
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED AUGUST 31, 2005**

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

(State or other jurisdiction of
incorporation or organization)

62-1721435

(I.R.S. Employer Identification No.)

942 South Shady Grove Road

Memphis, Tennessee

(Address of principal executive offices)

38120

(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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

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

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

Common Stock
Common Stock, par value \$0.10 per share

Outstanding Shares at September 16, 2005
303,038,948

FEDEX CORPORATION

INDEX

PART I. FINANCIAL INFORMATION

	<u>PAGE</u>
ITEM 1. Financial Statements	
Condensed Consolidated Balance Sheets	
August 31, 2005 and May 31, 2005	3-4
Condensed Consolidated Statements of Income	
Three Months Ended August 31, 2005 and 2004	5
Condensed Consolidated Statements of Cash Flows	
Three Months Ended August 31, 2005 and 2004	6
Notes to Condensed Consolidated Financial Statements	7-15
Report of Independent Registered Public Accounting Firm	16
ITEM 2. Management's Discussion and Analysis of Results of Operations and Financial Condition	17-34
ITEM 3. Quantitative and Qualitative Disclosures About Market Risk	35
ITEM 4. Controls and Procedures	35

PART II. OTHER INFORMATION

ITEM 6. Exhibits	36
Signature	37
Exhibit Index	E-1

FEDEX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN MILLIONS)

	August 31, 2005 (Unaudited)	May 31, 2005
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents.....	\$ 1,051	\$ 1,039
Receivables, less allowances of \$137 and \$125.....	3,270	3,297
Spare parts, supplies and fuel, less allowances of \$144 and \$142.....	251	250
Deferred income taxes.....	510	510
Prepaid expenses and other.....	164	173
Total current assets.....	5,246	5,269
PROPERTY AND EQUIPMENT, AT COST.....	22,650	22,017
Less accumulated depreciation and amortization.....	12,670	12,374
Net property and equipment.....	9,980	9,643
OTHER LONG-TERM ASSETS		
Goodwill.....	2,835	2,835
Prepaid pension cost.....	1,177	1,272
Intangible and other assets.....	1,348	1,385
Total other long-term assets.....	5,360	5,492
	<u>\$20,586</u>	<u>\$20,404</u>

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

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

	<u>August 31, 2005 (Unaudited)</u>	<u>May 31, 2005</u>
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 295	\$ 369
Accrued salaries and employee benefits	935	1,275
Accounts payable	1,705	1,739
Accrued expenses	<u>1,590</u>	<u>1,351</u>
Total current liabilities	4,525	4,734
LONG-TERM DEBT, LESS CURRENT PORTION	2,408	2,427
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	1,149	1,206
Pension, postretirement healthcare and other benefit obligations	841	828
Self-insurance accruals	644	621
Deferred lease obligations	629	532
Deferred gains, principally related to aircraft transactions	393	400
Other liabilities	<u>68</u>	<u>68</u>
Total other long-term liabilities	3,724	3,655
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, \$0.10 par value; 800 million shares authorized; 303 million shares issued as of August 31, 2005 and 302 million shares issued as of May 31, 2005	30	30
Additional paid-in capital	1,277	1,241
Retained earnings	8,678	8,363
Accumulated other comprehensive loss	(12)	(17)
Deferred compensation and treasury stock, at cost	<u>(44)</u>	<u>(29)</u>
Total common stockholders' investment	<u>9,929</u>	<u>9,588</u>
	<u>\$20,586</u>	<u>\$20,404</u>

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

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

	Three Months Ended August 31,	
	<u>2005</u>	<u>2004</u>
REVENUES	\$7,707	\$6,975
OPERATING EXPENSES:		
Salaries and employee benefits	3,062	2,920
Purchased transportation	771	681
Rentals and landing fees	665	551
Depreciation and amortization	370	360
Fuel	728	483
Maintenance and repairs	468	428
Other	1,059	973
	<u>7,123</u>	<u>6,396</u>
OPERATING INCOME	584	579
OTHER INCOME (EXPENSE):		
Interest, net	(24)	(39)
Other, net	(11)	(6)
	<u>(35)</u>	<u>(45)</u>
INCOME BEFORE INCOME TAXES	549	534
PROVISION FOR INCOME TAXES	210	204
NET INCOME	<u>\$ 339</u>	<u>\$ 330</u>
EARNINGS PER COMMON SHARE:		
Basic	<u>\$ 1.12</u>	<u>\$ 1.10</u>
Diluted	<u>\$ 1.10</u>	<u>\$ 1.08</u>
DIVIDENDS DECLARED PER COMMON SHARE	<u>\$ 0.08</u>	<u>\$ 0.07</u>

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

FEDEX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(IN MILLIONS)

	Three Months Ended	
	August 31,	
	2005	2004
Operating Activities:		
Net income.....	\$ 339	\$ 330
Adjustments to reconcile net income to cash provided by operating activities:		
Lease accounting charge	79	—
Depreciation and amortization.....	368	360
Provision for uncollectible accounts	29	25
Deferred income taxes and other noncash items.....	(31)	(20)
Changes in operating assets and liabilities:		
Receivables	(3)	72
Spare parts and supplies	7	8
Accounts payable and other operating liabilities	(82)	(109)
Other, net.....	<u>77</u>	<u>71</u>
Net cash provided by operating activities	783	737
Investing Activities:		
Capital expenditures.....	(671)	(395)
Proceeds from asset dispositions	<u>1</u>	<u>4</u>
Net cash used in investing activities.....	(670)	(391)
Financing Activities:		
Principal payments on debt.....	(95)	(13)
Proceeds from stock issuances	18	30
Dividends paid.....	<u>(24)</u>	<u>(21)</u>
Net cash used in financing activities.....	<u>(101)</u>	<u>(4)</u>
Net increase in cash and cash equivalents.....	12	342
Cash and cash equivalents at beginning of period.....	<u>1,039</u>	<u>1,046</u>
Cash and cash equivalents at end of period	<u><u>\$1,051</u></u>	<u><u>\$1,388</u></u>

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 for interim financial information, the instructions to Quarterly Report on Form 10-Q and Rule 10-01 of Regulation S-X, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 2005. 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, 2005 and the results of our operations and cash flows for the three-month periods ended August 31, 2005 and 2004. Operating results for the three-month period ended August 31, 2005 are not necessarily indicative of the results that may be expected for the year ending May 31, 2006.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2006 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.

GUARANTEES. FedEx’s publicly held debt is guaranteed by our subsidiaries. The guarantees are full and unconditional, joint and several, and any subsidiaries that are not guarantors are minor as defined by Securities and Exchange Commission (“SEC”) regulations. FedEx, as the parent company issuer of this debt, has no independent assets or operations. There are no significant restrictions on our ability or the ability of any guarantor to obtain funds from its subsidiaries by such means as a dividend or loan.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, which represent a small number of FedEx Express total employees, are employed under a collective bargaining agreement that became amendable on May 31, 2004. In accordance with applicable labor law, we will continue to operate under our current agreement while we negotiate with our pilots. Contract negotiations with the pilots’ union began in March 2004. These negotiations are ongoing and have recently included private facilitation sessions in an effort to make progress. We cannot estimate the financial impact, if any, the results of these negotiations may have on our future results of operations.

DIVIDENDS DECLARED PER COMMON SHARE. On August 19, 2005, our Board of Directors declared a dividend of \$0.08 per share of common stock. The dividend is payable on October 3, 2005 to stockholders of record as of the close of business on September 12, 2005. 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.

LEASE ADJUSTMENT. During the first quarter of 2006, a one-time, non-cash charge of \$79 million (\$49 million after tax or \$0.16 per diluted share before variable compensation effects) was recorded, which represented the impact on prior years, to adjust the accounting for certain facility leases, predominantly at FedEx Express. The charge related primarily to rent escalations in on-airport facility leases. Statement of Financial Accounting Standards No. (“SFAS”) 13, “Accounting for Leases” and Financial Accounting Standards Board (“FASB”) Technical Bulletin No. 85-3, “Accounting for Operating Leases with Scheduled Rent Increases,” provides that rent expense under operating leases with rent escalation clauses

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

should be recognized evenly, on a straight-line basis over the lease term. Based on a more extensive review of our leases during the first quarter, we determined that a portion of our facility leases had rent escalation clauses that were not being recognized appropriately. Because the amounts involved were not material to our financial statements in any individual prior period and the cumulative amount is not expected to be material to 2006 results, we recorded the cumulative adjustment in the first quarter, which increased operating expenses by \$79 million.

STOCK COMPENSATION. We currently apply Accounting Principles Board Opinion No. (“APB”) 25, “Accounting for Stock Issued to Employees,” and its related interpretations to measure compensation expense for stock-based compensation plans. As a result, no compensation expense is recorded for stock options when the exercise price is equal to or greater than the market price of our common stock at the date of grant. For awards of restricted stock and to determine the pro forma effects of stock options set forth below, we recognize the fair value of the awards ratably over their explicit service period.

If compensation cost for stock-based compensation plans had been determined under SFAS 123, “Accounting for Stock Based Compensation,” stock option compensation expense, pro forma net income and basic and diluted earnings per common share, assuming all options granted in 1996 and thereafter were valued at fair value using the Black-Scholes method, would have been as follows (in millions, except per share amounts):

	Three Months Ended	
	August 31,	
	2005	2004
Net income, as reported	\$ 339	\$ 330
Add: Stock compensation included in		
reported net income, net of tax	(1)	1
Deduct: Total stock-based employee compensation		
expense determined under fair value based		
method for all awards, net of tax benefit	11	10
Pro forma net income	<u>\$ 327</u>	<u>\$ 321</u>
Earnings per common share:		
Basic—as reported	<u>\$1.12</u>	<u>\$1.10</u>
Basic—pro forma	<u>\$1.08</u>	<u>\$1.07</u>
Diluted—as reported	<u>\$1.10</u>	<u>\$1.08</u>
Diluted—pro forma	<u>\$1.06</u>	<u>\$1.05</u>

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Following is a table of the key weighted-average assumptions used in the valuation calculations for the options and a discussion of our methodology for developing each of the assumptions used in the valuation model:

	Three Months Ended	
	August 31,	
	2005	2004
Expected lives	5 years	4 years
Expected volatility	25%	27%
Risk-free interest rate	3.68%	3.55%
Dividend yield	0.323%	0.328%

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

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

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

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

Forfeiture Rate. This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. This percentage is derived from historical experience. An increase in the forfeiture rate will decrease compensation expense. Our forfeiture rate is approximately 8%.

During the first quarter of 2006, we made option grants of 2,806,235 shares at a weighted-average exercise price of \$89.66 per share, primarily in connection with our principal annual stock option grant. The weighted-average Black-Scholes value of these grants under the assumptions indicated above was \$25.38 per option.

Total equity compensation shares outstanding or available for grant at August 31, 2005 represented 6.6% of total outstanding common and equity compensation shares and equity compensation shares available for grant.

NEW ACCOUNTING PRONOUNCEMENTS. In December 2004, the FASB issued SFAS 123R, "Share-Based Payment." SFAS 123R is a revision of SFAS 123 and supersedes APB 25. The new standard requires companies to record compensation expense for stock-based awards using a fair value method and is effective for annual periods beginning after June 15, 2005 (effective in the first quarter of 2007 for FedEx). Compensation expense will be recorded over the requisite service period, which is typically the vesting period of the award. We plan to adopt this standard using the modified prospective method.

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future, as well as the assumptions and the fair value model used to value them, and the market value of our common stock. We anticipate that the impact of SFAS 123R will approximate the pro forma results under SFAS 123 presented above (reducing earnings per diluted share in the first quarter of 2006 and 2005 by \$0.04 and \$0.03, respectively). SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standards. Based on historical experience, we do not expect the impact of adopting SFAS 123R to be material to our reported cash flows.

In March 2005, the FASB issued Financial Accounting Standards Board Interpretation No. ("FIN") 47, "Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143". FIN 47 clarifies that liabilities associated with asset retirement obligations whose timing or settlement method are conditional upon future events should be recorded at fair value as soon as fair value is reasonably estimable. FIN 47 also provides guidance on the information required to reasonably estimate the fair value of the liability. FIN 47 will be effective for FedEx no later than May 31, 2006. Management is in the process of evaluating the impact, if any, FIN 47 will have on FedEx.

(2) Comprehensive Income

The following table provides a reconciliation of net income reported in our financial statements to comprehensive income (in millions):

	Three Months Ended	
	August 31,	
	2005	2004
Net income	\$339	\$330
Other comprehensive income:		
Foreign currency translation adjustments, net of deferred taxes of		
\$1 for both 2005 and 2004.	5	8
Comprehensive income	<u>\$344</u>	<u>\$338</u>

(3) Financing Arrangements

From time to time, we finance certain operating and investing activities, including acquisitions, through borrowings under our \$1.0 billion revolving credit facility or the issuance of commercial paper. In July 2005, we executed a new \$1.0 billion five-year revolving credit facility, which replaced and consolidated our prior revolving credit facilities. Borrowings under the credit facility will bear interest at short-term interest rates (based on the London Interbank Offered Rate (LIBOR), the Prime Rate or the Federal Funds Rate) plus a margin dependent upon our senior unsecured long-term debt ratings.

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

Our commercial paper program is backed by unused commitments under the revolving credit facility and borrowings under the program reduce the amount available under the credit facility. At August 31, 2005, no commercial paper borrowings were outstanding and the entire amount under the credit facility was available. The revolving credit agreement contains certain covenants and restrictions, none of which are expected to significantly affect our operations or ability to pay dividends.

(4) 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):

	<u>2005</u>	<u>2004</u>
Net income applicable to common stockholders.	\$ 339	\$ 330
Weighted-average shares of common stock outstanding.	303	300
Common equivalent shares:		
Assumed exercise of outstanding dilutive options	17	19
Less shares repurchased from proceeds of assumed exercise of options	(12)	(14)
Weighted-average common and common equivalent shares outstanding	<u>308</u>	<u>305</u>
Basic earnings per common share	<u>\$ 1.12</u>	<u>\$ 1.10</u>
Diluted earnings per common share	<u>\$ 1.10</u>	<u>\$ 1.08</u>

We have excluded from the calculation of diluted earnings per share approximately 3,195,035 antidilutive options for the three months ended August 31, 2005, as the exercise price of the options was greater than the average market price of common stock for the period.

(5) Employee Benefit Plans

We sponsor defined benefit pension plans covering a majority of our employees. The largest plan covers certain U.S. employees age 21 and over, with at least one year of service. Certain of our subsidiaries offer medical, dental, and vision coverage to eligible U.S. retirees and their eligible dependents. Net periodic benefit cost of the pension and postretirement healthcare plans for the three-month periods ended August 31 was as follows (in millions):

	<u>Pension Plans</u>		<u>Postretirement Healthcare Plans</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Service cost	\$ 119	\$ 104	\$ 10	\$ 9
Interest cost	161	145	8	8
Expected return on plan assets.	(203)	(175)	—	—
Recognized actuarial losses	26	15	—	—
Other amortization.	3	3	—	—
	<u>\$ 106</u>	<u>\$ 92</u>	<u>\$ 18</u>	<u>\$ 17</u>

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

No contributions were made during the first quarter of 2006 or 2005 to our principal U.S. domestic pension plans. However, on September 1, 2005, we made voluntary, tax deductible contributions of \$456 million to our principal U.S. domestic pension plans. During 2005, we made primarily voluntary contributions of \$460 million to our qualified pension plans. We may elect to make further voluntary contributions to our qualified plans in 2006.

(6) Business Segment Information

We provide a broad portfolio of transportation, e-commerce and business services through operating companies that compete collectively and are managed collaboratively under the respected FedEx brands. Our operations are primarily represented by 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; FedEx Freight Corporation (“FedEx Freight”), a leading U.S. provider of regional less-than-truckload (“LTL”) freight services; and FedEx Kinko’s Office and Print Services, Inc. (“FedEx Kinko’s”), a leading provider of document solutions and business services. These businesses form the core of our reportable segments.

Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator) FedEx Supply Chain Services (contract logistics)
FedEx Freight Segment	FedEx Freight (LTL freight transportation) FedEx Custom Critical (time-critical transportation) Caribbean Transportation Services (airfreight forwarding)
FedEx Kinko’s Segment	FedEx Kinko’s (document solutions and business services)

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

The following table provides a reconciliation of reportable segment revenues and operating income to our consolidated financial statement totals (in millions):

	Three Months Ended	
	August 31,	
	2005	2004
Revenue		
FedEx Express segment	\$5,122	\$4,616
FedEx Ground segment	1,219	1,073
FedEx Freight segment	892	807
FedEx Kinko's segment	517	490
Other and eliminations	(43)	(11)
	<u>\$7,707</u>	<u>\$6,975</u>
Operating Income		
FedEx Express segment ⁽¹⁾	\$ 285	\$ 310
FedEx Ground segment	148	147
FedEx Freight segment	135	103
FedEx Kinko's segment	16	19
Other and eliminations	—	—
	<u>\$ 584</u>	<u>\$ 579</u>

⁽¹⁾ First quarter 2006 includes a \$75 million (before variable compensation effects) one-time, non-cash charge to adjust the accounting for certain facility leases.

(7) Commitments

As of August 31, 2005, our purchase commitments for the remainder of 2006 and annually thereafter under various contracts were as follows (in millions):

	Aircraft	Aircraft-Related⁽¹⁾	Other⁽²⁾	Total
2006 (remainder)	\$ 85	\$150	\$593	\$828
2007	293	209	132	634
2008	255	88	57	400
2009	567	57	36	660
2010	517	59	18	594
Thereafter	625	74	167	866

⁽¹⁾ Primarily aircraft modifications.

⁽²⁾ Primarily vehicles, facilities, computers, printing and other equipment and advertising and promotions contracts.

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

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

As of August 31, 2005, FedEx Express was committed to purchase 12 Airbus A300s, four Airbus A310s, five ATR-72s and ten Airbus A380s (a new high-capacity, long-range aircraft). FedEx Express expects to take delivery of three A300s, two A310s and all of the ATR-72s in 2006. Five A300s and two A310s are expected to be delivered in 2007. The four remaining A300s are expected to be delivered in 2008. Three of the ten A380 aircraft are scheduled to be delivered in each of 2009, 2010 and 2011 and the remaining one in 2012. Deposits and progress payments of \$33 million have been made toward these purchases and other planned aircraft-related transactions. In addition, we have committed to modify our DC10 aircraft for passenger-to-freighter and two-man cockpit configurations. Payments related to these activities are included in the table above. Aircraft and aircraft-related contracts are subject to price escalations.

A summary of future minimum lease payments under capital leases at August 31, 2005 is as follows (in millions):

2006 (remainder)	\$ 22
2007.....	22
2008.....	99
2009.....	10
2010.....	95
Thereafter	<u>130</u>
	378
Less amount representing interest.....	<u>72</u>
Present value of net minimum lease payments	<u>\$306</u>

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at August 31, 2005 is as follows (in millions):

	<u>Aircraft and Related Equipment</u>	<u>Facilities and Other</u>	<u>Total</u>
2006 (remainder)	\$ 478	\$ 719	\$ 1,197
2007.....	606	857	1,463
2008.....	585	721	1,306
2009.....	555	586	1,141
2010.....	544	470	1,014
Thereafter	<u>4,460</u>	<u>2,986</u>	<u>7,446</u>
	<u>\$7,228</u>	<u>\$6,339</u>	<u>\$13,567</u>

While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

FedEx Express makes payments under certain leveraged operating leases that are sufficient to pay principal and interest on certain pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, FedEx or FedEx Express.

FEDEX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(UNAUDITED)

(8) Contingencies

Wage-and-Hour. We are a defendant in a number of lawsuits filed in federal or California state courts containing various class-action allegations under federal or California wage-and-hour laws. The plaintiffs in these lawsuits are employees of FedEx operating companies who allege, among other things, that they were forced to work “off the clock” and were not provided work breaks or other benefits. The plaintiffs generally seek unspecified monetary damages, injunctive relief, or both.

To date, one of these wage-and-hour cases, *Foster v. FedEx Express*, has been certified as a class action. The plaintiffs represent a class of hourly FedEx Express employees in California from October 14, 1998 to present. The plaintiffs allege that hourly employees are routinely required to work “off the clock” and are not paid for this additional work. The court issued a ruling on December 13, 2004 granting class certification on all issues. The ruling, however, does not address whether we will ultimately be held liable. Trial has been scheduled for April 2006.

We have denied any liability with respect to these claims and intend to vigorously defend ourself in these cases. However, it is reasonably possible that material losses could be incurred on one or more of these matters as these cases develop.

Independent Contractor. FedEx Ground is involved in numerous purported class-action lawsuits and other proceedings in which the threshold issue is whether some or all of FedEx Ground’s owner-operators are in fact employees, rather than independent contractors. Adverse determinations in these matters could, among other things, entitle certain of our contractors to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax liability for FedEx Ground. On August 10, 2005, the Judicial Panel on Multi-District Litigation granted our motion to transfer and consolidate the majority of the class-action lawsuits for administration of the pre-trial proceedings by a single federal court – the U.S. District Court for the Northern District of Indiana.

We strongly believe that FedEx Ground’s owner-operators are properly classified as independent contractors and that we will prevail in these proceedings. Given the nature and preliminary status of the claims, we cannot yet determine the amount or a reasonable range of potential loss in these matters, if any.

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

(9) Supplemental Cash Flow Information

	Three Months Ended	
	August 31,	
	2005	2004
	(In millions)	
Cash payments for:		
Interest (net of capitalized interest)	\$44	\$ 55
Income taxes	27	138

**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 August 31, 2005, and the related condensed consolidated statements of income and cash flows for the three-month periods ended August 31, 2005 and 2004. 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, 2005, and the related consolidated statements of income, changes in stockholders' investment and comprehensive income, and cash flows for the year then ended not presented herein, and in our report dated July 12, 2005, 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, 2005, 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
September 20, 2005

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 describes the principal factors affecting the results of operations, liquidity, capital resources and contractual cash obligations, as well as the critical accounting policies and estimates, of FedEx. This discussion should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and our Annual Report on Form 10-K for the year ended May 31, 2005 ("Annual Report"), which include additional information about our significant accounting policies, practices and the transactions that underlie our financial results.

FedEx provides a broad portfolio of transportation, e-commerce and business services through operating companies that compete collectively and are managed collaboratively under the respected FedEx brands. These operating companies are primarily represented by FedEx Express, the world's largest express transportation company; FedEx Ground, a leading provider of small-package ground delivery services; FedEx Freight, a leading U.S. provider of regional LTL freight services; and FedEx Kinko's, a leading provider of document solutions and business services. These companies form the core of our reportable segments. See "Reportable Segments" for further discussion.

The key indicators necessary to understand our operating results include:

- the overall customer demand for our various services;
- the volumes of transportation and business 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 average price per shipment (yield);
- our ability to manage our cost structure for capital expenditures and operating expenses such as salaries and employee benefits and maintenance and repairs and to match such expenses to shifting volume levels; and
- the timing and amount of fluctuations in fuel prices and the availability of adequate fuel supplies.

Except as otherwise specified, references to years indicate our fiscal year ended May 31, 2006 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

RESULTS OF OPERATIONS

CONSOLIDATED RESULTS

The following table compares revenues, operating income, operating margin, net income and diluted earnings per share (dollars in millions, except per share amounts) for the three months ended August 31:

	<u>2005⁽¹⁾</u>	<u>2004</u>	<u>Dollar</u> <u>Change</u>	<u>Percent</u> <u>Change</u>
Revenues	\$7,707	\$6,975	732	10
Operating income	584	579	5	1
Operating margin	7.6%	8.3%	NM	(72 bp)
Net income	\$ 339	\$ 330	9	3
Diluted earnings per share	\$ 1.10	\$ 1.08	0.02	2

⁽¹⁾ First quarter 2006 operating expenses include a \$79 million (\$49 million after tax or \$0.16 per diluted share before variable compensation effects) one-time, non-cash charge to adjust the accounting for certain facility leases, predominately at FedEx Express, as described below.

The following table shows changes in revenues and operating income by reportable segment for the three-month period ended August 31, 2005 compared to 2004 (in millions):

	<u>Revenues</u>		<u>Operating Income</u>	
	<u>Dollar Change</u>	<u>Percent Change</u>	<u>Dollar Change</u>	<u>Percent Change</u>
FedEx Express segment ⁽¹⁾	506	11	(25)	(8)
FedEx Ground segment	146	14	1	1
FedEx Freight segment	85	11	32	31
FedEx Kinko's segment	27	6	(3)	(16)
Other and Eliminations	<u>(32)</u>	NM	<u>—</u>	NM
	<u>732</u>	10	<u>5</u>	1

⁽¹⁾ First quarter 2006 operating expenses for FedEx Express include a \$75 million (before variable compensation effects) one-time, non-cash charge to adjust the accounting for certain facility leases, as described below.

The following table shows selected operating statistics (in thousands, except yield amounts) for the three-month periods ended August 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Average daily package volume (ADV):			
FedEx Express	3,233	3,093	5
FedEx Ground	<u>2,586</u>	<u>2,447</u>	6
Total ADV	<u>5,819</u>	<u>5,540</u>	5
Average daily LTL shipments:			
FedEx Freight	65	64	2
Revenue per package (yield):			
FedEx Express	\$20.80	\$19.78	5
FedEx Ground	6.92	6.54	6
LTL yield (revenue per hundredweight):			
FedEx Freight	\$16.55	\$14.98	10

Revenue growth for the first quarter of 2006 was attributable to volume and yield improvements across all transportation segments and increased revenue at FedEx Kinko's. Yield improvements in our transportation businesses were primarily due to significantly higher fuel surcharges during the quarter.

Operating income increased during the first quarter of 2006 primarily due to revenue growth in all transportation segments and improved margins at FedEx Freight. Although our fuel costs increased significantly during the first quarter of 2006, higher revenues from our jet and diesel fuel surcharges more than offset these higher fuel costs. Increased purchased transportation costs in the first quarter of 2006 were primarily driven by higher costs at FedEx Express to support IP volume growth requirements and proportionately higher costs at FedEx Ground due to the impact of rising fuel costs on contractor settlements, as well as the inclusion of the results of FedEx SmartPost, which was acquired in September 2004.

During the first quarter of 2006, a one time, non-cash charge of \$79 million (\$49 million after tax or \$0.16 per diluted share before variable compensation effects) was recorded, which represented the impact on prior years, to adjust the accounting for certain facility leases, predominately at FedEx Express. The charge related primarily to rent escalations in on-airport facility leases. The applicable accounting literature provides that rent expense under operating leases with rent escalation clauses should be

recognized evenly, on a straight-line basis over the lease term. Based on a more extensive review of our leases during the first quarter, we determined that a portion of our facility leases had rent escalation clauses that were not being recognized appropriately. Because the amounts involved were not material to our financial statements in any individual prior period and the cumulative amount is not expected to be material to 2006 results, we have recorded the cumulative adjustment in the first quarter, which increased operating expenses by \$79 million.

In August 2005, Hurricane Katrina devastated certain portions of the Gulf Coast region where each of our business segments has operations. While we took precautions by relocating aircraft and equipment, we suffered damage to a limited number of facilities and some of our equipment. Because only three business days in the quarter were affected by the storm, our results of operations for the first quarter were not significantly impacted.

Net interest expense decreased \$15 million during the first quarter of 2006. The decrease in net interest expense was primarily due to a reduction in the level of outstanding debt and capital leases as a result of scheduled payments, additional capitalized interest and increased interest income.

Our effective tax rate was 38.25% for the first quarter of both 2006 and 2005. We expect the effective tax rate to approximate 38% for the remainder of the fiscal year; however, the actual rate will depend on a number of factors, including the amount and source of operating income.

Outlook

While comparisons will continue to be difficult against a very strong 2005, we expect ongoing revenue and earnings growth across all FedEx operating companies in 2006. Our view stems from expectations of strong customer demand for services across our operating companies and continued, albeit slower, growth in the worldwide economy. While our fuel surcharges have been sufficient to offset increased fuel prices, we cannot predict the impact on the overall economy (if any) if fuel costs remain at current levels or continue to increase.

We expect near term effects from Hurricane Katrina may impact second quarter earnings. For example, shipping services to and from the region (outside of relief efforts) and business services within the region will be impacted for at least the near term. We also provided cash contributions and shipping services to the American Red Cross and other agencies to aid in the relief effort, and we expect to make further contributions. While we maintain business interruption and other insurance, we cannot currently assess the amounts or timing of any recoverable losses associated with Hurricane Katrina.

We expect continued strong growth of international volumes and yields and modest growth in U.S. domestic revenue at FedEx Express. We anticipate improved volumes and yields at FedEx Ground and FedEx Freight, as FedEx Ground continues its multi-year capacity expansion plan and FedEx Freight continues to grow its regional and interregional business and enhance its portfolio of services. FedEx Kinko's is expected to generate revenue growth from the transition of FedEx World Service Centers to FedEx Kinko's Ship Centers and expansion of its retail network.

Volatility in fuel costs may pressure quarterly earnings growth as the trailing impact of adjustments to the FedEx Express fuel surcharge can significantly affect earnings in the short term. Incremental costs associated with the new westbound and eastbound around-the-world flights at FedEx Express will be significant in 2006, and a competitive pricing environment, heightened by continuing high fuel prices, may limit base U.S. domestic yield growth, particularly in our package businesses.

The pilots of FedEx Express, which represent a small number of FedEx Express total employees, are employed under a collective bargaining agreement that became amendable on May 31, 2004. In accordance with applicable labor law, we will continue to operate under our current agreement while we negotiate with our pilots. Contract negotiations with the pilots' union began in March 2004. These

negotiations are ongoing and have recently included private facilitation sessions in an effort to make progress. We cannot estimate the financial impact, if any, the results of these negotiations may have on our future results of operations.

Increased security requirements for air cargo carriers have not had a material impact on our operating results for the periods presented. In November 2004, the Transportation Security Administration (“TSA”) proposed new rules enhancing many of the security requirements for air cargo on both passenger and all-cargo aircraft. Because the TSA’s proposed rules are subject to comment, any final rules may differ significantly from the proposed rules. Accordingly, it is not yet possible to estimate the impact, if any, that the adoption of new rules by the TSA or any other additional security requirements may have on our results of operations. However, it is possible that increased security requirements could impose substantial incremental costs on us and our competitors.

Future results will depend upon a number of factors, including U.S. and international economic conditions, the effect of Hurricane Katrina or other severe weather events on our operations and the economy, including the impact on fuel costs and availability, the impact from any terrorist activities or international conflicts, our ability to match our cost structure and capacity with shifting volume levels, our ability to effectively leverage our new service and growth initiatives and our ability to successfully conclude contract negotiations with our pilots and defend against challenges to our independent contractor model described in Note 8 to the accompanying unaudited condensed consolidated financial statements. In addition, adjustments to our fuel surcharges lag changes in actual fuel prices paid. Therefore, our operating income could be materially affected should the price of fuel continue to fluctuate by significant amounts. See “Forward-Looking Statements” for a more complete discussion of potential risks and uncertainties that could materially affect our future performance.

NEW ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (“FASB”) issued SFAS 123R, “Share-Based Payment.” SFAS 123R is a revision of SFAS 123 and supersedes APB 25. The new standard requires companies to record compensation expense for stock-based awards using a fair value method and is effective for annual periods beginning after June 15, 2005 (effective in the first quarter of 2007 for FedEx). Compensation expense will be recorded over the requisite service period, which is typically the vesting period of the award. We plan to adopt this standard using the modified prospective method.

The impact of the adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future, as well as the assumptions and the fair value model used to value them, and the market value of our common stock. We anticipate that the impact of SFAS 123R will approximate the pro forma results under SFAS 123 presented in Note 1 to the accompanying unaudited condensed consolidated financial statements. The effect of recording compensation expense under SFAS 123 for the periods ended August 31, 2005 and 2004 would have resulted in a reduction to earnings per diluted share of \$0.04 and \$0.03, respectively. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as required under current standards. Based on historical experience, we do not expect the impact of adopting SFAS 123R to be material to our reported consolidated cash flows.

In March 2005, the FASB issued Financial Accounting Standards Board Interpretation No. (“FIN”) 47, “Accounting for Conditional Asset Retirement Obligations, an Interpretation of FASB Statement No. 143”. FIN 47 clarifies that liabilities associated with asset retirement obligations whose timing or settlement method are conditional upon future events should be recorded at fair value as soon as fair value is reasonably estimable. FIN 47 also provides guidance on the information required to

reasonably estimate the fair value of the liability. FIN 47 will be effective for FedEx no later than May 31, 2006. Management is in the process of evaluating the impact, if any, FIN 47 will have on FedEx.

REPORTABLE SEGMENTS

FedEx Express, FedEx Ground, FedEx Freight and FedEx Kinko's form the core of our reportable segments. Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (global trade services)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx SmartPost (small-parcel consolidator) FedEx Supply Chain Services (contract logistics)
FedEx Freight Segment	FedEx Freight (LTL freight transportation) FedEx Custom Critical (time-critical transportation) Caribbean Transportation Services (airfreight forwarding)
FedEx Kinko's Segment	FedEx Kinko's (document solutions and business services)

FedEx Services provides customer-facing sales, marketing and information technology support, primarily for FedEx Express and FedEx Ground. The costs for these activities are allocated based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the cost of providing these functions. The operating expenses line item "Intercompany charges" on the accompanying unaudited financial summaries of our reportable segments includes the allocations from FedEx Services to FedEx Express, FedEx Ground, FedEx Freight and FedEx Kinko's. The "Intercompany charges" caption also includes allocations for 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. Management evaluates segment financial performance based on operating income.

In addition, 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. The FedEx Kinko's segment revenues include package acceptance revenue, which represents the fee received by FedEx Kinko's from FedEx Express and FedEx Ground for accepting and handling packages at FedEx Kinko's locations on behalf of these operating companies. Package acceptance revenue does not include the external revenue associated with the actual shipments. Shipment revenues are reflected in the segment performing the transportation services. Such intersegment revenues and expenses are not separately identified in the following segment information as the amounts are not material and are eliminated in the consolidated results.

FEDEX EXPRESS SEGMENT

The following table compares revenues, operating expenses, operating income and margin (dollars in millions) for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Revenues:			
Package:			
U.S. overnight box	\$1,560	\$1,449	8
U.S. overnight envelope	489	439	11
U.S. deferred	687	648	6
Total U.S. domestic package revenue	<u>2,736</u>	<u>2,536</u>	8
International Priority (IP)	<u>1,634</u>	<u>1,440</u>	13
Total package revenue	<u>4,370</u>	<u>3,976</u>	10
Freight:			
U.S.	505	421	20
International	<u>105</u>	<u>90</u>	17
Total freight revenue	<u>610</u>	<u>511</u>	19
Other ⁽¹⁾	<u>142</u>	<u>129</u>	10
Total revenues	<u>5,122</u>	<u>4,616</u>	11
Operating expenses:			
Salaries and employee benefits	1,971	1,889	4
Purchased transportation	241	191	26
Rentals and landing fees	483	383	26
Depreciation and amortization	193	200	(4)
Fuel	628	422	49
Maintenance and repairs	361	325	11
Intercompany charges	358	362	(1)
Other	<u>602</u>	<u>534</u>	13
Total operating expenses ⁽²⁾	<u>4,837</u>	<u>4,306</u>	12
Operating income	<u>\$ 285</u>	<u>\$ 310</u>	(8)
Operating margin	5.6%	6.7%	

⁽¹⁾ Other revenues includes FedEx Trade Networks.

⁽²⁾ First quarter 2006 operating expenses include a \$75 million (before variable compensation effects) one-time, non-cash charge to adjust the accounting for certain facility leases.

The following table compares selected statistics (in thousands, except yield amounts) for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Package Statistics⁽¹⁾			
Average daily package volume (ADV):			
U.S. overnight box	1,180	1,150	3
U.S. overnight envelope	711	662	7
U.S. deferred.....	897	862	4
Total U.S. domestic ADV.....	2,788	2,674	4
IP.....	445	419	6
Total ADV.....	3,233	3,093	5
Revenue per package (yield):			
U.S. overnight box	\$ 20.34	\$ 19.37	5
U.S. overnight envelope	10.57	10.21	4
U.S. deferred.....	11.78	11.57	2
U.S. domestic composite.....	15.10	14.59	3
IP.....	56.54	52.93	7
Composite package yield.....	20.80	19.78	5
Freight Statistics⁽¹⁾			
Average daily freight pounds:			
U.S.....	8,885	8,213	8
International	2,039	1,861	10
Total average daily freight pounds	10,924	10,074	8
Revenue per pound (yield):			
U.S.....	\$ 0.88	\$ 0.79	11
International	0.79	0.74	7
Composite freight yield.....	0.86	0.78	10

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

FedEx Express Segment Revenues

FedEx Express segment total revenues increased 11% in the first quarter of 2006, principally due to higher IP revenues (particularly in Asia and U.S. outbound) and higher U.S. domestic package revenues. During the first quarter, IP revenues grew 13% on yield growth of 7% and a 6% increase in volume. Outbound shipments from the United States experienced solid average daily volume growth during the first quarter of 2006, while Asia and Europe continued to improve. IP yield increased during the first quarter of 2006 due primarily to higher fuel surcharge revenue, an increase in international average weight per package and favorable exchange rate differences.

U.S. domestic composite yield increased 3% during the first quarter of 2006 due to higher fuel surcharge revenue and an increase in average rate per pound, partially offset by a decrease in average weight per package. U.S. domestic volumes at FedEx Express increased 4% in the first quarter of 2006, continuing the momentum of improved quarterly growth from the second half of 2005. Freight revenue increased during 2006 due to higher yields and growth in freight volumes. As capacity is added to our international network, we may continue to realize higher international freight volume until higher yielding IP shipment traffic grows into the added capacity. In January 2005, we implemented an average list price

increase of 4.6% on FedEx Express U.S. domestic shipments and U.S. outbound international shipments, while we lowered our fuel surcharge index by 200 basis points.

Fuel surcharge revenue was higher in the first quarter of 2006 due to higher jet fuel prices. Our fuel surcharge is 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 three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>
U.S. Domestic and Outbound Fuel Surcharge:		
Low	10.50%	6.00%
High	12.50	7.50
Average	11.50	6.83
International Fuel Surcharges:		
Low	10.00	5.00
High	12.50	7.50
Average	11.13	6.37

FedEx Express Segment Operating Income

Operating income at the FedEx Express segment decreased by \$25 million during the first quarter of 2006. The first quarter of 2006 included a one-time, non-cash charge to adjust the accounting for certain facility leases of \$75 million (before variable compensation effects), as well as increases in salaries and employee benefits and purchased transportation costs.

During the first quarter of 2006, fuel costs were higher due to a 42% increase in the average price per gallon of jet fuel, while gallons consumed increased slightly. However, fuel surcharge revenue substantially offset higher jet fuel prices. Purchased transportation costs increased in the first quarter of 2006, led by IP volume growth which required a higher utilization of contract pickup and delivery services. The increase in the first quarter of 2006 in rentals and landing fees is primarily due to the one-time adjustment for leases described above.

FEDEX GROUND SEGMENT

The following table compares revenues, operating expenses, operating income and margin (dollars in millions) and selected package statistics (in thousands, except yield amounts) for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Revenues	\$1,219	\$1,073	14
Operating expenses:			
Salaries and employee benefits	221	197	12
Purchased transportation	466	410	14
Rentals	31	26	19
Depreciation and amortization	50	40	25
Fuel	18	7	157
Maintenance and repairs	29	26	12
Intercompany charges	120	115	4
Other	136	105	30
Total operating expenses	<u>1,071</u>	<u>926</u>	16
Operating income	<u>\$ 148</u>	<u>\$ 147</u>	1
Operating margin	12.1%	13.7%	
Average daily package volume ⁽¹⁾	2,586	2,447	6
Revenue per package (yield) ⁽¹⁾	\$ 6.92	\$ 6.54	6

⁽¹⁾ Package statistics include only the operations of FedEx Ground.

FedEx Ground Segment Revenues

Revenues increased during the first quarter of 2006 principally due to solid volume and yield growth and the inclusion of the operations for FedEx SmartPost, which was acquired on September 12, 2004. Average daily volumes increased across virtually all of our services and were primarily attributable to the continued growth of our home delivery service.

Yield increased during the first quarter of 2006 primarily due to higher extra service revenue, the fuel surcharge and the January 2005 general rate increase, partially offset by higher customer discounts and a lower average weight per package. Gains in extra service revenue are attributable to the reinstatement of the fuel surcharge and increases in residential and commercial delivery surcharges. In January 2005, we implemented an average list price increase of 2.9% and reintroduced an indexed fuel surcharge for all shipments, effective January 3, 2005. No fuel surcharge was in effect during the prior year period.

Our fuel surcharge ranged as follows for the three-month period ended August 31:

	<u>2005</u>
Low	2.50%
High	2.75
Average	2.67

FedEx Ground Segment Operating Income

FedEx Ground segment operating income increased 1% during the first quarter of 2006 as yield and volume growth offset higher operating expenses. Purchased transportation increased in the first quarter of

2006 primarily due to the impact of higher fuel costs on contractor settlements and the inclusion of operating costs related to FedEx SmartPost. Salaries and employee benefits, as well as other operating costs, increased in 2006 principally due to increases in staffing and facilities to support volume growth. Despite improved field productivity and aggressive cost control, the segment operating margin declined due to FedEx SmartPost and higher year-over-year expenses related to investment in new technology, as well as the opening of three new hubs in line with our long-term growth strategy.

FEDEX FREIGHT SEGMENT

The following table shows revenues, operating expenses, operating income and margin (dollars in millions) and selected statistics for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Revenues	\$ 892	\$ 807	11
Operating expenses:			
Salaries and employee benefits	439	410	7
Purchased transportation	72	84	(14)
Rentals and landing fees	24	25	(4)
Depreciation and amortization	30	24	25
Fuel	82	54	52
Maintenance and repairs	28	31	(10)
Intercompany charges	9	6	50
Other	73	70	4
Total operating expenses	<u>757</u>	<u>704</u>	8
Operating income	<u>\$ 135</u>	<u>\$ 103</u>	31
Operating margin	15.1%	12.8%	
Average daily LTL shipments (in thousands)	65	64	2
Weight per LTL shipment (lbs)	1,132	1,128	—
LTL yield (revenue per hundredweight)	\$16.55	\$14.98	10

Certain prior period amounts have been reclassified to conform to the current period presentation.

FedEx Freight Segment Revenues

FedEx Freight segment revenues increased 11% during the first quarter of 2006 due to year-over-year growth in LTL yield and average daily LTL shipments. LTL yield grew during the first quarter of 2006, reflecting incremental fuel surcharges, higher rates and growth in our interregional freight service. The LTL fuel surcharge, which applies to the majority of our revenue, is based on the national U.S. on-highway average prices for a gallon of diesel fuel, as published by the Department of Energy. Using this index, the approximate LTL fuel surcharge ranged as follows for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>
Low.....	12.5%	7.6%
High.....	16.8	9.6
Average.....	14.6	8.4

FedEx Freight Segment Operating Income

FedEx Freight segment operating income increased 31% during the first quarter of 2006 primarily due to LTL revenue growth and controlling costs in line with volume growth. Increased LTL yield contributed to the improved margin in spite of higher salaries and employee benefits costs, higher fuel and depreciation and amortization. Salaries and employee benefits costs increased in the first quarter due to higher wages and incentive compensation. Depreciation and amortization costs increased primarily due to the investment in our operating equipment. Purchased transportation costs decreased, reflecting increased utilization of our equipment and drivers for interregional freight services.

FEDEX KINKO'S SEGMENT

The following table shows revenues, operating expenses, operating income and margin (dollars in millions) for the three-month periods ended August 31:

	<u>2005</u>	<u>2004</u>	<u>Percent Change</u>
Revenues	\$517	\$490	6
Operating expenses:			
Salaries and employee benefits	186	182	2
Rentals	102	102	—
Depreciation and amortization	36	32	13
Maintenance and repairs.....	18	17	6
Intercompany charges	4	3	33
Other operating expenses:			
Supplies, including paper and toner	67	64	5
Other	88	71	24
Total operating expenses	<u>501</u>	<u>471</u>	6
Operating income.....	<u>\$ 16</u>	<u>\$ 19</u>	(16)
Operating margin	3.1%	3.8%	

Certain prior period amounts have been reclassified to conform to the current period presentation.

FedEx Kinko's Segment Revenues

Revenues increased by 6% in the first quarter of 2006 due to continued growth in our revenues from FedEx Express and FedEx Ground package acceptance and the benefit of the conversion of certain FedEx World Service Centers to FedEx Kinko's Ship Centers in 2005. Growth in these areas was partially offset by a decline in our copy product line revenues.

FedEx Kinko's Segment Operating Income

Operating income decreased \$3 million as the increase in revenues was offset by increases in other operating expenses and depreciation. The increase in other operating expenses was primarily due to increased costs related to professional fees associated with internal technology and product offering initiatives and higher administrative costs. Increased depreciation was driven by investments in new technology to replace legacy systems over the past twelve months.

FINANCIAL CONDITION

LIQUIDITY

Cash and cash equivalents totaled \$1.051 billion at August 31, 2005, compared to \$1.039 billion at May 31, 2005. The following table provides a summary of our cash flows for the three-month periods ended August 31 (in millions):

	<u>2005</u>	<u>2004</u>
Operating Activities:		
Net income.....	\$ 339	\$ 330
Noncash charges and credits.....	445	365
Changes in operating assets and liabilities.....	(1)	42
Net cash provided by operating activities.....	<u>783</u>	<u>737</u>
Investing Activities:		
Capital expenditures and other investing activities.....	(670)	(391)
Net cash used in investing activities.....	<u>(670)</u>	<u>(391)</u>
Financing Activities:		
Principal payments on debt.....	(95)	(13)
Proceeds from stock issuances.....	18	30
Dividends paid.....	(24)	(21)
Net cash used in financing activities.....	<u>(101)</u>	<u>(4)</u>
Net increase in cash and cash equivalents.....	<u>\$ 12</u>	<u>\$ 342</u>

Cash Provided by Operating Activities. The \$46 million increase in cash flows from operating activities in the first quarter of 2006 was largely attributable to increased earnings and the collection of a refund payment of \$59 million from the U.S. government relating to the tax treatment of jet engine maintenance costs. We expect to receive the remaining \$21 million due to us from the U.S. government in 2006. The increase in cash flows from operating activities was partially offset by the payout of previously accrued amounts related to our 2005 incentive compensation plans. On September 1, 2005 we made voluntary, tax deductible contributions of \$456 million to our principal U.S. domestic pension plans.

Cash Used for Capital Investments. Capital expenditures during the first quarter of 2006 were 70% higher than the prior year period primarily due to planned aircraft expenditures at FedEx Express to support IP volume growth. See "Capital Resources" below for further discussion.

Debt Financing Activities. The increase in principal payments on debt primarily relates to scheduled payments on our capital leases. A new \$1.0 billion five-year revolving credit facility was executed in July 2005 and replaced our prior revolving credit facilities. The revolving credit facility is available to finance our operations and other cash flow needs and to provide support for the issuance of commercial paper. Any commercial paper borrowings reduce the amount available under the revolving credit facility. At August 31, 2005, no commercial paper was outstanding and the entire \$1.0 billion under the revolving credit facility was available for future borrowings. Borrowings under the revolving credit facility will bear interest at short-term interest rates (based on the London Interbank Offered Rate (LIBOR), the Prime Rate or the Federal Funds Rate) plus a margin dependent upon our senior unsecured long-term debt ratings.

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. We are in compliance with this and all other restrictive covenants of our revolving credit agreement and do not expect the covenants to significantly affect our operations or ability to pay dividends.

We also use capital and operating leases to finance a portion of our aircraft, facility, vehicles and equipment needs. In addition, we have a \$1.0 billion shelf registration statement filed with the SEC to provide flexibility and efficiency when obtaining certain financing. Under this shelf registration statement we may issue, in one or more offerings, unsecured debt securities, common stock or a combination of such instruments. The entire \$1.0 billion is available for future financings.

Dividends. Dividends paid in the first quarter of 2006 and 2005 were \$24 million and \$21 million, respectively. On August 19, 2005, our Board of Directors declared a dividend of \$0.08 per share of common stock. The dividend is payable on October 3, 2005 to stockholders of record as of the close of business on September 12, 2005.

Other Liquidity Information. We believe that our existing cash and cash equivalents, cash flow from operations, our commercial paper program, revolving bank credit facilities and shelf registration statement with the SEC will adequately meet our working capital and capital expenditure needs for the foreseeable future.

CAPITAL RESOURCES

Our operations are capital intensive, characterized by significant investments in aircraft, vehicles, technology, package-handling facilities 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, competition, availability of satisfactory financing and actions of regulatory authorities.

The following table compares capital expenditures by asset category and reportable segment for the three-month periods ended August 31 (in millions):

	<u>2005</u>	<u>2004</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Aircraft and related equipment	\$276	\$134	142	106
Facilities and sort equipment	92	97	(5)	(5)
Information technology	91	81	10	12
Vehicles	176	57	119	209
Other equipment	<u>36</u>	<u>26</u>	<u>10</u>	<u>38</u>
Total capital expenditures	<u>\$671</u>	<u>\$395</u>	<u>276</u>	<u>70</u>
FedEx Express segment	\$388	\$165	223	135
FedEx Ground segment	116	89	27	30
FedEx Freight segment	82	62	20	32
FedEx Kinko's segment	14	29	(15)	(52)
Other, principally FedEx Services	<u>71</u>	<u>50</u>	<u>21</u>	<u>42</u>
Total capital expenditures	<u>\$671</u>	<u>\$395</u>	<u>276</u>	<u>70</u>

Capital expenditures during the first quarter of 2006 were 70% higher than the prior year period primarily due to the timing of planned aircraft expenditures at FedEx Express to support IP volume growth. Also, additional investments were made in the FedEx Ground and FedEx Freight networks to support growth in customer demand. For all of 2006, we expect capital expenditures of approximately \$2.5 billion, compared to \$2.2 billion in 2005. The expected year-over-year increase will fund planned aircraft and vehicle expenditures at FedEx Express to support future IP volume growth and replace vehicles. We also continue to invest in infrastructure upgrades and productivity-enhancing technologies, the multi-year capacity expansion of the FedEx Ground network and growth and replacement vehicle needs at FedEx Freight.

Because of substantial lead times associated with the manufacture or modification of aircraft, we must generally plan our aircraft orders or modifications three to eight years in advance. While we also pursue market opportunities to purchase aircraft when they become available, we must make commitments regarding our airlift requirements years before aircraft are actually needed. We are closely managing our capital spending based on current and anticipated volume levels and will defer or limit capital additions where economically feasible, while continuing to invest strategically in growing service lines.

CONTRACTUAL CASH OBLIGATIONS

As required under SEC rules and regulations, the following table sets forth a summary of our contractual cash obligations as of August 31, 2005. 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 on our balance sheet as current liabilities at August 31, 2005. 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						
	2006 ⁽¹⁾	2007	2008	2009	2010	Thereafter	Total
	(in millions)						
<i>Amounts reflected in Balance Sheet:</i>							
Long-term debt	\$ 265	\$ 844	\$ —	\$ 499	\$ —	\$ 789	\$ 2,397
Capital lease obligations ^{(2),(3)}	22	22	99	10	95	130	378
<i>Other cash obligations not reflected in</i>							
<i>Balance Sheet:</i>							
Unconditional purchase obligations ⁽³⁾	828	634	400	660	594	866	3,982
Interest on long-term debt	99	108	83	83	65	1,664	2,102
Operating leases ⁽³⁾	1,197	1,463	1,306	1,141	1,014	7,446	13,567
Total	\$2,411	\$3,071	\$1,888	\$2,393	\$1,768	\$10,895	\$22,426

(1) Cash obligations for the remainder of 2006.

(2) Capital lease obligations represent principal and interest payments.

(3) See Note 7 to the accompanying unaudited consolidated financial statements.

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

Amounts Reflected in Balance Sheet

We have certain financial instruments representing potential commitments, not reflected in the table above, that were incurred in the normal course of business to support our operations, including surety bonds and standby letters of credit. These instruments are generally required under certain U.S. self-insurance programs and are also used in the normal course of international operations. While the notional amounts of these instruments are material, there are no additional contingent liabilities associated with them because the underlying liabilities are already reflected in our balance sheet.

We have other long-term liabilities reflected in our balance sheet, including deferred income taxes, non-qualified pension and postretirement healthcare liabilities and self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the table above due to the absence of scheduled maturities. Therefore, the timing of these payments cannot be determined, except for amounts estimated to be payable within twelve months that are included in current liabilities.

Other Cash Obligations Not Reflected in Balance Sheet

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. Such contracts include those for certain purchases of aircraft, aircraft modifications, vehicles, facilities, computers, printing and other equipment and advertising and promotions contracts. In addition, we have committed to modify our DC10 aircraft for passenger-to-freighter and two-man cockpit configurations, which is reflected in the table above.

Commitments to purchase aircraft in passenger configuration do not include the attendant costs to modify these aircraft for cargo transport. 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.

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

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 August 31, 2005. In the past, we financed a significant portion of our aircraft needs (and certain other equipment needs) using operating leases (a type of “off-balance sheet financing”). At the time that the decision to lease was made, we determined that these operating leases would provide economic benefits favorable to ownership with respect to market values, liquidity or after-tax cash flows.

In accordance with accounting principles generally accepted in the United States, our operating leases are not recorded in our balance sheet. Credit rating agencies routinely use information concerning minimum lease payments required for our operating leases to calculate our debt capacity. In addition, we have guarantees under certain operating leases, amounting to \$36 million as of August 31, 2005, for the residual values of vehicles and facilities at the end of the respective operating lease periods. Although we expect that some of these leased assets may have a residual value at the end of the lease term that is less than the value specified in the related operating lease agreement, we do not believe it is probable that we will be required to fund material amounts under the terms of these guarantee arrangements. Accordingly, no material accruals have been recognized for these guarantees.

In the future, other forms of secured financing and direct purchases may be used to obtain capital assets if we determine that they best suit our needs. We have been successful in obtaining investment capital, both domestic and international, for long-term leases on acceptable terms, although the marketplace for such capital can become restricted depending on a variety of economic factors. We believe the capital resources available to us provide flexibility to access the most efficient markets for financing capital acquisitions, including aircraft, and are adequate for our future capital needs.

We have a senior unsecured debt credit rating from Standard & Poor’s of BBB and a commercial paper rating of A-2. Moody’s Investors Service has assigned us a senior unsecured debt credit rating of Baa2 and a commercial paper rating of P-2. Moody’s and Standard and Poor’s both characterize our ratings outlook as “stable.” If our credit ratings drop, our interest expense may increase; similarly, we anticipate that our interest expense may decrease if our credit ratings are raised. If our commercial paper ratings drop below current levels, we may have difficulty utilizing the commercial paper market. If our senior unsecured debt ratings drop below investment grade, our access to financing may become more limited.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and 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 large, global corporation. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Information regarding our “Critical Accounting Policies and Estimates” can be found in our Annual Report. The four critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our financial statements are those relating to pension cost, self-insurance accruals, long-lived assets and revenue recognition. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm. In addition, Note 1 to the financial statements in our Annual Report contains a summary of our significant accounting policies.

FORWARD-LOOKING STATEMENTS

Certain statements in this report, including (but not limited to) those contained in “Outlook,” “Liquidity,” “Capital Resources,” “Contractual Cash Obligations” and the “Employee Benefit Plans” note to the consolidated financial statements, are “forward-looking” statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations, cash flows, plans, objectives, future performance and business of FedEx. 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 statements involve risks and uncertainties. Actual results may differ materially from those contemplated (expressed or implied) by such forward-looking statements, because of, among other things, potential risks and uncertainties, such as:

- economic conditions in the domestic and international markets in which we operate;
- the effect of Hurricane Katrina or other severe weather events on our operations and the economy, including the impact on fuel costs and availability;
- any impacts on our business resulting from new domestic or international government regulation, including regulatory actions affecting aviation rights, security requirements and labor rules;
- the impact of any international conflicts or terrorist activities on the United States and global economies in general, the transportation industry of FedEx in particular, and what effects these events will have on our costs or the demand for our services;
- our ability to manage our cost structure for capital expenditures and operating expenses and match them, especially those relating to aircraft, vehicle and sort capacity, to shifting customer volume levels;
- our ability to effectively operate, integrate and leverage the FedEx Kinko’s business;
- sudden changes in fuel prices or currency exchange rates;
- our ability to maintain or increase our fuel surcharges in response to rising fuel prices due to competitive pressures;
- 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;
- our ability to successfully defend against challenges to our independent contractor model;
- the outcome of negotiations to reach a new collective bargaining agreement with the union that represents the pilots of FedEx Express;
- market acceptance of our new service and growth initiatives;
- competition from other providers of transportation, e-commerce and business services, including our ability to compete with new or improved services offered by our competitors;

- the impact of technology developments on our operations and on demand for our services;
- disruptions to our technology infrastructure, including our computer systems and Web site;
- our ability to obtain and maintain aviation rights in important international markets;
- adverse weather conditions or natural disasters;
- availability of financing on terms acceptable to us and our ability to maintain our current credit ratings; and
- other risks and uncertainties you can find in our press releases and SEC filings.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As of August 31, 2005, there had been no material changes in our market risk sensitive instruments and positions since the disclosure in our Annual Report. While we are a global provider of transportation, e-commerce and business services, the substantial majority of our transactions are denominated in U.S. dollars. The distribution of our foreign currency denominated transactions is such that foreign currency declines in some areas of the world are often offset by foreign currency gains of equal magnitude in other areas of the world. Our principal exposure to foreign currency exchange rate risks is in the Japanese yen, Taiwan dollar, Canadian dollar and euro. Foreign currency fluctuations during the three-month period ended August 31, 2005 did not have a material effect on our results of operations.

We have market risk for changes in the price of jet and diesel fuel; however, this risk is largely mitigated by revenue from our fuel surcharges. However, our fuel surcharges have a lag that exists before they are adjusted for changes in fuel prices and fuel prices can fluctuate within certain ranges before resulting in a change in our fuel surcharges. Therefore, our operating income may be affected should the spot price of fuel continue to fluctuate by significant amounts or change by amounts that do not result in a change 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 Securities and Exchange Commission's rules and forms, including ensuring that such information is accumulated and communicated to FedEx management as appropriate to allow timely decisions regarding required disclosure. Based on such evaluation, our principal executive and financial officers have concluded that such disclosure controls and procedures were effective, as of August 31, 2005 (the end of the period covered by this Quarterly Report on Form 10-Q).

During our fiscal quarter ended August 31, 2005, 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. However, we have made certain changes in our policies and procedures to ensure our accounting for leases is in accordance with generally accepted accounting principles.

PART II. OTHER INFORMATION

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
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.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FEDEX CORPORATION

Date: September 23, 2005

/s/ JOHN L. MERINO

JOHN L. MERINO

CORPORATE VICE PRESIDENT

PRINCIPAL ACCOUNTING OFFICER

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
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.

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

	Three Months Ended August 31,		Year Ended May 31,				
	2005	2004	2005	2004	2003	2002	2001
Earnings:							
Income before income taxes	\$549	\$534	\$2,313	\$1,319	\$1,338	\$1,160	\$ 927
Add back:							
Interest expense, net of capitalized interest ..	31	43	160	136	124	144	155
Amortization of debt issuance costs	2	2	6	7	4	4	2
Portion of rent expense representative of interest factor	<u>238</u>	<u>200</u>	<u>805</u>	<u>712</u>	<u>713</u>	<u>710</u>	<u>667</u>
Earnings as adjusted	<u>\$820</u>	<u>\$779</u>	<u>\$3,284</u>	<u>\$2,174</u>	<u>\$2,179</u>	<u>\$2,018</u>	<u>\$1,751</u>
Fixed Charges:							
Interest expense, net of capitalized interest ..	\$ 31	\$ 43	\$ 160	\$ 136	\$ 124	\$ 144	\$ 155
Capitalized interest	11	4	22	11	16	27	27
Amortization of debt issuance costs	2	2	6	7	4	4	2
Portion of rent expense representative of interest factor	<u>238</u>	<u>200</u>	<u>805</u>	<u>712</u>	<u>713</u>	<u>710</u>	<u>667</u>
	<u>\$282</u>	<u>\$249</u>	<u>\$ 993</u>	<u>\$ 866</u>	<u>\$ 857</u>	<u>\$ 885</u>	<u>\$ 851</u>
Ratio of Earnings to Fixed Charges	<u>2.9</u>	<u>3.1</u>	<u>3.3</u>	<u>2.5</u>	<u>2.5</u>	<u>2.3</u>	<u>2.1</u>

EXHIBIT 15.1

The Board of Directors and Stockholders
FedEx Corporation

We are aware of the incorporation by reference in the Registration Statements (Form S-8 Nos. 33-20138, 33-38041, 33-55055, 333-03443, 333-45037, 333-71065, 333-34934, 333-55266, 333-100572, 333-111399, 333-121418 and Form S-3 No. 333-86342) of FedEx Corporation and in the related Prospectuses, of our report dated September 20, 2005, relating to the unaudited condensed consolidated interim financial statements of FedEx Corporation that are included in its Form 10-Q for the quarter ended August 31, 2005.

/s/ Ernst & Young LLP

Memphis, Tennessee
September 23, 2005

**CERTIFICATION 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**

I, Frederick W. Smith, certify that:

1. I have reviewed this quarterly report on Form 10-Q of FedEx Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 23, 2005

/s/ Frederick W. Smith
Frederick W. Smith
Chairman, President and
Chief Executive Officer

**CERTIFICATION 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**

I, Alan B. Graf, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of FedEx Corporation (the “registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: September 23, 2005

/s/ Alan B. Graf, Jr.

Alan B. Graf, Jr.

Executive Vice President and
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FedEx Corporation ("FedEx") on Form 10-Q for the period ended August 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Frederick W. Smith, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of FedEx.

Date: September 23, 2005

/s/ Frederick W. Smith
Frederick W. Smith
Chairman, President and
Chief Executive Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of FedEx Corporation ("FedEx") on Form 10-Q for the period ended August 31, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Alan B. Graf, Jr., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of FedEx.

Date: September 23, 2005

/s/ Alan B. Graf, Jr.

Alan B. Graf, Jr.

Executive Vice President and
Chief Financial Officer