FEDEX CORP
Form 10-Q
December 19, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED November 30, 2013

OR

¨ **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)*

(901) 818-7500

(Registrant s telephone number, including area code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data 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 x No ¨

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.

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

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Common Stock	Outstanding Shares at December 18, 2013
Common Stock, par value $0.10 per share	312,228,182

Table of Contents

FEDEX CORPORATION

INDEX

Table of Contents

FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	November 30, 2013 (Unaudited)	May 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,935	$ 4,917
Receivables, less allowances of $162 and $176	5,377	5,044
Spare parts, supplies and fuel, less allowances of $202 and $205	458	457
Deferred income taxes	655	533
Prepaid expenses and other	441	323
Total current assets	10,866	11,274
PROPERTY AND EQUIPMENT, AT COST	39,301	38,109
Less accumulated depreciation and amortization	20,181	19,625
Net property and equipment	19,120	18,484
OTHER LONG-TERM ASSETS		
Goodwill	2,737	2,755
Other assets	819	1,054
Total other long-term assets	3,556	3,809
	$ 33,542	$ 33,567

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

Table of Contents

FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

	November 30, 2013 (Unaudited)	May 31, 2013
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 251	$ 251
Accrued salaries and employee benefits	1,403	1,688
Accounts payable	1,868	1,879
Accrued expenses	1,884	1,932
Total current liabilities	5,406	5,750
LONG-TERM DEBT, LESS CURRENT PORTION	2,739	2,739
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	1,945	1,652
Pension, postretirement healthcare and other benefit obligations	3,704	3,916
Self-insurance accruals	1,009	987
Deferred lease obligations	882	778
Deferred gains, principally related to aircraft transactions	215	227
Other liabilities	109	120
Total other long-term liabilities	7,864	7,680
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of November 30, 2013 and May 31, 2013	32	32
Additional paid-in capital	2,666	2,668
Retained earnings	19,366	18,519
Accumulated other comprehensive loss	(3,769)	(3,820)
Treasury stock, at cost	(762)	(1)
Total common stockholders investment	17,533	17,398
	$ 33,542	$ 33,567

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

Table of Contents

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)

	Three Months Ended November 30,		Six Months Ended November 30,	
	2013	2012	2013	2012
REVENUES	$ 11,403	$ 11,107	$ 22,427	$ 21,899
OPERATING EXPENSES:				
Salaries and employee benefits	4,148	4,133	8,225	8,236
Purchased transportation	2,040	1,860	3,919	3,540
Rentals and landing fees	648	630	1,288	1,248
Depreciation and amortization	647	592	1,286	1,165
Fuel	1,136	1,235	2,240	2,373
Maintenance and repairs	479	511	959	1,053
Other	1,478	1,428	2,888	2,824
	10,576	10,389	20,805	20,439
OPERATING INCOME	827	718	1,622	1,460
OTHER INCOME (EXPENSE):				
Interest, net	(30)	(18)	(57)	(28)
Other, net	(5)	(8)	(7)	(13)
	(35)	(26)	(64)	(41)
INCOME BEFORE INCOME TAXES	792	692	1,558	1,419
PROVISION FOR INCOME TAXES	292	254	569	522
NET INCOME	$ 500	$ 438	$ 989	$ 897
EARNINGS PER COMMON SHARE:				
Basic	$ 1.58	$ 1.39	$ 3.13	$ 2.85
Diluted	$ 1.57	$ 1.39	$ 3.10	$ 2.84
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.15	$ 0.14	$ 0.45	$ 0.42

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

Table of Contents

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN MILLIONS)

	Three Months Ended November 30, 2013	Three Months Ended November 30, 2012	Six Months Ended November 30, 2013	Six Months Ended November 30, 2012
NET INCOME	$ 500	$ 438	$ 989	$ 897
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax of $6, $2, $4 and $6	45	14	(34)	57
Amortization of unrealized pension actuarial gains/losses and other, net of tax of $25, $38, $50 and $75	43	63	85	126
	88	77	51	183
COMPREHENSIVE INCOME	$ 588	$ 515	$ 1,040	$ 1,080

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

Table of Contents

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN MILLIONS)

	Six Months Ended November 30, 2013	2012
Operating Activities:		
Net income	$ 989	$ 897
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	1,286	1,165
Provision for uncollectible accounts	65	93
Stock-based compensation	71	64
Deferred income taxes and other noncash items	201	267
Changes in assets and liabilities:		
Receivables	(385)	(503)
Other assets	(126)	94
Accounts payable and other liabilities	(476)	(345)
Other, net	(16)	(14)
Cash provided by operating activities	1,609	1,718
Investing Activities:		
Capital expenditures	(1,690)	(1,888)
Business acquisitions, net of cash acquired		(483)
Proceeds from asset dispositions and other	19	20
Cash used in investing activities	(1,671)	(2,351)
Financing Activities:		
Principal payments on debt	(3)	(417)
Proceeds from debt issuance		991
Proceeds from stock issuances	380	53
Excess tax benefit on the exercise of stock options	20	6
Dividends paid	(95)	(88)
Purchase of treasury stock	(1,219)	(246)
Other, net		(9)
Cash (used in) provided by financing activities	(917)	290
Effect of exchange rate changes on cash	(3)	17

Net decrease in cash and cash equivalents	(982)	(326)
Cash and cash equivalents at beginning of period	4,917	2,843
Cash and cash equivalents at end of period	$ 3,935	$ 2,517

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

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. These interim financial statements of FedEx Corporation (FedEx) have been prepared in accordance with accounting principles generally accepted in the United States and Securities and Exchange Commission (SEC) instructions for interim financial information, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 2013 (Annual Report). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed in our Annual Report.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly our financial position as of November 30, 2013, the results of our operations for the three- and six-month periods ended November 30, 2013 and 2012 and cash flows for the six-month periods ended November 30, 2013 and 2012. Operating results for the three- and six-month periods ended November 30, 2013 are not necessarily indicative of the results that may be expected for the year ending May 31, 2014.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2014 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

BUSINESS ACQUISITIONS. As discussed in our Annual Report, on June 20, 2013, we signed agreements to acquire the businesses operated by our current service provider Supaswift (Pty) Ltd. in five countries in Southern Africa. In addition, on September 2, 2013, we entered into an agreement to acquire Supaswift s business in two additional countries. This acquisition will be funded with cash from operations and is expected to be completed in the second half of 2014, subject to customary closing conditions. The financial results of the acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2014 results.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, which represent a small number of FedEx Express s total employees, are employed under a collective bargaining agreement. The contract became amendable in March 2013, and the parties are currently in negotiations. In addition to our pilots at FedEx Express, certain non-U.S. employees are unionized.

STOCK-BASED COMPENSATION. We have two types of equity-based compensation: stock options and restricted stock. The key terms of the stock option and restricted stock awards granted under our incentive stock plans and all financial disclosures about these programs are set forth in our Annual Report.

Our stock-based compensation expense was $26 million for the three-month period ended November 30, 2013 and $71 million for the six-month period ended November 30, 2013. Our stock-based compensation expense was $25 million for the three-month period ended November 30, 2012 and $64 million for the six-month period ended November 30, 2012. Due to its immateriality, additional disclosures related to stock-based compensation have been excluded from this quarterly report.

RECENT ACCOUNTING GUIDANCE. New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements.

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 2 of our condensed consolidated financial statements.

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

While no other new accounting guidance was adopted or issued during the first half of 2014 that is relevant to the readers of our financial statements, there are numerous proposals under development which, if and when enacted, may have a significant impact on our financial reporting as described in our Annual Report.

STOCK REPURCHASE PROGRAM AND DIVIDENDS. In October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. These shares augmented the 7.4 million shares remaining on our previously authorized share repurchase program. The shares may be purchased from time to time in the open market or in privately negotiated transactions. Repurchases will be made at the company s discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit was set for the completion of the repurchase program, and the program may be suspended or discontinued at any time.

During the first half of 2014, we repurchased 10 million shares of FedEx common stock at an average price of $122 per share for a total of $1.2 billion. As of November 30, 2013, 32.2 million shares remained under existing share repurchase authorizations.

On November 15, 2013, our Board of Directors declared a dividend of $0.15 per share of common stock. The dividend will be paid on January 2, 2014 to stockholders of record as of the close of business on December 12, 2013. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

(2) Accumulated Other Comprehensive Income (Loss)

The following table provides changes in accumulated other comprehensive income (loss) (AOCI), net of tax, reported in our condensed consolidated financial statements for the periods ended November 30 (in millions; amounts in parentheses indicate debits to AOCI):

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Foreign currency translation gain (loss):				
Balance at beginning of period	$ 23	$ 104	$ 102	$ 61
Translation adjustments	45	14	(34)	57
Balance at end of period	68	118	68	118
Retirement plans adjustments:				
Balance at beginning of period	(3,880)	(4,951)	(3,922)	(5,014)
Reclassifications from AOCI	43	63	85	126

Balance at end of period		(3,837)		(4,888)		(3,837)		(4,888)
Accumulated other comprehensive loss at end of period	$	(3,769)	$	(4,770)	$	(3,769)	$	(4,770)

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

The following table presents details of the reclassifications from AOCI for the periods ended November 30 (in millions; amounts in parentheses indicate debits to earnings):

	Amount Reclassified from AOCI				Affected Line Item in the Income Statement
	Three Months Ended		Six Months Ended		
	2013	2012	2013	2012	
Retirement plans:					
Amortization of actuarial losses and other	$ (97)	$ (129)	$ (192)	$ (258)	Salaries and employee benefits
Amortization of prior service credits	29	28	57	57	Salaries and employee benefits
Total before tax	(68)	(101)	(135)	(201)	
Income tax benefit	25	38	50	75	Provision for income taxes
AOCI reclassifications, net of tax	$ (43)	$ (63)	$ (85)	$ (126)	Net income

(3) Financing Arrangements

We have a shelf registration statement with the SEC that allows us to sell, in one or more future offerings, any combination of our unsecured debt securities and common stock.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. 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 70%. Our leverage ratio of adjusted debt to capital was 51% at November 30, 2013. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of November 30, 2013, no commercial paper was outstanding, and the entire $1 billion under the revolving credit facility was available for future borrowings.

Long-term debt, exclusive of capital leases, had a carrying value and estimated fair value of $3.0 billion at November 30, 2013 and a carrying value of $3.0 billion compared with an estimated fair value of $3.2 billion at May 31, 2013. The estimated fair values were determined based on quoted market prices and the current rates offered for debt with similar terms and maturities. The fair value of our long-term debt is classified as Level 2 within the fair value hierarchy. This classification is defined as a fair value determined using market-based inputs other than quoted prices that are observable for the liability, either directly or indirectly.

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(4) Computation of Earnings Per Share

The calculation of basic and diluted earnings per common share for the periods ended November 30 was as follows (in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Basic earnings per common share:				
Net earnings allocable to common shares[1]	$ 499	$ 437	$ 988	$ 895
Weighted-average common shares	315	314	316	314
Basic earnings per common share	$ 1.58	$ 1.39	$ 3.13	$ 2.85
Diluted earnings per common share:				
Net earnings allocable to common shares[1]	$ 499	$ 437	$ 988	$ 895
Weighted-average common shares	315	314	316	314
Dilutive effect of share-based awards	4	1	3	2
Weighted-average diluted shares	319	315	319	316
Diluted earnings per common share	$ 1.57	$ 1.39	$ 3.10	$ 2.84
Anti-dilutive options excluded from diluted earnings per common share	2.5	14.3	6.2	14.1

[1] Net earnings available to participating securities were immaterial in all periods presented.

(5) Retirement Plans

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. Key terms of our retirement plans are provided in our Annual Report. Our retirement plans costs for the periods ended November 30 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
U.S. domestic and international pension plans	$ 121	$ 171	$ 242	$ 340
U.S. domestic and international defined contribution plans	88	87	177	175
U.S. domestic and international postretirement healthcare plans	19	20	39	39
	$ 228	$ 278	$ 458	$ 554

Net periodic benefit cost of the pension and postretirement healthcare plans for the periods ended November 30 included the following components (in millions):

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Pension Plans				
Service cost	$ 164	$ 173	$ 328	$ 346
Interest cost	263	242	526	484
Expected return on plan assets	(374)	(345)	(747)	(691)
Recognized actuarial losses and other	68	101	135	201
	$ 121	$ 171	$ 242	$ 340

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Postretirement Healthcare Plans				
Service cost	$ 9	$ 11	$ 19	$ 21
Interest cost	10	9	20	18
	$ 19	$ 20	$ 39	$ 39

Required contributions to our tax-qualified U.S. domestic pension plans (U.S. Pension Plans) for the six-month periods ended November 30, were $315 million in 2013 and $280 million in 2012. In December 2013, we made an additional contribution of $165 million to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments.

(6) <u>Business Segment Information</u>

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 include FedEx Express, the world s largest express transportation company; FedEx Ground Package System, Inc. (FedEx Ground), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading North American provider of less-than-truckload (LTL) freight services.

Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (air and ocean freight forwarding and customs brokerage) 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, information technology, communications and back-office functions) FedEx TechConnect (customer service, technical support, billings and collections)

FedEx Office (document and business services and package acceptance)

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. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in their natural expense line items. The FedEx Services segment is discussed further in our Annual Report.

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, which are an immaterial component of our allocations, 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.

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

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 in Management s Discussion and Analysis of Results of Operations and Financial Condition 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 and our allocation methodologies are refined as necessary to reflect changes in our businesses.

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.

The following table provides a reconciliation of reportable segment revenues and operating income to our unaudited condensed consolidated financial statement totals for the periods ended November 30 (in millions):

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Revenues				
FedEx Express segment	$ 6,844	$ 6,858	$ 13,449	$ 13,490
FedEx Ground segment	2,849	2,593	5,579	5,055
FedEx Freight segment	1,434	1,377	2,858	2,776
FedEx Services segment	391	405	766	794
Other and eliminations	(115)	(126)	(225)	(216)
	$ 11,403	$ 11,107	$ 22,427	$ 21,899
Operating Income				
FedEx Express segment	$ 326	$ 230	$ 562	$ 437

FedEx Ground segment	424	412	892	857
FedEx Freight segment	77	76	168	166
	$ 827	$ 718	$ 1,622	$ 1,460

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(7) Commitments

As of November 30, 2013, our purchase commitments under various contracts for the remainder of 2014 and annually thereafter were as follows (in millions):

	Aircraft and Aircraft-Related	Other[1]	Total
2014 (remainder)	$ 395	$ 539	$ 934
2015	1,142	222	1,364
2016	1,127	145	1,272
2017	903	101	1,004
2018	1,447	45	1,492
Thereafter	5,294	113	5,407
Total	$ 10,308	$ 1,165	$ 11,473

(1) Primarily vehicles, facilities, advertising contracts, and for the remainder of 2014, a total of $330 million of quarterly contributions to our U.S. Pension Plans.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of November 30, 2013, our obligation to purchase four Boeing 767-300 Freighter (B767F) aircraft and nine Boeing 777 Freighter (B777F) 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. Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport unless we have entered into noncancelable commitments to modify such aircraft. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

We had $237 million in deposits and progress payments as of November 30, 2013 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the Other assets caption of our condensed consolidated balance sheets. In addition to our commitment to purchase B777Fs and B767Fs, our aircraft purchase commitments include the Boeing 757 (B757) aircraft in passenger configuration, which will require additional costs to modify for cargo transport. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of November 30, 2013, with the year of expected delivery:

	B757	B767F	B777F	Total
2014 (remainder)	11	1		12
2015	11	12		23
2016		10	2	12
2017		10		10
2018		10	2	12
Thereafter		4	14	18
Total	22	47	18	87

On December 10, 2013, FedEx Express entered into an agreement with The Boeing Company for the purchase of two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express is also deferring 11 existing options to purchase B777F aircraft by two years. This aircraft transaction is not included in the table above, as it occurred subsequent to the end of the second quarter of 2014.

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at November 30, 2013 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2014 (remainder)	$ 395	$ 764	$ 1,159
2015	448	1,496	1,944
2016	453	1,294	1,747
2017	391	1,395	1,786
2018	326	995	1,321
Thereafter	824	6,238	7,062
Total	$ 2,837	$ 12,182	$ 15,019

Future minimum lease payments under capital leases were immaterial at November 30, 2013. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

(8) Contingencies

Wage-and-Hour. We are a defendant in a number of lawsuits containing various class-action allegations of wage-and-hour violations. The plaintiffs in these lawsuits allege, among other things, that they were forced to work off the clock, were not paid overtime or were not provided work breaks or other benefits. The complaints generally seek unspecified monetary damages, injunctive relief, or both. We do not believe that a material loss is reasonably possible with respect to any of these matters.

Independent Contractor Lawsuits and State Administrative Proceedings. FedEx Ground is involved in numerous class-action lawsuits (including 30 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company s owner-operators should be treated as employees, rather than independent contractors.

Most of the class-action lawsuits were consolidated for administration of the pre-trial proceedings by a single federal court, the U.S. District Court for the Northern District of Indiana. The multidistrict litigation court granted class certification in 28 cases and denied it in 14 cases. On December 13, 2010, the court entered an opinion and order addressing all outstanding motions for summary judgment on the status of the owner-operators (*i.e.,* independent contractor vs. employee). In sum, the court has now ruled on our summary judgment motions and entered judgment in favor of FedEx Ground on all claims in 20 of the 28 multidistrict litigation cases that had been certified as class actions, finding that the owner-operators in those cases were contractors as a matter of the law of 20 states. The plaintiffs filed notices of appeal in all of these 20 cases. The Seventh Circuit heard the appeal in the Kansas case in January 2012 and, in July 2012, issued an opinion that did not make a determination with respect to the correctness of the district court s decision and, instead, certified two questions to the Kansas Supreme Court related to the classification of the plaintiffs as independent contractors under the Kansas Wage Payment Act. The Kansas Supreme Court heard oral argument on November 5, 2013. The other 19 cases that are before the Seventh Circuit remain stayed pending a decision of the Kansas Supreme Court.

The multidistrict litigation court remanded the other eight certified class actions back to the district courts where they were originally filed because its summary judgment ruling did not completely dispose of all of the claims in those lawsuits. Three of those cases are now on appeal with the Court of Appeals for the Ninth Circuit, and one is on appeal with the Court of Appeals for the Eleventh Circuit. The other four remain pending in their respective district courts, but two of these four matters have been settled for immaterial amounts. The court granted final approval of one of the two settlements during the second quarter of 2014, while the other settlement remains subject to court approval.

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

While the granting of summary judgment in favor of FedEx Ground by the multidistrict litigation court in 20 of the 28 cases that had been certified as class actions remains subject to appeal, we believe that it significantly improves the likelihood that our independent contractor model will be upheld. Adverse determinations in matters related to FedEx Ground s independent contractors, however, could, among other things, entitle certain of our owner-operators and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground, and could result in changes to the independent contractor status of FedEx Ground s owner-operators in certain jurisdictions. We believe that FedEx Ground s owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company s independent contractors. While it is reasonably possible that potential loss in some of these lawsuits or such changes to the independent contractor status of FedEx Ground s owner-operators could be material, we cannot yet determine the amount or reasonable range of potential loss. A number of factors contribute to this. The number of plaintiffs in these lawsuits continues to change, with some being dismissed and others being added and, as to new plaintiffs, discovery is still ongoing. In addition, the parties have conducted only very limited discovery into damages, which could vary considerably from plaintiff to plaintiff. Further, the range of potential loss could be impacted considerably by future rulings on the merits of certain claims and FedEx Ground s various defenses, and on evidentiary issues. In any event, we do not believe that a material loss is probable in these matters.

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation, two of which have been certified as class actions. These certified class actions were settled for immaterial amounts in the first quarter of 2014. The court granted final approval of one of the two settlements during the second quarter of 2014, while the other settlement remains subject to court approval. The other cases are in varying stages of litigation, and we do not expect to incur a material loss in any of these matters.

Other Matters. In August 2010, a third-party consultant who works with shipping customers to negotiate lower rates filed a lawsuit in federal district court in California against FedEx and United Parcel Service, Inc. (UPS) alleging violations of U.S. antitrust law. This matter was dismissed in May 2011, but the court granted the plaintiff permission to file an amended complaint, which FedEx received in June 2011. In November 2011, the court granted our motion to dismiss this complaint, but again allowed the plaintiff to file an amended complaint. The plaintiff filed a new complaint in December 2011, and the matter remains pending before the court. In February 2011, shortly after the initial lawsuit was filed, we received a demand for the production of information and documents in connection with a civil investigation by the U.S. Department of Justice (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. In November 2012, the DOJ served a civil investigative demand on the third-party consultant seeking all pleadings, depositions and documents produced in the lawsuit. We are cooperating with the investigation, do not believe that we have engaged in any anti-competitive activities and will vigorously defend ourselves in any action that may result from the investigation. While the litigation proceedings and the DOJ investigation move forward, and the amount of loss, if any, is dependent on a number of factors that are not yet fully developed or resolved, we do not believe that a material loss is reasonably possible.

We have received requests for information from the DOJ in the Northern District of California in connection with a criminal investigation relating to the transportation of packages for online pharmacies that may have shipped pharmaceuticals in violation of federal law. We responded to grand jury subpoenas issued in June 2008 and August 2009 and to additional requests for information pursuant to those subpoenas, and we continue to respond and cooperate with the investigation. We believe that our employees have acted in good faith at all times. We do not believe that we have engaged in any illegal activities and will vigorously defend ourselves in any action that may result from the investigation. The DOJ may pursue a criminal indictment and, if we are convicted, remedies could include fines, penalties, financial forfeiture and compliance conditions. We cannot estimate the amount or range of loss, if any, as such analysis would depend on facts and law that are not yet fully developed or resolved.

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

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

(9) Supplemental Cash Flow Information

Cash paid for interest expense and income taxes for the six-month periods ended November 30 was as follows (in millions):

	2013	2012
Cash payments for:		
Interest (net of capitalized interest)	$ 64	$ 36
Income taxes	$ 626	$ 543
Income tax refunds received	(36)	(191)
Cash tax payments, net	$ 590	$ 352

(10) Condensed Consolidating Financial Statements

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

The guarantor subsidiaries, which are wholly owned by FedEx, guarantee $2.75 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the Guarantor Subsidiaries and Non-guarantor Subsidiaries columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting. Condensed consolidating financial statements for our guarantor subsidiaries and non-guarantor subsidiaries are presented in the following tables (in millions):

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEETS

(UNAUDITED)

November 30, 2013

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 2,808	$ 492	$ 775	$ (140)	$ 3,935
Receivables, less allowances	3	4,270	1,141	(37)	5,377
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	127	715	57		899
Deferred income taxes		638	17		655
Total current assets	2,938	6,115	1,990	(177)	10,866
PROPERTY AND EQUIPMENT, AT COST	27	37,025	2,249		39,301
Less accumulated depreciation and amortization	21	19,003	1,157		20,181
Net property and equipment	6	18,022	1,092		19,120
INTERCOMPANY RECEIVABLE		364	1,288	(1,652)	
GOODWILL		1,552	1,185		2,737
INVESTMENT IN SUBSIDIARIES	19,679	3,562		(23,241)	
OTHER ASSETS	2,130	551	235	(2,097)	819
	$ 24,753	$ 30,166	$ 5,790	$ (27,167)	$ 33,542
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$ 250	$ 1	$	$	$ 251
Accrued salaries and employee benefits	61	1,125	217		1,403
Accounts payable	46	1,344	655	(177)	1,868

Accrued expenses	312	1,365	207		1,884
Total current liabilities	669	3,835	1,079	(177)	5,406
LONG-TERM DEBT, LESS CURRENT PORTION	2,490	249			2,739
INTERCOMPANY PAYABLE	1,652			(1,652)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		3,963	79	(2,097)	1,945
Other liabilities	2,409	3,263	247		5,919
Total other long-term liabilities	2,409	7,226	326	(2,097)	7,864
STOCKHOLDERS INVESTMENT	17,533	18,856	4,385	(23,241)	17,533
	$ 24,753	$ 30,166	$ 5,790	$ (27,167)	$ 33,542

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2013

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$ 3,892	$ 405	$ 717	$ (97)	$ 4,917
Receivables, less allowances		3,989	1,084	(29)	5,044
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	45	681	54		780
Deferred income taxes		518	15		533
Total current assets	3,937	5,593	1,870	(126)	11,274
PROPERTY AND EQUIPMENT, AT COST	27	35,915	2,167		38,109
Less accumulated depreciation and amortization	21	18,469	1,135		19,625
Net property and equipment	6	17,446	1,032		18,484
INTERCOMPANY RECEIVABLE		439	1,203	(1,642)	
GOODWILL		1,552	1,203		2,755
INVESTMENT IN SUBSIDIARIES	18,739	3,347		(22,086)	
OTHER ASSETS	2,187	822	191	(2,146)	1,054
	$ 24,869	$ 29,199	$ 5,499	$ (26,000)	$ 33,567
LIABILITIES AND STOCKHOLDERS INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$ 250	$ 1	$	$	$ 251
Accrued salaries and employee benefits	82	1,402	204		1,688
Accounts payable	4	1,392	609	(126)	1,879
Accrued expenses	355	1,366	211		1,932

Total current liabilities	691	4,161	1,024	(126)	5,750
LONG-TERM DEBT, LESS CURRENT PORTION	2,489	250			2,739
INTERCOMPANY PAYABLE	1,642			(1,642)	
OTHER LONG-TERM LIABILITIES					
Deferred income taxes		3,798		(2,146)	1,652
Other liabilities	2,649	3,133	246		6,028
Total other long-term liabilities	2,649	6,931	246	(2,146)	7,680
STOCKHOLDERS INVESTMENT	17,398	17,857	4,229	(22,086)	17,398
	$ 24,869	$ 29,199	$ 5,499	$ (26,000)	$ 33,567

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended November 30, 2013

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 9,447	$ 2,042	$ (86)	$ 11,403
OPERATING EXPENSES:					
Salaries and employee benefits	24	3,568	556		4,148
Purchased transportation		1,340	739	(39)	2,040
Rentals and landing fees	2	563	85	(2)	648
Depreciation and amortization	1	595	51		647
Fuel		1,111	25		1,136
Maintenance and repairs		447	32		479
Intercompany charges, net	(50)	(24)	74		
Other	23	1,192	308	(45)	1,478
		8,792	1,870	(86)	10,576
OPERATING INCOME		655	172		827
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	500	133		(633)	
Interest, net	(35)	5			(30)
Intercompany charges, net	36	(41)	5		
Other, net	(1)	(3)	(1)		(5)
INCOME BEFORE INCOME TAXES	500	749	176	(633)	792
Provision for income taxes		251	41		292
NET INCOME	$ 500	$ 498	$ 135	$ (633)	$ 500

COMPREHENSIVE INCOME	$	540	$	506	$	175	$	(633)	$	588

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended November 30, 2012

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 9,225	$ 1,965	$ (83)	$ 11,107
OPERATING EXPENSES:					
Salaries and employee benefits	31	3,569	533		4,133
Purchased transportation		1,222	673	(35)	1,860
Rentals and landing fees	1	549	81	(1)	630
Depreciation and amortization	1	545	46		592
Fuel		1,210	25		1,235
Maintenance and repairs	1	481	29		511
Intercompany charges, net	(59)	(88)	147		
Other	25	1,143	307	(47)	1,428
		8,631	1,841	(83)	10,389
OPERATING INCOME		594	124		718
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	438	70		(508)	
Interest, net	(27)	8	1		(18)
Intercompany charges, net	29	(33)	4		
Other, net	(2)	(3)	(3)		(8)
INCOME BEFORE INCOME TAXES	438	636	126	(508)	692
Provision for income taxes		190	64		254
NET INCOME	$ 438	$ 446	$ 62	$ (508)	$ 438

COMPREHENSIVE INCOME	$	497	$	455	$	71	$	(508)	$	515

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Six Months Ended November 30, 2013

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 18,675	$ 3,920	$ (168)	$ 22,427
OPERATING EXPENSES:					
Salaries and employee benefits	55	7,082	1,088		8,225
Purchased transportation		2,582	1,412	(75)	3,919
Rentals and landing fees	3	1,121	167	(3)	1,288
Depreciation and amortization	1	1,184	101		1,286
Fuel		2,192	48		2,240
Maintenance and repairs		896	63		959
Intercompany charges, net	(111)	(30)	141		
Other	52	2,325	601	(90)	2,888
		17,352	3,621	(168)	20,805
OPERATING INCOME		1,323	299		1,622
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	989	243		(1,232)	
Interest, net	(69)	10	2		(57)
Intercompany charges, net	71	(82)	11		
Other, net	(2)	(5)			(7)
INCOME BEFORE INCOME TAXES	989	1,489	312	(1,232)	1,558
Provision for income taxes		483	86		569
NET INCOME	$ 989	$ 1,006	$ 226	$ (1,232)	$ 989

COMPREHENSIVE INCOME	$ 1,068	$ 1,013	$ 191	$ (1,232)	$ 1,040

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Six Months Ended November 30, 2012

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$	$ 18,319	$ 3,743	$ (163)	$ 21,899
OPERATING EXPENSES:					
Salaries and employee benefits	61	7,158	1,017		8,236
Purchased transportation		2,352	1,256	(68)	3,540
Rentals and landing fees	2	1,093	156	(3)	1,248
Depreciation and amortization	1	1,075	89		1,165
Fuel		2,326	47		2,373
Maintenance and repairs	1	996	56		1,053
Intercompany charges, net	(119)	(200)	319		
Other	54	2,276	586	(92)	2,824
		17,076	3,526	(163)	20,439
OPERATING INCOME		1,243	217		1,460
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	897	99		(996)	
Interest, net	(50)	19	3		(28)
Intercompany charges, net	53	(62)	9		
Other, net	(3)	(5)	(5)		(13)
INCOME BEFORE INCOME TAXES	897	1,294	224	(996)	1,419
Provision for income taxes		426	96		522
NET INCOME	$ 897	$ 868	$ 128	$ (996)	$ 897

COMPREHENSIVE INCOME	$	1,015	$	883	$	178	$	(996)	$	1,080

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended November 30, 2013

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (139)	$ 1,545	$ 246	$ (43)	$ 1,609
INVESTING ACTIVITIES					
Capital expenditures		(1,521)	(169)		(1,690)
Proceeds from asset dispositions and other		19			19
CASH USED IN INVESTING ACTIVITIES		(1,502)	(169)		(1,671)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	(31)	64	(33)		
Payment on loan between subsidiaries		(33)	33		
Intercompany dividends		22	(22)		
Principal payments on debt		(3)			(3)
Proceeds from stock issuances	380				380
Excess tax benefit on the exercise of stock options	20				20
Dividends paid	(95)				(95)
Purchase of treasury stock	(1,219)				(1,219)
CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(945)	50	(22)		(917)
Effect of exchange rate changes on cash		(6)	3		(3)
Net (decrease) increase in cash and cash equivalents	(1,084)	87	58	(43)	(982)
Cash and cash equivalents at beginning of period	3,892	405	717	(97)	4,917
Cash and cash equivalents at end of period	$ 2,808	$ 492	$ 775	$ (140)	$ 3,935

- 24 -

Table of Contents

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

(UNAUDITED)

Six Months Ended November 30, 2012

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (32)	$ 1,652	$ 167	$ (69)	$ 1,718
INVESTING ACTIVITIES					
Capital expenditures	(3)	(1,716)	(169)		(1,888)
Business acquisitions, net of cash acquired			(483)		(483)
Proceeds from asset dispositions and other		22	(2)		20
CASH USED IN INVESTING ACTIVITIES	(3)	(1,694)	(654)		(2,351)
FINANCING ACTIVITIES					
Net transfers from (to) Parent	(863)	891	(28)		
Payment on loan between subsidiaries		(430)	430		
Intercompany dividends		1	(1)		
Principal payments on debt		(417)			(417)
Proceeds from debt issuance	991				991
Proceeds from stock issuances	53				53
Excess tax benefit on the exercise of stock options	6				6
Dividends paid	(88)				(88)
Purchase of treasury stock	(246)				(246)
Other, net	(9)	(93)	93		(9)
CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(156)	(48)	494		290
Effect of exchange rate changes on cash		1	16		17
Net (decrease) increase in cash and cash equivalents	(191)	(89)	23	(69)	(326)
Cash and cash equivalents at beginning of period	1,906	417	636	(116)	2,843

Cash and cash equivalents at end of period	$	1,715	$	328	$	659	$	(185)	$	2,517

- 25 -

Table of Contents

REPORT OF INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

FedEx Corporation

We have reviewed the condensed consolidated balance sheet of FedEx Corporation as of November 30, 2013, and the related condensed consolidated statements of income and comprehensive income for the three-month and six-month periods ended November 30, 2013 and 2012 and the condensed consolidated statements of cash flows for the six-month periods ended November 30, 2013 and 2012. These financial statements are the responsibility of the Company s management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of FedEx Corporation as of May 31, 2013, and the related consolidated statements of income, comprehensive income, changes in stockholders investment, and cash flows for the year then ended not presented herein, and in our report dated July 15, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of May 31, 2013, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Memphis, Tennessee

December 19, 2013

Table of Contents

Item 2. Management s Discussion and Analysis of Results of Operations and Financial Condition

GENERAL

The following Management s Discussion and Analysis of Results of Operations and Financial Condition (MD&A) describes the principal factors affecting the results of operations, liquidity, capital resources, contractual cash obligations and critical accounting estimates of FedEx Corporation (FedEx). This discussion should be read in conjunction with the accompanying quarterly unaudited condensed consolidated financial statements and our Annual Report on Form 10-K for the year ended May 31, 2013 (Annual Report). Our Annual Report includes additional information about our significant accounting policies, practices and the transactions that underlie our financial results, as well as a detailed discussion of the most significant risks and uncertainties associated with our financial condition and operating results.

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 North American provider of small-package ground delivery services; and FedEx Freight, Inc. (FedEx Freight), a leading North American provider of less-than-truckload (LTL) freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. (FedEx Services), form the core of our reportable segments.

Our FedEx Services segment provides sales, marketing, information technology, communications and back-office 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. Additional information on our businesses can also be found in our Annual Report.

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services based on macro-economic factors and the global economy;
- 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. The line item Other operating expenses predominantly includes costs associated with outside service contracts (such as security, facility services and cargo handling), insurance, uniforms, professional fees and advertising.

Table of Contents

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2014 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year. References to our transportation segments include, collectively, our FedEx Express, FedEx Ground and FedEx Freight segments.

Table of Contents

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares summary operating results (dollars in millions, except per share amounts) for the periods ended November 30:

	Three Months Ended 2013	Three Months Ended 2012	Percent Change	Six Months Ended 2013	Six Months Ended 2012	Percent Change
Revenues	$ 11,403	$ 11,107	3	$ 22,427	$ 21,899	2
Operating income	827	718	15	1,622	1,460	11
Operating margin	7.3%	6.5%	80bp	7.2%	6.7%	50bp
Net income	$ 500	$ 438	14	$ 989	$ 897	10
Diluted earnings per share	$ 1.57	$ 1.39	13	$ 3.10	$ 2.84	9

The following table shows changes in revenues and operating income by reportable segment for the periods ended November 30, 2013 compared to November 30, 2012 (dollars in millions):

	Change in Revenues		Percent Change in Revenue		Change in Operating Income		Percent Change in Operating Income	
	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended	Three Months Ended	Six Months Ended
FedEx Express segment	$ (14)	$ (41)			$ 96	$ 125	42	29
FedEx Ground segment	256	524	10	10	12	35	3	4
FedEx Freight segment	57	82	4	3	1	2	1	1
FedEx Services segment	(14)	(28)	(3)	(4)				
Other and eliminations	11	(9)	NM	NM				
	$ 296	$ 528	3	2	$ 109	$ 162	15	11

Overview

Our revenues and earnings increased in the second quarter of 2014 driven by improved profitability at FedEx Express and continued solid performance of our FedEx Ground segment. In the second quarter of 2014, earnings improved at FedEx Express, despite a slight decrease in revenues, due to our profit improvement initiatives, including the benefits from our fleet modernization programs, which have resulted in lower aircraft maintenance expenses. Included in our 2013 results was an $0.11 per diluted share negative impact of Superstorm Sandy. Our results for the second quarter and first half of 2014 also reflect lower pension expense and a modest benefit from the voluntary employee severance program we announced in 2013. Our results for the first half of 2014 include significant headwinds from the net negative impact of fuel (described further below) and one fewer operating day.

In the second quarter of 2014, we announced the authorization of a new share repurchase program of up to 32 million shares of common stock, which augmented the 7.4 million shares remaining on our previously authorized repurchase program. During the second quarter, the company repurchased 7.2 million shares of FedEx common stock, increasing the fiscal 2014 year-to-date purchase total to 10 million shares. The second quarter share repurchases had no effect on the quarter s earnings per share.

Table of Contents

The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected volume trends (in thousands) over the five most recent quarters:

(1) International domestic average daily package volume represents our international intra-country express operations.

Table of Contents

The following graphs for FedEx Express, FedEx Ground and FedEx Freight show selected yield trends over the five most recent quarters:

Revenue

Revenues increased 3% in the second quarter and 2% in the first half of 2014, primarily due to higher volumes and yield increases at FedEx Ground and higher volumes at FedEx Freight. At our FedEx Ground segment, revenues increased 10% in the second quarter and in the first half of 2014 due to higher volume from market share gains and increased yields as a result of rate increases. Revenues at FedEx Freight increased 4% during the second quarter and 3% during the first half of 2014 primarily due to higher weight per shipment and average daily LTL shipments. At FedEx Express, revenues decreased slightly in the second quarter and the first half of 2014 as revenue growth from stronger base U.S. and international package business and our freight-forwarding business at FedEx Trade Networks was more than offset by lower freight revenue and the negative impact of lower fuel surcharges. Revenues at all of our transportation segments in the first half of 2014 were negatively impacted by one fewer operating day.

Table of Contents

Operating Income

The following tables compare operating expenses expressed as dollar amounts (in millions) and as a percent of revenue for the periods ended November 30:

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Operating expenses:				
Salaries and employee benefits	$ 4,148	$ 4,133	$ 8,225	$ 8,236
Purchased transportation	2,040	1,860	3,919	3,540
Rentals and landing fees	648	630	1,288	1,248
Depreciation and amortization	647	592	1,286	1,165
Fuel	1,136	1,235	2,240	2,373
Maintenance and repairs	479	511	959	1,053
Other	1,478	1,428	2,888	2,824
Total operating expenses	$ 10,576	$ 10,389	$ 20,805	$ 20,439

	Percent of Revenue		Percent of Revenue	
	Three Months Ended 2013	Three Months Ended 2012	Six Months Ended 2013	Six Months Ended 2012
Operating expenses:				
Salaries and employee benefits	36.4%	37.2%	36.7%	37.6%
Purchased transportation	17.9	16.7	17.5	16.2
Rentals and landing fees	5.7	5.7	5.7	5.7
Depreciation and amortization	5.7	5.3	5.7	5.3
Fuel	9.9	11.1	10.0	10.8
Maintenance and repairs	4.2	4.6	4.3	4.8
Other	12.9	12.9	12.9	12.9
Total operating expenses	92.7	93.5	92.8	93.3
Operating margin	7.3%	6.5%	7.2%	6.7%

Operating income increased in the second quarter and the first half of 2014 primarily as a result of improved profitability at FedEx Express, higher volumes and increased yields at FedEx Ground and improved performance at FedEx Freight. Our results in the second quarter of 2014 compared to 2013 benefited from the negative impact of Superstorm Sandy in the prior year. In addition, our results in the first half of 2014 include a significant negative impact of the timing lag which exists between when fuel prices change and when indexed fuel surcharges automatically adjust and one fewer operating day.

Purchased transportation costs increased 10% in the second quarter and 11% in the first half of 2014 due to volume growth at FedEx Ground, costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks and higher utilization of third-party transportation providers at FedEx Express and FedEx Freight. Depreciation and amortization expense increased 9% in the second quarter and 10% in the first half of 2014 primarily due to accelerated depreciation on certain aircraft, and aircraft recently placed in service at FedEx Express. Salaries and employee benefits expense in the second quarter and in the first half of 2014 benefited from lower pension expense, lower headcount due to employees departing through our voluntary buyout program and the delayed timing or absence of merit increases for many of our employees. Maintenance and repairs expense decreased 6% in the second quarter and 9% in the first half of 2014 due to the continued modernization of our aircraft fleet, which impacted the timing of certain maintenance events.

Table of Contents

The following graph for our transportation segments shows our average cost of jet and vehicle fuel per gallon for the five most recent quarters:

Fuel costs decreased 8% in the second quarter and 6% in the first half of 2014 due to lower average price per gallon of jet fuel. Based on a static analysis of the impact to operating income of year-over-year changes in fuel prices compared to year-over-year changes in fuel surcharges, fuel did not impact operating income in the second quarter but had a significant negative impact on operating income in the first half of 2014.

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 trend in revenue and yield growth, we have included the comparative fuel surcharge rates in effect for the second quarter and the first half of 2014 and 2013 in the accompanying discussions of each of our transportation segments.

Income Taxes

Our effective tax rate was 36.9% for the second quarter and 36.5% for the first half of 2014, compared with 36.8% for the second quarter and first half of 2013. For 2014, we expect an effective tax rate between 36.5% and 37.0%. The actual rate, however, will depend on a number of factors, including the amount and source of operating income.

We are subject to taxation in the United States and various U.S. state, local and foreign jurisdictions. Substantially all U.S. federal income tax matters through fiscal year 2009 are concluded, and we are currently under examination by the Internal Revenue Service for the 2010 and 2011 tax years. It is reasonably possible that certain income tax return proceedings will be completed during the next 12 months and could result in a change in our balance of unrecognized tax benefits. The expected impact of any changes would not be material to our consolidated financial statements. As of November 30, 2013, there were no material changes to our liabilities for unrecognized tax benefits from May 31, 2013.

Table of Contents

Business Acquisitions

As discussed in our Annual Report, on June 20, 2013, we signed agreements to acquire the businesses operated by our current service provider Supaswift (Pty) Ltd. in five countries in Southern Africa. In addition, on September 2, 2013, we entered into an agreement to acquire Supaswift s business in two additional countries. This acquisition will be funded with cash from operations and is expected to be completed in the second half of 2014, subject to customary closing conditions. The financial results of the acquired businesses will be included in the FedEx Express segment from the date of acquisition and will be immaterial to our 2014 results.

Outlook

We expect revenue and earnings growth to continue into the third quarter and the remainder of 2014 driven by ongoing improvements in the results of all of our transportation segments. Our expected results for 2014 will continue to be constrained by moderate growth in the global economy and continued challenges from the demand shift trend from our priority international services to our economy international services at FedEx Express.

The second quarter share repurchases had no effect on the quarter s earnings per share, but are expected to improve full year earnings by $0.04 per diluted share.

During the second quarter an additional 30% of the 3,600 employees accepting voluntary cash buyouts departed the company. As of November 30, 2013, approximately 75% of the total population of employees leaving the company had vacated their positions. The remaining 25% will depart by May 31, 2014. While the voluntary severance program provided a modest benefit to our second quarter results, the majority of the benefits realized from our voluntary severance program will ramp up as the fiscal year progresses and the remaining scheduled employee departures occur.

During the first half of 2014, we continued to execute on the profit improvement programs we announced in 2013. These activities are focused primarily at FedEx Express and FedEx Services. As previously noted, the majority of the benefits from our profit improvement programs will not occur until 2015 and 2016. Our ability to achieve the profit improvement target and other benefits from these programs is dependent upon a number of factors, including the health of the global economy and future customer demand, particularly for our priority services.

Other Outlook Matters. For details on key 2014 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 8 of the accompanying unaudited condensed consolidated financial statements and the Independent Contractor Model 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 owner-operators. 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 Forward-Looking Statements for a discussion of these and other potential risks and uncertainties that could materially affect our future performance.

RECENT ACCOUNTING GUIDANCE

New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements.

On June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income. We have adopted this guidance by including expanded accumulated other comprehensive income disclosure requirements in Note 2 of our condensed consolidated financial statements.

Table of Contents

While no other new accounting guidance was adopted or issued during the first half of 2014 that is relevant to the readers of our financial statements, there are numerous proposals under development which, if and when enacted, may have a significant impact on our financial reporting, as described in our Annual Report.

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 (air and ocean freight forwarding and customs brokerage)
	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, information technology, communications and back-office functions)
	FedEx TechConnect (customer service, technical support, billings and collections)
	FedEx Office (document and business services and package acceptance)

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. For the international regions of FedEx Express, some of these functions are performed on a regional basis by FedEx Express and reported in the FedEx Express segment in their natural expense line items. The FedEx Services segment is discussed further in our Annual Report.

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, which are an immaterial component of our allocations, 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 and our allocation methodologies are refined as necessary to reflect changes in our businesses.

Table of Contents

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.

Table of Contents

FEDEX EXPRESS SEGMENT

FedEx Express offers a wide range of U.S. domestic and international shipping services for delivery of packages and freight including priority services, which provide time-definite delivery within one, two or three business days worldwide, and deferred or economy services, which provide time-definite delivery within five business days worldwide. The following table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) for the periods ended November 30:

	Three Months Ended 2013	Three Months Ended 2012	Percent Change	Six Months Ended 2013	Six Months Ended 2012	Percent Change
Revenues:						
Package:						
U.S. overnight box	$ 1,625	$ 1,609	1	$ 3,209	$ 3,213	
U.S. overnight envelope	398	409	(3)	817	839	(3)
U.S. deferred	771	732	5	1,500	1,434	5
Total U.S. domestic package revenue	2,794	2,750	2	5,526	5,486	1
International priority	1,642	1,678	(2)	3,218	3,339	(4)
International economy	567	514	10	1,099	1,001	10
Total international export package revenue	2,209	2,192	1	4,317	4,340	(1)
International domestic(1)	385	384		730	693	5
Total package revenue	5,388	5,326	1	10,573	10,519	1
Freight:						
U.S.	585	645	(9)	1,209	1,255	(4)
International priority	417	446	(7)	805	885	(9)
International airfreight	55	77	(29)	109	151	(28)
Total freight revenue	1,057	1,168	(10)	2,123	2,291	(7)
Other(2)	399	364	10	753	680	11
Total revenues	6,844	6,858		13,449	13,490	
Operating expenses:						
Salaries and employee benefits	2,469	2,488	(1)	4,909	4,961	(1)
Purchased transportation	660	608	9	1,268	1,145	11
Rentals and landing fees	420	418		841	833	1
Depreciation and amortization	373	336	11	742	659	13
Fuel	986	1,074	(8)	1,942	2,060	(6)
Maintenance and repairs	308	349	(12)	615	721	(15)
Intercompany charges	512	535	(4)	1,007	1,072	(6)
Other(3)	790	820	(4)	1,563	1,602	(2)
Total operating expenses	6,518	6,628	(2)	12,887	13,053	(1)

Operating income	$	326	$	230	42	$	562	$	437	29
Operating margin		4.8%		3.4%	140bp		4.2%		3.2%	100bp

(1) International domestic revenues represent our international intra-country express operations, including acquisitions in Poland (June 2012), France (July 2012) and Brazil (July 2012).

(2) Includes FedEx Trade Networks and FedEx SupplyChain Systems.

(3) Includes predominantly costs associated with outside service contracts (such as security, facility services and cargo handling), professional fees, uniforms, insurance and advertising.

Table of Contents

	Percent of Revenue		Percent of Revenue	
	Three Months Ended 2013	Three Months Ended 2012	Six Months Ended 2013	Six Months Ended 2012
Operating expenses:				
Salaries and employee benefits	36.1%	36.3%	36.5%	36.8%
Purchased transportation	9.6	8.9	9.4	8.5
Rentals and landing fees	6.1	6.1	6.3	6.2
Depreciation and amortization	5.5	4.9	5.5	4.9
Fuel	14.4	15.6	14.4	15.3
Maintenance and repairs	4.5	5.1	4.6	5.3
Intercompany charges	7.5	7.8	7.5	7.9
Other	11.5	11.9	11.6	11.9
Total operating expenses	95.2	96.6	95.8	96.8
Operating margin	4.8%	3.4%	4.2%	3.2%

Table of Contents

The following table compares selected statistics (in thousands, except yield amounts) for the periods ended November 30:

	Three Months Ended 2013	Three Months Ended 2012	Percent Change	Six Months Ended 2013	Six Months Ended 2012	Percent Change
Package Statistics[1]						
Average daily package volume (ADV):						
U.S. overnight box	1,146	1,141		1,129	1,116	1
U.S. overnight envelope	535	564	(5)	549	570	(4)
U.S. deferred	841	828	2	815	794	3
Total U.S. domestic ADV	2,522	2,533		2,493	2,480	1
International priority	421	445	(5)	414	426	(3)
International economy	172	157	10	168	150	12
Total international export ADV	593	602	(1)	582	576	1
International domestic[2]	896	884	1	842	781	8
Total ADV	4,011	4,019		3,917	3,837	2
Revenue per package (yield):						
U.S. overnight box	$ 22.50	$ 22.39		$ 22.39	$ 22.49	
U.S. overnight envelope	11.84	11.51	3	11.72	11.51	2
U.S. deferred	14.55	14.04	4	14.49	14.10	3
U.S. domestic composite	17.59	17.24	2	17.45	17.28	1
International priority	61.87	59.91	3	61.27	61.26	
International economy	52.27	51.97	1	51.35	52.07	(1)
International export composite	59.08	57.84	2	58.40	58.86	(1)
International domestic[2]	6.82	6.88	(1)	6.83	6.93	(1)
Composite package yield	21.32	21.04	1	21.25	21.42	(1)
Freight Statistics[1]						
Average daily freight pounds:						
U.S.	7,872	7,719	2	7,646	7,393	3
International priority	3,068	3,212	(4)	2,964	3,197	(7)
International airfreight	907	1,166	(22)	878	1,135	(23)
Total average daily freight pounds	11,847	12,097	(2)	11,488	11,725	(2)
Revenue per pound (yield):						
U.S.	$ 1.18	$ 1.32	(11)	$ 1.25	$ 1.33	(6)
International priority	2.16	2.21	(2)	2.14	2.16	(1)
International airfreight	0.97	1.05	(8)	0.98	1.04	(6)
Composite freight yield	1.42	1.53	(7)	1.46	1.53	(5)

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

(2) International domestic statistics represent our international intra-country express operations, including acquisitions in Poland (June 2012), France (July 2012) and Brazil (July 2012).

FedEx Express Segment Revenues

FedEx Express segment revenues decreased slightly in both the second quarter and first half of 2014 as revenue growth from our stronger base U.S. and international export package business and our freight-forwarding business at FedEx Trade Networks was more than offset by lower freight revenue, the negative impact of lower fuel surcharges and continued shifts in demand from our priority international services to our economy international services. In addition, revenue in the first half of 2014 was negatively impacted by one fewer operating day.

Freight average daily pounds decreased by 2% in the second quarter and in the first half of 2014 due to weakness in global economic conditions and capacity reductions. Freight yields decreased 7% in the second quarter and 5% in the first half of 2014 due to lower fuel surcharges and lower rates. U.S. domestic yields increased 2% for the second quarter and 1% for the first half of 2014 primarily due to higher rates and weight per package, partially offset by lower fuel surcharges. International export revenues increased 1% in the second quarter of 2014 but decreased 1% in the first half of 2014 as base business growth was offset by lower fuel surcharges and the demand shift to our lower-yielding economy services. International priority yields increased 3% in the second quarter of 2014

Table of Contents

while international priority volumes declined 5%. Within this category, volumes for lower-yielding distribution services declined, while international priority volumes, excluding these distribution services, increased 1%. International domestic revenues remained flat in the second quarter of 2014 but increased 5% in the first half of 2014 due to international business acquisitions during the first quarter of 2013.

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 periods ended November 30:

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
U.S. Domestic and Outbound Fuel Surcharge:				
Low	9.50%	11.50%	8.00%	10.00%
High	10.50	14.00	10.50	14.50
Weighted-average	10.02	13.04	9.26	12.58
International Fuel Surcharges:				
Low	13.50	13.50	12.00	12.00
High	19.00	20.00	19.00	20.50
Weighted-average	16.79	17.22	16.09	16.69

On September 18, 2013, we announced a 3.9% average list price increase effective January 6, 2014, for FedEx Express U.S. domestic, U.S. export and U.S. import services. In September 2012, we announced a 5.9% average list price increase effective January 7, 2013 for FedEx Express U.S. domestic, U.S. export and U.S. import services, while we lowered our fuel surcharge index by two percentage points.

FedEx Express Segment Operating Income

FedEx Express operating income and operating margin increased in the second quarter and the first half of 2014 driven by stronger base U.S. and international business and lower aircraft maintenance and pension expense, partially offset by higher depreciation expense. In addition, operating income in the second quarter of 2014 compared to 2013 benefited from the negative impact of Superstorm Sandy in the prior year. In the first half of 2014, operating income reflects a significant negative impact of the timing lag which exists between when fuel prices change and when indexed fuel surcharges automatically adjust and one fewer operating day. The demand shift from our priority international services to our economy international services continued to impact our overall business.

In the second quarter and the first half of 2014, salaries and employee benefits included lower pension expense and the delayed timing or absence of annual merit increases for many of our employees. Intercompany charges decreased 4% in the second quarter and 6% in the first half of 2014 due to lower allocated sales and information technology costs. Purchased transportation costs increased 9% in the second quarter and 11% in the first half of 2014 due to costs associated with the expansion of our freight-forwarding business at FedEx Trade Networks and higher utilization of third-party transportation providers. Purchased transportation costs in the first half of 2014 were also negatively impacted by international acquisitions. Depreciation and amortization expense increased 11% during the second quarter and 13% during the first half of 2014 as a result of accelerated depreciation due to the shortened life of certain aircraft, and aircraft recently placed into service.

FedEx Express aircraft maintenance and repairs costs are largely driven by aircraft utilization and required periodic maintenance events. When newer aircraft are introduced into our operating fleet, less maintenance costs are incurred.

As a part of our fleet modernization program, FedEx Express has retired older, less efficient aircraft prior to required periodic maintenance events and has introduced newly manufactured aircraft into the fleet. FedEx Express aircraft maintenance and repairs costs decreased 12% in the second quarter and 15% in the first half of 2014, due to the benefits from the fourth quarter of 2013 retirement of 10 aircraft and related engines as we eliminated maintenance events for certain of these engines, along with the timing of other major maintenance events.

Fuel costs decreased 8% in the second quarter and 6% in the first half of 2014 due to lower average price per gallon of jet fuel. 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 did not impact operating income in the second quarter but had a significant negative impact on operating income in the first half of 2014. This analysis considers the estimated impact of the reduction in fuel surcharges included in the base rates charged for FedEx Express services.

FEDEX GROUND SEGMENT

FedEx Ground service offerings include day-certain service delivery to businesses in the United States and Canada and to nearly 100% of U.S. residences. FedEx SmartPost consolidates high-volume, low-weight, less time-sensitive business-to-consumer packages and utilizes the United States Postal Service (USPS) for final delivery. The following table compares 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 periods ended November 30:

	Three Months Ended 2013	Three Months Ended 2012	Percent Change	Six Months Ended 2013	Six Months Ended 2012	Percent Change
Revenues:						
FedEx Ground	$ 2,601	$ 2,359	10	$ 5,107	$ 4,632	10
FedEx SmartPost	248	234	6	472	423	12
Total revenues	2,849	2,593	10	5,579	5,055	10
Operating expenses:						
Salaries and employee benefits	445	396	12	859	773	11
Purchased transportation	1,159	1,057	10	2,223	2,003	11
Rentals	102	85	20	194	159	22
Depreciation and amortization	118	110	7	229	213	8
Fuel	4	4		7	7	
Maintenance and repairs	56	46	22	109	92	18
Intercompany charges	292	262	11	577	524	10
Other[(1)]	249	221	13	489	427	15
Total operating expenses	2,425	2,181	11	4,687	4,198	12
Operating income	$ 424	$ 412	3	$ 892	$ 857	4
Operating margin	14.9%	15.9%	(100)bp	16.0%	17.0%	(100)bp
Average daily package volume						
FedEx Ground	4,627	4,283	8	4,469	4,087	9
FedEx SmartPost	2,218	2,038	9	2,154	1,848	17
Revenue per package (yield)						
FedEx Ground	$ 8.90	$ 8.72	2	$ 8.98	$ 8.83	2
FedEx SmartPost	$ 1.77	$ 1.82	(3)	$ 1.72	$ 1.79	(4)

(1) Includes predominantly costs associated with outside service contracts (such as security and facility services), insurance and professional fees.

	Percent of Revenue		Percent of Revenue	
	Three Months Ended 2013	Three Months Ended 2012	Six Months Ended 2013	Six Months Ended 2012
Operating expenses:				
Salaries and employee benefits	15.6%	15.3%	15.4%	15.3%
Purchased transportation	40.7	40.8	39.8	39.6
Rentals	3.6	3.3	3.5	3.1
Depreciation and amortization	4.1	4.2	4.1	4.2
Fuel	0.1	0.1	0.1	0.1
Maintenance and repairs	2.0	1.8	2.0	1.8
Intercompany charges	10.3	10.1	10.3	10.4
Other	8.7	8.5	8.8	8.5
Total operating expenses	85.1	84.1	84.0	83.0
Operating margin	14.9%	15.9%	16.0%	17.0%

FedEx Ground Segment Revenues

FedEx Ground segment revenues increased 10% in the second quarter and first half of 2014 due to volume and yield growth at FedEx Ground and volume growth at FedEx SmartPost. Revenues in the first half of 2014 were negatively impacted by one fewer operating day.

Average daily volume at FedEx Ground increased 8% during the second quarter and 9% in the first half of 2014 due to market share gains resulting from continued growth in our commercial business and FedEx Home Delivery service. FedEx Ground yield increased 2% during the second quarter and the first half of 2014 primarily due to rate increases and higher residential surcharges, partially offset by lower fuel surcharge revenue.

FedEx SmartPost volumes grew 9% during the second quarter and 17% during the first half of 2014 as a result of the growth in e-commerce. Yields at FedEx SmartPost decreased 3% during the second quarter and 4% during the first half of 2014 primarily due to higher postage costs and lower fuel surcharges, partially offset by rate increases. FedEx SmartPost yield represents the amount charged to customers net of postage paid to the USPS.

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 periods ended November 30:

	Three Months Ended		Six Months Ended	
	2013	2012	2013	2012
Low	6.50%	7.00%	6.50%	7.00%
High	7.00	8.50	7.00	8.50
Weighted-average	6.67	7.88	6.66	7.84

On December 6, 2013, FedEx Ground and FedEx Home Delivery announced a 4.9% average list price increase effective January 6, 2014. FedEx SmartPost rates will also increase. In November 2012, FedEx Ground and FedEx

Home Delivery announced a 4.9% average list price increase effective January 7, 2013. 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. FedEx SmartPost rates also increased.

FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 3% during the second quarter and 4% during the first half of 2014 driven by higher volumes and yields. The increase to operating income was partially offset by higher network expansion costs as we continue to invest heavily in the growing FedEx Ground and FedEx SmartPost businesses, and higher allocated fees. The FedEx Ground segment

Table of Contents

results for the first half of 2014 were also negatively impacted by one fewer operating day. The decline in operating margin for the second quarter of 2014 is primarily attributable to the delayed start of the holiday shipping season, as Cyber Week occurred in December this year versus November last year. The seasonal increases in volume, revenue and operating income related to Cyber Week will be realized in the third quarter for this fiscal year versus the second quarter in the prior year. The operating margin decrease in the first half of 2014 is primarily driven by the net negative impact of fuel.

Purchased transportation costs increased 10% during the second quarter and 11% during the first half of 2014 primarily as a result of volume growth. Salaries and employee benefits expense increased 12% during the second quarter and 11% during the first half of 2014 primarily due to additional staffing to support volume growth. Intercompany charges increased 11% in the second quarter and 10% in the first half of 2014 primarily due to higher allocated information technology, marketing and sales costs.

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 8 of the accompanying unaudited condensed consolidated financial statements.

For additional information on the FedEx Ground Independent Service Provider model, see Part 1, Item 1 of our Annual Report under the caption Independent Contractor Model.

Table of Contents

FEDEX FREIGHT SEGMENT

FedEx Freight service offerings include priority services when speed is critical and economy services when time can be traded for savings. The following table compares revenues, operating expenses, operating expenses as a percent of revenue, operating income and operating margin (dollars in millions) and selected statistics for the periods ended November 30:

	Three Months Ended 2013	Three Months Ended 2012	Percent Change	Six Months Ended 2013	Six Months Ended 2012	Percent Change
Revenues	$ 1,434	$ 1,377	4	$ 2,858	$ 2,776	3
Operating expenses:						
Salaries and employee benefits	611	589	4	1,209	1,188	2
Purchased transportation	250	224	12	484	450	8
Rentals	31	29	7	63	58	9
Depreciation and amortization	57	52	10	114	105	9
Fuel	145	157	(8)	290	305	(5)
Maintenance and repairs	46	49	(6)	92	97	(5)
Intercompany charges	117	110	6	238	221	8
Other(1)	100	91	10	200	186	8
Total operating expenses	1,357	1,301	4	2,690	2,610	3
Operating income	$ 77	$ 76	1	$ 168	$ 166	1
Operating margin	5.4%	5.5%	(10)bp	5.9%	6.0%	(10)bp
Average daily LTL shipments (in thousands)						
Priority	63.8	61.6	4	62.4	61.5	1
Economy	28.1	26.8	5	27.9	26.7	4
Total average daily LTL shipments	91.9	88.4	4	90.3	88.2	2
Weight per LTL shipment (lbs)						
Priority	1,241	1,215	2	1,243	1,215	2
Economy	992	989		992	994	
Composite weight per LTL shipment	1,165	1,146	2	1,165	1,148	1
LTL yield (revenue per hundredweight)						
Priority	$ 17.89	$ 18.15	(1)	$ 17.88	$ 17.93	
Economy	25.92	26.29	(1)	25.88	25.80	
Composite LTL yield	$ 19.98	$ 20.28	(1)	$ 19.99	$ 19.99	

(1) Includes predominantly costs associated with insurance, professional fees and outside service contracts (such as security and facility services).

- 44 -

Table of Contents

	Percent of Revenue		Percent of Revenue	
	Three Months Ended 2013	Three Months Ended 2012	Six Months Ended 2013	Six Months Ended 2012
Operating expenses:				
Salaries and employee benefits	42.6%	42.8%	42.3%	42.8%
Purchased transportation	17.4	16.3	16.9	16.2
Rentals	2.2	2.1	2.2	2.1
Depreciation and amortization	4.0	3.8	4.0	3.8
Fuel	10.1	11.4	10.2	11.0
Maintenance and repairs	3.2	3.5	3.2	3.5
Intercompany charges	8.1	8.0	8.3	7.9
Other	7.0	6.6	7.0	6.7
Total operating expenses	94.6	94.5	94.1	94.0
Operating margin	5.4%	5.5%	5.9%	6.0%

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 4% during the second quarter and 3% during the first half of 2014 due to higher weight per LTL shipment and average daily LTL shipments. Although LTL yields decreased during the second quarter of 2014, they remained flat in the first half of 2014. In addition, the first half of 2014 was negatively impacted by one fewer operating day.

Weight per shipment increased 2% in the second quarter and 1% in the first half of 2014 due to FedEx Freight Priority service offerings. Average daily LTL shipments increased 4% in the second quarter due to FedEx Freight Economy and FedEx Freight Priority services and increased 2% in the first half of 2014 primarily due to FedEx Freight Economy services. LTL yield (revenue per hundredweight) decreased 1% during the second quarter of 2014 due to a decline in FedEx Freight Priority and FedEx Freight Economy yields resulting from lower fuel surcharges, higher weight per shipment and shorter length of haul.

Revenue per hundredweight is a commonly-used indicator of pricing trends, but this metric can be influenced by many other factors, such as changes in fuel surcharges, weight per shipment, length of haul and the mix of freight. Generally, LTL freight is rated using a standard class system for the LTL industry and classes are assigned based on transportation characteristics including density, risk and handling. Under the class system, low-value freight that is easy to handle, unlikely to damage and dense will receive lower class ratings (and lower yields) than expensive, light, bulky freight which is highly susceptible to damage (and produces higher yields). As a result, changes in revenue per hundredweight do not necessarily indicate actual changes in underlying base rates.

The indexed LTL fuel surcharge is based on the average of the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. The indexed LTL fuel surcharge ranged as follows for the periods ended November 30:

	Three Months Ended	Six Months Ended

	2013	2012	2013	2012
Low	22.70%	23.50%	22.70%	21.80 %
High	23.50	24.40	23.50	24.40
Weighted-average	23.10	24.00	23.00	23.30

In July 2013, FedEx Freight implemented a rate increase of 4.5% for LTL shipments. In July 2012, FedEx Freight implemented a rate increase of 6.9% for LTL shipments.

Table of Contents

FedEx Freight Segment Operating Income

FedEx Freight segment operating income increased slightly in the second quarter and in the first half of 2014, as higher average daily LTL shipments and higher LTL weights were partially offset by higher purchased transportation. Operating margin decreased in the second quarter and the first half of 2014 primarily due to higher purchased transportation, allocated intercompany charges and other operating expenses.

Purchased transportation expense increased 12% in the second quarter of 2014 and 8% in the first half of 2014 due to increased utilization of road and rail third-party transportation providers and higher rates. Salaries and employee benefits increased 4% in the second quarter and 2% in the first half of 2014 primarily due to a volume-related increase in labor hours. Intercompany charges increased 6% in the second quarter and 8% in the first half of 2014 primarily due to higher allocated sales costs. Other operating expenses increased 10% in the second quarter and 8% in the first half of 2014 due to higher real estate taxes and bad debt expense.

Fuel costs decreased 8% during the second quarter and 5% during the first half of 2014 due to increased utilization of purchased transportation, lower average price per gallon of diesel fuel and fuel efficiency improvements. 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 did not impact operating income in the second quarter and the first half of 2014.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled $3.9 billion at November 30, 2013, compared to $4.9 billion at May 31, 2013. The following table provides a summary of our cash flows for the six-month periods ended November 30, 2013 and November 30, 2012 (in millions):

	2013	2012
Operating activities:		
Net income	$ 989	$ 897
Noncash charges and credits	1,623	1,589
Changes in assets and liabilities	(1,003)	(768)
Cash provided by operating activities	1,609	1,718
Investing activities:		
Capital expenditures	(1,690)	(1,888)
Business acquisitions, net of cash acquired		(483)
Proceeds from asset dispositions and other	19	20
Cash used in investing activities	(1,671)	(2,351)
Financing activities:		
Principal payments on debt	(3)	(417)
Proceeds from debt issuance		991
Proceeds from stock issuances	380	53

Dividends paid	(95)	(88)
Purchase of treasury stock	(1,219)	(246)
Other	20	(3)
Cash (used in) provided by financing activities	(917)	290
Effect of exchange rate changes on cash	(3)	17
Net decrease in cash and cash equivalents	$ (982)	$ (326)

Table of Contents

Cash flows from operating activities decreased $109 million in the first half of 2014 primarily due to an income tax refund received in the prior year, partially offset by higher net income. We made contributions of $330 million to our tax qualified U.S. domestic pension plans (U.S. Pension Plans) during the first half of 2014 and $280 million in contributions to our U.S. Pension Plans during the first half of 2013. Capital expenditures during the first half of 2014 were lower primarily due to decreased spending for aircraft and vehicle replacement at FedEx Express. See Capital Resources for a discussion of capital expenditures during 2014 and 2013.

In October 2013, our Board of Directors authorized a new share repurchase program of up to 32 million shares of common stock. These shares augmented the 7.4 million shares remaining on our previously authorized share repurchase program. The shares may be purchased from time to time in the open market or in privately negotiated transactions. Repurchases will be made at the company s discretion, based on ongoing assessments of the capital needs of the business, the market price of its common stock and general market conditions. No time limit was set for the completion of the repurchase program, and the program may be suspended or discontinued at any time.

During the first half of 2014, we repurchased 10 million shares of FedEx common stock at an average price of $122 per share for a total of $1.2 billion. As of November 30, 2013, 32.2 million shares remained under existing share repurchase authorizations.

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 periods ended November 30 (in millions):

	Three Months Ended		Six Months Ended		Percent Change 2013/2012	
	2013	2012	2013	2012	Three Months Ended	Six Months Ended
Aircraft and related equipment	$ 495	$ 357	$ 692	$ 831	39	(17)
Facilities and sort equipment	205	173	331	286	18	16
Vehicles	277	240	425	504	15	(16)
Information and technology investments	90	80	162	171	13	(5)
Other equipment	51	66	80	96	(23)	(17)
Total capital expenditures	$ 1,118	$ 916	$ 1,690	$ 1,888	22	(10)
FedEx Express segment	$ 690	$ 517	$ 995	$ 1,266	33	(21)
FedEx Ground segment	249	177	410	263	41	56
FedEx Freight segment	100	139	140	183	(28)	(23)
FedEx Services segment	79	83	145	173	(5)	(16)
Other				3		NM

Total capital expenditures	$ 1,118	$ 916	$ 1,690	$ 1,888	22	(10)

Capital expenditures during the first half of 2014 were lower than the prior-year period primarily due to decreased spending for aircraft and vehicle replacement at FedEx Express. Aircraft and related equipment expenditures at FedEx Express during the first half of 2014 included the acceptance of seven Boeing 757 (B757) aircraft, three Boeing 767-300 Freighter (B767F) aircraft and two Boeing 777 Freighter (B777F) aircraft, as well as the modification of certain aircraft before being placed into service.

Table of Contents

LIQUIDITY OUTLOOK

We believe that our existing cash and cash equivalents, cash flow from operations and available financing sources are adequate to meet our liquidity needs, including working capital, capital expenditure requirements and debt payment obligations. Our cash and cash equivalents balance at November 30, 2013 includes $467 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 2014, 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 approximately $4.0 billion in 2014 and include spending for aircraft and related equipment at FedEx Express, facility projects at FedEx Express and FedEx Ground and vehicle replacement at all our transportation segments. We invested $692 million in aircraft and aircraft-related equipment in the first half of 2014 and expect to invest approximately $751 million for aircraft and aircraft-related equipment during the remainder of 2014.

The FedEx Express global air and ground network includes a fleet of over 640 aircraft (including approximately 300 supplemental aircraft) that provide delivery of packages and freight to more than 220 countries and territories through a wide range of U.S. and international shipping services. While certain aircraft are utilized in primary geographic areas (U.S. versus international), we operate an integrated global network, and utilize our aircraft and other modes of transportation to achieve the lowest cost of delivery while maintaining our service commitments to our customers. Because of the integrated nature of our global network, our aircraft are interchangeable across routes and geographies, giving us flexibility with our fleet planning to meet changing global economic conditions and maintain and modify aircraft as needed.

We have several aircraft modernization programs underway that are supported by the purchase of B777F, B767F and B757 aircraft. These aircraft are significantly more fuel-efficient per unit than the aircraft types previously utilized, and these expenditures are necessary to achieve significant long-term operating savings and to replace older aircraft. Our ability to delay the timing of these aircraft-related expenditures is limited without incurring significant costs to modify existing purchase agreements.

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.

A $1 billion revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. The revolving credit agreement expires in March 2018. 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 70%. Our leverage ratio of adjusted debt to capital was 51% at November 30, 2013. We believe the leverage ratio covenant is our only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the leverage ratio covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of November 30, 2013, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

In December 2013, we made $165 million in required contributions to our U.S. Pension Plans. Our U.S. Pension Plans have ample funds to meet expected benefit payments. For the remainder of 2014, we have $165 million in required contributions to our U.S. Pension Plans.

Table of Contents

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. Moody s Investors Service has assigned us a senior unsecured debt credit rating of Baa1 and commercial paper rating of P-2 and a ratings outlook of 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.

On December 10, 2013, FedEx Express entered into an agreement with The Boeing Company for the purchase of two B767F aircraft, the delivery of which will occur in 2016 and 2017. FedEx Express is also deferring 11 existing options to purchase B777F aircraft by two years.

CONTRACTUAL CASH OBLIGATIONS AND OFF-BALANCE SHEET ARRANGEMENTS

The following table sets forth a summary of our contractual cash obligations as of November 30, 2013. 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 November 30, 2013. 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 below. 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 below due to the absence of scheduled maturities. 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)						
	2014[(1)]	2015	2016	2017	2018	Thereafter	Total
Operating activities:							
Operating leases	$ 1,159	$ 1,944	$ 1,747	$ 1,786	$ 1,321	$ 7,062	$ 15,019
Non-capital purchase obligations and other	168	220	145	101	45	113	792
Interest on long-term debt	78	138	138	138	138	2,590	3,220
Quarterly contributions to our U.S. Pension Plans	330						330
Investing activities:							
Aircraft and aircraft-related capital commitments	395	1,142	1,127	903	1,447	5,294	10,308
Other capital purchase obligations	42	2					44
Financing activities:							
Debt	250					2,740	2,990
Total	$ 2,422	$ 3,446	$ 3,157	$ 2,928	$ 2,951	$ 17,799	$ 32,703

(1) Cash obligations for the remainder of 2014.

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 7 of the accompanying unaudited condensed consolidated financial statements for more information.

Operating Activities

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 November 30, 2013.

Table of Contents

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 and amounts for purchase obligations that represent noncancelable agreements to purchase goods or services that are not capital related. Such contracts include those for printing and advertising and promotions contracts. We cannot reasonably estimate the timing of the long-term payments or the amount by which the liability for uncertain tax positions will increase or decrease over time; therefore, the long-term portion of the liability for uncertain tax positions ($38 million) is excluded from the table.

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.

We had $237 million in deposits and progress payments as of November 30, 2013 on aircraft purchases and other planned aircraft-related transactions.

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.

Financing Activities

The amounts reflected in the table above for long-term debt represent future scheduled payments on our long-term debt. For the remainder of 2014, we have scheduled principal debt payments of $250 million.

Additional information on amounts included within the operating, investing and financing activities captions in the table above can be found in our Annual Report.

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.

GOODWILL. Goodwill is tested for impairment between annual tests whenever events or circumstances make it more likely than not that the fair value of a reporting unit has fallen below its carrying value. We do not believe there has been any change of events or circumstances that would indicate that a reevaluation of the goodwill of our reporting units is required as of November 30, 2013, nor do we believe the goodwill of our reporting units is at risk of failing impairment testing. For additional details on goodwill impairment testing, refer to Note 1 of our Annual Report.

Information regarding our critical accounting estimates can be found in our Annual Report, including Note 1 to the financial statements therein. 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.

Table of Contents

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in Outlook, Liquidity, Capital Resources, Liquidity Outlook, Contractual Cash Obligations and Critical Accounting Estimates, and the General, Retirement Plans, and Contingencies notes to the consolidated financial statements, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to our financial condition, results of operations, cash flows, plans, objectives, future performance and business. Forward-looking statements include those preceded by, followed by or that include the words may, could, would, should, believes, expects, anticipates, plans, estimates, targets, projects, intends or similar expressions. These forward-looking statemen involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, potential risks and uncertainties, such as:

- economic conditions in the global markets in which we operate;
- significant changes in the volumes of shipments transported through our networks, customer demand for our various services or the prices we obtain for our services;
- damage to our reputation or loss of brand equity;
- disruptions to the Internet or our technology infrastructure, including those impacting our computer systems and Web site, which can adversely affect our operations and reputation among customers;
- the price and availability of jet and vehicle fuel;
- our ability to manage our cost structure for capital expenditures and operating expenses, and match it to shifting and future customer volume levels;
- the impact of intense competition on our ability to maintain or increase our prices (including our fuel surcharges in response to rising fuel costs) or to maintain or grow our market share;
- our ability to effectively operate, integrate, leverage and grow acquired businesses, and to continue to support the value we allocate to these acquired businesses, including their goodwill;
- our ability to maintain good relationships with our employees and prevent attempts by labor organizations to organize groups of our employees, which could significantly increase our operating costs and reduce our operational flexibility;

the impact of costs related to (i) challenges to the status of FedEx Ground s owner-operators as independent contractors, rather than employees, and (ii) any related changes to our relationship with these owner-operators;

our ability to execute on our business realignment program;

the impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry or us in particular, and what effects these events will have on our costs or the demand for our services;

any impacts on our businesses resulting from new domestic or international government laws and regulation, including regulatory actions affecting global aviation or other transportation rights, increased air cargo and other security or safety requirements, and tax, accounting, trade (such as protectionist measures enacted in response to weak economic conditions), labor (such as card-check legislation or changes to the Railway Labor Act affecting FedEx Express employees), environmental (such as global climate change legislation) or postal rules;

adverse weather conditions or localized natural disasters in key geographic areas, such as earthquakes, volcanoes, and hurricanes, which can disrupt our electrical service, damage our property, disrupt our operations, increase our fuel costs and adversely affect our shipment levels;

any impact on our business from disruptions or modifications in service by the USPS, which is a significant customer and vendor of FedEx, as a consequence of the USPS s current financial difficulties or any resulting structural changes to its operations, network, service offerings or pricing;

increasing costs, the volatility of costs and funding requirements and other legal mandates for employee benefits, especially pension and healthcare benefits;

the increasing costs of compliance with federal and state governmental agency mandates, including those related to healthcare benefits, and defending against inappropriate or unjustified enforcement of other actions by such agencies;

changes in foreign currency exchange rates, especially in the Chinese yuan, euro, Brazilian real, Canadian dollar and the British pound, which can affect our sales levels and foreign currency sales prices;

market acceptance of our new service and growth initiatives;

any liability resulting from and the costs of defending against class-action litigation, such as wage-and-hour and discrimination and retaliation claims, and any other legal or governmental proceedings;

the outcome of future negotiations to reach new collective bargaining agreements including with the union that represents the pilots of FedEx Express (the current pilot contract became amendable in March 2013, and the parties are currently in negotiations);

the impact of technology developments on our operations and on demand for our services, and our ability to continue to identify and eliminate unnecessary information technology redundancy and complexity throughout the organization;

widespread outbreak of an illness or any other communicable disease, or any other public health crisis;

availability of financing on terms acceptable to us and our ability to maintain our current credit ratings, especially given the capital intensity of our operations; and other risks and uncertainties you can find in our press releases and SEC filings, including the risk factors identified under the heading Risk Factors in Management s Discussion and Analysis of Results of Operations and Financial Condition in our Annual Report, as updated by our quarterly reports on Form 10-Q.

As a result of these and other factors, no assurance can be given as to our future results and achievements. Accordingly, a forward-looking statement is neither a prediction nor a guarantee of future events or circumstances, and those future events or circumstances may not occur. You should not place undue reliance on forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update or alter any forward-looking statements, whether as a result of new information, future events or otherwise.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of November 30, 2013, there had been no material changes in our market risk sensitive instruments and positions since our disclosures in our Annual Report.

The principal foreign currency exchange rate risks to which we are exposed are in the Chinese yuan, euro, Brazilian real, Canadian dollar and the British pound. Historically, our exposure to foreign currency fluctuations is more significant with respect to our revenues than our expenses, as a significant portion of our expenses are denominated in U.S. dollars, such as aircraft and fuel expenses. During the first half of 2014, the U.S. dollar strengthened relative to the currencies of the foreign countries in which we operate, as compared to May 31, 2013; however, this strengthening did not have a material effect on our results.

While we have market risk for changes in the price of jet and vehicle fuel, this risk is largely mitigated by our variable fuel surcharges. However, our fuel surcharges for FedEx Express and FedEx Ground have a timing lag of approximately six to eight weeks before they are adjusted for changes in fuel prices. Our fuel surcharge index also allows fuel prices to fluctuate approximately 2% for FedEx Express and approximately 4% for FedEx Ground before an adjustment to the fuel surcharge occurs. Therefore, our operating income may be affected should the spot price of fuel suddenly change by a significant amount or change by amounts that do not result in an adjustment in our fuel surcharges.

Item 4. 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 SEC 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 November 30, 2013 (the end of the period covered by this Quarterly Report on Form 10-Q).

During our fiscal quarter ended November 30, 2013, 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.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

For a description of all material pending legal proceedings, see Note 8 of the accompanying unaudited condensed consolidated financial statements.

Item 1A. Risk Factors

There have been no material changes from the risk factors disclosed in our Annual Report (under the heading Risk Factors in Management s Discussion and Analysis of Results of Operations and Financial Condition) in response to Part I, Item 1A of Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information on FedEx s repurchases of our common stock during the second quarter of 2014:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Number of Shares That May Yet Be Purchased Under the Programs
Sept. 1-30, 2013				7,362,897
Oct. 1-31, 2013	2,942,813	$ 127.76	2,942,813	36,420,084
Nov. 1-30, 2013	4,232,084	133.47	4,232,084	32,188,000
Total	7,174,897	$ 131.13	7,174,897	

The repurchases were made under a share repurchase program that was approved by our Board of Directors in March 2013. The repurchase program authorized us to purchase, in the open market or in negotiated or block transactions, up to an aggregate of 10 million shares of our common stock. There are now 188,000 shares remaining authorized for purchase under this program. The repurchase program announced in October 2013 authorized us to purchase, in the open market or in negotiated or block transactions, up to an aggregate of 32 million shares of our common stock. The entire 32 million shares remain authorized for purchase under the October 2013 share repurchase program. This program does not have an expiration date.

Item 5. Other Information

Exhibit 99.1 to this report reflects the retrospective adoption of new accounting guidance with respect to the financial information contained in our Annual Report. We are filing this exhibit for the purpose of incorporating its contents in the registration statement on Form S-8 that we intend to file on or about December 19, 2013.

As previously discussed in this report, on June 1, 2013, we adopted the authoritative guidance issued by the Financial Accounting Standards Board requiring additional information about reclassification adjustments out of accumulated other comprehensive income, including changes in accumulated other comprehensive income balances by component and significant items reclassified out of accumulated other comprehensive income.

Exhibit 99.1 presents the retrospective application of this new accounting guidance for our fiscal years ended May 31, 2013, 2012 and 2011, and should be read in conjunction with the information included in our Annual Report.

Table of Contents

Item 6. Exhibits

Exhibit Number	Description of Exhibit
10.1	Amendment dated October 10, 2013 (but effective as of September 30, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.2	Amendment dated October 15, 2013 (but effective as of October 10, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation.
10.3	Amendment dated November 7, 2013 (but effective as of October 1, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.4	Amendment dated November 7, 2013 (but effective as of December 15, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.5	Sixth Amendment dated September 19, 2013 (but effective as of July 1, 2014) to the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Memphis-Shelby County Airport Authority and Federal Express Corporation.
12.1	Computation of Ratio of Earnings to Fixed Charges.
15.1	Letter re: Unaudited Interim Financial Statements.
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Retrospective Adoption of New Accounting Guidance Regarding Reclassification Adjustments Out of Accumulated Other Comprehensive Income
101.1	Interactive Data Files.

Table of Contents

SIGNATURE

Pursuant to the requirements 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
Date: December 19, 2013	/s/ JOHN L. MERINO JOHN L. MERINO
	CORPORATE VICE PRESIDENT AND
	PRINCIPAL ACCOUNTING OFFICER

- 56 -

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
10.1	Amendment dated October 10, 2013 (but effective as of September 30, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.2	Amendment dated October 15, 2013 (but effective as of October 10, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation.
10.3	Amendment dated November 7, 2013 (but effective as of October 1, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.4	Amendment dated November 7, 2013 (but effective as of December 15, 2013), amending the Transportation Agreement dated April 23, 2013 between the United States Postal Service and Federal Express Corporation. Confidential treatment has been requested for confidential commercial and financial information, pursuant to Rule 24b-2 under the Securities Act of 1934, as amended.
10.5	Sixth Amendment dated September 19, 2013 (but effective as of July 1, 2014) to the Composite Lease Agreement dated May 21, 2007 (but effective as of January 1, 2007) between the Memphis-Shelby County Airport Authority and Federal Express Corporation.
12.1	Computation of Ratio of Earnings to Fixed Charges.
15.1	Letter re: Unaudited Interim Financial Statements.
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.1	Retrospective Adoption of New Accounting Guidance Regarding Reclassification Adjustments Out of Accumulated Other Comprehensive Income
101.1	Interactive Data Files.