

A summary of future minimum lease payments under capital leases and noncancelable operating leases (principally aircraft and facilities) with an initial or remaining term in excess of one year at May 31, 2003 is as follows (in millions):

	Capital Leases	Operating Leases
2004	\$ 44	\$ 1,368
2005	125	1,285
2006	102	1,192
2007	11	1,155
2008	11	1,045
Thereafter	238	8,342
	531	\$14,387
Less amount representing interest	109	
Present value of net minimum lease payments	\$422	

FedEx Express makes payments under certain leveraged operating leases that are sufficient to pay principal and interest on certain pass-through certificates. The pass-through certificates are not direct obligations of, or guaranteed by, FedEx or FedEx Express.

#### NOTE 8: PREFERRED STOCK

Our Certificate of Incorporation authorizes the Board of Directors, at its discretion, to issue up to 4,000,000 shares of Series Preferred Stock. The stock is issuable in series, which may vary as to certain rights and preferences, and has no par value. As of May 31, 2003, none of these shares had been issued.

#### NOTE 9: COMMON STOCKHOLDERS' INVESTMENT

##### Treasury Shares

During 2003, we purchased 3,275,000 treasury shares at an average cost of \$56.66 per share and 3,350,000 treasury shares were repurchased in 2002 at an average cost of \$52.70 per share. These repurchases were done under share repurchase programs aggregating 10,000,000 shares. Treasury shares have been utilized for issuances under the stock-based compensation plans discussed below. At May 31, 2003 and 2002, respectively, 406,304 and 382,046 shares remained in treasury.

##### Stock Compensation Plans

###### Fixed Stock Option Plans

Under the provisions of our stock incentive plans, key employees and non-employee directors may be granted options to purchase shares of common stock at a price not less than its fair market value at the date of grant. Options granted have a maximum term of 10 years. Vesting requirements are determined at the discretion of the Compensation Committee of our Board of Directors.

Option-vesting periods range from one to four years with more than 80% of stock option grants vesting ratably over 4 years. At May 31, 2003, there were 4,897,779 shares available for future grants under these plans.

The weighted-average fair value of options granted during 2003, 2002 and 2001 was \$17.12, \$12.39 and \$13.19, respectively.

Beginning with the grants made on or after June 1, 1995, the fair value of each option grant was estimated on the grant date using the Black-Scholes option-pricing model. The weighted-average assumptions for each year's grants were as follows:

	2003	2002	2001
Dividend yield	.3785%	0%	0%
Expected volatility	35%	30%	35%
Risk-free interest rate	4.017%	4.777%	6.419%
Expected lives	4 years	4 years	4 years

**Dividend Yield.** This is the annual rate of dividends per share over the exercise price of the option. In July 2002, we paid the first dividend in the history of the company. Therefore, the fair value of options prior to 2003 is not affected by the dividend yield. The dividend yield has an inverse effect on the fair value of the option.

**Expected Volatility.** Stock price volatility has a significant, direct effect on the valuation of stock options. Actual changes in the market value of our stock are used to calculate the volatility assumption. We calculate daily market value changes from the date of grant over a past period equal to the expected life of the options to determine volatility.

**Risk-Free Interest Rate.** This is the U.S. Treasury Strip rate posted at the date of grant having a term equal to the expected life of the option. The risk-free interest rate has a direct effect on the calculated fair value.

**Expected Lives.** This is the period of time over which the options granted are expected to remain outstanding. Generally, options granted have a maximum term of ten years. We examine actual stock option exercises to determine the expected life of the options. Based on this experience, our average expected option life is currently four years. The longer the expected life of the option, the higher the calculated fair value of the option.

**Forfeiture Rate.** This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. This percentage is derived from historical experience and will lower pro forma compensation expense. Our forfeiture rate is approximately 8%.