FEDEX CORP
Form 10-Q
March 22, 2017

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 February 28, 2017

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	38120

(Address of principal executive offices) (ZIP Code)

(901) 818-7500

(Registrant's telephone number, including area code)

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

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

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

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

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

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

Common Stock	Outstanding Shares at March 20, 2017
Common Stock, par value $0.10 per share	267,374,954

FEDEX CORPORATION

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FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	February 28, 2017 (Unaudited)	May 31, 2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,173	$3,534
Receivables, less allowances of $222 and $178	7,418	7,252
Spare parts, supplies and fuel, less allowances of $231 and $218	527	496
Prepaid expenses and other	820	707
Total current assets	11,938	11,989
PROPERTY AND EQUIPMENT, AT COST	49,752	47,018
Less accumulated depreciation and amortization	24,139	22,734
Net property and equipment	25,613	24,284
OTHER LONG-TERM ASSETS		
Goodwill	7,000	6,747
Other assets	2,230	2,939
Total other long-term assets	9,230	9,686
	$ 46,781	$45,959

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

	February 28, 2017 (Unaudited)	May 31, 2016
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Current portion of long-term debt	$ 45	$ 29
Accrued salaries and employee benefits	1,690	1,972
Accounts payable	2,707	2,944
Accrued expenses	3,008	3,063
Total current liabilities	7,450	8,008
LONG-TERM DEBT, LESS CURRENT PORTION	14,713	13,733
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	2,299	1,567
Pension, postretirement healthcare and other benefit obligations	4,670	6,227
Self-insurance accruals	1,376	1,314
Deferred lease obligations	456	400
Deferred gains, principally related to aircraft transactions	142	155
Other liabilities	491	771
Total other long-term liabilities	9,434	10,434
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of February 28, 2017 and May 31, 2016	32	32
Additional paid-in capital	2,976	2,892
Retained earnings	19,830	18,371
Accumulated other comprehensive loss	(334)	(169)
Treasury stock, at cost	(7,320)	(7,342)
Total common stockholders' investment	15,184	13,784
	$ 46,781	$ 45,959

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		Nine Months Ended	
	February 28, 2017	February 29, 2016	February 28, 2017	February 29, 2016
REVENUES	$ 14,997	$ 12,654	$ 44,591	$ 37,386
OPERATING EXPENSES:				
Salaries and employee benefits	5,395	4,712	16,059	13,807
Purchased transportation	3,498	2,623	10,169	7,505
Rentals and landing fees	834	744	2,426	2,121
Depreciation and amortization	762	663	2,241	1,964
Fuel	735	537	2,043	1,864
Maintenance and repairs	588	504	1,765	1,581
Other	2,160	2,007	6,432	5,399
	13,972	11,790	41,135	34,241
OPERATING INCOME	1,025	864	3,456	3,145
OTHER INCOME (EXPENSE):				
Interest, net	(122)	(81)	(354)	(218)
Other, net	(4)	(1)	17	(6)
	(126)	(82)	(337)	(224)
INCOME BEFORE INCOME TAXES	899	782	3,119	2,921
PROVISION FOR INCOME TAXES	337	275	1,142	1,031
NET INCOME	$ 562	$ 507	$ 1,977	$ 1,890
EARNINGS PER COMMON SHARE:				
Basic	$ 2.11	$ 1.86	$ 7.43	$ 6.79
Diluted	$ 2.07	$ 1.84	$ 7.31	$ 6.71
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.40	$ 0.25	$ 1.60	$ 1.00

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(IN MILLIONS)

	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Nine Months Ended February 28, 2017	Nine Months Ended February 29, 2016
NET INCOME	$ 562	$ 507	$ 1,977	$ 1,890
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax of $3, $11, $19 and $28	110	(99)	(108)	(270)
Amortization of prior service credit, net of tax of $12, $12, $34 and $30	(19)	(19)	(57)	(61)
	91	(118)	(165)	(331)
COMPREHENSIVE INCOME	$ 653	$ 389	$ 1,812	$ 1,559

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN MILLIONS)

	Nine Months Ended February 28, 2017			February 29, 2016		
Operating Activities:						
Net income	$	1,977		$	1,890	
Adjustments to reconcile net income to cash provided by operating activities:						
Depreciation and amortization		2,241			1,964	
Provision for uncollectible accounts		115			90	
Stock-based compensation		123			115	
Deferred income taxes and other noncash items		474			288	
Gain from sale of investment		(35	)		—	
Changes in assets and liabilities:						
Receivables		(340	)		(78	)
Other assets		(235	)		(322	)
Accounts payable and other liabilities		(1,642	)		(146	)
Other, net		(33	)		(5	)
Cash provided by operating activities		2,645			3,796	
Investing Activities:						
Capital expenditures		(3,790	)		(3,562	)
Proceeds from asset dispositions and other		123			(17	)
Cash used in investing activities		(3,667	)		(3,579	)
Financing Activities:						
		(49	)		(28	)

Principal payments on debt				
Proceeds from debt issuances		1,190		1,238
Proceeds from stock issuances		265		79
Dividends paid		(319)		(210)
Purchase of treasury stock		(358)		(2,133)
Other, net		2		(7)
Cash provided by (used in) financing activities		731		(1,061)
Effect of exchange rate changes on cash		(70)		(78)
Net decrease in cash and cash equivalents		(361)		(922)
Cash and cash equivalents at beginning of period		3,534		3,763
Cash and cash equivalents at end of period	$	3,173	$	2,841

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

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(1) General

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES. These interim financial statements of FedEx Corporation ("FedEx") have been prepared in accordance with accounting principles generally accepted in the United States and Securities and Exchange Commission ("SEC") instructions for interim financial information, and should be read in conjunction with our Annual Report on Form 10-K for the year ended May 31, 2016 ("Annual Report"). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed in our Annual Report.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly our financial position as of February 28, 2017, the results of our operations for the three- and nine-month periods ended February 28, 2017 and February 29, 2016 and cash flows for the nine-month periods ended February 28, 2017 and February 29, 2016. Operating results for the three- and nine-month periods ended February 28, 2017 are not necessarily indicative of the results that may be expected for the year ending May 31, 2017.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2017 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

RECLASSIFICATIONS. Reclassifications have been made to the May 31, 2016 condensed consolidated balance sheets to conform to the current year's presentation of debt issuance costs. See recent accounting guidance below for additional information.

BUSINESS ACQUISITION. On May 25, 2016, we acquired TNT Express B.V. ("TNT Express") for €4.4 billion (approximately $4.9 billion). Cash acquired in the acquisition was approximately €250 million ($280 million). All shares associated with the transaction were tendered or transferred as of February 28, 2017. We funded the acquisition with proceeds from an April 2016 debt issuance and existing cash balances. The financial results of this business are included in the FedEx Express group and TNT Express segment.

TNT Express collects, transports and delivers documents, parcels and freight to over 200 countries. This strategic acquisition broadens our portfolio of international transportation solutions by combining TNT Express's strong European road platform with Federal Express Corporation's ("FedEx Express") strength in other regions globally.

This acquisition is included in the accompanying balance sheets based on an allocation of the purchase price (summarized in the table below, in millions), which reflects updates to property and equipment and identifiable intangible assets from the May 31, 2016, August 31, 2016 and November 30, 2016 estimates, resulting in a net increase to goodwill of $417 million. These updates reflect the valuation work completed to date by third party experts and the receipt of additional information. Given the timing and complexity of the acquisition, the presentation of TNT Express in our financial statements, including the allocation of the purchase price, continues to be preliminary and will likely change in the fourth quarter of 2017, perhaps significantly, as additional information concerning the fair value estimates of the assets acquired and liabilities assumed as of the acquisition date is obtained during the remainder of the fiscal year. Due to the global scope of TNT Express's operations and the decentralized nature of the accounting records, the measurement periods for fixed assets, customer intangibles and certain liabilities are longer than for the other categories noted below. We will complete our purchase price allocation during the fourth quarter of 2017.

Current assets[1]	$1,917
Property and equipment	1,026
Goodwill	3,381
Identifiable intangible assets	505
Other non-current assets	307
Current liabilities[2]	(1,679)
Long-term liabilities	(563)
Total purchase price	$4,894

[1] Primarily accounts receivable and cash.
[2] Primarily accounts payable and accrued expenses.

As a result of this acquisition, we recognized a preliminary value of $3.4 billion of goodwill, which is primarily attributable to the TNT Express workforce and the expected benefits from synergies of the combination with existing businesses and growth opportunities. The majority of the purchase price allocated to goodwill is not deductible for income tax purposes.

The purchase price was preliminarily allocated to the identifiable intangible assets acquired as follows (in millions):

Intangible assets with finite lives	
Customer relationships (12-year life)	$405
Technology (3-year life)	20
Trademarks (4-year life)	80
Total intangible assets	$505

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of FedEx Express, who represent a small number of its total employees, are employed under a collective bargaining agreement that took effect on November 2, 2015. This collective bargaining agreement is scheduled to become amendable in November 2021, after a six-year term. In addition to our pilots at FedEx Express, FedEx Supply Chain Distribution System, Inc. (“FedEx Supply Chain”) (formerly GENCO Distribution System, Inc. (“GENCO”)) has a small number of employees who are members of unions, and certain non-U.S. employees are unionized.

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

Our stock-based compensation expense was $31 million for the three-month period ended February 28, 2017 and $123 million for the nine-month period ended February 28, 2017. Our stock-based compensation expense was $29 million for the three-month period ended February 29, 2016 and $115 million for the nine-month period ended February 29, 2016. Due to its immateriality, additional disclosures related to stock-based compensation have been excluded from this quarterly report.

RECENT ACCOUNTING GUIDANCE. New accounting rules and disclosure requirements can significantly impact our reported results and the comparability of our financial statements. These matters are described in our Annual Report.

During the first quarter of 2017, we retrospectively adopted the authoritative guidance issued by the Financial Accounting Standards Board (“FASB”) to simplify the presentation of debt issuance costs. This new guidance requires entities to present debt issuance costs related to a recognized debt liability as a direct deduction from the carrying amount of that debt liability, rather than as an asset. This new guidance had a minimal impact on our accounting and financial reporting.

On May 28, 2014, the FASB and International Accounting Standards Board issued a new accounting standard that will supersede virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. This standard will be effective for us beginning in fiscal 2019. The fundamental principles of the new guidance are that companies should recognize revenue in a manner that reflects the timing of the transfer of services to customers and the amount of revenue recognized reflects the consideration that a company expects to receive for the goods and services provided. The new guidance establishes a five-step approach for the recognition of revenue. Based on our current assessment, we do not anticipate that the new guidance will have a material impact on our revenue recognition policies, practices or systems.

On February 25, 2016, the FASB issued a new lease accounting standard which requires lessees to put most leases on their balance sheets but recognize the expenses on their income statements in a manner similar to current practice. The new standard states that a lessee will recognize a lease liability for the obligation to make lease payments and a right-of-use asset for the right to use the underlying asset for the lease term. Expense related to leases determined to be operating leases will be recognized on a straight-line basis, while those determined to be financing leases will be recognized following a front-loaded expense profile in which interest and amortization are presented separately in the income statement. We are currently evaluating the impact of this new standard on our financial reporting, but recognizing the lease liability and related right-of-use asset will significantly impact our balance sheet. These changes will be effective for our fiscal year beginning June 1, 2019 (fiscal 2020), with a modified retrospective adoption method to the beginning of 2018.

During the second quarter of 2017, we adopted the Accounting Standards Update issued by the FASB in March 2016 to simplify the accounting for share-based payment transactions. The new guidance requires companies to recognize the income tax effects of awards that vest or are settled as income tax expense or benefit in the income statement as opposed to additional paid-in capital. The guidance also provides clarification of the presentation of certain components of share-based awards in the statement of cash flows. Additionally, the guidance allows companies to make a policy election to account for forfeitures either upon occurrence or by estimating forfeitures. We have elected to continue estimating forfeitures expected to occur in order to determine the amount of compensation cost to be recognized each period and to apply the cash flow classification guidance prospectively. Excess tax benefits are now classified as an operating activity rather than a financing activity. The adoption of the new standard had a benefit of $21 million to net income ($0.07 per diluted share) for the third quarter and a benefit of $42 million to net income ($0.14 per diluted share) for the nine months of 2017.

In March 2017, the FASB issued an Accounting Standards Update that changes how employers that sponsor defined benefit pension or other postretirement benefit plans present the net periodic benefit cost in the income statement. This new guidance requires entities to report the service cost component in the same line item or items as other compensation costs. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component outside of income from operations. This standard will impact our operating income but will have no material impact on our net income or earnings per share. This new guidance will be effective for our fiscal year beginning June 1, 2018 (fiscal 2019) and will be applied retrospectively.

We believe that no other new accounting guidance was adopted or issued during the nine months of 2017 that is relevant to the readers of our financial statements.

TREASURY SHARES. In January 2016, our Board of Directors authorized a share repurchase program of up to 25 million shares. Shares under the current repurchase program may be repurchased from time to time in the open market or in privately negotiated transactions. The timing and volume of repurchases are at the discretion of management, based on the capital needs of the business, the market price of FedEx common stock and general market conditions. No time limit was set for the completion of the program, and the program may be suspended or discontinued at any time.

During the third quarter of 2017, we repurchased 0.13 million shares of FedEx common stock at an average price of $187.34 per share for a total of $24 million. During the nine months of 2017, we repurchased 2.2 million shares of FedEx common stock at an average price of $165.44 per share for a total of $358 million. As of February 28, 2017, 16.8 million shares remained under the share repurchase authorization.

DIVIDENDS DECLARED PER COMMON SHARE. On February 17, 2017, our Board of Directors declared a quarterly dividend of $0.40 per share of common stock. The dividend will be paid on April 3, 2017 to stockholders of record as of the close of business on March 13, 2017. Each quarterly dividend payment is subject to review and approval by our Board of Directors, and we evaluate our dividend payment amount on an annual basis at the end of each fiscal year.

(2) Accumulated Other Comprehensive Income (Loss)

The following table provides changes in accumulated other comprehensive loss (“AOCI”), net of tax, reported in our unaudited condensed consolidated financial statements for the periods ended February 28, 2017 and February 29, 2016 (in millions; amounts in parentheses indicate debits to AOCI):

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Foreign currency translation loss:				
Balance at beginning of period	$ (732)	$ (424)	$ (514)	$ (253)
Translation adjustments	110	(99)	(108)	(270)
Balance at end of period	(622)	(523)	(622)	(523)
Retirement plans adjustments:				
Balance at beginning of period	307	383	345	425
Reclassifications from AOCI	(19)	(19)	(57)	(61)
Balance at end of period	288	364	288	364
Accumulated other comprehensive loss at end of period	$ (334)	$ (159)	$ (334)	$ (159)

The following table presents details of the reclassifications from AOCI for the periods ended February 28, 2017 and February 29, 2016 (in millions; amounts in parentheses indicate debits to earnings):

	Amount Reclassified from AOCI				Affected Line Item in the Income Statement
	Three Months Ended		Nine Months Ended		
	2017	2016	2017	2016	
Amortization of retirement plans prior service credits, before tax	$31	$31	$91	$91	Salaries and employee benefits
Income tax benefit	(12)	(12)	(34)	(30)	Provision for income taxes
AOCI reclassifications, net of tax	$19	$19	$57	$61	Net income

(3) Financing Arrangements

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

During the quarter, we issued $1.2 billion of senior unsecured debt under our current shelf registration statement, comprised of $450 million of 3.30% fixed-rate notes due in March 2027, and $750 million of 4.40% fixed-rate notes due in January 2047. Interest on these notes is paid semiannually. We used the net proceeds for a voluntary incremental contribution in January 2017 to our tax-qualified U.S. domestic pension plans ("U.S. Pension Plans") and for working capital and general corporate purposes.

We have a five-year $1.75 billion revolving credit facility that expires in November 2020. The facility, which includes a $500 million letter of credit sublimit, is available to finance our operations and other cash flow needs. The agreement contains a financial covenant, which requires us to maintain a ratio of debt to consolidated earnings (excluding non-cash pension mark-to-market adjustments and non-cash asset impairment charges) before interest, taxes, depreciation and amortization ("adjusted EBITDA") of not more than 3.5 to 1.0, calculated as of the end of the applicable quarter on a rolling four-quarters basis. The ratio of our debt to adjusted EBITDA was 1.9 to 1.0 at February 28, 2017. We believe this covenant is the only significant restrictive covenant in our revolving credit agreement. Our revolving credit agreement contains other customary covenants that do not, individually or in the aggregate, materially restrict the conduct of our business. We are in compliance with the financial covenant and all other covenants of our revolving credit agreement and do not expect the covenants to affect our operations, including our liquidity or expected funding needs. As of February 28, 2017, no commercial paper was outstanding. However, we had a total of $317 million in letters of credit outstanding at February 28, 2017, with $183 million of the letter of credit sublimit unused under our revolving credit facility.

Long-term debt, exclusive of capital leases, had carrying values of $14.7 billion at February 28, 2017 and $13.7 billion at May 31, 2016, compared with estimated fair values of $15.2 billion at February 28, 2017 and $14.3 billion at May 31, 2016. The annualized weighted average interest rate on long-term debt was 3.6% for the nine months ended February 28, 2017. The estimated fair values were determined based on quoted market prices and the current rates offered for debt with similar terms and maturities. The fair value of our long-term debt is classified as

Level 2 within the fair value hierarchy. This classification is defined as a fair value determined using market-based inputs other than quoted prices that are observable for the liability, either directly or indirectly.

(4) Computation of Earnings Per Share

The calculation of basic and diluted earnings per common share for the periods ended February 28, 2017 and February 29, 2016 was as follows (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Basic earnings per common share:				
Net earnings allocable to common shares[1]	$561	$506	$1,974	$1,888
Weighted-average common shares	266	272	266	278
Basic earnings per common share	$2.11	$1.86	$7.43	$6.79
Diluted earnings per common share:				
Net earnings allocable to common shares[1]	$561	$506	$1,974	$1,888
Weighted-average common shares	266	272	266	278
Dilutive effect of share-based awards	5	3	4	3
Weighted-average diluted shares	271	275	270	281
Diluted earnings per common share	$2.07	$1.84	$7.31	$6.71
Anti-dilutive options excluded from diluted earnings per common share	4.0	4.8	4.7	4.0

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

(5) Retirement Plans

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. Key terms of our retirement plans are provided in our Annual Report. Our retirement plans costs for the periods ended February 28, 2017 and February 29, 2016 were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Defined benefit pension plans	$ 57	$ 53	$173	$160
Defined contribution plans	117	104	348	304
Postretirement healthcare plans	19	20	57	61
	$ 193	$ 177	$578	$525

Net periodic benefit cost of the pension and postretirement healthcare plans for the periods ended February 28, 2017 and February 29, 2016 included the following components (in millions):

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Pension Plans				
Service cost	$180	$166	$540	$497
Interest cost	293	295	879	885
Expected return on plan assets	(384)	(377)	(1,156)	(1,131)
Amortization of prior service credit and other	(32)	(31)	(90)	(91)
	$57	$53	$173	$160

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Postretirement Healthcare Plans				
Service cost	$9	$ 10	$27	$ 30
Interest cost	10	10	30	31
	$19	$ 20	$57	$ 61

Contributions to our U.S. Pension Plans for the nine-month periods ended February 28, 2017 and February 29, 2016 were as follows (in millions):

	2017	2016
Required	$444	$8
Voluntary	1,306	487
	$1,750	$495

In March 2017, we made $250 million in contributions to our U.S. Pension Plans, of which $15 million was required. Our U.S. Pension Plans have ample funds to meet expected benefit payments. We anticipate our U.S. Pension Plans will make payments in the fourth quarter of 2017 aggregating in excess of $1 billion to former employees who elected to receive their benefits early under a voluntary program offered to qualifying participants during the third quarter of 2017.

(6) Business Segment Information

We provide a broad portfolio of transportation, e-commerce and business services through companies competing collectively, operating independently and managed collaboratively, under the respected FedEx brand. Our primary operating companies include FedEx Express, the world's largest express transportation company; TNT Express, an international express, small-package ground delivery and freight transportation company that was acquired near the end of our 2016 fourth quarter; FedEx Ground Package System, Inc. ("FedEx Ground"), a leading North American provider of small-package ground delivery services; and FedEx Freight, Inc. ("FedEx Freight"), a leading U.S. provider of less-than-truckload ("LTL") freight services. These companies represent our major service lines and, along with FedEx Corporate Services, Inc. ("FedEx Services"), form the core of our reportable segments.

Our reportable segments include the following businesses:

FedEx Express Group:	
FedEx Express Segment	FedEx Express (express transportation) FedEx Trade Networks (air and ocean freight forwarding, customs brokerage and cross-border enablement technology and solutions) FedEx SupplyChain Systems (logistics services)
TNT Express Segment	TNT Express (international express transportation, small-package ground delivery and freight transportation)
FedEx Ground Segment	FedEx Ground (small-package ground delivery) FedEx Supply Chain (third-party logistics) (formerly GENCO)
	FedEx Freight (LTL freight transportation)

FedEx Freight Segment	
	FedEx Custom Critical (time-critical transportation)
FedEx Services Segment	FedEx Services (sales, marketing, information technology, communications, customer service, technical support, billing and collection services and back-office functions) FedEx Office (document and business services and package acceptance)

During the third quarter of 2017, we rebranded GENCO to FedEx Supply Chain.

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information technology functions that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express and for TNT Express, some of these functions are performed on a regional basis and reported in the applicable segment in their natural expense line items. The FedEx Services segment includes: FedEx Services, which provides sales, marketing, information technology, communications, customer service, technical support, billing and collection services for U.S. customers of our major business units and certain back-office support to our other companies; and FedEx Office, which provides an array of document and business services and retail access to our customers for our package transportation businesses.

The FedEx Services segment provides direct and indirect support to our transportation businesses, and we allocate all of the net operating costs of the FedEx Services segment (including the net operating results of FedEx Office) to reflect the full cost of operating our transportation businesses in the results of those segments. Within the FedEx Services segment allocation, the net operating results of FedEx Office, which are an immaterial component of our allocations, are allocated to FedEx Express and FedEx Ground. We review and evaluate the performance of our transportation segments based on operating income (inclusive of FedEx Services segment allocations). For the FedEx Services segment, performance is evaluated based on the impact of its total allocated net operating costs on our transportation segments.

Operating expenses for each of our transportation segments include the allocations from the FedEx Services segment to the respective transportation segments. These allocations also include charges and credits for administrative services provided between operating companies. The allocations of net operating costs are based on metrics such as relative revenues or estimated services provided. We believe these allocations approximate the net cost of providing these functions. Our allocation methodologies are refined periodically, as necessary, to reflect changes in our businesses.

Eliminations, Corporate and Other

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

Corporate and other includes corporate headquarters costs for executive officers and certain legal and financial functions, as well as certain other costs and credits not attributed to our core businesses. These costs are not allocated to the business segments.

The following table provides a reconciliation of reportable segment revenues and operating income to our unaudited condensed consolidated financial statement totals for the periods ended February 28, 2017 and February 29, 2016 (in millions):

	Three Months Ended		Nine Months Ended	
	2017	2016	2017	2016
Revenues				
FedEx Express segment	$6,779	$6,557	$20,178	$19,736
TNT Express segment	1,790	N/A	5,493	N/A
FedEx Ground segment	4,688	4,408	13,397	12,288
FedEx Freight segment	1,492	1,447	4,747	4,595
FedEx Services segment	389	384	1,198	1,177
Eliminations and other	(141)	(142)	(422)	(410)
	$14,997	$12,654	$44,591	$37,386
Operating Income				
FedEx Express segment	$555	$595	$1,815	$1,762
TNT Express segment	2	N/A	58	N/A
FedEx Ground segment	515	557	1,590	1,620

FedEx Freight segment	41	56	264	289
Eliminations, corporate and other	(88)	(344)	(271)	(526)
	$1,025	$864	$3,456	$3,145

(7) Commitments

As of February 28, 2017, our purchase commitments under various contracts for the remainder of 2017 and annually thereafter were as follows (in millions):

	Aircraft and Aircraft-Related	Other[(1)]	Total
2017 (remainder)	$ 219	$ 218	$ 437
2018	1,970	534	2,504
2019	1,730	375	2,105
2020	1,926	267	2,193
2021	1,348	183	1,531
Thereafter	4,199	258	4,457
Total	$ 11,392	$ 1,835	$ 13,227

(1) Primarily equipment and advertising contracts.

The amounts reflected in the table above for purchase commitments represent noncancelable agreements to purchase goods or services. As of February 28, 2017, our obligation to purchase four Boeing 767-300 Freighter ("B767F") aircraft and six Boeing 777 Freighter ("B777F") aircraft is conditioned upon there being no event that causes FedEx Express or its employees not to be covered by the Railway Labor Act of 1926, as amended. Open purchase orders that are cancelable are not considered unconditional purchase obligations for financial reporting purposes and are not included in the table above.

During the quarter, FedEx Express entered into agreements to accelerate the delivery of one B767F aircraft to 2017 from 2018 and two B777F aircraft to 2018 from 2023.

We had $488 million in deposits and progress payments as of February 28, 2017 on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the "Other assets" caption of our consolidated balance sheets. Aircraft and aircraft-related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of February 28, 2017 with the year of expected delivery:

	B767F	B777F	Total
2017 (remainder)	1	-	1
2018	15	4	19
2019	15	2	17
2020	16	3	19
2021	10	3	13
Thereafter	16	4	20
Total	73	16	89

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at February 28, 2017 is as follows (in millions):

	Operating Leases		
	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2017 (remainder)	$ 70	$ 547	$ 617
2018	398	1,992	2,390
2019	343	1,799	2,142
2020	261	1,595	1,856
2021	203	1,441	1,644
Thereafter	360	8,780	9,140
Total	$ 1,635	$ 16,154	$ 17,789

Future minimum lease payments under capital leases were immaterial at February 28, 2017. While certain of our lease agreements contain covenants governing the use of the leased assets or require us to maintain certain levels of insurance, none of our lease agreements include material financial covenants or limitations.

(8) Contingencies

Independent Contractor — Lawsuits and State Administrative Proceedings. FedEx Ground is involved in class-action lawsuits (including 21 that have been certified as class actions), individual lawsuits and state tax and other administrative proceedings that claim that the company's owner-operators under a contractor model no longer in use should have been treated as employees, rather than independent contractors.

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

On October 3, 2014, the Kansas Supreme Court determined that a 20 factor right to control test applies to claims under the Kansas Wage Payment Act and concluded that under that test, the class members were employees, not independent contractors. The case was subsequently transferred back to the Seventh Circuit, where both parties made filings requesting the action necessary to complete the resolution of the appeals. The parties also made recommendations to the court regarding next steps for the other 19 cases that are before the Seventh Circuit. FedEx Ground requested that each of those cases be separately briefed given the potential differences in the applicable state law from that in Kansas. On July 8, 2015, the Seventh Circuit issued an order and opinion confirming the decision of the Kansas Supreme Court, concluding that the class members were employees, not independent contractors. Additionally, the Seventh Circuit referred the other 19 cases to a representative of the court for purposes of setting a case management conference to address briefing and argument for those cases.

During the second quarter of 2015, we established an accrual for the estimated probable loss in the Kansas case. In the second quarter of 2016 the Kansas case settled, and we increased the accrual to the amount of the settlement. The settlement requires court approval.

During the third quarter of 2016, we reached agreements in principle to settle all of the 19 cases on appeal in the multidistrict independent contractor litigation. All of these settlements require court approval. We recognized a liability for the expected loss (net of recognized insurance recovery) related to these cases and certain other pending independent-contractor-related proceedings of $204 million.

The Kansas case was remanded to the multidistrict litigation court, and the other 19 cases remain at the Seventh Circuit; however, approval proceedings will be conducted primarily by the multidistrict litigation court. Plaintiffs filed motions for preliminary approval between June 15 and June 30, 2016, and on August 3 and 4, 2016, the multidistrict litigation court issued orders indicating that it would grant preliminary approval if the Seventh Circuit would remand the cases on appeal for the purpose of entering approval orders. Upon the parties' joint motion, the Seventh Circuit remanded the cases for this purpose on August 10, 2016, and the multidistrict litigation court entered orders preliminarily approving the settlements on August 17, 2016. Fairness hearings were previously scheduled for January 23 and 24, 2017, but were held on March 13 and 14, 2017. On March 15, 2017, the court issued orders indicating that it would grant final approval of each settlement if the Seventh Circuit remands the cases on appeal for the purpose of considering and granting final approval.

The multidistrict litigation court remanded the other eight certified class actions back to the district courts where they were originally filed because its summary judgment ruling did not completely dispose of all of the claims in those lawsuits. Seven of these matters settled for immaterial amounts and have received court approval.

The case in Arkansas settled in the second quarter of 2016, and we established an accrual for the amount of the settlement. The court held a final approval hearing on March 1, 2017, and granted final approval on March 6, 2017.

The case in California was appealed to the Ninth Circuit Court of Appeals, where the court reversed the district court decisions and held that the plaintiffs in California were employees as a matter of law and remanded the cases to the district court for further proceedings. In the first quarter of 2015, we recognized an accrual for the then-estimated probable loss in this case.

In June 2015, the parties in the California case reached an agreement to settle the matter for $228 million, and in the fourth quarter of 2015 we increased the accrual to that amount. The court entered final judgment on June 20, 2016, and two objectors to the settlement filed appeals with the Ninth Circuit. One objector has settled with plaintiffs' counsel, and we expect the appeal by the second objector to be briefed by the end of the fourth quarter of 2017 and arguments to be scheduled thereafter. The settlement is not effective until all appeals have been resolved without affecting the court's approval of the settlement.

In addition, we are defending contractor-model cases that are not or are no longer part of the multidistrict litigation. These cases are in varying stages of litigation. We do not expect to incur a material loss in these matters; however, it is reasonably possible that potential loss in some of these lawsuits or changes to the independent contractor status of FedEx Ground's owner-operators could be material. In these cases, we continue to evaluate what facts may arise in the course of discovery and what legal rulings the courts may render and how these facts and rulings might impact the loss. For a number of reasons, we are not currently able to estimate a range of reasonably possible loss in these cases. The number and identities of plaintiffs in these lawsuits are uncertain, as they are dependent on how the class of drivers is defined and how many individuals will qualify based on whatever criteria may be established. In addition, the parties have conducted only very limited discovery into damages in certain of these cases, which could vary considerably from plaintiff to plaintiff and be dependent on evidence pertaining to individual plaintiffs, which has yet to be produced in the cases. Further, the range of potential loss could be impacted substantially by future rulings by the court, including on the merits of the claims, on FedEx Ground's defenses, and on evidentiary issues. As a consequence of these factors, as well as others that are specific to these cases, we are not currently able to estimate a range of reasonably possible loss. We do not believe that a material loss is probable in these matters.

Adverse determinations in matters related to FedEx Ground's independent contractors could, among other things, entitle certain owner-operators and their drivers to the reimbursement of certain expenses and to the benefit of wage-and-hour laws and result in employment and withholding tax and benefit liability for FedEx Ground. We believe that FedEx Ground's owner-operators are properly classified as independent contractors and that FedEx Ground is not an employer of the drivers of the company's independent contractors.

City and State of New York Cigarette Suit. The City of New York and the State of New York filed two related lawsuits against FedEx Ground in December 2013 and November 2014 arising from FedEx Ground's alleged shipments of cigarettes to New York residents in contravention of several statutes, including the Racketeer Influenced and Corrupt Organizations Act ("RICO") and New York's Public Health Law, as well as common law nuisance claims. In April 2016, the two lawsuits were consolidated and will now proceed as one lawsuit. The first-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of four shippers, and the second-filed lawsuit alleges that FedEx Ground provided delivery services on behalf of six additional shippers; none of these shippers continue to ship in our network. Pursuant to motions to dismiss filed in both lawsuits, some of the claims have been dismissed entirely or limited. In the first-filed lawsuit, the New York Public Health Law and common law nuisance claims were dismissed and the plaintiffs voluntarily dismissed another claim. In the second-filed lawsuit, the common law nuisance claim has been dismissed entirely and the New York Public Health Law claim has been limited to claims arising after September 27, 2013, when an amendment to that law provided enforcement authority to the City of New York and State of New York. Other claims, including the RICO claims, remain in both lawsuits. The likelihood of loss is reasonably possible, but the amount of loss cannot be estimated at this stage of the litigation and we expect the amount of any loss to be immaterial.

Environmental Matters. SEC regulations require disclosure of certain environmental matters when a governmental authority is a party to the proceedings and the proceedings involve potential monetary sanctions that management reasonably believes could exceed $100,000.

On September 9, 2016, FedEx Supply Chain received a written offer from several District Attorneys' Offices in California to settle a civil action that the District Attorneys intend to file against FedEx Supply Chain for alleged violations of the state's hazardous waste regulations. Specifically, the District Attorneys' Offices allege FedEx Supply Chain unlawfully disposed of hazardous waste at one of its California facilities and caused the illegal transportation and disposal of hazardous waste from the retail stores of a FedEx Supply Chain customer at this same facility. The District Attorneys allege these violations began in 2006 and continued until the facility closed in the spring of 2015. We believe an immaterial loss in this matter is probable. The District Attorneys are also investigating FedEx Supply Chain's hazardous waste activities at eight additional facilities within California. We will pursue all available remedies against the sellers of GENCO to recover any losses in these matters.

Other Matter. During the third quarter of 2017, FedEx Trade Networks informed U.S. Customs and Border Protection that in connection with certain customs entries it may have made improper claims for (i) reduced-duty treatment and (ii) duty-free treatment. FedEx Trade Networks is continuing to review these matters. Loss in these matters is probable, but given the early stage of these matters we cannot yet determine the amount or range of potential loss, but a material loss is reasonably possible.

FedEx and its subsidiaries are subject to other legal proceedings that arise in the ordinary course of business, including certain lawsuits containing various class-action allegations of wage-and-hour violations in which plaintiffs claim, among other things, that they were forced to work “off the clock,” were not paid overtime or were not provided work breaks or other benefits. In the opinion of management, the aggregate liability, if any, with respect to these other actions will not have a material adverse effect on our financial position, results of operations or cash flows.

(9) Supplemental Cash Flow Information

Cash paid for interest expense and income taxes for the nine-month periods ended February 28, 2017 and February 29, 2016 was as follows (in millions):

	2017	2016
Cash payments for:		
Interest (net of capitalized interest)	$400	$284
Income taxes	$294	$919
Income tax refunds received	(16)	(3)
Cash tax payments, net	$278	$916

(10) Condensed Consolidating Financial Statements

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

The guarantor subsidiaries, which are 100% owned by FedEx, guarantee $14.6 billion of our debt. The guarantees are full and unconditional and joint and several. Our guarantor subsidiaries were not determined using geographic, service line or other similar criteria, and as a result, the “Guarantor Subsidiaries” and “Non-guarantor Subsidiaries” columns each include portions of our domestic and international operations. Accordingly, this basis of presentation is not intended to present our financial condition, results of operations or cash flows for any purpose other than to comply with the specific requirements for subsidiary guarantor reporting.

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

CONDENSED CONSOLIDATING BALANCE SHEETS

(UNAUDITED)

February 28, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$1,475	$ 301	$ 1,442	$ (45)	$ 3,173
Receivables, less allowances	1	4,636	2,824	(43)	7,418
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	292	819	236	—	1,347
Total current assets	1,768	5,756	4,502	(88)	11,938
PROPERTY AND EQUIPMENT, AT COST	22	46,448	3,282	—	49,752
Less accumulated depreciation and amortization	18	22,810	1,311	—	24,139
Net property and equipment	4	23,638	1,971	—	25,613
INTERCOMPANY RECEIVABLE	2,216	1,442	—	(3,658)	—
GOODWILL	—	1,571	5,429	—	7,000
INVESTMENT IN SUBSIDIARIES	26,637	2,744	—	(29,381)	—
OTHER ASSETS	3,043	1,031	1,052	(2,896)	2,230
	$33,668	$ 36,182	$ 12,954	$ (36,023)	$ 46,781
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$—	$ 31	$ 14	$ —	$ 45
Accrued salaries and employee benefits	52	1,184	454	—	1,690
Accounts payable	124	1,354	1,317	(88)	2,707
Accrued expenses	811	1,419	778	—	3,008
Total current liabilities	987	3,988	2,563	(88)	7,450
LONG-TERM DEBT, LESS CURRENT PORTION	14,443	244	26	—	14,713
INTERCOMPANY PAYABLE	—	—	3,658	(3,658)	—
OTHER LONG-TERM LIABILITIES					
Deferred income taxes	—	4,978	217	(2,896)	2,299
Other liabilities	3,054	3,345	736	—	7,135
Total other long-term liabilities	3,054	8,323	953	(2,896)	9,434
STOCKHOLDERS' INVESTMENT	15,184	23,627	5,754	(29,381)	15,184
	$33,668	$ 36,182	$ 12,954	$ (36,023)	$ 46,781

CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$1,974	$ 326	$ 1,277	$ (43)	$ 3,534
Receivables, less allowances	1	4,461	2,831	(41)	7,252
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	233	724	246	—	1,203
Total current assets	2,208	5,511	4,354	(84)	11,989
PROPERTY AND EQUIPMENT, AT COST	22	43,760	3,236	—	47,018
Less accumulated depreciation and amortization	17	21,566	1,151	—	22,734
Net property and equipment	5	22,194	2,085	—	24,284
INTERCOMPANY RECEIVABLE	2,437	1,284	—	(3,721)	—
GOODWILL	—	1,571	5,176	—	6,747
INVESTMENT IN SUBSIDIARIES	24,766	3,697	—	(28,463)	—
OTHER ASSETS	3,359	967	1,851	(3,238)	2,939
	$32,775	$ 35,224	$ 13,466	$ (35,506)	$ 45,959
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
CURRENT LIABILITIES					
Current portion of long-term debt	$—	$ 13	$ 16	$ —	$ 29
Accrued salaries and employee benefits	54	1,377	541	—	1,972
Accounts payable	8	1,501	1,519	(84)	2,944
Accrued expenses	883	1,411	769	—	3,063
Total current liabilities	945	4,302	2,845	(84)	8,008
LONG-TERM DEBT, LESS CURRENT PORTION	13,451	245	37	—	13,733
INTERCOMPANY PAYABLE	—	—	3,721	(3,721)	—
OTHER LONG-TERM LIABILITIES					
Deferred income taxes	—	4,436	369	(3,238)	1,567
Other liabilities	4,595	3,375	897	—	8,867
Total other long-term liabilities	4,595	7,811	1,266	(3,238)	10,434
STOCKHOLDERS' INVESTMENT	13,784	22,866	5,597	(28,463)	13,784
	$32,775	$ 35,224	$ 13,466	$ (35,506)	$ 45,959

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 28, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 11,275	$ 3,794	$ (72)	$ 14,997
OPERATING EXPENSES:					
Salaries and employee benefits	29	4,210	1,156	—	5,395
Purchased transportation	—	2,219	1,306	(27)	3,498
Rentals and landing fees	1	657	177	(1)	834
Depreciation and amortization	1	649	112	—	762
Fuel	—	657	78	—	735
Maintenance and repairs	1	514	73	—	588
Intercompany charges, net	(87)	(33)	120	—	—
Other	55	1,428	721	(44)	2,160
	—	10,301	3,743	(72)	13,972
OPERATING INCOME	—	974	51	—	1,025
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	562	(41)	—	(521)	—
Interest, net	(129)	6	1	—	(122)
Intercompany charges, net	130	(79)	(51)	—	—
Other, net	(1)	(118)	115	—	(4)
INCOME BEFORE INCOME TAXES	562	742	116	(521)	899
Provision for income taxes	—	280	57	—	337
NET INCOME	$562	$ 462	$ 59	$ (521)	$ 562
COMPREHENSIVE INCOME	$543	$ 444	$ 187	$ (521)	$ 653

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Three Months Ended February 29, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 10,838	$ 1,892	$ (76)	$ 12,654
OPERATING EXPENSES:					
Salaries and employee benefits	32	4,072	608	—	4,712
Purchased transportation	—	2,106	545	(28)	2,623
Rentals and landing fees	1	660	84	(1)	744
Depreciation and amortization	—	608	55	—	663
Fuel	—	520	17	—	537
Maintenance and repairs	—	471	33	—	504
Intercompany charges, net	(344)	294	50	—	—
Other	311	1,344	399	(47)	2,007
	—	10,075	1,791	(76)	11,790
OPERATING INCOME	—	763	101	—	864
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	507	86	—	(593)	—
Interest, net	(90)	6	3	—	(81)
Intercompany charges, net	95	(105)	10	—	—
Other, net	(5)	(1)	5	—	(1)
INCOME BEFORE INCOME TAXES	507	749	119	(593)	782
Provision for income taxes	—	249	26	—	275
NET INCOME	$507	$ 500	$ 93	$ (593)	$ 507
COMPREHENSIVE INCOME	$488	$ 487	$ 7	$ (593)	$ 389

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 28, 2017

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 33,175	$ 11,628	$ (212)	$ 44,591
OPERATING EXPENSES:					
Salaries and employee benefits	94	12,477	3,488	—	16,059
Purchased transportation	—	6,210	4,040	(81)	10,169
Rentals and landing fees	4	1,902	524	(4)	2,426
Depreciation and amortization	1	1,894	346	—	2,241
Fuel	—	1,819	224	—	2,043
Maintenance and repairs	1	1,544	220	—	1,765
Intercompany charges, net	(266)	67	199	—	—
Other	166	4,230	2,163	(127)	6,432
	—	30,143	11,204	(212)	41,135
OPERATING INCOME	—	3,032	424	—	3,456
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,977	69	—	(2,046)	—
Interest, net	(374)	19	1	—	(354)
Intercompany charges, net	376	(224)	(152)	—	—
Other, net	(2)	(128)	147	—	17
INCOME BEFORE INCOME TAXES	1,977	2,768	420	(2,046)	3,119
Provision for income taxes	—	951	191	—	1,142
NET INCOME	$1,977	$ 1,817	$ 229	$ (2,046)	$ 1,977
COMPREHENSIVE INCOME	$1,921	$ 1,781	$ 156	$ (2,046)	$ 1,812

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

Nine Months Ended February 29, 2016

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
REVENUES	$—	$ 31,190	$ 6,449	$ (253)	$ 37,386
OPERATING EXPENSES:					
Salaries and employee benefits	92	11,811	1,904	—	13,807
Purchased transportation	—	5,481	2,132	(108)	7,505
Rentals and landing fees	4	1,843	278	(4)	2,121
Depreciation and amortization	1	1,792	171	—	1,964
Fuel	—	1,808	56	—	1,864
Maintenance and repairs	—	1,476	105	—	1,581
Intercompany charges, net	(525)	338	187	—	—
Other	428	3,901	1,211	(141)	5,399
	—	28,450	6,044	(253)	34,241
OPERATING INCOME	—	2,740	405	—	3,145
OTHER INCOME (EXPENSE):					
Equity in earnings of subsidiaries	1,890	220	—	(2,110)	—
Interest, net	(246)	20	8	—	(218)
Intercompany charges, net	257	(264)	7	—	—
Other, net	(11)	(10)	15	—	(6)
INCOME BEFORE INCOME TAXES	1,890	2,706	435	(2,110)	2,921
Provision for income taxes	—	915	116	—	1,031
NET INCOME					