FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTER ENDED **February 28, 2001**, 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 of incorporation)	62-1721435 (I.R.S. Employer Identification No.)
942 South Shady Grove Road Memphis, Tennessee (Address of principal executive offices)	38120 (Zip Code)

(901) 818-7200
(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 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 30, 2001
Common Stock, par value $.10 per share	297,109,218

Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

RESULTS OF OPERATIONS

Consolidated Results

In millions, except per share amounts
Three and nine months ended February 28, 2001 and February 29, 2000:

	Three Months Ended		Percent	Nine Months Ended		Percent
	2001	2000	Change	2001	2000	Change
Revenues	$4,839	$4,518	+7	$14,512	$13,408	+8
Operating income	191	206	-7	848	795	+7
Net income	109	113	-4	471	443	+6
Earnings per diluted share	$ 0.37	$ 0.39	-5	$ 1.62	$ 1.49	+9

FedEx Corporation (also referred to herein as "FedEx" or the "Company") revenue for the third quarter increased 7% over the prior year period. Excluding the effects of business acquisitions, revenues of FedEx increased 1% for the third quarter and 6% for the year-to-date period ended February 28, 2001. During the third quarter, the further slowing of the U.S. and Asian economies adversely affected operations, as FedEx experienced either lower volumes or lower volume growth rates at all operating subsidiaries. Increased product yields for the third quarter for most services included the effects of the February 2001 rate increases at Federal Express Corporation ("FedEx Express") and FedEx Ground Package System, Inc. ("FedEx Ground"), the effects of fuel surcharges and other yield-management strategies, including a sales focus on higher yielding business. The year-to-date revenue increase is largely reflective of the continued growth of FedEx Express International Priority (IP) packages.

The third quarter and year-to-date IP revenue growth rates of 7% and 14% from the prior year respective periods are due to increased volumes and yields. Volume growth and yield improvement at FedEx Ground also contributed to the increase in revenue for the third quarter. Effective February 1, 2001, FedEx Express implemented list rate increases averaging 4.9% for shipments within the U.S. and 2.9% for U.S. export shipments. FedEx Ground also implemented a base rate increase of 3.1% on February 5, 2001.

In response to deteriorating market conditions, the Company intensified cost control measures at all operating subsidiaries during the third quarter. Discretionary spending was held to a minimum, capital spending was reduced or delayed and staffing additions were limited.

Year-over-year operating income decreased 12% for the third quarter and increased 6% year to date, excluding the effects of business acquisitions. Increased fuel prices negatively impacted year-over-year expenses by $24 million for the third quarter and $157 million year to date, net of the effects of jet fuel hedging contracts. In response to higher fuel costs, fuel surcharges have been implemented at all of the Company's material operating subsidiaries. The Company will continue to manage its exposure to material changes in fuel costs through the selective use of fuel hedging contracts and the use of fuel surcharges.

FedEx received approximately $15 million in the third quarter and $73 million in the year-to-date period under jet fuel hedging contracts. The Company has also entered into jet fuel hedging contracts through 2002, as outlined in the table below:

	2001 Fourth Quarter	2002
Percentage of usage hedged	62%	33%
Price per gallon (including estimated taxes and fees)	$.786	$.964

The Company will adopt Statement of Financial Accounting Standards No. ("SFAS") 133, "Accounting for Derivative Instruments and Hedging Activities" (as amended by SFAS 137 and SFAS 138) effective June 1, 2001. We do not believe the adoption of this Statement will have a material effect on the Company's financial position or results of operations.

Operating results also reflect the continuing implementation of the rebranding and reorganization initiatives begun in 2000. We believe this strategy will enable our operating subsidiaries to compete collectively while retaining the independent operating structure of their business units. Over time, this strategy will also allow us to better align the services provided by each operating subsidiary based on the strengths of their respective networks. FedEx Corporate Services, Inc. ("FedEx Services") provides customers with a single point of contact for all express and ground services. The sales, marketing, customer service and most of the information technology functions of our two largest subsidiaries are now centralized in FedEx Services. We have largely completed the expansion and retraining of our sales force, but continue to incur costs associated with the retooling of our automation systems and vehicle and facilities rebranding. The rebranding costs were approximately $7 million for the third quarter and approximately $20 million for the year-to-date period, compared to $9 million for both of the prior year respective periods.

On February 9, 2001, FedEx completed the acquisition of American Freightways Corporation ("American Freightways") for $28.13 per share, or approximately $978 million in cash and FedEx common stock. The acquisition was accounted for as a purchase and resulted in recognition of approximately $600 million in goodwill, as well as the formation of a new operating segment, FedEx Freight System, Inc. ("FedEx Freight"). For further information, see "Liquidity" and Note 2 of Notes to Condensed Consolidated Financial Statements.

Net interest expense increased 13% for the third quarter due to higher commercial paper borrowings, primarily incurred for the cash requirements of the American Freightways acquisition. The year-to-date increase of 32% in net interest expense was due to higher commercial paper borrowings that were primarily incurred as a result of the prior year stock repurchase program. In the prior year third quarter, other income included an $11 million gain from the sale of securities.

The Company's effective tax rates of 31.4% for the third quarter and 37.0% for the year-to-date period compare with rates of 39.5% for the same respective periods in the prior year. The reduction in the 2001 effective tax rate is primarily attributable to the utilization of excess foreign tax credits. This decrease in the effective tax rate resulted in an increase to third quarter net income of approximately $12,800,000, or $0.04 per share. The Company expects its effective tax rate for the fourth quarter of 2001 to be 37% and for periods after 2001 to be in the approximate range of 38.0% to 38.5%.

OUTLOOK

Economic conditions continue to weaken during the first half of calendar 2001, as evidenced by numerous corporate earnings warnings and layoffs, particularly in the automotive and high-technology market sectors. For the Company, volume growth, yield growth and weights for February dropped noticeably for all of our operating units. We expect volumes for the remainder of 2001 to continue to be adversely affected by the current economic situation.

Despite the near-term economic outlook, we continue to believe FedEx is well positioned for long-term growth. In January 2001, we entered into a business alliance with the U.S. Postal Service, which is expected to generate revenue of approximately $7 billion over seven years and is consistent with our goals of improving margins, cash flows and returns. The alliance consists of two service agreements, one in which FedEx Express will provide air capacity beginning August 2001 for transportation of certain postal packages, and a non-exclusive agreement that allows us to install FedEx Express drop boxes in U.S. postal locations. During March 2001, approximately 80 drop boxes were placed in post offices throughout the Charlotte, North Carolina area, which serves as our first test market for the expansion of our network of drop box locations through this agreement.

Also in January 2001, we announced plans to acquire 10 A380-800F aircraft. These aircraft will be capable of flying directly between Asia, Europe and our hubs in the U.S. and will offer superior international service capabilities. FedEx plans to take delivery of these aircraft beginning in calendar 2008.

We also continue to pursue strategies in support of our long-term growth goals that offer our customers superior supply chain solutions. In direct response to customer demand, FedEx Express extended pick-up and drop-off times by up to three hours in many major markets beginning February 26, 2001, through FedEx Extra Hours(SM). In March 2001, we rolled out new wireless electronic services that make shipping information available anytime, anywhere to customers and employees. These software solutions, available through most web-enabled devices, including mobile telephones, personal digital assistants and two-way pagers, are free to all FedEx customers with internet access. We are also continuing to expand the FedEx Home Delivery network, which offers consumers the convenience of later delivery hours and guaranteed Saturday delivery.

We believe the reliable service and tracking capabilities offered by FedEx will become even more important to customers as they seek to become more productive, shorten their supply chains and decrease inventory levels. Also, our extensive international network has positioned FedEx to continue to capitalize on the globalization of markets.

However, management expects that near-term economic conditions will continue to result in slow to negative growth in package volumes and freight shipments. In March of 2001, U.S. domestic express traffic at FedEx Express declined 4.4% from the prior year while IP volume grew at 5% and FedEx Ground volume was up 6% from the prior year. The economic uncertainty, however, makes it difficult to forecast future financial results.

REPORTABLE SEGMENTS

FedEx Freight was formed in the third quarter in conjunction with our acquisition of American Freightways. FedEx Freight represents the Company’s regional less-than-truckload (“LTL”) operations, focusing on one- and two-day deliveries. This new reportable segment includes the results of operations of American Freightways from January 1, 2001 and Viking Freight, Inc. (“Viking”) from December 1, 2000. On a combined basis, these companies comprise one of the largest regional LTL networks in the U.S., with 8,700 tractors, 24,000 trailers and 54,000 freight shipments each day.

The formation of FedEx Services changed the way certain costs are captured and allocated between the Company’s operating segments. For example, salaries, wages and benefits, depreciation and other costs for the sales, marketing and information technology departments previously incurred at FedEx Express and FedEx Ground are now allocated to these operating segments and are included in the line item “Intercompany charges” on the accompanying financial summaries of our reportable segments. Consequently, certain segment expense data presented is not comparable to prior periods. We believe the total amounts allocated to the business segments reasonably reflect the cost of providing such services.

FEDEX EXPRESS

The following table compares revenues and operating income (in millions) and selected statistics (in thousands, except yield amounts) for the three- and nine-month periods ended February 28, 2001 and February 29, 2000:

	Three Months Ended 2001	Three Months Ended 2000[1]	Percent Change	Nine Months Ended 2001	Nine Months Ended 2000[1]	Percent Change
Revenues:						
Package:						
U.S. overnight box[2]	$1,425	$1,420	-	$ 4,388	$ 4,194	+ 5
U.S. overnight envelope[3]	451	455	- 1	1,379	1,358	+ 2
U.S. deferred	639	642	-	1,891	1,789	+ 6
International Priority	945	887	+ 7	2,952	2,586	+14
Total package revenue	3,460	3,404	+ 2	10,610	9,927	+ 7
Freight:						
U.S.	157	141	+11	496	415	+20
International	103	117	-12	321	370	-13
Total freight revenue	260	258	+ 1	817	785	+ 4
Other	65	96	-32	255	369	-31
Total revenues	$3,785	$3,758	+ 1	$11,682	$11,081	+ 5
Operating Expenses:						
Salaries and employee benefits	1,574			4,752		
Purchased transportation	144			441		
Rentals and landing fees	356			1,053		
Depreciation and amortization	199			596		
Fuel	275			817		
Maintenance and repairs	216			722		
Intercompany charges	321			993		
Other	540			1,619		
Total operating expenses	3,625	3,615	-	10,993	10,517	+ 5
Operating income	$ 160	$ 143	+12	$ 689	$ 564	+22
Package statistics:						
Average daily packages:						
U.S. overnight box	1,288	1,277	+ 1	1,278	1,241	+ 3
U.S. overnight envelope	749	765	- 2	755	761	- 1
U.S. deferred	962	991	- 3	920	914	+ 1
IP	340	318	+ 7	345	312	+11
Composite	3,339	3,351	-	3,298	3,228	+ 2
Revenue per package (yield):						
U.S. overnight box	$17.84	$17.38	+ 3	$18.08	$17.60	+ 3
U.S. overnight envelope	9.70	9.29	+ 4	9.62	9.30	+ 3
U.S. deferred	10.71	10.12	+ 6	10.81	10.19	+ 6
IP	44.89	43.60	+ 3	44.99	43.12	+ 4
Composite	16.71	15.87	+ 5	16.93	16.02	+ 6
Freight statistics:						
Average daily pounds:						
U.S.	4,204	4,607	- 9	4,441	4,742	- 6
International	2,164	2,265	- 4	2,238	2,448	- 9
Composite	6,368	6,872	- 7	6,679	7,190	- 7
Revenue per pound (yield):						
U.S.	$ .60	$ .48	+25	$ .59	$ .46	+28
International	.77	.81	- 5	.75	.79	- 5
Composite	.66	.59	+12	.64	.57	+12

1 Operating expense detail for the three- and nine-month periods ended February 29, 2000 has been omitted, as this data is not comparable to the three- and nine-month periods ended February 28, 2001. See “Reportable Segments” above.
2 The U.S. Overnight Box category includes packages exceeding 8 ounces in weight.
3 The U.S. Overnight Envelope category includes envelopes weighing 8 ounces or less.

Revenues

Total package revenue increased 2% in the third quarter and 7% in the year-to-date period, principally due to increases in IP volumes. Year-over-year comparisons for both the quarter and year-to-date periods were negatively affected by two fewer operating days in the third quarter of 2001.

Although less than the double-digit growth rates of the prior quarters, the third quarter year-over-year IP volume growth rate of 7% remained strong. For example, European quarterly year-over-year growth rates continue to be 25%, but these rates are offset by Asian growth rates that have slowed from 26% in the first quarter to 7% in the third quarter.

In the U.S., average daily domestic express package volume declined 1% year over year for the third quarter, despite slight growth in U.S. Overnight Box and modest growth in FedEx 2Day volume. Total package yield increased 5% for the third quarter and 6% year to date, continuing the upward trend resulting from our yield-management strategy, which includes limiting growth of less profitable business and recovering the higher cost of fuel through a fuel surcharge.

Total freight revenue for the third quarter and year-to-date periods increased due to significantly improved yields in U.S. freight, partially offset by declines in domestic freight volume and international freight volume and yield.

Other revenue included Canadian domestic revenue, charter services, logistics services, sales of hushkits and other. As expected, hushkit sales have continued to decrease compared to the prior year periods and are expected to be immaterial for future periods.

Operating Income

Operating income increased 12% for the third quarter and 22% for the year-to-date period. Operating margin improved for the third quarter despite the slowdown in revenue growth, as intensified cost controls and reduced variable compensation and pension costs helped hold expenses relatively flat compared to the prior year third quarter. An 8% increase in average jet fuel price per gallon contributed to a negative impact of approximately $17 million on third quarter total fuel costs, including the results of jet fuel hedging contracts entered into to mitigate these increased costs. For the year-to-date period, the impact was $127 million, net of hedging effects, resulting from a 23% increase in average jet fuel price per gallon. A 4% fuel surcharge, in effect since April 1, 2000, offset the increase in fuel costs in the third quarter.

Year-over-year comparisons were also affected by the anticipated reduction in the contribution from sales of hushkits. Operating profit from these sales was immaterial for the third quarter and $7 million for the year-to-date period, compared to $9 million and $38 million in the respective prior year periods.

FEDEX GROUND

The following table compares revenues and operating income (in millions) and selected package statistics (in thousands, except dollar amounts) for the three- and nine-month periods ended February 28, 2001 and February 29, 2000:

	Three Months Ended		Percent	Nine Months Ended		Percent
	2001	2000[1]	Change	2001	2000[1]	Change
Revenues	$529	$487	+ 9	$1,653	$1,483	+11
Operating Expenses:						
Salaries and employee benefits	112			337		
Purchased transportation	213			657		
Rentals and landing fees	17			49		
Depreciation and amortization	29			80		
Fuel	3			5		
Maintenance and repairs	16			47		
Intercompany charges	52			161		
Other	69			198		
Total operating expenses	511	448	+14	1,534	1,327	+16
Operating income	$ 18	$ 39	-54	$ 119	$ 156	-24
Average daily packages	1,441	1,415	+ 2	1,512	1,440	+ 5
Revenue per package (yield)	$ 5.82	$ 5.54	+ 5	$ 5.72	$ 5.51	+ 4

1 Operating expense detail for the three- and nine-month periods ended February 29, 2000 has been omitted, as this data is not comparable to the three- and nine-month periods ended February 28, 2001. See “Reportable Segments” above.

Revenues

FedEx Ground revenues for the third quarter increased 9% from the prior year period, due to increases in yields and average daily package volumes, as well as an additional operating day. Overall economic conditions depressed volume growth rates in the third quarter. Yields increased largely due to the February 2001 base rate increase of 3.1%, higher package weight and the 1.25% fuel surcharge implemented on August 7, 2000. For the year-to-date period, revenues increased 11% due to higher average daily volumes and yields, as well as four additional operating days.

The new FedEx Home Delivery service continued to post increased average daily package volumes during the third quarter. In spite of the weakened economic conditions, the continued expansion of FedEx Home Delivery, in conjunction with FedEx’s new bundling and branding strategies, helped to increase the year-over-year average daily volume growth rates to 2% for the third quarter and 5% for the year-to-date period.

Operating Income

FedEx Home Delivery operating losses and rebranding and reorganization expenses totaled $19 million for the third quarter and $45 million year to date, compared to $8 million and $10 million in the prior year respective periods. Excluding the negative effects of these amounts, operating income for the third quarter and year-to-date period decreased 21% and 1% year over year, respectively. For the third quarter, higher sales, marketing and information technology support costs, utilities expenses and depreciation from investments in systems further reduced operating income. Facility openings or expansions in the Ground and FedEx Home Delivery networks increased depreciation, rental and other property-related expenses.

The FedEx Home Delivery service, initiated in March 2000, is dedicated to meeting the needs of business-to-consumer shippers. In February 2001, 85 additional facilities were opened, expanding Home Delivery coverage to 70% of the U.S. population. Coverage of approximately 80% of the U.S. population is planned by September 2001. We continue to estimate that FedEx Home Delivery operating losses will approximate $50 million in 2001.

FEDEX FREIGHT

The FedEx Freight segment, formed in the third quarter, includes the financial results of Viking from December 1, 2000, and the financial results of American Freightways from January 1, 2001 (the date of acquisition for financial reporting purposes).

The following table shows revenues and operating income (in millions) and selected statistics for the three-month period ended February 28, 2001:

Revenues	$337
Operating Expenses:	
Salaries and employee benefits	198
Purchased transportation	9
Rentals and landing fees	11
Depreciation and amortization	18
Fuel	18
Maintenance and repairs	15
Intercompany charges	1
Other	49
Total operating expenses	319
Operating income	$ 18
Shipments per day[1]	54,176
Weight per shipment (pounds)[1]	1,132
Revenue per hundredweight[1]	$11.80

1 Based on portion of the quarter including both American Freightways and Viking (January and February).

Revenues

FedEx Freight experienced lower than expected volumes during the third quarter, due to the economic slowdown. The lower than expected volumes were partially offset by strong yields. The complementary geographic regions served by American Freightways and Viking are expected to have a positive impact on revenues. Both companies will continue to focus on day-definite regional LTL service, but will be able to collaborate as partners to serve customers who have multi-regional LTL needs.

Fuel surcharges for this segment included the following at February 28, 2001:

Operating Subsidiary	Shipments Under 20,000 pounds	Shipments Over 20,000 pounds
American Freightways	3%	7%
Viking	3%	6%

The American Freightways fuel surcharge, which was in effect at acquisition, is tied to the "Retail on Highway Diesel Fuel Price" as published by the Department of Energy and changes weekly based on changes in the index. A fuel surcharge has been in effect at Viking since August 16, 1999.

Operating Income

In addition to the lower volumes mentioned above, operating income for the third quarter was negatively affected by higher than planned fuel expenses. The third quarter also reflects seasonally low volume and operating results.

OTHER OPERATIONS

Other operations include FedEx Custom Critical, Inc. ("FedEx Custom Critical"), a critical-shipment carrier; FedEx Trade Networks, Inc., a global trade services company; FedEx Supply Chain Services, Inc. ("FedEx Supply Chain"), a contract logistics provider; Caribbean Transportation Services, Inc., a freight forwarder; and certain unallocated corporate items. The operating results of Viking prior to December 1, 2000, are also included in this category.

The following table compares revenues and operating income (in millions) for the three- and nine-month periods ended February 28, 2001 and February 29, 2000:

	Three Months Ended		Percent	Nine Months Ended		Percent
	2001	2000	Change	2001	2000	Change
Revenues	$188	$273	- 31	$840	$844	-
Operating income (loss)	$ (5)	$ 24	-121	$ 22	$ 75	-71

Revenues from other operations decreased 31% for the third quarter and were approximately flat year to date from the respective prior year periods. Excluding the effects of businesses acquired during or after the comparable periods and the prior year revenues of Viking, revenues from other operations decreased 9% and 2% for the third quarter and year-to-date period, respectively, principally due to lower year-over-year revenues at FedEx Custom Critical. The demand for services provided by this operating subsidiary (critical shipments) is highly elastic and tied to key economic indicators, principally in the automotive industry, where volumes have continued to decline since the beginning of 2001.

Operating income decreased 121% for the third quarter and 71% year to date from the prior year periods. The combined effects of acquired businesses and the inclusion of Viking in the FedEx Freight segment did not materially change the percentage decreases above. These decreases reflect primarily the decline in volume and yield at FedEx Custom Critical and lower performance at FedEx Supply Chain.

FINANCIAL CONDITION

Liquidity

Cash and cash equivalents totaled $140 million at February 28, 2001, compared to $68 million at May 31, 2000. Cash flows from operating activities for the year-to-date period totaled $1.026 billion, compared to $876 million for the prior year period.

As mentioned previously, FedEx completed the acquisition of American Freightways on February 9, 2001 in a transaction accounted for as a purchase. The $978 million purchase price was a combination of cash and FedEx common stock (11.0 million shares of treasury stock were utilized). The Company also assumed approximately $240 million in American Freightways debt.

FedEx's operations are generally capital intensive and generate cash earnings substantially in excess of reported earnings. The following table compares certain cash-based earnings measures (in millions, except per share amounts) for the three- and nine-month periods ended February 28, 2001 and February 29, 2000:

	Three Months Ended 2001	Three Months Ended 2000	Percent Change	Nine Months Ended 2001	Nine Months Ended 2000	Percent Change
EBITDA (earnings before interest, taxes, depreciation and amortization)	$ 519	$ 511	+2	$1,788	$1,667	+ 7
Cash earnings per share (net income plus depreciation and amortization divided by average common and common equivalent shares)	$1.49	$1.39	+7	$ 4.85	$ 4.35	+11

The Company currently has a $1.0 billion revolving credit facility that is generally used to finance temporary operating cash requirements and to provide support for the issuance of commercial paper. As of February 28, 2001, $427 million was available under this commitment. In December 2000, the Company secured an additional $750 million credit facility. This facility was utilized to back commercial paper borrowings that funded the cash requirements of the American Freightways acquisition and for general corporate purposes. On March 21, 2001, the Company terminated this facility.

On February 12, 2001, the Company issued $750 million of senior unsecured notes in three maturity tranches: three, five and ten years, at $250 million each. Net proceeds from the borrowings were used to repay indebtedness, principally borrowings under the Company's commercial paper program, and for general corporate purposes. For more information regarding these credit facilities, see Note 4 of Notes to Condensed Consolidated Financial Statements.

We believe that cash flow from operations, our commercial paper program and our revolving credit facility will adequately provide for the Company's working capital needs for the foreseeable future.

Capital Resources

Our operations require significant investments in aircraft, vehicles, computer and telecommunications equipment and systems, package handling facilities and sort equipment. The amount and timing of capital additions depend on various factors, including volume growth, domestic and international economic conditions, new or enhanced services, geographical expansion of services, competition, availability of satisfactory financing and actions of regulatory authorities.

The following table compares capital expenditures (including equivalent capital, which is defined below) for the three- and nine- months ended February 28, 2001 and February 29, 2000 (in millions):

	Three Months Ended 2001	Three Months Ended 2000	Nine Months Ended 2001	Nine Months Ended 2000
Aircraft and related equipment	$216	$121	$ 502	$ 370
Facilities and sort equipment	81	105	253	325
Information and technology equipment	84	29	265	247
Other equipment	72	134	252	286
Total capital expenditures	453	389	1,272	1,228
Equivalent capital, principally aircraft-related	-	5	-	361
Total	$453	$394	$1,272	$1,589

We finance certain of our aircraft and other equipment needs using long-term operating leases. The determination to lease versus buy equipment is a financing decision, and both forms of financing are considered when evaluating the resources committed for capital. The amount that the Company would have expended to purchase these assets had it not chosen to obtain their use through operating leases is considered equivalent capital in the table above.

As a result of our current outlook for the remainder of 2001, we have reduced planned capital expenditures for 2001 from our earlier estimate of $2.3 billion to approximately $2.0 billion, the same level as the prior year. However, we plan to continue to make strategic capital investments in support of our long-term growth goals. For information on the Company's purchase commitments, see Note 7 of Notes to Condensed Consolidated Financial Statements.

We believe that the capital resources available to us provide flexibility to access the most efficient markets for financing capital acquisitions, including aircraft, and are adequate for FedEx's future capital needs.

Euro Currency Conversion

Since the beginning of the European Union’s transition to the euro on January 1, 1999, our subsidiaries have been prepared to quote rates to customers, generate billings and accept payments, in both euro and legacy currencies. The legacy currencies will remain legal tender through December 31, 2001. FedEx believes that the introduction of the euro, any price transparency brought about by its introduction and the phasing out of the legacy currencies will not have a material impact on our consolidated financial position, results of operations or cash flows. Costs associated with the euro transition are being expensed as incurred and are being funded entirely by internal cash flows. Year to date, the devaluation of the Euro had an immaterial negative impact on the results of operations of the Company.

* * *

Certain statements contained in this Report are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, such as statements relating to management’s views with respect to future events and financial performance. Such forward-looking statements are subject to risks, uncertainties and other factors which could cause actual results to differ materially from historical experience or from future results expressed or implied by such forward-looking statements. Potential risks and uncertainties include, but are not limited to, economic and competitive conditions in the markets where the Company operates, continued increases in fuel costs and the ability to mitigate the effects of such increases through fuel surcharges and hedging activities, matching capacity to volume levels and other uncertainties detailed from time to time in the Securities and Exchange Commission filings and press releases of the Company and its subsidiaries.

Except as otherwise indicated,

* *references to years mean the Company’s fiscal year ending May 31 of the year referenced*
* *references to the “third quarter” mean the three month period ended February 28, 2001*
* *references to “year-to-date” or the “year-to-date period” mean the nine month period ended February 28, 2001*