FEDEX CORP
Form 10-Q
December 18, 2018

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 November 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO

Commission File Number: 1-15829

FEDEX CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	62-1721435
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

942 South Shady Grove Road, Memphis, Tennessee	38120
(Address of principal executive offices)	(ZIP Code)

(901) 818-7500

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 December 14, 2018
Common Stock, par value $0.10 per share	261,043,625

FEDEX CORPORATION

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FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	November 30, 2018 (Unaudited)	May 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,123	$3,265
Receivables, less allowances of $308 and $401	9,573	8,481
Spare parts, supplies and fuel, less allowances of $276 and $268	522	525
Prepaid expenses and other	1,220	1,070
Total current assets	13,438	13,341
PROPERTY AND EQUIPMENT, AT COST	57,501	55,121
Less accumulated depreciation and amortization	28,114	26,967
Net property and equipment	29,387	28,154
OTHER LONG-TERM ASSETS		
Goodwill	6,908	6,973
Other assets	3,556	3,862
Total other long-term assets	10,464	10,835
	$ 53,289	$52,330

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS, EXCEPT SHARE DATA)

	November 30, 2018 (Unaudited)	May 31, 2018
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Short-term borrowings	$ 250	$—
Current portion of long-term debt	642	1,342
Accrued salaries and employee benefits	1,850	2,177
Accounts payable	3,400	2,977
Accrued expenses	3,354	3,131
Total current liabilities	9,496	9,627
LONG-TERM DEBT, LESS CURRENT PORTION	16,399	15,243
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	3,253	2,867
Pension, postretirement healthcare and other benefit obligations	1,735	2,187
Self-insurance accruals	1,844	1,784
Deferred lease obligations	605	551
Deferred gains, principally related to aircraft transactions	137	121
Other liabilities	526	534
Total other long-term liabilities	8,100	8,044
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of November 30, 2018 and May 31, 2018	32	32
Additional paid-in capital	3,185	3,117
Retained earnings	26,080	24,823
Accumulated other comprehensive loss	(817)	(578)
Treasury stock, at cost	(9,186)	(7,978)
Total common stockholders' investment	19,294	19,416
	$ 53,289	$52,330

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 November 30, 2018	Three Months Ended November 30, 2017 As Adjusted	Six Months Ended November 30, 2018	Six Months Ended November 30, 2017 As Adjusted
REVENUES	$ 17,824	$ 16,313	$ 34,876	$ 31,610
OPERATING EXPENSES:				
Salaries and employee benefits	6,260	5,889	12,520	11,553
Purchased transportation	4,346	3,840	8,313	7,285
Rentals and landing fees	836	835	1,659	1,653
Depreciation and amortization	828	756	1,636	1,507
Fuel	1,052	818	2,038	1,521
Maintenance and repairs	751	665	1,486	1,340
Other	2,583	2,395	4,985	4,665
	16,656	15,198	32,637	29,524
OPERATING INCOME	1,168	1,115	2,239	2,086
OTHER INCOME (EXPENSE):				
Interest, net	(129)	(124)	(241)	(238)
Other retirement plans income	158	147	316	293
Other, net	(20)	1	(36)	(20)
	9	24	39	35
INCOME BEFORE INCOME TAXES	1,177	1,139	2,278	2,121
PROVISION FOR INCOME TAXES	242	364	508	750
NET INCOME	$ 935	$ 775	$ 1,770	$ 1,371
EARNINGS PER COMMON SHARE:				
Basic	$ 3.56	$ 2.89	$ 6.71	$ 5.12
Diluted	$ 3.51	$ 2.84	$ 6.60	$ 5.03
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.65	$ 0.50	$ 1.95	$ 1.50

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 November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
NET INCOME	$ 935	$ 775	$1,770	$1,371
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax benefit of $7 and $31 in 2018 and tax benefit of $7 and tax expense of $18 in 2017	(31)	(90)	(193)	19
Amortization of prior service credit, net of tax benefit of $7 and $14 in 2018 and tax benefit of $11 and $22 in 2017	(23)	(19)	(46)	(38)
	(54)	(109)	(239)	(19)
COMPREHENSIVE INCOME	$ 881	$ 666	$1,531	$1,352

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(IN MILLIONS)

	Six Months Ended November 30, 2018			2017		
Operating Activities:						
Net income	$	1,770		$	1,371	
Adjustments to reconcile net income to cash provided by operating activities:						
Depreciation and amortization		1,636			1,507	
Provision for uncollectible accounts		160			116	
Stock-based compensation		108			103	
Deferred income taxes and other noncash items		236			327	
Changes in assets and liabilities:						
Receivables		(1,343	)		(983	)
Other assets		(111	)		(338	)
Accounts payable and other liabilities		(227	)		(564	)
Other, net		(50	)		(41	)
Cash provided by operating activities		2,179			1,498	
Investing Activities:						
Capital expenditures		(2,634	)		(2,621	)
Business acquisitions, net of cash acquired		—			(44	)
Proceeds from asset dispositions and other		53			12	
Cash used in investing activities		(2,581	)		(2,653	)
Financing Activities:						
		248			250	

Proceeds from short-term borrowings				
Proceeds from debt issuances		1,233		—
Principal payments on debt		(785)		(28)
Proceeds from stock issuances		45		205
Dividends paid		(173)		(268)
Purchase of treasury stock		(1,271)		(270)
Other, net		1		3
Cash used in financing activities		(702)		(108)
Effect of exchange rate changes on cash		(38)		62
Net decrease in cash and cash equivalents		(1,142)		(1,201)
Cash and cash equivalents at beginning of period		3,265		3,969
Cash and cash equivalents at end of period	$	2,123	$	2,768

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, 2018 ("Annual Report"). Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed in our Annual Report.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly our financial position as of November 30, 2018, and the results of our operations for the three- and six-month periods ended November 30, 2018 and 2017 and cash flows for the six-month periods ended November 30, 2018 and 2017. Operating results for the three- and six-month periods ended November 30, 2018 are not necessarily indicative of the results that may be expected for the year ending May 31, 2019.

Except as otherwise specified, references to years indicate our fiscal year ending May 31, 2019 or ended May 31 of the year referenced and comparisons are to the corresponding period of the prior year.

RECLASSIFICATIONS. Certain reclassifications have been made to the prior years' condensed consolidated financial statements to conform to the current year presentation.

REVENUE RECOGNITION.

Satisfaction of Performance Obligation

We recognize revenue upon delivery of shipments for our transportation businesses and upon completion of services for our business services, logistics and trade services businesses. Transportation services are provided with the use of employees and independent businesses that contract with FedEx. FedEx is the principal to the transaction for most of these services and revenue is recognized on a gross basis based on the transfer of control to the customer. Costs associated with independent businesses are recognized as incurred and included in the caption "Purchased transportation" in the accompanying unaudited condensed consolidated statements of income.

For shipments in transit, revenue is recorded based on the percentage of service completed at the balance sheet date which results in our recognizing revenue over time as we perform the services in the contract because of the continuous transfer of control to the customer. Our customers receive the benefit of our services as the goods are transported from one location to another. If we were unable to complete delivery to the final location, another entity would not need to reperform the transportation service already performed. As control transfers over time, revenue is recognized based on the extent of progress towards completion of the performance obligation.

The vast majority of our contracts include only one performance obligation, which is short in duration and spans only a few days. However, if a contract is separated into more than one performance obligation, we allocate the total transaction price to each performance obligation in an amount based on the estimated relative stand-alone selling prices of the promised goods or services underlying each performance obligation. We frequently sell standard transportation services with observable stand-alone sales prices. In these instances, the observable stand-alone sales are used to determine the stand-alone selling price.

We sell customized customer-specific solutions, such as logistics, through which we provide the service of integrating a complex set of tasks and components into a single capability (even if that single capability results in the delivery of multiple units). Therefore, the entire contract is accounted for as one performance obligation. In these cases, we typically use the expected cost plus a margin approach to estimate the stand-alone selling price of each performance obligation.

Variable Consideration

It is common for our contracts to contain customer incentives, guaranteed service refunds or other provisions that can either increase or decrease the transaction price. These variable amounts are generally awarded based upon certain incentive achievements or performance metrics. We estimate variable consideration as the most likely amount to which we expect to be entitled. Estimates for adjustments to revenue and accounts receivable are recognized at the time of shipment for certain customer initiatives, money-back service guarantees and billing corrections based on our assessment of historical, current and forecasted information available. Delivery costs are accrued as incurred.

Contract Modification

Contracts are often modified to account for changes in the rates we charge our customers or to add additional distinct services. We consider contract modifications to exist when the modification either creates new enforceable rights and obligations or alters the existing arrangement. Contract modifications that add distinct goods or services are treated as separate contracts. Contract modifications that do not add distinct goods or services typically change the price of existing services. These contract modifications are accounted for prospectively as the remaining performance obligations are executed.

Contract Assets and Liabilities

Contract assets include billed and unbilled amounts resulting from in-transit packages, as we have an unconditional right to payment only once all performance obligations have been completed (e.g., packages have been delivered). Contract assets are generally classified as current and the full balance is converted each quarter based on the short-term nature of the transactions. Our contract liabilities consist of advance payments and billings in excess of revenue. The full balance of deferred revenue is converted each quarter based on the short-term nature of the transactions.

Gross contract assets related to in-transit packages totaled $600 million and $542 million at November 30, 2018 and May 31, 2018, respectively. Contract assets net of deferred unearned revenue were $423 million and $363 million at November 30, 2018 and May 31, 2018, respectively. Contract assets are included within current assets in the accompanying unaudited condensed consolidated balance sheets. Contract liabilities related to advance payments from customers were $9 million and $13 million at November 30, 2018 and May 31, 2018, respectively. Contract liabilities are included within current liabilities in the accompanying unaudited condensed consolidated balance sheets.

Our contract logistics, global trade services and certain transportation businesses engage in some transactions wherein they act as agents. Revenue from these transactions is recorded on a net basis. Net revenue includes billings to customers less third-party charges, including transportation or handling costs, fees, commissions and taxes and duties.

Certain of our revenue-producing transactions are subject to taxes, such as sales tax, assessed by governmental authorities. We present these revenues net of tax. Under the typical payment terms of our customer contracts, the customer pays at periodic intervals (e.g., every 15 days, 30 days, 45 days, etc.) for shipments included on invoices received. It is not customary business practice to extend payment terms past 90 days, and as such, we do not have a practice of including a significant financing component within our revenue contracts with customers.

Disaggregation of Revenue

The following table provides revenue by service type (dollars in millions) for the periods ended November 30. This presentation is consistent with how we organize our segments internally for making operating decisions and measuring performance.

	Three Months Ended November 30,		Six Months Ended November 30,	
	2018	2017	2018	2017
REVENUE BY SERVICE TYPE				
FedEx Express segment:				
Package:				
U.S. overnight box	$1,948	$1,787	$3,834	$3,537
U.S. overnight envelope	444	432	912	882
U.S. deferred	1,060	922	2,012	1,800
Total U.S. domestic package revenue	3,452	3,141	6,758	6,219
International priority	1,896	1,865	3,770	3,628
International economy	885	815	1,735	1,585
Total international export package revenue	2,781	2,680	5,505	5,213
International domestic[1]	1,203	1,228	2,334	2,284
Total package revenue	7,436	7,049	14,597	13,716
Freight:				
U.S.	792	688	1,522	1,301
International priority	564	541	1,097	995
International economy	554	481	1,073	862
International airfreight	83	100	168	183
Total freight revenue	1,993	1,810	3,860	3,341
Other	175	217	369	419
Total FedEx Express segment	9,604	9,076	18,826	17,476
FedEx Ground segment	5,142	4,525	9,941	8,770
FedEx Freight segment	1,918	1,673	3,877	3,337
FedEx Services segment	429	416	846	816
FedEx Trade Networks operating segment	966	834	1,850	1,633
Eliminations	(235)	(211)	(464)	(422)
	$17,824	$16,313	$34,876	$31,610

(1) International domestic revenues relate to our intra-country operations.

EMPLOYEES UNDER COLLECTIVE BARGAINING ARRANGEMENTS. The pilots of Federal Express Corporation (“FedEx Express”), who are a small number of its total employees, are employed under a collective bargaining agreement that took effect on November 2, 2015. The collective bargaining agreement is scheduled to become amendable in November 2021. Other than the pilots at FedEx Express and drivers at one FedEx Freight, Inc. facility, our U.S. employees have thus far chosen not to unionize (we acquired FedEx Supply Chain Distribution System, Inc. (“FedEx Supply Chain,” formerly GENCO Distribution System, Inc.) in 2015, which already had a small number of employees who are members of unions). Additionally, certain of FedEx Express’s 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 $40 million for the three-month period ended November 30, 2018 and $108 million for the six-month period ended November 30, 2018. Our stock-based compensation expense was $41 million for the three-month period ended November 30, 2017 and $103 million for the six-month period ended November 30, 2017. 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. We believe the following new accounting guidance is relevant to the readers of our financial statements.

Recently Adopted Accounting Standards

In December 2017, the SEC staff issued Staff Accounting Bulletin ("SAB") 118 to provide guidance to registrants in accounting for income taxes under the Tax Cuts and Jobs Act ("TCJA"). SAB 118 was issued to address the application of U.S. generally accepted accounting principles in situations when a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to finalize the calculations for certain income tax effects of the TCJA. In accordance with SAB 118, we made reasonable estimates and recorded provisional amounts for the TCJA during 2018. Under the transitional provisions of SAB 118, we have a one-year measurement period to complete the accounting for the initial tax effects of the TCJA.

During the second quarter of 2019, we revised the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability due to the corporate tax rate reduction under the TCJA. As a result, we recognized $4 million of tax expense resulting in a decrease to the $1.15 billion provisional benefit recorded in 2018. No other change to the provisional amounts recorded at May 31, 2018 has been recorded. We will continue to adjust provisional amounts for the impacts of the TCJA as more information and further guidance becomes available during the measurement period, which ends December 22, 2018.

In 2014, the Financial Accounting Standards Board ("FASB") and International Accounting Standards Board issued a new accounting standard that supersedes virtually all existing revenue recognition guidance under generally accepted accounting principles in the United States. 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. We adopted this standard as of June 1, 2018 (fiscal 2019) using the modified retrospective method of adoption as permitted by the standard. The new guidance did not have an impact on our revenue recognition policies, practices or systems; therefore, there was no cumulative-effect adjustment to retained earnings as of June 1, 2018.

In March 2017, the FASB issued an Accounting Standards Update (ASU 2017-07) 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 impacts our operating income but has no impact on our net income or earnings per share. We adopted this standard effective June 1, 2018 (fiscal 2019) and applied these changes retrospectively. As such, prior year financial results are recast to conform to these new rules upon adoption.

The following table presents our results under our historical method of accounting and as adjusted to reflect our adoption of ASU 2017-07 (in millions):

	Three Months Ended November 30, 2017			Six Months Ended November 30, 2017		
	Reported	Effect of Adoption of ASU 2017-07	As Adjusted	Reported	Effect of Adoption of ASU 2017-07	As Adjusted
Revenue	$ 16,313	$ —	$ 16,313	$ 31,610	$ —	$ 31,610
Operating Income	1,262	(147)	1,115	2,379	(293)	2,086
Other Income (Expense), net	(123)	147	24	(258)	293	35
Net Income	775	—	775	1,371	—	1,371

New Accounting Standards and Accounting Standards Not Yet Adopted

In 2016, the FASB issued a new lease accounting standard which requires lessees to put most leases on their balance sheets but recognize the expenses in 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. Expenses 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. Based on our lease portfolio, we currently anticipate recognizing a lease liability and related right-of-use asset on our balance sheet of approximately $13 billion, with an immaterial impact on our income statement compared to the current lease accounting model. However, the ultimate impact of the standard will depend on our lease portfolio as of the adoption date. We are currently accumulating all of the necessary information required to properly account for the leases under the new standard. Additionally, we are implementing an enterprise-wide lease management system to assist in the accounting and are evaluating additional changes to our processes and internal controls to ensure we meet the standard’s reporting and disclosure requirements. These changes will be effective June 1, 2019 (fiscal 2020).

In February 2018, the FASB issued an Accounting Standards Update that will permit companies to reclassify the income tax effect of the TCJA on items within accumulated other comprehensive income (loss) (“AOCI”) to retained earnings. These changes will be effective June 1, 2019 (fiscal 2020). We are continuing to assess the impact of this new standard on our consolidated financial statements and related disclosures.

In August 2018, the FASB issued an Accounting Standards Update (ASU 2018-14) that modifies the disclosure requirements for employers that sponsor defined benefit pension or other postretirement benefit plans. The guidance removes disclosures that are no longer considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. We expect this new guidance will have minimal impact on our financial reporting. These changes will be effective June 1, 2020 (fiscal 2021) and will be applied retrospectively. We plan to early adopt in the fourth quarter of fiscal 2019.

In August 2018, the FASB issued an Accounting Standards Update (ASU 2018-15) that reduces the complexity for accounting for costs of implementing a cloud computing service arrangement and aligns the accounting for capitalizing implementation costs of hosting arrangements, regardless of whether they convey a license to the hosted software. These changes will be effective June 1, 2020 (fiscal 2021). We are assessing the impact of this new standard on our consolidated financial statements and related disclosures.

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 second quarter of 2019, we repurchased 2.8 million shares of FedEx common stock at an average price of $228.35 per share for a total of $646 million. During the first half of 2019, we purchased 5.4 million shares of FedEx common stock at an average price of $233.44 per share for a total of $1.3 billion. As of November 30, 2018, 6.3 million shares remained under the current share repurchase authorization.

DIVIDENDS DECLARED PER COMMON SHARE. On November 16, 2018, our Board of Directors declared a quarterly dividend of $0.65 per share of common stock. The dividend will be paid on January 2, 2019 to stockholders of record as of the close of business on December 10, 2018. 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.

(2) Accumulated Other Comprehensive Income (Loss)

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

	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Foreign currency translation loss:				
Balance at beginning of period	$ (921)	$ (576)	$(759)	$(685)
Translation adjustments	(31)	(90)	(193)	19
Balance at end of period	(952)	(666)	(952)	(666)

Retirement plans adjustments:				
Balance at beginning of period	158	251	181	270
Reclassifications from AOCI	(23)	(19)	(46)	(38)
Balance at end of period	135	232	135	232
Accumulated other comprehensive (loss) at end of period	$ (817)	$ (434)	$ (817)	$ (434)

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

	Amount Reclassified from AOCI				Affected Line Item in the Income Statement
	Three Months Ended		Six Months Ended		
	2018	2017	2018	2017	
Amortization of retirement plans prior service credits, before tax	$30	$30	$60	$60	Salaries and employee benefits
Income tax benefit	(7)	(11)	(14)	(22)	Provision for income taxes
AOCI reclassifications, net of tax	$23	$19	$46	$38	Net income

(3) Financing Arrangements

We have a shelf registration statement filed 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 second quarter of 2019, we issued $1.25 billion of senior unsecured debt under our current shelf registration statement, comprised of $400 million of 4.20% fixed-rate notes due in October 2028, and $850 million of 4.95% fixed-rate notes due in October 2048. Interest on these notes is paid semi-annually. We used the net proceeds to redeem the $750 million aggregate principal amount of 8.00% notes due January 15, 2019, and for general corporate purposes.

We have a five-year $2.0 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 retirement plans 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 2.1 to 1.0 at November 30, 2018. 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 this 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.

During the second quarter of 2019, we issued commercial paper to provide us with additional short-term liquidity. The maximum amount outstanding during the quarter was $600 million. 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. As of November 30, 2018, $250 million of commercial paper and $54 million in letters of credit were outstanding, leaving $1.696 billion available under the revolving credit facility for future borrowings.

Long-term debt, exclusive of capital leases, had carrying values of $16.9 billion at November 30, 2018 and $16.5 billion at May 31, 2018, compared with estimated fair values of $16.2 billion at November 30, 2018 and $16.6 billion at May 31, 2018. The annualized weighted-average interest rate on long-term debt was 3.5% at November 30, 2018. 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 November 30 was as follows (in millions, except per share amounts):

	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Basic earnings per common share:				
Net earnings allocable to common shares[1]	$ 933	$ 774	$1,768	$1,369
Weighted-average common shares	262	268	263	268
Basic earnings per common share	$ 3.56	$ 2.89	$6.71	$5.12
Diluted earnings per common share:				
Net earnings allocable to common shares[1]	$ 933	$ 774	$1,768	$1,369
Weighted-average common shares	262	268	263	268
Dilutive effect of share-based awards	4	4	5	4
Weighted-average diluted shares	266	272	268	272
Diluted earnings per common share	$ 3.51	$ 2.84	$6.60	$5.03
Anti-dilutive options excluded from diluted earnings per common share	4.0	2.9	3.8	3.0

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

(5) Income Taxes

Our effective tax rate was 20.6% for the second quarter and 22.3% for the first half of 2019, compared with 32.0% for the second quarter and 35.4% for the first half of 2018. The 2019 tax rate was favorably impacted by the TCJA, which resulted in benefits of approximately $150 million and $285 million during the second quarter and first half of 2019, respectively, primarily from the lower statutory tax rate on fiscal 2019 earnings. The 2019 tax rates were also favorably impacted by a tax benefit of approximately $60 million from accelerated deductions to be claimed on FedEx's 2018 U.S. income tax return. The 2018 tax rate benefited from foreign tax credits associated with a dividend paid from our foreign operations and tax benefits from share-based payments. The 2018 tax rate was negatively impacted by costs incurred in connection with the integration of the foreign operations of FedEx Express and TNT Express B.V. ("TNT Express"), the effects of the NotPetya cyberattack on lower taxed foreign earnings and changes in uncertain tax positions.

On August 1, 2018, the U.S. Treasury Department released proposed regulations covering the one-time transition tax on unrepatriated foreign earnings, which was enacted as part of the TCJA. Certain guidance included in these proposed regulations is inconsistent with our interpretation that led to the recognition of a $225 million ($0.94 per diluted share) benefit in 2018 (the "2018 Benefit"). Notwithstanding this inconsistency, we are confident in our interpretation and intend to defend this position through litigation, if necessary. This proposed guidance is not authoritative and is subject to change in the regulatory review process. However, if the proposed guidance is included in the final regulations as drafted or we are ultimately unsuccessful in defending our position, we may be required to reverse the 2018 Benefit.

The U.S. Treasury Department has also released proposed regulations related to the business interest expense limitations, foreign tax credit guidance, base-erosion and anti-abuse tax provisions of the TCJA. This proposed guidance is not authoritative and is subject to change in the regulatory review process. We continue to review these proposed regulations and consider their potential impact on our effective tax rate.

During the second quarter of 2019, we revised the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability due to the corporate tax rate reduction under the TCJA. As a result, we recognized $4 million of tax expense resulting in a decrease to the $1.15 billion provisional benefit recorded in 2018. No other change to the provisional amounts recorded at May 31, 2018 has been recorded. We will continue to adjust provisional amounts for the impacts of the TCJA as more information and further guidance becomes available during the measurement period, which ends December 22, 2018.

(6) Retirement Plans

We sponsor programs that provide retirement benefits to most of our employees. These programs include defined benefit pension plans, defined contribution plans and postretirement healthcare plans. Key terms of our retirement plans are provided in our Annual Report.

Our retirement plans costs for the periods ended November 30 were as follows (in millions):

	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Defined benefit pension plans, net	$ 29	$ 37	$57	$74
Defined contribution plans	133	124	277	251
Postretirement healthcare plans	18	18	37	37
	$ 180	$ 179	$371	$362

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

	Three Months Ended					
	U.S. Pension Plans		International Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017	2018	2017
Service cost	$172	$170	$25	$23	$ 8	$ 9
Other retirement plans (income) expense:						
Interest cost	238	278	12	13	10	9
Expected return on plan assets	(376)	(406)	(12)	(11)	—	—
Amortization of prior service credit and other	(30)	(29)	—	(1)	—	—
	(168)	(157)	—	1	10	9
	$4	$13	$25	$24	$ 18	$ 18

	Six Months Ended					
	U.S. Pension Plans		International Pension Plans		Postretirement Healthcare Plans	
	2018	2017	2018	2017	2018	2017
Service cost	$344	$340	$49	$46	$ 17	$ 18
Other retirement plans (income) expense:						
Interest cost	476	557	25	25	20	19
Expected return on plan assets	(753)	(812)	(24)	(22)	—	—
Amortization of prior service credit and other	(59)	(59)	(1)	(1)	—	—
	(336)	(314)	—	2	20	19
	$8	$26	$49	$48	$ 37	$ 37

Contributions to our tax-qualified U.S. domestic pension plans for the six-month periods ended November 30 were as follows (in millions):

	2018	2017
Required	$—	$268
Voluntary	500	482
	$500	$750

(7) Business Segment Information

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

Our reportable segments include the following businesses:

FedEx Express Segment	FedEx Express (express transportation) TNT Express (international express transportation, small-package ground delivery and freight transportation)
FedEx Ground Segment	FedEx Ground (small-package ground delivery)
FedEx Freight Segment	FedEx Freight (LTL freight 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)

References to our transportation segments include, collectively, the FedEx Express segment, the FedEx Ground segment and the FedEx Freight segment.

FedEx Services Segment

The FedEx Services segment operates combined sales, marketing, administrative and information-technology functions in shared services operations that support our transportation businesses and allow us to obtain synergies from the combination of these functions. For the international regions of FedEx Express, some of these functions are performed on a regional basis and reported by FedEx Express 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 and Print Services, Inc. ("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.

Corporate, Other and Eliminations

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

Also included in corporate and other is the FedEx Trade Networks, Inc. ("FedEx Trade Networks") operating segment, which provides customs brokerage and global ocean and air freight forwarding through FedEx Trade Networks Transport & Brokerage, Inc.; cross-border enablement and technology solutions and e-commerce transportation solutions through FedEx Cross Border Technologies, Inc.; integrated supply chain management solutions through FedEx Supply Chain; time-critical shipment services through FedEx Custom Critical, Inc.; and, effective September 1, 2018, critical inventory and service parts logistics, 3-D printing and technology repair through FedEx Forward Depots, Inc.

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

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

	Three Months Ended		Six Months Ended	
	2018	2017	2018	2017
Revenues:				
FedEx Express segment	$9,604	$9,076	$18,826	$17,476
FedEx Ground segment	5,142	4,525	9,941	8,770
FedEx Freight segment	1,918	1,673	3,877	3,337
FedEx Services segment	429	416	846	816
Other and eliminations	731	623	1,386	1,211
	$17,824	$16,313	$34,876	$31,610
Operating income (loss):				
FedEx Express segment	$620	$601	$987	$921
FedEx Ground segment	586	496	1,253	1,102
FedEx Freight segment	148	108	324	273
Corporate, other and eliminations	(186)	(90)	(325)	(210)
	$1,168	$1,115	$2,239	$2,086

(8) Commitments

As of November 30, 2018, our purchase commitments under various contracts for the remainder of 2019 and annually thereafter were as follows (in millions):

	Aircraft and Related	Other[1]	Total
2019 (remainder)	$ 832	$ 572	$ 1,404
2020	1,987	767	2,754
2021	2,285	513	2,798
2022	1,867	367	2,234
2023	1,577	266	1,843
Thereafter	3,015	534	3,549
Total	$ 11,563	$ 3,019	$ 14,582

(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 November 30, 2018, our obligation to purchase six Boeing 777 Freighter ("B777F") aircraft and five Boeing 767-300 Freighter ("B767F") 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.

As of November 30, 2018, we had $1.0 billion in deposits and progress payments on aircraft purchases and other planned aircraft-related transactions. These deposits are classified in the “Other assets” caption of our accompanying unaudited condensed consolidated balance sheets. Aircraft and related contracts are subject to price escalations. The following table is a summary of the key aircraft we are committed to purchase as of November 30, 2018 with the year of expected delivery:

	Cessna SkyCourier 408	ATR 72-600F	B767F	B777F	Total
2019 (remainder)	-	-	7	2	9
2020	-	-	17	5	22
2021	12	5	18	2	37
2022	12	6	12	3	33
2023	12	6	6	4	28
Thereafter	14	13	-	6	33
Total	50	30	60	22	162

A summary of future minimum lease payments under noncancelable operating leases with an initial or remaining term in excess of one year at November 30, 2018 is as follows (in millions):

	Aircraft and Related Equipment	Facilities and Other	Total Operating Leases
2019 (remainder)	$ 281	$ 1,104	$ 1,385
2020	261	2,026	2,287
2021	203	1,858	2,061
2022	185	1,669	1,854
2023	127	1,499	1,626
Thereafter	48	8,465	8,513
Total	$ 1,105	$ 16,621	$ 17,726

Future minimum lease payments under capital leases were immaterial at November 30, 2018. 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.

(9) Contingencies

Independent Contractor — Lawsuits and Administrative Proceedings. FedEx Ground is involved in lawsuits and administrative proceedings claiming that owner-operators engaged under operating agreements no longer in place should have been treated as employees of FedEx Ground, rather than independent contractors. In addition, we are defending joint-employer cases where it is alleged that FedEx Ground should be treated as an employer of the drivers employed by owner-operators engaged by FedEx Ground. These cases are in varying stages of litigation, and we are not currently able to estimate an amount or range of potential loss in all of these matters. However, we do not expect to incur, individually or in the aggregate, a material loss in these matters. Nevertheless, adverse determinations in matters related to owner-operators engaged by FedEx Ground could, among other things, entitle certain owner-operators to the reimbursement of certain expenses, and their drivers to the benefit of wage-and-hour laws, and result in employment and withholding tax and benefit liability for FedEx Ground. We continue to believe that owner-operators engaged by FedEx Ground are properly classified as independent contractors and that FedEx Ground is not an employer or joint employer of the drivers of these 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. 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. On July 10, 2017, the City of New York and the State of New York filed a third lawsuit against FedEx Ground and included FedEx Freight as a co-defendant. This additional case identifies no shippers or shipments, but generally alleges violations of the same laws that are the subject of the other two lawsuits.

On October 10, 2018, FedEx Ground and the City and State of New York reached an agreement in principle to settle the pending lawsuits arising from FedEx Ground's and FedEx Freight's alleged shipments of cigarettes to New York residents for $35.4 million. The settlement does not include any admission of liability by FedEx Ground or FedEx Freight. An accrual has been established for the amount of the settlement. Additionally, we have accrued $10.5 million for certain attorney's fees in connection with this matter.

Other Matters. During the third quarter of 2017, FedEx Trade Networks informed U.S. Customs and Border Protection ("CBP") that in connection with certain customs entries it may have made improper claims for (i) reduced-duty treatment and (ii) duty-free treatment. In the fourth quarter of 2017 we established accruals totaling $39.3 million for the then-current estimated probable loss for these matters. In the first quarter of 2018, FedEx Trade Networks tendered payments to CBP in these matters totaling $46.5 million, and an additional expense of $7.2 million was recognized. CBP acknowledged receipt of the amounts tendered in these matters.

In May 2018, FedEx Trade Networks was informed that CBP was demanding additional payment for duty loss plus interest in connection with the claims for reduced-duty treatment. In June 2018, we submitted a response to CBP challenging the additional demand. In October 2018, FedEx Trade Networks received notice from CBP that is has dropped the additional demand and that the claims for reduced-duty treatment and duty-free treatment are fully resolved.

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.

(10) Supplemental Cash Flow Information

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

	2018	2017
Cash payments for:		
Interest (net of capitalized interest)	$308	$238
Income taxes	$220	$617
Income tax refunds received	(6)	(19)
Cash tax payments, net	$214	$598

(11) 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 $16.9 billion of our public 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)

November 30, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$688	$ 187	$ 1,310	$ (62)	$ 2,123
Receivables, less allowances	40	5,848	3,868	(183)	9,573
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	491	956	295	—	1,742
Total current assets	1,219	6,991	5,473	(245)	13,438
PROPERTY AND EQUIPMENT, AT COST	23	53,441	4,037	—	57,501
Less accumulated depreciation and amortization	17	26,166	1,931	—	28,114
Net property and equipment	6	27,275	2,106	—	29,387
INTERCOMPANY RECEIVABLE	845	1,628	—	(2,473)	—
GOODWILL	—	1,598	5,310	—	6,908
INVESTMENT IN SUBSIDIARIES	34,957	4,891	—	(39,848)	—
OTHER ASSETS	270	1,569	1,717	—	3,556
	$37,297	$ 43,952	$ 14,606	$ (42,566)	$ 53,289
LIABILITIES AND STOCKHOLDERS' INVESTMENT					
CURRENT LIABILITIES					
Short-term borrowings	$250	$ —	$ —	$ —	$ 250
Current portion of long-term debt	567	69	6	—	642
Accrued salaries and employee benefits	49	1,192	609	—	1,850
Accounts payable	197	1,576	1,831	(204)	3,400
Accrued expenses	544	1,843	1,007	(40)	3,354
Total current liabilities	1,607	4,680	3,453	(244)	9,496
LONG-TERM DEBT, LESS CURRENT PORTION	16,101	287	11	—	16,399
INTERCOMPANY PAYABLE	—	—	2,473	(2,473)	—
OTHER LONG-TERM LIABILITIES					
Deferred income taxes	92	3,055	106	—	3,253
Other liabilities	203	3,643	1,002	(1)	4,847
Total other long-term liabilities	295	6,698	1,108	(1)	8,100
STOCKHOLDERS' INVESTMENT	19,294	32,287	7,561	(39,848)	19,294
	$37,297	$ 43,952	$ 14,606	$ (42,566)	$ 53,289

CONDENSED CONSOLIDATING BALANCE SHEETS

May 31, 2018

	Parent	Guarantor Subsidiaries	Non-guarantor Subsidiaries	Eliminations	Consolidated
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	$1,485	$ 257	$ 1,538	$ (15)	$ 3,265
Receivables, less allowances	3	4,970	3,586	(78)	8,481
Spare parts, supplies, fuel, prepaid expenses and other, less allowances	425	878	292	—	1,595
Total current assets	1,913	6,105	5,416	(93)	13,341
PROPERTY AND EQUIPMENT, AT COST	21	51,232	3,868	—	55,121
Less accumulated depreciation and amortization	17	25,111	1,839	—	26,967
Net property and equipment	4	26,121	2,029	—	28,154
INTERCOMPANY RECEIVABLE	1,487	924	—	(2,411)	—
GOODWILL	—	1,709	5,264	—	6,973