FEDEX CORP
Form 10-Q
September 18, 2009

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

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2009

OR

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

FOR THE TRANSITION PERIOD FROM _________ TO _________

Commission File Number: 1-15829

FEDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	62-1721435
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
942 South Shady Grove Road Memphis, Tennessee	38120
(Address of principal executive offices)	(ZIP Code)

(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 þ No o

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

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

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

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

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 September 15, 2009
Common Stock, par value $0.10 per share	312,518,509

FEDEX CORPORATION
INDEX

EX-101 PRESENTATION LINKBASE DOCUMENT

Table of Contents

FEDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	August 31, 2009 (Unaudited)	May 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,789	$ 2,292
Receivables, less allowances of $155 and $196	3,410	3,391
Spare parts, supplies and fuel, less allowances of $164 and $175	372	367
Deferred income taxes	510	511
Prepaid expenses and other	307	555
Total current assets	6,388	7,116
PROPERTY AND EQUIPMENT, AT COST	29,484	29,260
Less accumulated depreciation and amortization	15,946	15,843
Net property and equipment	13,538	13,417
OTHER LONG-TERM ASSETS		
Goodwill	2,233	2,229
Pension assets	263	311
Other assets	1,435	1,171
Total other long-term assets	3,931	3,711
	$ 23,857	$ 24,244

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)

	August 31, 2009 (Unaudited)	May 31, 2009
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 158	$ 653
Accrued salaries and employee benefits	884	861
Accounts payable	1,311	1,372
Accrued expenses	1,533	1,638
Total current liabilities	3,886	4,524
LONG-TERM DEBT, LESS CURRENT PORTION	1,918	1,930
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	1,132	1,071
Pension, postretirement healthcare and other benefit obligations	955	934
Self-insurance accruals	932	904
Deferred lease obligations	811	802
Deferred gains, principally related to aircraft transactions	283	289
Other liabilities	154	164
Total other long-term liabilities	4,267	4,164
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 313 million shares issued as of August 31, 2009 and 312 million shares issued as of May 31, 2009	31	31
Additional paid-in capital	2,091	2,053
Retained earnings	13,031	12,919
Accumulated other comprehensive loss	(1,363)	(1,373)
Treasury stock, at cost	(4)	(4)
Total common stockholders investment	13,786	13,626
	$ 23,857	$ 24,244

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 August 31, 2009	2008
REVENUES	$ 8,009	$ 9,970
OPERATING EXPENSES:		
Salaries and employee benefits	3,377	3,585
Purchased transportation	1,054	1,278
Rentals and landing fees	578	617
Depreciation and amortization	495	492
Fuel	666	1,528
Maintenance and repairs	401	537
Other	1,123	1,303
	7,694	9,340
OPERATING INCOME	315	630
OTHER INCOME (EXPENSE):		
Interest, net	(18)	(9)
Other, net	(3)	(3)
	(21)	(12)
INCOME BEFORE INCOME TAXES	294	618
PROVISION FOR INCOME TAXES	113	234
NET INCOME	$ 181	$ 384
EARNINGS PER COMMON SHARE:		
Basic	$ 0.58	$ 1.24
Diluted	$ 0.58	$ 1.23
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.22	$ 0.22

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)

	Three Months Ended August 31, 2009	Three Months Ended August 31, 2008
Operating Activities:		
Net income	$ 181	$ 384
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	495	492
Provision for uncollectible accounts	35	35
Stock-based compensation	35	33
Deferred income taxes and other noncash items	52	35
Changes in operating assets and liabilities:		
Receivables	(52)	(98)
Other assets	242	97
Accounts payable and other operating liabilities	(135)	(306)
Other, net	45	26
Cash provided by operating activities	898	698
Investing Activities:		
Capital expenditures	(880)	(636)
Proceeds from asset dispositions and other	26	15
Cash used in investing activities	(854)	(621)
Financing Activities:		
Principal payments on debt	(508)	(1)
Proceeds from stock issuances	7	5
Excess tax benefit on the exercise of stock options	1	
Dividends paid	(34)	(34)
Other, net	(16)	
Cash used in financing activities	(550)	(30)
Effect of exchange rate changes on cash	3	(13)
Net (decrease) increase in cash and cash equivalents	(503)	34
Cash and cash equivalents at beginning of period	2,292	1,539

Cash and cash equivalents at end of period	$ 1,789	$ 1,573

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

Table of Contents

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, 2009 (Annual Report). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

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 August 31, 2009 and the results of our operations and cash flows for the three-month periods ended August 31, 2009 and 2008. Operating results for the three-month period ended August 31, 2009 are not necessarily indicative of the results that may be expected for the year ending May 31, 2010.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2010 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

Certain prior period amounts have been reclassified to conform to the current period s presentation. For example, at FedEx Ground certain fuel supplement costs related to our independent contractors were reclassified from fuel expense to purchased transportation to conform to the current period presentation.

NEW ACCOUNTING PRONOUNCEMENTS. New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. We believe the following new accounting pronouncements are relevant to the readers of our financial statements.

On June 1, 2008, we adopted Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements, which provides a common definition of fair value, establishes a uniform framework for measuring fair value and requires expanded disclosures about fair value measurements. On June 1, 2009, we implemented the previously deferred provisions of SFAS 157 for nonfinancial assets and liabilities recorded at fair value, as required. The adoption of SFAS 157 had no impact on our financial statements.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS 141R, Business Combinations, and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin (ARB) No. 51. These new standards significantly change the accounting for and reporting of business combination transactions, including noncontrolling interests (previously referred to as minority interests). For example, these standards require the acquiring entity to recognize the full fair value of assets acquired and liabilities assumed in the transaction and require the expensing of most transaction and restructuring costs. Both standards became effective for us beginning June 1, 2009 and had no impact on our financial statements.

In December 2008, the FASB issued FASB Staff Position (FSP) 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets. This FSP provides guidance on the objectives an employer should consider when providing detailed disclosures about assets of a defined benefit pension or other postretirement plan, including disclosures about investment policies and strategies, categories of plan assets, significant concentrations of risk and the inputs and valuation techniques used to measure the fair value of plan assets. This FSP will be effective for our fiscal year ending May 31, 2010.

Table of Contents

In April 2009, the FASB issued FSP No. 107-1 and Accounting Principles Board Opinion (APB) No. 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosures about the fair value of financial instruments for interim reporting periods in addition to annual reporting periods. This FSP became effective for us beginning with the first quarter of fiscal year 2010.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which establishes general standards for accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard requires us to disclose the date through which we have evaluated subsequent events, which for SEC registrants is the date we file our financial statements with the SEC. This standard became effective for our first quarter of fiscal year 2010. Events occurring after the date of the condensed consolidated balance sheet but before the issuance of the financial statements included in this filing have been evaluated through the time of this filing.

In June 2009, the FASB issued Statement No. 168, The FASB Accounting Standards Codification (Codification) and the Hierarchy of GAAP, (SFAS 168), which establishes the Codification as the single source of authoritative U.S. GAAP recognized by the FASB. SEC rules and interpretive releases are also sources of authoritative GAAP for SEC registrants. SFAS 168 is effective beginning for periods ending after September 15, 2009. As SFAS 168 is not intended to change or alter existing GAAP, it will not impact our results of operations, cash flows or financial position. We will adjust historical GAAP references in our second quarter 2010 Form 10-Q to reflect accounting guidance references included in the Codification.

DIVIDENDS DECLARED PER COMMON SHARE. On June 8, 2009, our Board of Directors declared a dividend of $0.11 per share of common stock. The dividend was paid on July 1, 2009 to stockholders of record as of the close of business on June 18, 2009. On August 14, 2009, our Board of Directors declared a dividend of $0.11 per share of common stock. The dividend is payable on October 1, 2009, to stockholders of record as of the close of business on September 10, 2009. 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) 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 are set forth in our Annual Report.

We use the Black-Scholes option pricing model to calculate the fair value of stock options. The value of restricted stock awards is based on the price of the stock on the grant date. We recognize stock-based compensation expense on a straight-line basis over the requisite service period of the award in the Salaries and employee benefits caption of our condensed consolidated income statement.

Our total stock-based compensation expense was $35 million for the three months ended August 31, 2009 and $33 million for the three months ended August 31, 2008.

During the first quarter of 2010, we made stock option grants of 4.3 million shares, primarily in connection with our principal annual stock option grant. We granted options to purchase 1.9 million shares during the first quarter of 2009.

Table of Contents

See our Annual Report for a discussion of our methodology for developing each of the assumptions used in the valuation model. The fair value of our stock option grants, as determined by the Black-Scholes valuation model, was $18.96 during the first quarter of 2010 and $24.87 during the first quarter of 2009, using the following assumptions:

	Three Months Ended August 31,	
	2009	2008
Expected lives	5.7 years	5.5 years
Expected volatility	32%	23%
Risk-free interest rate	3.31%	3.56%
Dividend yield	0.780%	0.452%

(3) Comprehensive Income

The following table provides a reconciliation of net income reported in our financial statements to comprehensive income for the three-month periods ended August 31 (in millions):

	2009	2008
Net income	$ 181	$ 384
Other comprehensive income:		
Foreign currency translation adjustments, net of tax of $8 in 2009 and benefit of $11 in 2008	9	(47)
Amortization of unrealized pension actuarial (gains) losses, net of tax benefit of $7 in 2008	1	(11)
Comprehensive income	$ 191	$ 326

(4) Financing Arrangements

On July 31, 2009, we filed an updated 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. During the first quarter of 2010, we repaid our $500 million 5.50% notes that matured on August 15, 2009 using cash from operations and a portion of the proceeds of our January 2009 $1 billion senior unsecured debt offering.

A new three-year $1 billion revolving credit facility was executed in July 2009, which replaced our prior $1 billion revolving credit facility. The new revolving credit agreement is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. This revolving credit agreement expires in July 2012. Our revolving credit 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 rentals and landing fees) to capital (adjusted debt plus total common stockholders investment) that does not exceed 0.7 to 1.0. This covenant was unchanged from our prior revolving credit facility. Our leverage ratio of adjusted debt to capital was 0.5 at August 31, 2009. We are in compliance with this and all other restrictive covenants of our revolving credit agreement and do not expect the covenants to affect our operations. As of August 31, 2009, no commercial paper was outstanding and the entire $1 billion under the revolving credit facility was available for future borrowings.

Table of Contents

Long-term debt, exclusive of capital leases, had carrying values of $1.8 billion compared with an estimated fair value of $2.1 billion at August 31, 2009, and $2.3 billion compared with an estimated fair value of $2.4 billion at May 31, 2009. The estimated fair values were determined based on quoted market prices or on the current rates offered for debt with similar terms and maturities.

(5) Computation of Earnings Per Share

The calculation of basic and diluted earnings per common share for the three-month periods ended August 31 was as follows (in millions, except per share amounts):

	2009	2008
Basic earnings per common share:		
Net earnings allocable to common shares	$ 180	$ 383
Weighted-average common shares	312	311
Basic earnings per common share	$ 0.58	$ 1.24
Diluted earnings per common share:		
Net earnings allocable to common shares	$ 180	$ 383
Weighted-average common shares	312	311
Dilutive effect of share-based awards		2
Weighted-average diluted shares	312	313
Diluted earnings per common share	$ 0.58	$ 1.23
Anti-dilutive options excluded from diluted earnings per common share	17.5	9.6

(6) 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 three-month periods ended August 31 were as follows (in millions):

	2009	2008
U.S. domestic and international pension plans	$ 75	$ 44
U.S. domestic and international defined contribution plans	22	84
Postretirement healthcare plans	11	14
	$ 108	$ 142

The three-month period ended August 31, 2009 reflects higher pension costs in 2010 due to the negative impact of market conditions on our pension plan assets at our May 31, 2009 measurement date. This increase in pension costs was offset by lower expenses for our 401(k) plans due to the temporary suspension of the company-matching contributions, as described in our Annual Report.

Table of Contents

Net periodic benefit cost for the three-month periods ended August 31 was as follows (in millions):

	Pension Plans		Postretirement Healthcare Plans	
	2009	2008	2009	2008
Service cost	$ 104	$ 125	$ 6	$ 8
Interest cost	206	200	8	8
Expected return on plan assets	(239)	(265)		
Recognized actuarial losses (gains) and other	4	(16)	(3)	(2)
	$ 75	$ 44	$ 11	$ 14

We made no contributions to our tax-qualified U.S. domestic pension plans (U.S. Retirement Plans) during the first quarter of 2010 or 2009. However, in September 2009, we made $495 million in tax-deductible voluntary contributions plus $118 million in minimum required contributions to our U.S. Retirement Plans. Our U.S. Retirement Plans have ample funds to meet benefit payments. For 2010, we have $235 million in remaining minimum required contributions to our U.S. Retirement Plans. In 2009, we contributed an aggregate of $1.1 billion to these plans.

(7) Business Segment Information

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

As of August 31, 2009, our reportable segments included the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator)
FedEx Freight Segment	FedEx Freight LTL Group: FedEx Freight (regional LTL freight transportation) FedEx National LTL (long-haul LTL freight transportation) FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	FedEx Services (sales, marketing and information technology functions) FedEx Office and Print Services, Inc. (FedEx Office) (document and business services and package acceptance) FedEx Customer Information Services (FCIS) (customer service, billings and collections) FedEx Supply Chain Services (logistics services)

Table of Contents

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions in shared services operations that support our transportation businesses and allow us to pursue synergies from the combination of these functions. The FedEx Services segment includes: FedEx Services, which provides sales, marketing and information technology support to our other companies; FCIS, which is responsible for customer service, billings and collections for FedEx Express, FedEx Ground (including FedEx SmartPost), the FedEx Freight LTL Group and FedEx Office U.S. customers; FedEx Supply Chain Services, which provides a range of logistics services to our customers; and FedEx Office, which provides retail access to our customers for our package transportation businesses and an array of document and business services. Effective September 1, 2009, FedEx Supply Chain Services was realigned to become part of the FedEx Express reporting segment.

The FedEx Services segment provides direct and indirect support to our transportation businesses and accordingly we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office are allocated to FedEx Express and FedEx Ground. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services allocations). For the FedEx Services segment, performance is evaluated based on the impact of the total allocated net operating costs of the FedEx Services segment on our transportation segments. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions.

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

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

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

Table of Contents

The following table provides a reconciliation of reportable segment revenues and operating income to our condensed consolidated financial statement totals for the three-month periods ended August 31 (in millions):

	2009	2008
Revenue		
FedEx Express segment	$ 4,924	$ 6,419
FedEx Ground segment	1,730	