2012 and will include spending for aircraft and aircraft-related equipment at FedEx Express, network expansion at FedEx Ground and revenue equipment at the FedEx Freight segment. We expect approximately 59% of capital expenditures in 2012 will be designated for growth initiatives and 41% dedicated to maintaining our existing operations. Our capital expenditures are expected to increase in 2012 due to spending for vehicle equipment and on-going investments in aircraft programs. Our expected capital expenditures for 2012 include $2.0 billion in investments for delivery of aircraft as well as progress payments toward future aircraft deliveries at FedEx Express, including B757s and the B777F which are significantly more fuel-efficient per unit than the aircraft type previously utilized. Our B757 aircraft are replacing our Boeing 727 aircraft, and we expect to be completely transitioned out of this aircraft type by 2016. We will benefit from the tax expensing and accelerated depreciation provisions of the Tax Relief Act of 2010 on qualifying capital investments we make in 2012.

We have agreed to purchase a total of 45 B777F aircraft (12 of which were in service at May 31, 2011, and an additional seven to be delivered in 2012). 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.

For 2012, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $500 million. Our U.S. Pension Plans have ample funds to meet expected benefit payments. In 2012, we have scheduled principal and interest payments of $25 million on capital leases.

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.

CONTRACTUAL CASH OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth a summary of our contractual cash obligations as of May 31, 2011. 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, 2011. 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)						
	2012	2013	2014	2015	2016	Thereafter	Total
Operating activities:							
Operating leases	$ 1,794	$ 1,654	$ 1,465	$ 1,354	$ 1,192	$ 6,533	$ 13,992
Non-capital purchase obligations and other	209	97	35	24	11	132	508
Interest on long-term debt	126	98	97	78	78	1,659	2,136
Quarterly contributions to our U.S. Pension Plans	500						500
Investing activities:							
Aircraft and aircraft-related capital commitments	1,480	1,086	781	569	584	1,470	5,970
Other capital purchase obligations	210	8	8	6			232
Financing activities:							
Debt		300	250			989	1,539
Capital lease obligations	25	119	2	2	2	13	163
Total	$ 4,344	$ 3,362	$ 2,638	$ 2,033	$ 1,867	$ 10,796	$ 25,040

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. Pension Plans totaling approximately $500 million for 2012 that begin in the first quarter.
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 16 of the accompanying consolidated financial statements for more information.

Operating Activities

In accordance with accounting principles generally accepted in the United States, future contractual payments under our operating leases (totaling $14.0 billion on an undiscounted basis) 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, 2011. 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.

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 ($68 million) is excluded from the table. See Note 11 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. 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.

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 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. We currently have no scheduled debt payments in 2012.

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.

Pension benefits for most employees are accrued under a cash balance formula we call the Portable Pension Account. 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. The Portable Pension Account benefit is payable as a lump sum or an annuity at retirement at the election of the employee. The plan interest credit rate varies from year to year based on a U.S. Treasury index. Prior to 2009, certain employees earned benefits using a traditional pension formula (based on average earnings and years of service); however, benefits under this formula were capped on May 31, 2008.

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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 liabilities 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 year-end 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. However, the cash funding rules operate under a completely different set of assumptions and standards than those used for financial reporting purposes, so our actual cash funding requirements can differ materially from our reported funded status.

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):

	2011	2010	2009
U.S. domestic and international pension plans	$ 543	$ 308	$ 177
U.S. domestic and international defined contribution plans	257	136	237
Postretirement healthcare plans	60	42	57
	$ 860	$ 486	$ 471

Total retirement plans cost for 2011 increased $374 million due to a significantly lower discount rate used to measure our benefit obligations at our May 31, 2010 measurement date. Additionally, we incurred higher expenses for our 401(k) plans due to the partial reinstatement of the company-matching contributions on January 1, 2010, and the full restoration of company-matching contributions on January 1, 2011 (previously suspended in February 2009). 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.

Retirement plans cost is expected to increase in 2012 due to the full restoration of company-matching contributions on our 401(k) plans noted above. However, our pension costs in 2012 are expected to remain flat, as the benefit of significant investment returns on our pension plan assets will offset the negative impact of a 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. Pension Plans. The components of pension cost for all pension plans are as follows (in millions):

	2011	2010	2009
Service cost	$ 521	$ 417	$ 499
Interest cost	900	823	798
Expected return on plan assets	(1,062)	(955)	(1,059)
Recognized actuarial losses (gains) and other	184	23	(61)
Net periodic benefit cost	$ 543	$ 308	$ 177

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
5/31/2011	5.76%	2011 PBO and 2012 expense
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

(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 designed to 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 at May 31, 2011 was driven by conditions in the market for high-grade corporate bonds, where yields have continued to decrease from May 31, 2010. The discount rate assumption is highly sensitive, as the following table illustrates for our largest tax-qualified U.S. domestic pension plan:

	Sensitivity (in millions)	
	Effect on 2012 Pension Expense	Effect on 2011 Pension Expense
One-basis-point change in discount rate	$ 1.9	$ 1.7

At our May 31, 2011 measurement date, a 50-basis-point increase in the discount rate would have decreased our 2011 PBO by approximately $1.1 billion and a 50-basis-point decrease in the discount rate would have increased our 2011 PBO by approximately $1.2 billion. From 2009 to 2011, the discount rate used to value our liabilities has declined by nearly 200 basis points, which increased the valuation of our liabilities by over $4 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. We review the expected long-term rate of return on an annual basis and revise it as appropriate.

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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.

The following table summarizes our current asset allocation strategy (dollars in millions):

	Plan Assets at Measurement Date					
	2011			2010		
Asset Class	Actual	Actual %	Target %	Actual	Actual %	Target %
Domestic equities	$ 5,761	37%	33%	$ 4,569	35%	33%
International equities	2,013	13	12	1,502	12	12
Private equities	403	3	5	399	3	5
Total equities	8,177	53	50	6,470	50	50
Fixed-income securities	6,995	45	49	6,205	47	49
Cash and other	346	2	1	380	3	1
	$ 15,518	100%	100%	$ 13,055	100%	100%

We have assumed an 8.0% compound geometric long-term rate of return on our U.S. Pension Plan assets for 2012, 2011 and 2010, as described in Note 12 of the accompanying consolidated financial statements. A one-basis-point change in our expected return on plan assets impacts our pension expense by $1.5 million.

The actual historical return on our U.S. Pension Plan assets, calculated on a compound geometric basis, was approximately 7.8%, net of investment manager fees, for the 15-year period ended May 31, 2011 and 7.9%, net of investment manager fees, for the 15-year period ended May 31, 2010.

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. For purposes of valuing plan assets for determining 2012 pension expense, we used the calculated-value method, as our actual returns on plan assets significantly exceeded our assumptions. However, as previously indicated, our pension costs in 2012 are expected to remain flat. The calculated-value method resulted in the same value as the market value in 2011. 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.

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

	2011	2010
Funded Status of Plans:		
Projected benefit obligation (PBO)	$ 17,372	$ 14,484
Fair value of plan assets	15,841	13,295
Funded status of the plans	$ (1,531)	$ (1,189)
Components of Funded Status by Plans:		
U.S. qualified plans	$ (927)	$ (580)
U.S. nonqualified plans	(339)	(348)
International plans	(265)	(261)
Net funded status	$ (1,531)	$ (1,189)
Components of Amounts Included in Balance Sheets:		
Current pension and other benefit obligations	(33)	(30)
Noncurrent pension and other benefit obligations	(1,498)	(1,159)
Net amount recognized	$ (1,531)	$ (1,189)
Cash Amounts:		
Cash contributions during the year	$ 557	$ 900
Benefit payments during the year	$ 468	$ 391

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 year-end accounting on plan assets. At May 31, 2011, we recorded a decrease to equity through OCI of $350 million (net of tax) to reflect unrealized actuarial losses during 2011 related to a decline in the discount rate. Those losses are subject to amortization over future years and may be reflected in future income statements unless they are recovered. At May 31, 2010, we recorded a decrease to equity through OCI of $1.0 billion (net of tax) attributable to our pension plans.

The funding requirements for our U.S. 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 Internal Revenue Service rules falls below 80% at the beginning of a plan year. All of our U.S. Pension Plans have 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 U.S. Pension Plans for 2011 were approximately $411 million or 3% of plan assets).

During 2011, we made $480 million in contributions to our U.S. Pension Plans, including $121 million in voluntary contributions. Over the past several years, we have made voluntary contributions to our U.S. Pension 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 2012, we anticipate making required contributions to our U.S. Pension Plans totaling approximately $500 million.

Cumulative unrecognized actuarial losses were $5.4 billion through May 31, 2011, compared to $5.2 billion through May 31, 2010. 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. Our pension expense includes amortization of these actuarial losses of $276 million in 2011, $125 million in 2010 and $44 million in 2009.

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, 2011 and 2010, there were $1.6 billion of self-insurance accruals reflected in our balance sheet. Approximately 40% of these accruals were classified as current liabilities.

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.

LONG-LIVED ASSETS

PROPERTY AND EQUIPMENT. Our key businesses are capital intensive, with approximately 57% 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.

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.

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 $173 million at May 31, 2011 and $101 million at May 31, 2010. 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 2011 (see Overview for additional information on certain asset impairments in our FedEx Freight segment in 2011) or 2010. 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 7 of the accompanying consolidated financial statements, at May 31, 2011 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, 2011 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.

Under a proposed revision to the accounting standards for leases, we would be required to record an asset and a liability for our outstanding operating leases similar to the current accounting for capital leases. Notably, the amount we record in the future would be the net present value of our future lease commitments at the date of adoption. This proposed guidance has not been issued and has been subjected to numerous revisions since the proposal was issued. Accordingly, we cannot make any judgments about the specific impact of the new proposed standard to us. However, our existing financing agreements and the rating agencies that evaluate our credit worthiness already take our operating leases into account.

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 $2.3 billion of recorded goodwill 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.

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Our businesses with significant recorded goodwill include our FedEx Express, FedEx Freight and FedEx Office reporting units. We evaluated these reporting units during the fourth quarter of 2011. The estimated fair value of each of these reporting units exceeded their carrying values in 2011, and we do not believe that any of these reporting units are at risk as of May 31, 2011. However, as noted below, we have recorded goodwill impairment charges associated with our FedEx Office reporting unit in recent years. While the performance of this business has improved, the realization of the value of the remaining attributable goodwill ($362 million) is dependent upon execution of our growth strategies and initiatives in the future.

Goodwill Impairment Charges 2010

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. The impairment charge resulted from the significant negative impact of the U.S. recession on the LTL industry, which resulted in volume and yield declines and operating losses. In connection with the combination of our LTL networks in 2011, this unit was merged into the FedEx Freight reporting unit.

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 including headcount reductions, the termination of operations in some international locations and substantially curtailing future network expansion. Despite these actions, operating losses and weak economic conditions significantly impacted our FedEx Office reporting unit.

In connection with our annual impairment testing in 2009, 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.

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 17 of the accompanying 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 17 is not expected to be material to our financial position, results of operations or cash flows. The following describes our methods and associated processes for evaluating these matters.

TAX CONTINGENCIES. We are subject to income and operating tax rules of the U.S., 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.

Tax contingencies arise from uncertainty in the application of tax rules throughout the many jurisdictions in which we operate and 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. 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. These noncurrent income tax liabilities are recorded in the caption Other liabilities in the accompanying consolidated balance sheets.

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.

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.

During the preparation of our financial statements, we evaluate our contingencies to determine whether it is probable, reasonably possible or remote that a liability has been incurred. A loss is recognized for all contingencies deemed probable and estimable, regardless of amount. For unresolved contingencies with potentially material exposure that are deemed reasonably possible, we evaluate whether a potential loss or range of loss can be reasonably estimated.

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Our evaluation of these matters is the result of a comprehensive process designed to ensure that accounting recognition of a loss or disclosure of these contingencies is made in a timely manner and involves our legal and accounting personnel, as well as external counsel where applicable. The process includes regular communications during each quarter and scheduled meetings shortly before the completion of our financial statements to evaluate any new legal proceedings and the status of any existing matters.

In determining whether a loss should be accrued or a loss contingency disclosed, we evaluate, among other factors:

- the current status of each matter within the scope and context of the entire lawsuit (i.e., the lengthy and complex nature of class-action matters);
- the procedural status of each lawsuit;
- any opportunities to dispose of the lawsuit on its merits before trial (i.e., motion to dismiss or for summary judgment);
- the amount of time remaining before the trial date;
- the status of discovery;
- the status of settlement, arbitration or mediation proceedings, and;
- our judgment regarding the likelihood of success prior to or at trial.

In reaching our conclusions with respect to accrual of a loss or loss contingency disclosure, we take a holistic view of each matter based on these factors and the information available prior to the issuance of our financial statements. Uncertainty with respect to an individual factor or combination of these factors may impact our decisions related to accrual or disclosure of a loss contingency, including a conclusion that we are unable to establish an estimate of possible loss or a meaningful range of possible loss. We update our disclosures to reflect our most current understanding of the contingencies at the time we issue our financial statements. However, 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 or range of possible loss.

Despite the inherent complexity in the accounting and disclosure of contingencies, we believe that our processes are robust and thorough and provide a consistent framework for management in evaluating the potential outcome of contingencies for proper accounting recognition and disclosure.

RISK FACTORS

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

We are directly affected by the state of the economy. While macro-economic risks 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 had a disproportionately negative impact on us and our recent financial results.

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, such as noncompliance with anti-corruption laws, 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.

We rely heavily on information and 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. External and internal risks, such as malware, insecure coding, Acts of God, attempts to penetrate our networks, data leakage and human error, pose a direct threat to our products, services and data. Any disruption to the Internet or our complex, global technology infrastructure, including those impacting our computer systems and customer Web sites, could adversely impact our customer service, volumes, and revenues and result in increased costs. These types of adverse impacts could also occur in the event the confidentiality, integrity, or availability of company and customer information was compromised due to a data loss by FedEx or a trusted third party. While we have invested and continue to invest in technology security initiatives, information technology risk management and disaster recovery plans, these measures cannot fully insulate us from technology disruptions or data loss 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. 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.

We face intense competition. 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, 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.

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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