

INTERNATIONAL BROTHERHOOD OF TEAMSTERS

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August 31, 2009

Vote For Proposal 3 – Independent Board Chairman

Dear Fellow FedEx Shareholder:

We urge you to vote for Proposal 3 at FedEx Corporation's annual meeting of shareholders on September 28, 2009, in support of having an independent chairman of the board.

We believe that FedEx founder Frederick W. Smith's dual role as chairman and chief executive has resulted in a CEO-dominated board incapable of providing the rigorous, independent oversight of management that investors demand. FedEx's lack of independent board leadership, compromised board independence and effectiveness, chronic poor performance, excessive executive pay, and questionable business strategies underscore the urgent need for an independent chairman to lead FedEx's board in holding management accountable and providing strategic oversight and guidance.

Industry peers have pummeled FedEx in recent years, as our Company underperformed the Trucking and Shipping industry group by 13.5, 12.3, and 34.9 percentage points on the basis of total shareholder returns over the 1-, 3-, and 5-year periods ending June 30, 2009, respectively. Over the same performance periods, FedEx trailed the Standard & Poor's (S&P) 500 Index by 2.6, 29.8, and 20.9 percentage points, and underperformed rival United Parcel Service, Inc. (UPS) by 13.1, 18.3, and 6.5 percentage points, respectively, based on total shareholder returns.

While shareholder value has fallen by 50.2 percent over the past three fiscal years, Smith has raked in exorbitant pay, accruing more than \$84 million, based on The Corporate Library's definition of total realized pay.¹ In fiscal 2008—the most recent

¹ The Corporate Library, a leading provider of independent corporate governance research and analysis, defines total realized compensation as the sum of base salary, discretionary cash bonus, performance-related cash incentive pay, perquisites and benefits included in "all other compensation," value realized from the vesting of shares, profits made on the exercise of stock options, and compensation from the changes in the value of pension and non-qualified deferred compensation plans.

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fiscal year for which industry peers' compensation figures are available—Smith accrued \$44.5 million, which is around 27 times more than the median total realized CEO pay for the Trucking & Shipping industry group. Profits made on the exercise of stock option grants with no performance hurdles made up the bulk of this pay.

Concerns over lack of pay-for-performance measures persist in 2009 despite a significant decrease in Smith's pay. Time-vesting stock options not tied to performance goals continue to dominate Smith's pay package, comprising 48% of his total direct compensation in fiscal 2009. Among the board members who approved Smith's compensation are four long-tenured directors—two of whom have ties to the Company—who have served under Smith's leadership for more than 19 years.

In addition to these pay and performance concerns, we believe that Smith's controlling influence led to the board's rubber-stamping of an illicit business model at FedEx Ground, which has exposed our Company to staggering legal, financial, and reputational risks that stand to devastate shareholder value. The FedEx Ground business model is built on the misclassification of employee drivers as "independent contractors"—an unlawful strategy that has allowed FedEx to evade expenses like payroll taxes, overtime pay and benefits in its second-highest revenue-generating business segment.

While the model has helped FedEx slash labor costs and offer improbably low prices in the short term, the strategy is unraveling at an enormous cost to shareholders, as numerous state courts and government agencies rule that the drivers should be classified as employees. According to *Bloomberg*, misclassified FedEx drivers are seeking \$1 billion in damages, and the pretax liability from unpaid payroll taxes could reach as high as \$2.5 billion, potentially forcing "the second-largest U.S. package-delivery company to either overhaul its contractor model or throw it out entirely." (Laurence Viele Davidson and Bob Van Voris, "FedEx Loses Shareholders as Courts Upend Smith's Business Model," *Bloomberg*, August 20, 2008).

The pursuit of this questionable business model raises serious questions about the Board's ability to act as an effective check on management under the leadership of Chairman and CEO Fred Smith.

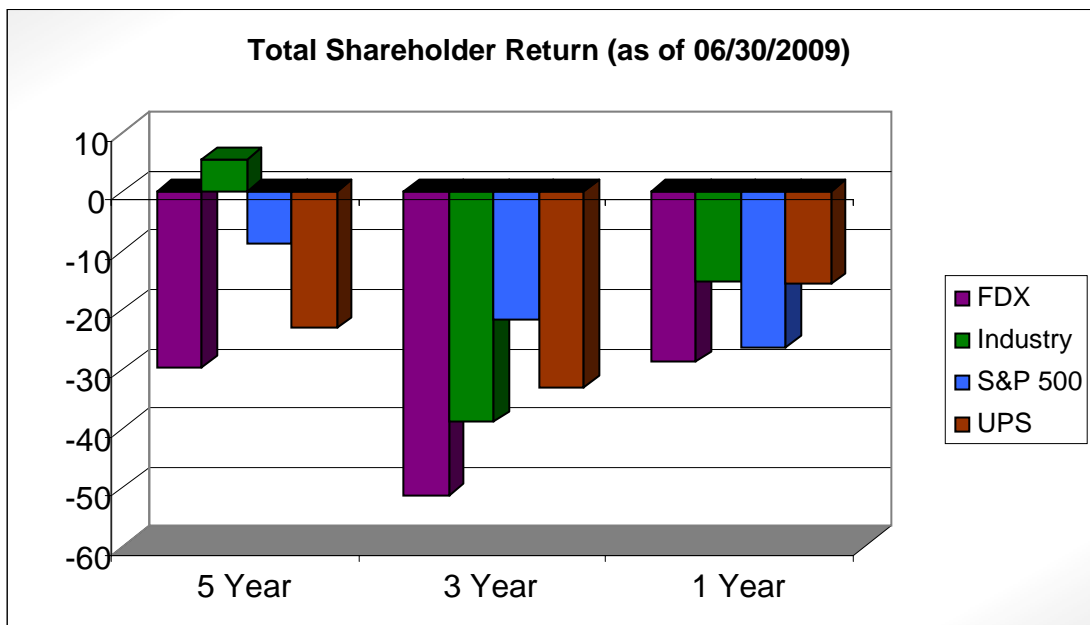
The time for FedEx to appoint an independent chairman has surely come, as independent board leadership is now widely-regarded as a threshold of good governance and may soon become law. The Shareholder Bill of Rights Act of 2009 introduced by Sen. Charles Schumer (D-NY) on May 19, 2009, and the Shareholder Empowerment Act of 2009 introduced by Rep. Gary Peters (D-MI) on June 12, 2009, each would require public companies to appoint independent board chairs. Notably all of the major banks at the center of the financial crisis were governed by Chairman/CEOs up until the market collapse.

Many FedEx shareholders have already joined our call for independent board leadership, with 34% of the vote by shareholders supporting the Teamsters' independent board chairman proposal in 2008, up from 27% in 2007. We believe that now, more than ever, an independent chairman is necessary for our Company to successfully navigate the extraordinary legal, regulatory, reputation- and recession-related challenges facing FedEx.

At FedEx's upcoming meeting on September 28, 2009, we urge you to vote for Proposal 3 and join us in demanding independent board leadership at FedEx for the following reasons:

Our Company's performance has fallen significantly below its peers.

According to data from The Corporate Library (TCL), as of June 30, 2009, FedEx had significantly underperformed the Trucking and Shipping industry peer group, the S&P 500, and direct competitor UPS on a 1-year, 3-year, and 5-year total shareholder returns basis.²



² TCL relies on Morningstar for this data and uses the "Trucking & Shipping" industry peer group, which is comprised of the following 34 companies: Arkansas Best Corporation, American Commercial Lines Inc., Air Transport Services Group Inc., C.H. Robinson Worldwide Inc., Celadon Group Inc., Con-Way Inc., Covenant Transportation Group Inc., Dynamex Inc., Expeditors International of Washington, FedEx Corporation, Frozen Food Express Industries, Forward Air Corporation, GATX Corporation, Heartland Express Inc., Hub Group Inc., J.B. Hunt Transport Services Inc., Knight Transportation Inc., Landstar System Inc., Marten Transport Ltd., Old Dominion Freight Line Inc., Pacer International Inc., Patriot Transportation Holding Inc., P.A.M. Transportation Services Inc., Quality Distribution Inc., Saia Inc., SIRVA Inc., TAL International Group Inc., Todd Shipyards Corporation, Universal Truckload Services Inc., United Parcel Service Inc., USA Truck Inc., UTi Worldwide Inc., Werner Enterprises Inc., and YRC Worldwide Inc.

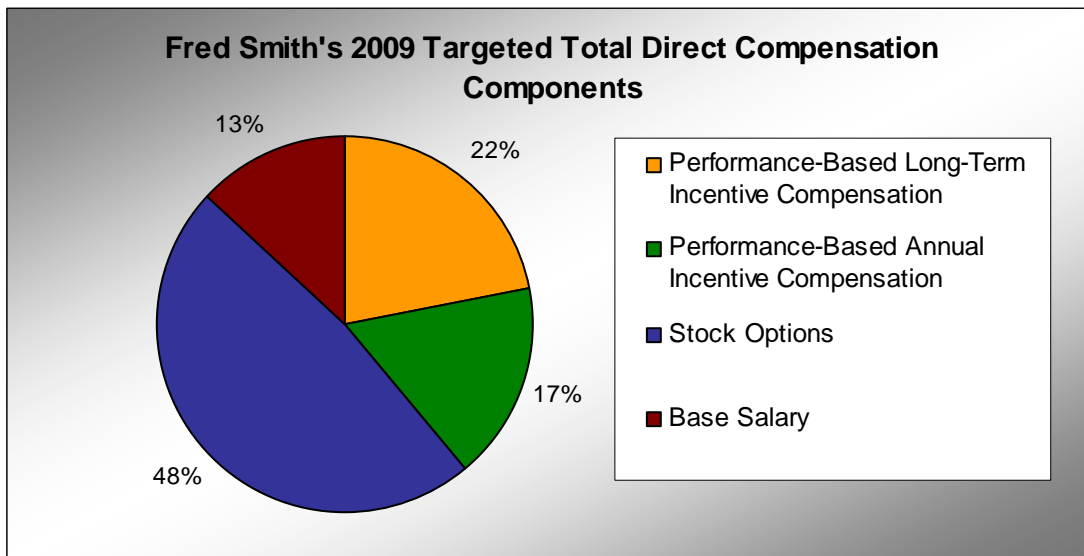
We believe that our Company's underperformance reflects problems of an entrenched board unable to effectively oversee management and its business strategies.

Notably, FedEx lacks disclosure in the area of peer-relative performance. The company does not provide a 5-year performance chart in its 2009 Form 10-K or proxy statement and fails to clearly identify the companies it uses in evaluating its comparative performance. The only list of peer companies FedEx does disclose is its executive compensation comparison survey group, and that list is 216 companies long, which only creates more questions—not answers—for investors.

Executive Compensation: Loading Up on Stock Options.

In light of the severe economic downturn and its resulting effects on our Company's performance, FedEx took a number of steps to reduce executive pay in fiscal 2009, but the steps taken fail to strengthen pay-for-superior-performance and leave Smith's pay largely based on time-vesting stock options not tied to performance goals.

Specifically, FedEx reduced Smith's base salary by 20% and eliminated annual and long-term incentive bonus payments for fiscal 2009. However, around half of Smith's pay package is still made up of stock option grants that lack performance hurdles—48% of Smith's total direct compensation (which includes salary, annual and long-term incentive payouts, and the value of stock options and restricted shares) in fiscal 2009 was comprised of stock option grants, compared with 54% in fiscal 2008 and 56% in fiscal 2007.



Looking at total realized pay (which includes salary, annual and long-term incentive payouts, value realized from the vesting of shares, profits made on stock option exercises, perquisites and benefits included in “all other compensation,” and

compensation from the changes in the value of pension and non-qualified deferred compensation plans), the dominance of these stock options grants within Smith's pay package—and their ability to dramatically inflate his compensation—becomes crystal clear. Profits made on stock option exercises comprised 89% of Smith's total realized pay in fiscal 2008 and 69% of his total realized pay in fiscal 2007. In fact, Smith exercised options worth more than \$60 million in just those two years alone.

While Smith made only \$1.6 million from stock option exercises in fiscal 2009, he actually received more stock options than the previous year, increasing his opportunity for exorbitant payouts down the line not linked to strategic performance goals. In fiscal 2009 he received options to purchase 204,150 shares versus options to purchase 175,000 shares in fiscal 2008.

It is hard to see how these time-vesting stock option grants align with FedEx's long-term goals of growing revenue by 10% per year; achieving a 10%+ operating margin; increasing earnings per share by 10% to 15% per year; improving cash flow; and, increasing returns, such as, return on invested capital. It is also hard to see how granting Smith excessive stock options year after year further aligns his interests with shareholders given his significant stake in the Company.

Pay Without Performance.

Furthermore, despite FedEx's consistent underperformance, Smith's compensation sails above that of his industry peers. Given the difference in fiscal years, information regarding 2009 CEO pay is currently unavailable for most of the companies in the Trucking & Shipping industry group. However, in fiscal 2008, Smith's \$44.5 million in total realized pay was around 27 times more than the median total realized CEO pay (\$1.7 million) for the industry group. That same year Smith accrued 20 times more than rival UPS's chief executive, who received just \$2.2 million in total realized pay. In fact, for both 2008 and 2007 Smith's total realized pay was more than 15 times UPS's total realized CEO pay, even though over the two-year time period ended May 31, 2008, (FedEx's 2008 fiscal year end) FedEx's total shareholder return was -17% versus - 8% for UPS.

Also of concern is the lack of diversity in performance metrics and the amount of Smith's perquisites and other personal benefits. In fiscal 2009, both FedEx's annual and long-term incentive award programs had the same, single performance metric—earnings per share. Next year the annual incentive program will be based on consolidated pre-tax income instead, but the Company will still lack a variety of performance metrics aligned with its long-term financial goals.

In fiscal 2009, Smith received \$625,284 in perquisites and other personal benefits, which includes personal use of corporate aircraft, security services and equipment, tax return preparation services, financial counseling services, and personal use of company

cars/car allowance. Given Smith’s high pay and accumulated wealth, the amount of these benefits is difficult to justify.

Long-tenured directors, directors who have relationships with FedEx, and directors with significant time commitments to other companies exacerbate the need for strong, independent board leadership.

FedEx’s 12-member board currently includes five long-tenured directors:

<i>Director</i>	<i>Committee Assignments</i>	<i>Board Tenure</i>
Fred Smith, FedEx Chairman and CEO	-	38 years
Peter Willmott*	Nominating & Governance Committee Chair, Audit Committee Member	35 years
J.R. Hyde III	Information Technology Oversight Committee Member	32 years
Joshua Smith	Audit Committee Member	20 years
Judith Estrin	Nominating & Governance Committee Member; Information Technology Oversight Committee Chair	20 years

*Peter Willmott is retiring from the board immediately before FedEx’s 2009 annual meeting.

Though all of these directors, except Smith, are currently considered independent under the New York Stock Exchange listing standards, their long history of serving together on FedEx’s board creates the perception of a board within a board.

FedEx has undergone some board changes over the past year and will undergo further board changes with the election of directors at this year’s annual meeting. Two directors—Charles Manatt and long-tenured, former Compensation Committee Chair Philip Greer—retired from the board, and Susan Schwab joined the board. Immediately before the 2009 annual meeting long-tenured Nominating & Governance Committee Chair Peter Willmott, who previously served in various senior management positions at FedEx Express, will retire from the board and David Steiner stands for election.

However, these changes do not diminish our concerns regarding board independence. FedEx continues to have a strong contingent of long-tenured directors going forward—a third of the board will have served for more than 15 years, and only five of 12 directors will have served on the board for less than a decade. Also, three directors, including one of the long-tenured directors, are potentially conflicted because of their relationships with FedEx.

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- James L. Barksdale, Nominating and Governance Committee member who has been on the board for 10 years, served in various senior management positions at FedEx Express from 1979 to 1992, including executive vice president and COO. FedEx has also made charitable contributions to tax-exempt organizations for which he or his spouse serves as a trustee or director.
- J.R. Hyde, III (along with David J. Bronczek, President and CEO-FedEx Express) serves on the board of Memphis Tomorrow, a non-profit organization that brings top business leaders together with Memphis government and civic leaders. In fiscal year 2009, FedEx paid \$1 million (the second installment of a five-year, \$5 million commitment) to Memphis Tomorrow, which represents approximately 23 percent of the organization's annual revenues. FedEx has also made charitable contributions to tax-exempt organizations for which Hyde or his spouse serves as a trustee or director.

Also, Hyde and his wife together own a minority interest in HOOPS, L.P., which owns the NBA Memphis Grizzlies professional basketball team. In fiscal year 2002, FedEx entered into a multi-year, \$90 million naming rights agreement with HOOPS under which FedEx has certain marketing rights, including the right to name the arena as the "FedExForum." Prior to Hyde's ownership interest in HOOPS declining during fiscal 2008 from about 13 percent to 1 percent, FedEx did not consider Hyde to be an independent director.

- FedEx has made purchases from a company at which Steven Loranger, Compensation Committee Chair, serves as an executive officer, and FedEx has also made charitable contributions to tax-exempt organizations for which Loranger or his spouse serves as a trustee or director.

We also have concerns that many of FedEx's directors have significant time commitments—through their service as CEOs or directors of other public companies—that could compromise their effectiveness as FedEx directors. Excluding Chair and CEO Frederick Smith, three FedEx directors serve as chief executive officers of public companies: Loranger is Chairman, President and CEO of ITT Corporation; Paul Walsh is CEO of Diageo, plc; and nominee David Steiner is CEO of Waste Management, Inc. In addition, Shirley Ann Jackson, President of Rensselaer Polytechnic Institute and soon-to-be FedEx's new Nominating and Governance Committee Chair, serves on five other public company boards: International Business Machines Corporation, Marathon Oil Corporation, Medtronic, Inc., NYSE Euronext, and Public Service Enterprise Group Incorporated.

In the context of lagging performance, excessive executive pay, and questionable strategic decisions, this board composition raises serious concerns about board independence and effectiveness.

Lack of independent leadership on FedEx's board has contributed to the board's failure to act as an effective check on management's unsustainable business strategy at FedEx Ground.

FedEx's board lacks independent leadership. Smith's responsibilities and incentives as CEO create an inevitable conflict of interest for him in his role as chairman, impeding his ability to ensure the board's effectiveness in overseeing management. Furthermore, FedEx has not appointed a lead independent director, which—though we believe would be an inadequate reform in this case—would at least demonstrate a step in the right direction.

The benefits of having an independent chair are now widely-recognized by corporate governance experts and corporate directors. In a 2009 policy briefing titled *Chairing the Board: The Case for Independent Leadership in Corporate North America*, The Millstein Center for Corporate Governance and Performance (Yale School of Management) stated that “the independent chair curbs conflicts of interest, promotes oversight of risk, manages the relationship between the board and CEO, serves as a conduit for regular communication with shareowners, and is a logical next step in the development of an independent board.” According to the same policy briefing, the U.S. National Association of Corporate Directors' 2008 Public Company Governance Survey found that 72.8% of directors serving on boards with an independent chair stated that companies greatly benefit from an independent chair, with only 6.7% stating that companies do not benefit from an independent chair model.

Alternatively, having a combined CEO/Chair position can have dire consequences for companies and their stakeholders, including CEO domination of the board. The Conference Board issued a report addressing the separation of CEO and Chair positions by a Commission including John Snow, former U.S. Treasury Secretary; Arthur Levitt Jr., former SEC Chairman; and, former Federal Reserve System Chairman, Paul Volcker. The report stated that a primary concern with dual CEO/Chairs is “that strong CEOs appear to have exerted a dominant influence over their boards, often stifling the efforts of directors to play the central oversight role needed to ensure a healthy system of corporate governance” (The Conference Board Commission on Public Trust and Private Enterprise, Findings and Recommendations, January 9, 2003).

Gary Wilson—Yahoo director, former Disney director, and former chair of Northwest Airlines—dubs this problem the “Imperial CEO,” a CEO serving as chairman who “can dominate his board and is accountable to no one.” As Wilson puts it: “Entrenched management leads to empire-building, continued adherence to flawed business strategies, resistance to change, the stifling of healthy debate in the boardroom, and destruction of shareholder value.” (Gary Wilson, “How to Rein in the Imperial CEO,” *Wall Street Journal*, July 9, 2008).

The so-called Imperial CEO is manifest on FedEx's board. The combined CEO/chair leadership structure has allowed Smith to exert a dominant influence over the board of directors that is best evidenced by FedEx's decision to doggedly operate and defend an illicit and unsustainable business model built on the misclassification of FedEx Ground drivers.

The impetus for FedEx's independent contractor model is clear. By misclassifying approximately 14,000 FedEx Ground drivers as "independent contractors," FedEx has been able to avoid paying health care and retirement benefits to the workers that make its domestic, non-express package deliveries. FedEx has also dodged the costs of maintaining trucks and some of the costs of purchasing fuel, as these costs are paid out of the drivers' own pockets. These drivers also take on the burden of paying taxes for workers' compensation, unemployment insurance and Social Security, and are outside the protection of numerous labor and employment laws.

Misclassification at FedEx Ground has paid off for FedEx in the short term by affording the company the ability to offer improbably low prices and make steep market share gains in its fastest growing business segment. However, as recent, catastrophic corporate scandals have proven time and again, if something sounds too good to be true, it probably is.

As a result of Smith's unchecked leadership, FedEx now faces staggering legal and regulatory costs related to its independent contractor model at FedEx Ground.

Numerous state courts and government agencies are finding that FedEx Ground's independent contractor model is unlawful, potentially forcing the company to reform its business practices and compensate for years of tax and benefit avoidance—a costly penance for shareholders that could reach into the billions.

In a precedent-setting case, in August 2007, the Supreme Court of California affirmed a lower Court's ruling in 2004 in *Estrada v. FedEx Ground*, confirming that a number of California single-route contractors should be reimbursed as employees for some of their operating expenses. The judge who wrote the 2004 *Estrada* decision called the Operating Agreement (the terms of work for the drivers) "a brilliantly drafted contract creating the constraints of an employment relationship with [the drivers] in the guise of an independent contractor model." The Court found that FedEx Ground "not only has the right to control, but has close to absolute control" over the drivers, and that such "pervasive control by [FedEx] creates an employment relationship." (*Estrada v. FedEx Ground*, California Superior Court, Los Angeles County, BC 210130, July 26, 2004).

FedEx agreed to a \$27 million court settlement regarding *Estrada*, including payment of \$14.5 million to the 203 California drivers who were misclassified as independent contractors.

After losing the Estrada court battle, FedEx forced its California drivers to either participate as part of a multi-route contractor (multi-route contractors were excluded from the Estrada decision) or leave the company. By our calculations, this conversion has already cost FedEx at least \$37 million.

We believe that the conversion to multi-route contractors is not a final solution for the misclassification problem, and the board must fully disclose its contingency plans. Multi-route owners have already been ruled to be employees in some cases—most notably by the National Labor Relations Board and the Oregon Employment Division—and their employee status is pending in a national multi-district litigation in the U.S. District Court for Northern Indiana.

Ultimately, we believe that the multi-route model, just like the single-route model, is doomed to fail. Either FedEx will maintain absolute control over these so-called multi-route contractors and rack up more legal and tax liabilities, or they will give up control and fall prey to the staggering service problems experienced by DHL in the U.S. DHL lost a billion dollars or more in each of the four years after it inherited a similarly fragmented delivery system from Airborne Express. DHL ultimately discontinued its domestic Express and Ground products within the U.S.

FedEx now faces approximately 50 class-action lawsuits, several individual lawsuits and approximately 40 state tax and other administrative proceedings challenging its treatment of drivers as independent contractors, according to the Company's own disclosure statements.

Most of the class-action lawsuits have been consolidated and are being litigated in the U.S. District Court for the Northern District of Indiana. As of a July 27, 2009 ruling, all of the motions for class certification have been decided, and a total of 28 cases have been certified as class actions.

The court has certified one state case as a national ERISA class action. According to *Bloomberg*, the drivers, which include an estimated 14,000 current and 13,000 former drivers, seek about \$1 billion in damages for back pay, truck purchases, overtime and other costs incurred. ("FedEx Ground Drivers Win Class-Action Status in Eight States," *Bloomberg*, July 28, 2009).

The federal District Court judge has already commented that his decision will be based primarily on FedEx Ground's level of control over drivers and that both single-route and multi-route contractors will be considered in his rendering of a decision.

To date, the California Employment Development Department, the Massachusetts Department of Workforce Development, the Montana State Department of Labor and Industry, the New Jersey Department of Labor and Workforce Development, the U.S. District Court of Western Washington, the State of Maryland Department of Labor,

Licensing and Regulation, and the Oregon Employment Department have all ruled that FedEx Ground drivers were misclassified.

In addition, attorneys general from Iowa, Kentucky, Missouri, Montana, New Jersey, Ohio, Rhode Island and Vermont sent a letter on June 25, 2009, serving notice to FedEx that they have concerns regarding the proper employment classification of FedEx Ground drivers. (See letter enclosed.) The group expressed concern that FedEx could be avoiding payroll taxes by classifying its drivers as independent contractors rather than employees. Additional state attorneys general may be reviewing this issue.

A recent audit by the Internal Revenue Service (IRS) for the 2002 calendar year tentatively concluded that FedEx was violating federal tax laws relating to the classification of FedEx Ground's pick-up-and-delivery owner-operators. The IRS is continuing its employment tax audit of FedEx Ground for the calendar years 2002 and 2004 through 2006.

According to *Bloomberg*, a Robert W. Baird & Co. analyst has said that the pretax liability may equal \$2.5 billion. ("FedEx Loses Shareholders as Courts Upend Smith's Business Model," *Bloomberg*, August 20, 2008). This figure does not include the untold amount of back taxes owed to states across the country.

Despite acknowledging that "FedEx Ground faces increased regulatory and legal uncertainty with respect to its independent contractors" (2009 Form 10-K), FedEx has vowed to vigorously defend its independent contractor model against the IRS, against the states and against the drivers in more than 40 state and federal courts. In its 2009 Form 10-K, FedEx admits: "While we believe that FedEx Ground's owner-operators are properly classified as independent contractors, it is reasonably possible that we could incur a material loss in connection with one or more of these matters or be required to make material changes to our contractor model." The company further warns that if compelled to convert its independent contractors to employees its "operating costs could increase materially and we could incur significant capital outlays."

Just how significant could these costs be? The Teamsters estimates that if FedEx compensated the FedEx Ground drivers as it does its other employees, the company could face an annual cost of approximately \$426 million—representing 52.8 percent of FedEx Ground's 2009 operating profit—which includes all state and federal taxes, workers' compensation insurance and other insurance policies, and all other day-to-day expenses of driving a truck, such as the truck itself, fuel, maintenance, etc.

Conclusion: Shareholders need an independent chairman at FedEx—Vote for Proposal 3.

We believe that FedEx's lack of independent board leadership, compromised board independence and effectiveness, chronic poor performance, excessive executive

pay, and pursuit of unlawful business strategies at FedEx Ground reinforce what past corporate scandals have already demonstrated—that no matter how many independent directors there are on a board, the board is less able to provide effective independent oversight of management if the chair of that board is also the current CEO of the company.

In a climate where reckless management practices and risk management failures have decimated shareholder value and sent investor confidence plummeting to record lows, reforms that strengthen independent board oversight and check executive power are critical, and perhaps none more critical than establishing independent board leadership.

Please join us in calling for independent leadership and increased accountability on FedEx's Board of Directors by voting for Proposal 3 at FedEx Corporation's Annual Meeting of Shareholders on September 28, 2009.

We welcome the opportunity to review our concerns in greater detail with fellow shareholders. Please contact Jamie Carroll, IBT Capital Strategies Department, at (202) 624-8100, to discuss these issues further.

Sincerely,

A handwritten signature in black ink that reads "C. Thomas Keegel". The signature is written in a cursive, flowing style.

C. Thomas Keegel
General Secretary-Treasurer

CTK/jc
Enclosure