FEDEX CORP
Form 10-Q
March 19, 2019

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, 2019

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 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 March 15, 2019
Common Stock, par value $0.10 per share	260,574,612

FEDEX CORPORATION

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Exhibit 32.2

Exhibit 101.1 Interactive Data Files

FEDEX CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(IN MILLIONS)

	February 28, 2019 (Unaudited)	May 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,872	$ 3,265
Receivables, less allowances of $318 and $401	9,037	8,481
Spare parts, supplies and fuel, less allowances of $339 and $268	546	525
Prepaid expenses and other	1,045	1,070
Total current assets	13,500	13,341
PROPERTY AND EQUIPMENT, AT COST	58,164	55,121
Less accumulated depreciation and amortization	28,396	26,967
Net property and equipment	29,768	28,154
OTHER LONG-TERM ASSETS		
Goodwill	6,916	6,973
Other assets	4,280	3,862
Total other long-term assets	11,196	10,835
	$ 54,464	$ 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)

	February 28, 2019 (Unaudited)	May 31, 2018
LIABILITIES AND COMMON STOCKHOLDERS' INVESTMENT		
CURRENT LIABILITIES		
Short-term borrowings	$ 225	$—
Current portion of long-term debt	973	1,342
Accrued salaries and employee benefits	1,659	2,177
Accounts payable	3,156	2,977
Accrued expenses	3,243	3,131
Total current liabilities	9,256	9,627
LONG-TERM DEBT, LESS CURRENT PORTION	17,218	15,243
OTHER LONG-TERM LIABILITIES		
Deferred income taxes	3,211	2,867
Pension, postretirement healthcare and other benefit obligations	1,847	2,187
Self-insurance accruals	1,861	1,784
Deferred lease obligations	512	551
Deferred gains, principally related to aircraft transactions	118	121
Other liabilities	547	534
Total other long-term liabilities	8,096	8,044
COMMITMENTS AND CONTINGENCIES		
COMMON STOCKHOLDERS' INVESTMENT		
Common stock, $0.10 par value; 800 million shares authorized; 318 million shares issued as of February 28, 2019 and May 31, 2018	32	32
Additional paid-in capital	3,209	3,117
Retained earnings	26,650	24,823
Accumulated other comprehensive loss	(737)	(578)
Treasury stock, at cost	(9,260)	(7,978)
Total common stockholders' investment	19,894	19,416
	$ 54,464	$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 February 28,		Nine Months Ended February 28,	
	2019	2018 As Adjusted	2019	2018 As Adjusted
REVENUES	$ 17,010	$ 16,526	$ 51,886	$ 48,136
OPERATING EXPENSES:				
Salaries and employee benefits	6,069	6,124	18,589	17,677
Purchased transportation	4,253	3,935	12,566	11,220
Rentals and landing fees	874	873	2,533	2,526
Depreciation and amortization	851	786	2,487	2,293
Fuel	907	914	2,945	2,435
Maintenance and repairs	658	628	2,144	1,968
Business realignment costs	4	—	4	—
Other	2,483	2,408	7,468	7,073
	16,099	15,668	48,736	45,192
OPERATING INCOME	911	858	3,150	2,944
OTHER INCOME (EXPENSE):				
Interest, net	(135)	(125)	(393)	(363)
Other retirement plans income	158	143	474	436
Other, net	(3)	(2)	(22)	(22)
	20	16	59	51
INCOME BEFORE INCOME TAXES	931	874	3,209	2,995
PROVISION FOR INCOME TAXES	192	(1,200)	700	(450)
NET INCOME	$ 739	$ 2,074	$ 2,509	$ 3,445
EARNINGS PER COMMON SHARE:				
Basic	$ 2.83	$ 7.74	$ 9.55	$ 12.85
Diluted	$ 2.80	$ 7.59	$ 9.41	$ 12.63
DIVIDENDS DECLARED PER COMMON SHARE	$ 0.65	$ 0.50	$ 2.60	$ 2.00

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,		Nine Months Ended February 28,	
	2019	2018	2019	2018
NET INCOME	$ 739	$ 2,074	$2,509	$3,445
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments, net of tax expense of $9 and tax benefit of $22 in 2019 and tax expense of $9 and $26 in 2018	103	100	(90)	119
Amortization of prior service credit, net of tax benefit of $7 and $21 in 2019 and tax benefit of $7 and $29 in 2018	(23)	(23)	(69)	(61)
	80	77	(159)	58
COMPREHENSIVE INCOME	$ 819	$ 2,151	$2,350	$3,503

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, 2019		2018	
Operating Activities:				
Net income	$	2,509	$	3,445
Adjustments to reconcile net income to cash provided by operating activities:				
Depreciation and amortization		2,487		2,293
Provision for uncollectible accounts		221		177
Stock-based compensation		141		135
Deferred income taxes and other noncash items		250		(914)
Changes in assets and liabilities:				
Receivables		(780)		(986)
Other assets		(96)		(151)
Accounts payable and other liabilities		(1,307)		(2,781)
Other, net		(102)		(56)
Cash provided by operating activities		3,323		1,162
Investing Activities:				
Capital expenditures		(3,757)		(3,994)
Business acquisitions, net of cash acquired		—		(44)
Proceeds from asset dispositions and other		62		21
Cash used in investing activities		(3,695)		(4,017)
Financing Activities:				
		220		797

Proceeds from short-term borrowings, net		
Principal payments on debt	(874)	(31)
Proceeds from debt issuances	2,463	1,481
Proceeds from stock issuances	58	284
Dividends paid	(514)	(402)
Purchase of treasury stock	(1,365)	(558)
Other, net	5	6
Cash (used in) provided by financing activities	(7)	1,577
Effect of exchange rate changes on cash	(14)	98
Net decrease in cash and cash equivalents	(393)	(1,180)
Cash and cash equivalents at beginning of period	3,265	3,969
Cash and cash equivalents at end of period	$ 2,872	$ 2,789

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

FEDEX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN COMMON STOCKHOLDERS' INVESTMENT

(UNAUDITED)

(IN MILLIONS, EXCEPT SHARE DATA)

	Three Months Ended February 28,		Nine Months Ended February 28,	
	2019	2018	2019	2018
Common Stock				
Beginning Balance	$ 32	$ 32	$ 32	$ 32
Ending Balance	32	32	32	32
Additional Paid-in-Capital				
Beginning Balance	3,185	3,055	3,117	3,005
Employee incentive plans and other	24	30	92	80
Ending Balance	3,209	3,085	3,209	3,085
Retained Earnings				
Beginning Balance	26,080	21,785	24,823	20,833
Net Income	739	2,074	2,509	3,445
Cash dividends declared ($0.65, $0.50, $2.60, and $2.00 per share)	(169)	(133)	(683)	(535)
Employee incentive plans and other	—	(16)	1	(33)
Ending Balance	26,650	23,710	26,650	23,710
Accumulated Other Comprehensive Income				
Beginning Balance	(817)	(434)	(578)	(415)
Other comprehensive income, net of tax (expense)/benefit of ($2), ($2), $43, and $3	80	77	(159)	58
Ending Balance	(737)	(357)	(737)	(357)
Treasury Stock				
Beginning Balance	(9,186)	(7,383)	(7,978)	(7,382)
Purchase of treasury stock (0.6, 1.2, 6.0, and 2.4 million shares)	(93)	(288)	(1,365)	(558)
Employee incentive plans and other (0.1, 0.7, 0.6, and 2.7 million shares)	19	95	83	364
Ending Balance	(9,260)	(7,576)	(9,260)	(7,576)
Total Common Stockholders' Investment Balance	$ 19,894	$ 18,894	$ 19,894	$ 18,894

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”). 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, 2019, and the results of our operations for the three- and nine-month periods ended February 28, 2019 and 2018, cash flows for the nine-month periods ended February 28, 2019 and 2018, and changes in common stockholders’ investment for the three- and nine-month periods ended February 28, 2019 and 2018. Operating results for the three- and nine-month periods ended February 28, 2019 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 providing transportation services 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.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 $526 million and $542 million at February 28, 2019 and May 31, 2018, respectively. Contract assets net of deferred unearned revenue were $353 million and $363 million at February 28, 2019 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 February 28, 2019 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.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Disaggregation of Revenue

The following table provides revenue by service type (dollars in millions) for the periods ended February 28. This presentation is consistent with how we organize our segments internally for making operating decisions and measuring performance.

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
REVENUE BY SERVICE TYPE				
FedEx Express segment:				
Package:				
U.S. overnight box	$1,844	$1,836	$5,678	$5,373
U.S. overnight envelope	433	435	1,345	1,317
U.S. deferred	1,119	996	3,131	2,796
Total U.S. domestic package revenue	3,396	3,267	10,154	9,486
International priority	1,738	1,841	5,508	5,469
International economy	806	793	2,541	2,378
Total international export package revenue	2,544	2,634	8,049	7,847
International domestic[1]	1,078	1,140	3,412	3,424
Total package revenue	7,018	7,041	21,615	20,757
Freight:				
U.S.	772	739	2,294	2,040
International priority	477	532	1,574	1,527
International economy	495	492	1,568	1,354
International airfreight	76	93	244	276
Total freight revenue	1,820	1,856	5,680	5,197
Other	167	201	536	620
Total FedEx Express segment	9,005	9,098	27,831	26,574
FedEx Ground segment	5,261	4,828	15,202	13,598
FedEx Freight segment	1,750	1,613	5,627	4,950
FedEx Services segment	402	397	1,248	1,213
Other and eliminations[2]	592	590	1,978	1,801
	$17,010	$16,526	$51,886	$48,136

[1] International domestic revenues relate to our intra-country operations.
[2] Includes the FedEx Logistics, Inc. ("FedEx Logistics" (formerly FedEx Trade Networks, Inc.)) operating segment.

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, and a union has been certified to represent owner-drivers at a FedEx Freight, Inc. facility in Canada.

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 $33 million for the three-month period ended February 28, 2019 and $141 million for the nine-month period ended February 28, 2019. Our stock-based compensation expense was $32 million for the three-month period ended February 28, 2018 and $135 million for the nine-month period ended February 28, 2018. Due to its immateriality, additional disclosures related to stock-based compensation have been excluded from this quarterly report.

BUSINESS REALIGNMENT COSTS. In December 2018, we announced cost-reduction programs primarily through initiatives at FedEx Express and FedEx Corporate Services, Inc. ("FedEx Services"), including a U.S.-based voluntary employee buyout program.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the third quarter of 2019, we began offering voluntary cash buyouts to eligible U.S.-based employees in certain staff functions. The U.S.-based voluntary employee buyout program includes voluntary severance payments and funding to healthcare reimbursement accounts, with the voluntary severance payment calculated based on four weeks of gross base salary for every year of continuous FedEx service up to a maximum payment of two years of pay. Eligible employees will be scheduled to vacate positions in phases to ensure a smooth transition in the impacted functions so that we maintain service levels to our customers. Costs of the benefits provided under the program will be recognized as special termination benefits in the period employees accept their offers.

We incurred costs of approximately $4 million ($3 million, net of tax, or $0.01 per diluted share) during the third quarter of 2019 associated with our business realignment activities. These costs related to certain employee severance arrangements and other external costs directly attributable to our business realignment activities, such as professional fees. Total costs of the U.S.-based voluntary employee buyout program will depend on acceptance rates and severance payments will be made at the time of departure. The cost of our business realignment activities is included in the caption “Business realignment costs” in our unaudited condensed consolidated statements of income.

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 (“GAAP”) 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 had a one-year measurement period to complete the accounting for the initial tax effects of the TCJA. As of December 22, 2018, our accounting is complete for the tax effects of the TCJA, including the following elements initially recorded on a provisional basis:

- In 2018, we recognized a provisional benefit related to the revaluation of U.S. deferred tax assets and liabilities. During the second quarter of 2019, we revised the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability. As a result, we recognized a $4 million tax expense, which decreased the $1.15 billion provisional benefit recorded in 2018.
- We previously recognized an immaterial provisional benefit from foreign tax credits exceeding the one-time transition tax on previously deferred foreign earnings. No adjustments were made to the provisional estimate recorded in 2018.
- We have determined to record the taxes for the global intangible low-taxed income (GILTI) as a period cost.

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.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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 February 28, 2018			Nine Months Ended February 28, 2018		
	Reported	Effect of Adoption of ASU 2017-07	As Adjusted	Reported	Effect of Adoption of ASU 2017-07	As Adjusted
Revenue	$16,526	$ —	$ 16,526	$48,136	$ —	$ 48,136
Operating Income	1,001	(143)	858	3,380	(436)	2,944
Other Income (Expense), net	(127)	143	16	(385)	436	51
Net Income	2,074	—	2,074	3,445	—	3,445

In August 2018, the SEC published Release No. 33-10532, Disclosure Update and Simplification (“DUSTR”), which adopted amendments to certain disclosure requirements that have become redundant, duplicative, overlapping, outdated or superseded, in light of other SEC disclosure requirements, GAAP, or changes in the information environment. While most of the DUSTR amendments eliminate outdated or duplicative disclosure requirements, the final rule amends the interim financial statement requirements to include a reconciliation of changes in common stockholders’ investment in the notes or as a separate statement for each period for which a statement of comprehensive income is required to be filed. The new interim reconciliation of changes in common stockholders’ investment is included herein as a separate statement.

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 (ASU 2018-02) 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 these new rules in the fourth quarter of 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.

FEDEX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

During the third quarter of 2019, we repurchased 0.6 million shares of FedEx common stock at an average price of $168.43 per share for a total of $93 million. During the nine months of 2019, we repurchased 6.0 million shares of FedEx common stock at an average price of $227.42 per share for a total of $1.4 billion. As of February 28, 2019, 5.7 million shares remained under the current share repurchase authorization.

DIVIDENDS DECLARED PER COMMON SHARE. On February 15, 2019, our Board of Directors declared a quarterly dividend of $0.65 per share of common stock. The dividend will be paid on April 1, 2019 to stockholders of record as of the close of business on March 11, 2019. 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 Loss

The following table provides changes in AOCI, net of tax, reported in our unaudited condensed consolidated financial statements for the periods ended February 28 (in millions; amounts in parentheses indicate debits to AOCI):

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Foreign currency translation loss:				
Balance at beginning of period	$ (952)	$ (666)	$ (759)	$ (685)
Translation adjustments	103	100	(90)	119
Balance at end of period	(849)	(566)	(849)	(566)
Retirement plans adjustments:				
Balance at beginning of period	135	232	181	270
Reclassifications from AOCI	(23)	(23)	(69)	(61)
Balance at end of period	112	209	112	209
Accumulated other comprehensive (loss) at end of period	$ (737)	$ (357)	$ (737)	$ (357)

The following table presents details of the reclassifications from AOCI for the periods ended February 28 (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		
	2019	2018	2019	2018	
Amortization of retirement plans prior service credits, before tax	$ 30	$ 30	$ 90	$ 90	Salaries and employee benefits

Income tax benefit	(7)	(7)	(21)	(29)	Provision for income taxes
AOCI reclassifications, net of tax	$ 23	$ 23	$ 69	$ 61	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 third quarter of 2019, we issued $1.2 billion of senior unsecured debt under our current shelf registration statement, comprised of €640 million of 0.7% fixed-rate notes due in May 2022 and $500 million of 3.4% fixed-rate notes due in January 2022. We will use the net proceeds to pay the €500 million aggregate principal amount of floating rate notes due at maturity on April 11, 2019, and for general corporate purposes.

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.

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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 2.2 to 1.0 at February 28, 2019. 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 third quarter of 2019, we issued commercial paper to provide us with additional short-term liquidity. The maximum amount outstanding during the quarter was $750 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 February 28, 2019, $225 million of commercial paper and $53 million in letters of credit were outstanding, leaving $1.722 billion available under the revolving credit facility for future borrowings.

Long-term debt, including current maturities and exclusive of capital leases, had carrying values of $18.1 billion at February 28, 2019 and $16.5 billion at May 31, 2018, compared with estimated fair values of $17.8 billion at February 28, 2019 and $16.6 billion at May 31, 2018. The annualized weighted-average interest rate on long-term debt was 3.4% at February 28, 2019. 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 was as follows (in millions, except per share amounts):

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Basic earnings per common share:				
Net earnings allocable to common shares[1]	$ 738	$ 2,071	$2,506	$3,441
Weighted-average common shares	261	268	262	268
Basic earnings per common share	$ 2.83	$ 7.74	$9.55	$12.85
Diluted earnings per common share:				
Net earnings allocable to common shares[1]	$ 738	$ 2,071	$2,506	$3,441
Weighted-average common shares	261	268	262	268
Dilutive effect of share-based awards	2	5	4	4

Weighted-average diluted shares	263	273	266	272
Diluted earnings per common share	$ 2.80	$ 7.59	$9.41	$12.63
Anti-dilutive options excluded from diluted earnings per common share	7.2	1.9	5.0	2.6

(1)Net earnings available to participating securities were immaterial in all periods presented.

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(5) Income Taxes

Our effective tax rate was 20.6% for the third quarter and 21.8% for the nine months of 2019, compared with (137.3)% for the third quarter and (15.0)% for the nine months of 2018. The 2019 tax rates include a benefit of $90 million from the reduction of a valuation allowance on certain tax loss carryforwards and an expense of $50 million from the impact on our deferred taxes attributable to a recently enacted lower tax rate in the Netherlands. The 2019 tax rates were also favorably impacted by the TCJA, which resulted in benefits of approximately $60 million during the third quarter and $230 million for the nine months of 2019, primarily from the lower statutory tax rate on fiscal 2019 earnings. The tax rate for the nine months of 2019 also benefited by approximately $60 million from accelerated deductions claimed on our 2018 U.S. income tax return. The 2018 tax rates were favorably impacted by a provisional benefit of $1.15 billion from the remeasurement of our net U.S. deferred tax liability and a provisional benefit of $36 million from foreign tax credits exceeding the one-time transition tax on previously deferred foreign earnings. In addition to these provisional amounts, we recognized a $204 million benefit from a $1.5 billion contribution to our tax-qualified U.S. domestic pension plans ("U.S. Pension Plans") in February 2018 and $165 million related to the phase-in of a reduced statutory tax rate on 2018 year-to-date earnings, of which approximately $120 million was recorded in the third quarter and attributable to the first half of 2018 earnings.

On January 15, 2019, the U.S. Treasury Department issued final regulations covering the one-time transition tax on unrepatriated foreign earnings, which was enacted as part of the TCJA. Certain guidance included in these final 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 remain confident in our interpretation of the TCJA and intend to defend this position through litigation, if necessary. However, if we are ultimately unsuccessful in defending our position, we may be required to reverse the 2018 Benefit.

During the third quarter of 2019, we completed our accounting for the tax effects of the TCJA. No additional adjustments were made during the quarter. As a result, the only adjustment to the amounts initially recorded on a provisional basis in 2018 was a tax expense of $4 million recognized in the second quarter of 2019 as a revision of the provisional benefit associated with the remeasurement of our net U.S. deferred tax liability.

The TCJA, enacted during the third quarter of fiscal 2018, significantly changed the U.S. corporate income tax system including, among other things, lowering the statutory federal income tax rate from 35% to 21%. Due to our May 31 fiscal year-end, the lower rate was phased in, resulting in a U.S. statutory federal rate of 29.2% for 2018 and a statutory federal rate of 21% for subsequent years.

The following table provides a reconciliation of the 2018 effective tax rates to the 2019 effective tax rates, including the impacts of the TCJA, for the periods ended February 28:

	Three Months Ended	Nine Months Ended
2018 Effective Tax Rate[a]	(137.3)%	(15.0)%
Remeasurement of net U.S. deferred tax liability in 2018	131.5	38.5
Effect of February 2018 pension contribution[b]	23.3	6.8
Lower statutory tax rate on first-half 2018 earnings (35% to 29.2%)[c]	12.5	—
Reduction of valuation allowance on tax loss carryforwards in 2019	(10.3)	(3.0)

Lower statutory tax rate on 2019 earnings (29.2% to 21%)[c]	(7.6	)	(7.6	)
Remeasurement of net Dutch deferred tax asset in 2019	5.3		1.5	
Transition tax provisional benefit in 2018	4.1		1.2	
Foreign tax credits on foreign dividends in 2018	1.2		2.9	
Accelerated deductions claimed in 2019 on the 2018 U.S. income tax return	—		(1.8	)
Other, net[d]	(2.1	)	(1.7	)
2019 Effective Tax Rate[a]	20.6	%	21.8	%

[a] 2018 includes a blended U.S. statutory federal income tax rate of 29.2% while 2019 includes the fully phased-in rate of 21%.

[b] The benefit is from the pension contribution deducted on our 2017 tax return at a tax rate of 35%.

[c] Due to our May 31 fiscal year-end, the TCJA's lower U.S. statutory federal income tax rate that went into effect on December 22, 2017 was phased in resulting in a rate of 29.2% for 2018 and a rate of 21% for subsequent years.

[d] The 2018 tax rates were negatively impacted by the effect of the NotPetya cyberattack, costs incurred in connection with the integration of foreign operations of FedEx Express and TNT Express B.V. ("TNT Express"), changes in uncertain tax positions and tax rate impacts on changes in deferred tax items after the TCJA enactment, and were favorably impacted from tax benefits from share-based payments.

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(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 February 28 were as follows (in millions):

	Three Months Ended		Nine Months Ended	
	2019	2018	2019	2018
Defined benefit pension plans, net	$ 28			