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A letter from the President . . .

Our working relationship with thousands of independent contractors has been the cornerstone of our business for more than 20 years. This model has helped thousands of independent business owners grow their businesses, while providing many years of mutual success for contractors, customers and FedEx Ground alike.

To ensure this success, FedEx Ground and its contractors have made substantial investments over the last several years to adapt to a rapidly changing competitive, regulatory and legal environment. We've worked hard to create a relationship that enhances your ability to grow your businesses through multiple work area ownership. I am proud of what we have accomplished together, and look forward to the next phase of this evolution.

Today we are announcing investments to make our P&D contractor relationships stronger and more rewarding for the future. These investments will provide higher levels of financial enhancements as contractors grow and operate more routes. At the same time, we're announcing a series of changes specific to P&D contractors in California, given that state's current regulatory and legal environment.

We firmly believe that the independent contractor model at FedEx Ground is mutually beneficial, and we will continue to invest in improving and strengthening the contractor network. As we work together through this period of transition, please take advantage of every resource available to you. We are committed to answering your questions and helping you reach your goals as quickly as possible.

A handwritten signature in black ink, appearing to read "David F. Rebholz".

Dave Rebholz
President and CEO

Enhanced Primary Plus

FedEx Ground is introducing today a nationwide enhancement of the Primary Plus program, which provides increased financial payments to multiple-route P&D contractors. The financial enhancements recognize the increased administrative and other costs associated with the operation and management of a growing business. These enhancements will help ensure that being an MWA remains an attractive business opportunity in light of what contractors are telling us about the costs of operating multiple routes.

Under the new Enhanced Primary Plus program, MWAs with five or more routes are now eligible for up to \$26,000 in annual payments to address the increased business expenses associated with larger operations – a significant increase from the \$6,000 maximum previously available.

The Enhanced Primary Plus program benefits are paid quarterly, based on the number of routes that MWAs operate during that quarter, as detailed in the Enhanced Primary Plus addendum.

If you operate . . .	Your current Primary Plus payout is...	<i>The annual Enhanced Primary Plus settlement is...</i>
2 PSAs	\$3,000	\$5,000
3 PSAs	---	plus \$6,000
4 PSAs	\$3,000	plus \$7,000
5+ PSAs	---	plus \$8,000
Your annual Primary Plus enhancement with five PSAs . . .	\$6,000	\$26,000

Multiple work area contractors can enroll in the voluntary Enhanced Primary Plus program any time in FY08. However, if contractors submit their documentation by November 30, they will be eligible for their Enhanced Primary Plus payment at the end of the third fiscal quarter.

Compliance-Disclosure Addendum

While the operating agreement has always required contractors to comply with all applicable laws and regulations, a new compliance-disclosure addendum will be required of MWAs that elect to participate in the Enhanced Primary Plus program. In this addendum, MWAs will agree to specific processes to validate compliance with applicable laws.

Participation in Enhanced Primary Plus is *voluntary* for existing MWAs. Forms for the new Enhanced Primary Plus program and the compliance-disclosure addendum can be obtained from facility management or via groundforce.fedex.com.

California

It's no secret that the current regulatory and legal environment in California creates a level of uncertainty for contractors in the state – particularly among single work area contractors. Ongoing litigation in different stages of trial and appeal creates questions about single work area agreements. Given the continued challenges to single work area agreements in California, FedEx Ground has the goal of serving our mutual California customers exclusively through multiple work area contractors by fiscal year end, May 31, 2008. Therefore, we will not be renewing single work area agreements in California beginning October 26, 2007. A 90-day extension is available to California single work area contractors whose agreements are due to expire on or before December 31, 2007, preserving your opportunity to maximize your settlement during peak.

We encourage all single work area contractors in California to consider the range of options available and incentives, particularly the opportunities available in growing their businesses to multiple-route operations. SWAs in California have a range of options in transforming their businesses – including seeking to acquire routes to grow their businesses; selling or transferring their routes to others; or allowing their current contracts to expire.

For SWAs in California . . .

To provide as many options as possible for single-route contractors in California, FedEx Ground is offering a *voluntary* incentive to all SWAs in California. The transition incentives include a payment equivalent to one-third of a contractor's annual gross settlement or \$25,000, whichever is greater, to address potential expenses of business expansion, to provide for new investment in additional vehicles or routes, or to assist an SWA who is leaving the business.

For contractors with 12 or more months of contracting service, their business-transition incentive is based on one-third of their gross settlement from September 1, 2006 to August 31, 2007. For those contractors who have less than 12 months of contracting service, a 12-month equivalent will be calculated for payment basis. Gross revenue includes all settlement paid, including CCS, service bonuses, quarterly performance bonuses, fuel supplements, matching maintenance and all other items. Facility managers have a customized packet with your settlement and incentive information for your review.

In order to receive these transition incentive payments, SWAs in California must sign a release, which is described in more detail below. At this time releases will be accepted through October 26, 2007.

Single work area contractors in California who request the transition incentives will receive half of their payments within 14 business days of submitting their documents, to assist with any immediate expenses or investments involved in transforming their business. These SWAs will have until their current contract expiration dates or May 31, 2008, whichever is earlier, to transform their businesses into MWAs by acquiring additional work areas, or to sell or transfer their individual routes to others – at which time they will receive the remaining business-transition incentive.

The transition incentives are retroactive to September 1, 2007, and are available to any SWA in California who has recently transitioned their business – whether acquiring other routes, or selling or transferring their routes to others. For purposes of participation in the transition incentives, SWAs are defined based on their status on September 1, 2007.

Vehicle Assistance

If an SWA in California elects to leave the business – either through a sale of their route to another contractor, or by leaving the route open without a buyer – FedEx Ground will provide that business owner with the same transition incentives, plus an option to have their eligible delivery vehicles purchased or the leases assumed through a third-party vehicle vendor.

The vehicle acquisition service is conducted by an outside entity, and will encompass those vehicles that are either owned or leased by the contractors for use on their applicable primary service area. The vehicle acquisition service covers not only SWA primary delivery vehicles in California, but also one approved supplemental vehicle that the SWA may operate for that route. The vehicle acquisition service, which is available through a third-party vendor, is also available to contractors who do not elect to accept the transition incentives. Contact information for the third-party vendor will be provided.

For MWAs in California . . .

To help encourage the acquisition of available single work areas in California, the company is providing a growth incentive of \$15,000 to existing MWAs for each eligible California-based SWA primary service area that is acquired by May 31, 2008.

MWAs who acquire one or more eligible SWA PSAs by May 31, 2008, will receive an incentive of \$15,000 for each PSA acquired. All route transfers must be completed by May 31, 2008 for payment of incentives. Payment of the growth incentive will be made within 14 business days after the contractor submits documentation demonstrating the effective assignment of the route.

Eligible routes are those in California that were operated by an SWA based in a California terminal as of September 1, 2007, and eligible MWAs under this incentive are those contractors operating more than one route as of September 1, 2007. Incentives will be paid only once for each eligible SWA primary service area. The acquisition of routes within these incentives must follow the existing guidelines for each facility.

SWAs to MWAs...

Single work area contractors in California that acquire other routes – thereby becoming MWAs – are required to participate in the Enhanced Primary Plus program, which provides up to \$26,000 annually of additional payments. The submission of a compliance-disclosure addendum is required. For SWAs that acquire two or more additional routes, they are eligible also for the growth incentive of \$15,000 for each eligible route, starting with the second route that is acquired.

The range of choices ensures that contractors in California can pursue the options that best fit their personal goals and long-term vision. The following hypothetical examples are based on an annual gross settlement of \$90,000, and certainly don't represent all of the options available to single work area contractors:

	Transition Incentive*	MWA Growth Incentive	Annual Enhanced Primary Plus	Total First-Year Incentive Available
SWA acquires another PSA (MWA-2)	\$30,000*		\$5,000	\$35,000*
SWA acquires two PSAs (MWA-3)	\$30,000*	\$15,000	\$11,000	\$56,000*
SWA acquires three PSAs (MWA-4)	\$30,000*	\$30,000	\$18,000	\$78,000*
SWA acquires four PSAs (MWA-5)	\$30,000*	\$45,000	\$26,000	\$101,000*

*Based on a hypothetical annual gross settlement of \$90,000. Actual incentives will be based on one-third of annual gross settlement or \$25,000, whichever is greater.

We continue to believe that the independent contractor model at FedEx Ground is a mutual commitment to each other's success. Yet we understand that recent events have created uncertainty in the minds of those businesses that currently own only one route in California. Therefore, we believe the transition incentives will be a welcome option for those single work area contractors that want to transform their businesses now, rather than continue into the future under lingering uncertainty and question.

Documents related to these transition incentives can be obtained from your facility management or via groundforce.fedex.com.

Important Legal Note

In exchange for the transition incentives, FedEx Ground is asking California SWAs for a release of certain potential claims related to this transition. The release is not intended to settle all claims you may have against FedEx Ground, and is limited to potential claims concerning FedEx Ground's announcement of this transition incentive; the termination, non-renewal or assignment of the Contractor's Operating Agreement; and any sale, assignment, loss or other disposition of the Contractor's primary service area.

Contractors should carefully review their options and the release with legal counsel. Release documents can be obtained from your facility management or via groundforce.fedex.com.

No contractor is required to sign the release of claims documents. Whatever a contractor chooses, nothing in today's announcement affects any current contract with FedEx Ground, which remains in effect.

Resources

Copies of key documents are available from facility management, or via groundforce.fedex.com. Submit questions or comments online at groundforce.fedex.com or by calling 1-800-575-5286.

Closing

These improvements – both in California and nationally – are designed to make the multiple-route business opportunity more attractive to business owners, which results in better customer service and performance. We appreciate your questions and comments, and will continue to keep you apprised of future updates as they are announced.

Highlights

- Enhanced Primary Plus, which offers payments of up to \$26,000 annually for those operating five or more routes, is available to multiple work area contractors in the United States and Canada. Submission of a compliance-disclosure addendum is required.
- Incentives of at least \$25,000 are available to single work area contractors in California. These transition incentives are designed to help them grow, transform or transition their businesses quickly. A release of claims is required.
- Growth incentives in the amount of \$15,000 are available to multiple work area contractors for *each* single work area PSA in California they acquire by May 31, 2008.

Questions and Answers

Outlined below are some anticipated questions and answers for contractors in California about these new investments.

Why are you making changes to settlement and adding new incentives?

These improvements are to strengthen the independent contractor model, to help contractors grow and strengthen their businesses, and to enhance customer service.

Why are you making these changes in California?

Given the current regulatory and legal environment in California and continued questions about single work area agreements, we must change how we operate in California. FedEx Ground has the goal of serving our California customers exclusively through multiple work area contractors by fiscal year end, May 31, 2008. Transitioning to an all-multiple work area network in California during 2008 will help reduce the risk of further legal and regulatory challenges to the contractor model, and we expect important benefits for contractors and customers because of the performance and service advantages gained through multiple-route operations.

Are you currently considering other business models or operating agreement changes?

We are always looking to strengthen and improve the business model for the benefit of our customers, our contractors and our company.

Are you making these changes in light of recent decisions in the *Estrada* case?

We are making the changes in response to the overall regulatory and legal environment in California. While the *Estrada* case is part of that environment, it is still in the appeals process, and applies to the treatment of some expenses for certain contractors in California between 1996 and 2004.

Do these changes mean that FedEx Ground has doubts about the contractor model?

FedEx Ground continues to support the independent contractor relationship, and these improvements seek to provide greater clarity and confidence in the model for customers and contractors. Moreover, these incentives make the multiple-route business opportunity more attractive to business owners, and improve their ability to serve customers.

What advantages do multiple-route contractors enjoy?

Multiple work area contractors have greater flexibility in serving customer needs. Today's improvements – both in California and nationally – are designed to make the multiple-route business opportunities more attractive.

Why not make SWA contractors in California FedEx Ground employees?

Our experience has shown that contractors are entrepreneurial individuals who want to build and grow their own businesses – that's why they sought a business relationship with one of the strongest global brands in consumers' minds. Transitioning to an all-multiple work area network in California during 2008 will help reduce the risk of further legal and regulatory challenges to the contractor model, and we expect important benefits for contractors and customers because of the performance and service advantages gained through multiple-route operations.

INFORMATION FOR SWAs IN CALIFORNIA**Why are you making this incentive available?**

We've enjoyed a long and mutually beneficial relationship with many single work area contractors over the years and we are committed to providing them with what we believe are fair choices for their future. Although we realize that being a multiple work area contractor is not for everyone, we hope current single work area contractors in California choose to stay and grow their relationship with our company.

The transition incentives are being offered to address potential expenses of business expansion, to provide for new investment in additional vehicles or routes, or to assist single work area contractors who choose to transition from the business.

How much is the transition incentive for single work area contractors in California?

The transition incentive is a payment equal to one-third of each contractor's annual gross settlement or \$25,000, whichever is greater.

How is the incentive calculated?

For contractors with 12 or more months of contracting service, the transition incentive available to each SWA contractor is based on one-third of their gross settlement from September 1, 2006 to August 31, 2007, or \$25,000, whichever is greater. Contact your facility manager to obtain your specific gross settlement total, as well as the amount of incentive available to you.

I've been a contractor less than 12 months. How will my incentive be calculated?

For those contractors who have less than 12 months of contracting service, a 12-month equivalent will be calculated for payment basis – which is one-third of gross annualized settlement or \$25,000, which ever is greater. Contact your facility manager to obtain your specific gross settlement total, as well as the amount of incentive available to you.

What is included in gross settlement?

Gross revenue includes all settlement paid, including CCS, service bonuses, quarterly performance bonuses, fuel supplements, matching maintenance and all other items.

Who is eligible for the transition incentive?

The transition incentive is available to single work area contractors in California who submit a release of claims. At this time, releases will be accepted through October 26, 2007.

When will I be paid the incentive?

If you sign the release of claims by October 26, 2007, half of the incentive will be paid within 14 business days. Single work area contractors will have until their current contract expiration dates or May 31, 2008, whichever is earlier, to transform their businesses into multiple work areas, to sell or transfer their individual routes to others, or to let their contracts with FedEx Ground expire. At that time, after signing a new release of claims form, they will receive the remaining business transition payments.

What options are available to single work area contractors in California?

Single work area contractors in California can pursue a range of options in transforming their businesses – including seeking routes to acquire; selling or transferring their routes to others; or allowing their current contracts to expire. The range of choices ensures that business owners can pursue the options that best fit their personal goals and vision.

I'm choosing to sell my route to another contractor. Who sets the price for my route?

The value of routes is set by negotiations between contractors, and varies widely based on an assortment of circumstances. FedEx Ground is not involved in this process.

I'm choosing to sell my route to another contractor. Will the proceeds of the sale be deducted from my transition incentive from FedEx Ground?

No. Any proceeds from the sale of your route are yours, in addition to your transition incentives from FedEx Ground.

Who can I sell my SWA route to?

FedEx Ground does not get involved in who you may sell your route to, subject to the minimum requirements set forth in the operating agreement. With this announcement, however, FedEx Ground will no longer enter into new SWA contracts in California.

If I'm currently a Ground single work area contractor, and I acquire one or more Home Delivery work areas, does that qualify me for the incentives?

The incentives apply equally if a Ground single work area contractor acquires a Home Delivery work area, or vice versa.

Will the incentives be deducted from my future settlement?

No. The incentives will not be deducted from your future settlement. The incentives are not a loan, but rather a payment to help interested SWA contractors transform their businesses.

I want to leave the business. Will I be able to find a buyer for my route?

In addition to providing transition incentives to single work area contractors in California, FedEx Ground is also offering growth incentives to multiple work area contractors in the state to encourage acquisition of available SWA routes. MWA contractors in California are being offered \$15,000 for each eligible SWA route they acquire before May 31, 2008. The acquisition of routes within these incentives must follow the existing guidelines for each facility.

I want to leave the business but I don't want to bother with negotiating a sale of my route. What can I do?

The transition incentive will still be available, and your route will be left for assignment to interested multiple work area contractors at that terminal. Additionally, a third-party vehicle vendor is available to coordinate the sale or lease-disposition of your vehicles.

Which routes are eligible for the incentives?

Eligible routes are those in California that were operated by a single work area contractor based in a California terminal as of September 1, 2007.

I'm choosing to buy another SWA's route. How much incentive do I get?

Both single work area contractors are eligible to receive their specific transition incentive. In addition, the acquiring SWA must participate in the Enhanced Primary Plus program and sign the compliance-disclosure addendum.

I'm choosing to buy two SWA routes. How much incentive do I get?

Again, all single work area contractors involved in the transaction – buying and selling – are eligible to receive their individual transition incentives.

In addition, because of the acquisition of the third route, the acquiring single work area contractor is eligible for the \$15,000 MWA growth incentive. Single work area contractors become eligible for the MWA growth incentive when they acquire their third route. See the following chart for an example of Enhanced Primary Plus payments.

	Transition Incentive*	MWA Growth Incentive	Annual Enhanced Primary Plus	Total First-Year Incentive Available
SWA acquires another PSA (MWA-2)	\$30,000*		\$5,000	\$35,000*
SWA acquires two PSAs (MWA-3)	\$30,000*	\$15,000	\$11,000	\$56,000*
SWA acquires three PSAs (MWA-4)	\$30,000*	\$30,000	\$18,000	\$78,000*
SWA acquires four PSAs (MWA-5)	\$30,000*	\$45,000	\$26,000	\$101,000*

*Based on a hypothetical example of \$90,000 annual gross settlement. Specific incentives will vary. The acquisition of routes within these incentives must follow the existing guidelines for each facility.

Why isn't the MWA growth incentive available to a SWA contractor that acquires only one route?

When single work area contractors acquire their first additional route, they do so as a single-route business. After that, they are considered a multiple-route business and become eligible for the growth incentive. An SWA contractor that acquires one route is required to participate in the Enhanced Primary Plus program and sign the compliance-disclosure addendum.

I want to acquire routes, and want to be eligible for the full incentives available to me. Are there waiting times necessary between my acquisition of my second and additional routes to become eligible for the multiple work area growth incentive?

Recognizing that certain single work area contractors may be interested in growing their businesses quickly, there are no waiting times required between transactions, as long as all transactions are completed by May 31, 2008.

I'm choosing to sell my route to another contractor, and they want my vehicle as well. Who gets the proceeds from any vehicle sale?

You do. Vehicles are assets belonging to each contractor, and your proceeds from the sale of your vehicle are in addition to your transition incentive from FedEx Ground.

Does the sale of my vehicle offset my transition incentive from FedEx Ground?

No. Proceeds from the sale of your vehicle are in addition to your transition incentives from FedEx Ground.

I'm choosing to sell my route to another contractor – but they don't want my vehicle. What can I do?

If a single work area contractor in California elects to leave the business – either through a sale of their route to another contractor, or by leaving the route open without a buyer – FedEx Ground will provide that business owner with the same transition incentives, plus provide assistance in the purchase or assumption of lease of applicable delivery vehicles through a third-party vehicle vendor.

Is FedEx Ground buying my vehicles?

FedEx Ground has entered into an arrangement with a third-party vehicle vendor to facilitate the purchase or lease assumption of the vehicles of SWA contractors who elect to leave the business. Contact information will be provided to you so that you may obtain details about your specific lease or ownership situation.

I am leasing my vehicle. Is it eligible under the vehicle assistance?

Contact the vehicle vendor to discuss details about your specific lease arrangement.

I have both a primary vehicle and a supplemental vehicle serving my PSA. Are both vehicles included in the assistance?

The vehicle acquisition service covers not only your primary delivery vehicle, but also one approved supplemental vehicle that a transitioning single work area contractor in California may operate for their PSA.

What if I choose not to participate in the transition incentive?

The transition incentive is *voluntary* and does not affect your contract with FedEx Ground. Whether or not a contractor decides to accept the transition incentives, all single work area contractors in California will have the opportunity to either transform their businesses into multiple-route businesses, or sell or transfer their individual routes to other contractors. The vehicle acquisition service, which is available through a third-party vendor, is also available to contractors who do not elect to accept the transition incentives.

Will my existing agreement be renewed at the next expiration?

Given the current regulatory and legal environment in California, FedEx Ground has the goal of serving our California customers exclusively through multiple work area contractors by fiscal year end, May 31, 2008. Therefore, we will not be renewing single work area agreements in California beginning October 26, 2007. A 90-day extension is available to SWA contractors whose agreements are due to expire before January 1, 2008.

Will the company enter into new agreements with single work area contractors?

In California, the company is not entering into any new single work area contractor agreements.

My operating agreement in California expires after May 31, 2008. If I take no action before that date, what will happen?

FedEx Ground has the goal of serving our California customers exclusively through multiple work area contractors by fiscal year end, May 31, 2008. Nothing in today's announcement changes the existing agreements we have with single work area contractors, which expire according to their terms without renewal. We will work with any single work-area contractors to expedite their transition as efficiently as possible.

I am a single work area contractor in California, but my agreement expires soon. Can I get more time to transform my business?

For those single work area contractors in California with contracts that expire before January 1, 2008, a special 90-day extension will be available.

Will FedEx Ground be offering transition incentives in other states besides California?

At this time, similar transition incentives are not anticipated in other states, where the network continues to utilize a combination of single work area contractors and multiple work area contractors.

I was a single work area contractor that just recently acquired another route and became an MWA. Can I apply for these incentives?

Yes. The transition incentives are retroactive to September 1, 2007, available to any single work area contractor in California who has recently transitioned their business – whether acquiring other routes, or selling or transferring their routes to others.

INFORMATION FOR MWAs IN CALIFORNIA

How do you define a multiple work area contractor?

A multiple work area contractor is defined as someone who owns more than one primary service area. For the purpose of these incentives, all primary service areas at both FedEx Ground and FedEx Home Delivery will be considered.

Why is the company offering incentives to MWAs in California also?

In an effort to provide uninterrupted service to our valued customers in California, the company is providing an incentive of \$15,000 for each eligible single work area service area in the state that is acquired by existing multiple work area contractors by May 31, 2008.

Which routes are eligible for the incentives?

Eligible routes are those in California that were operated by a single work area contractor based in a California terminal as of September 1, 2007.

Are the incentives available to any MWA?

The incentives are available to MWAs who acquire a SWA primary service area in a California terminal and were operating more than one primary service area as of September 1, 2007.

Another multiple work area contractor acquired an eligible route and received the growth incentive. That multiple work area contractor then changed his mind and sold it to me. Do I get the growth incentive, too?

Growth incentives will be paid only once for each eligible SWA primary service area.

I want to participate in the growth incentive. What are the deadlines to participate?

Multiple work area contractors in California are eligible for growth incentives at any time between now and May 31, 2008. However, all route transfers must be completed by May 31, 2008 for payment of incentives.

After I acquire an eligible route, when will I get paid the growth incentive?

Payment of the growth incentive will be made within 14 business days after the contractor submits documentation demonstrating assignment of the route is effective.

Is there any limit on the number of routes I can acquire?

The acquisition of routes with these incentives must follow the existing guidelines for each facility.

MWA – Enhanced Primary Plus

Why is the company increasing settlement under Primary Plus?

FedEx Ground is introducing today a nationwide enhancement of the Primary Plus program, which provides increased financial payments to multiple-route P&D contractors. The financial enhancements recognize the increased administrative and other costs associated with the operation and management of a growing business. These enhancements will help ensure that being an MWA remains an attractive business opportunity in light of what contractors are telling us about the costs of operating multiple routes.

How much are the new settlement amounts?

Under the new Enhanced Primary Plus program, the financial payment to eligible contractors is being increased – up to \$26,000 annually for five or more routes.

The Enhanced Primary Plus program now provides \$5,000 for contractors with two routes, an additional \$6,000 for contractors with three routes, an additional \$7,000 for contractors with four routes, and an additional \$8,000 for contractors with five or more routes for a total of \$26,000.

When are the higher settlements to be paid?

The settlement is paid quarterly, based on the number of routes that multiple work area contractors operate during that quarter, as detailed in the Enhanced Primary Plus attachment to Addendum 3. However, if multiple work area contractors sign the Enhanced Primary Plus attachment by November 30, payments will be applied to third-quarter calculations.

Am I automatically enrolled in Enhanced Primary Plus?

Enhanced Primary Plus is a voluntary program for existing multiple work area contractors, not an automatic one. Submission of a compliance-disclosure addendum is required.

Are single work area contractors eligible for Enhanced Primary Plus?

Single work area contractors that acquire other routes, therefore becoming multiple work area contractors, must participate in the Enhanced Primary Plus program. Submission of a compliance-disclosure addendum is required.

What is the compliance-disclosure addendum?

A new compliance-disclosure addendum will be required of multiple work area contractors that elect to participate in the Enhanced Primary Plus program, which requires multiple work area contractors to provide certain information and documentation regarding their workforce.

Why is the compliance-disclosure addendum being added?

FedEx Ground has always required that contractors comply with all applicable laws and regulations. In the new addendum, multiple work area contractors agree to specific processes to validate compliance.

Other Questions**Do these changes affect linehaul contractors?**

These changes only affect those contractors who provide services under a P&D operating agreement.

Do you expect service disruptions in California because of these changes?

Given that FedEx Ground has provided a range of options to contractors in California to transition their businesses throughout 2008, we do not expect service disruptions.

Why does FedEx Ground want a release of claims from SWA contractors?

In exchange for the transition incentives, FedEx Ground is asking California SWAs for a release of certain potential claims related to this transition. The release is not intended to settle all claims you may have against FedEx Ground, and is limited to potential claims concerning FedEx Ground's announcement of this transition incentive; the termination, non-renewal or assignment of the Contractor's Operating Agreement; and any sale, assignment, loss or other disposition of the Contractor's primary service area.

Contractors should carefully review their options and the release with legal counsel. Release documents can be obtained from your facility management or via groundforce.fedex.com.

Will the release affect my ability to participate in pending lawsuits?

The release is not intended to settle all claims you may have against FedEx Ground, but is limited to potential claims related to this transition. That said, FedEx Ground cannot advise you on your individual circumstances. Please read all documents very carefully, and consult your own legal counsel.

Where can I obtain information about pending lawsuits?

Pending lawsuits include *Estrada v. FedEx Ground Package System, Inc.* (Los Angeles County Superior Court Case No. BC210130), *Alexander v. FedEx Ground Package System, Inc.* (Case No. 3:05 cv 00528 RLM CAN (N.D. Ind.)), *Vargas v. Federal Express Corp et al.* (Case No. 3:07 cv 00325 RLM CAN (N.D. Ind.)), *Craig et al v. FedEx Ground Package System Inc.* (Case No. 3:05 cv 00530 RLM CAN (N.D. Ind.)), and *Givens et al v. Federal Express Corporation et al* (Case No. 3:07 cv 00321 RLM CAN (N.D. Ind.)). If you or your counsel have any questions concerning these specific lawsuits, you can contact Lynn Rossman Faris, Leonard Carter, LLP, 1330 Broadway Avenue, Suite 1450, Oakland, California 94612, Tel.: (510) 272-0169.

What are the release of claims documents?

The transition incentives are *voluntary*. SWA Contractors in California who elect to participate, however, will be required to sign a release of claims for each separate payment. Release documents can be obtained from your facility management or via groundforce.fedex.com. Please read all documents very carefully, and consult your own legal counsel.

Do I have to sign the release of claims documents?

The transition incentives are *voluntary*. However, you will need to sign the release documents to receive the transition incentives.

What happens if I do not sign the release of claims documents?

No contractor is required to sign the release of claims document. Whatever a contractor chooses, nothing in today's announcement affects any current contract with FedEx Ground, which remains in effect.

CONTRACTOR CONVERSION AND RELEASE AGREEMENT

This Contractor Conversion and Release Agreement (“**Agreement**”) is entered into by and between FedEx Ground Package System, Inc. (“**FedEx Ground**”), on the one hand, and [Business Entity] (“**Contractor**”) and [Individual], (“**Principal**”), on the other hand.

Recitals

WHEREAS, Contractor has previously entered into a FedEx Ground Package System, Inc. Pickup and Delivery Contractor Operating Agreement or a FedEx Home Delivery Standard Contractor Operating Agreement (the “**Operating Agreement**”).

WHEREAS, in exchange for the payment described in Article 2(a), Contractor and Principal desire to: (i) irrevocably elect one of the two options listed in Articles 1(a) and (b); and (ii) grant FedEx Ground a release of claims as described in Article 3.

WHEREAS, in exchange for Contractor’s and Principal’s future execution of the release of claims attached as Exhibit B, FedEx Ground will make an additional payment as described in Article 2(b).

NOW THEREFORE, in consideration of the covenants and agreements contained herein and other good and valuable consideration, the parties knowingly and voluntarily agree as follows:

Agreement

1. **Selection of Option.** In exchange for the payment set forth in Article 2(a), Contractor and Principal agree to irrevocably select one of the options listed in Articles 1(a) and (b), below, and to document the exercise of their option as described in Article 1(c).

(a) **Option 1: Acquire Active Primary Service Area.** Buy or otherwise cause to be transferred to Contractor the primary service area of another active, California-based, single work area contractor by irrevocably taking assignment of all of such other contractor’s rights, and assuming all of such other contractor’s obligations (except those arising prior to the date of assignment), under the other contractor’s operating agreement. Contractor and FedEx Ground agree that the transfer of a primary service area under this Section 1(a) shall be documented as follows: (i) Contractor shall provide FedEx Ground with documentation showing assignment of the other contractor’s operating agreement to Contractor, and (ii) Contractor and FedEx Ground shall amend Addendum 4 of the Contractor’s Operating Agreement to add the primary service area acquired by Contractor under Section 1(a). Contractor further agrees to be bound by the terms of the Enhanced Primary Plus program, and to execute the applicable addenda and attachments to the Operating Agreement which set forth the terms and conditions of the program.

or

(b) **Option 2: Surrender or Transfer Primary Service Area.** Voluntarily terminate Contractor’s Operating Agreement by executing the Termination Agreement attached as Exhibit A, or sell or otherwise transfer Contractor’s primary service area under the Operating Agreement to another active California-based contractor by irrevocably assigning all of Contractor’s rights, and delegating all of Contractor’s obligations, under the Operating Agreement to another contractor. Contractor agrees to provide FedEx Ground with documentation showing assignment of Contractor’s Operating Agreement to the other contractor.

(c) **Documentation of Option.** Contractor further agrees to provide FedEx Ground the written documentation demonstrating that Contractor has exercised Option 1 or 2, above, on or before the earlier of: (i) the expiration of the current term of Contractor's Operating Agreement without renewal; or (ii) May 31, 2008.

2. **Payment.**

(a) In exchange for Contractor's and Principal's release as set forth in Article 3, below, and the other covenants in this Agreement, FedEx Ground shall pay to Contractor the total sum of [\$_____]. This payment shall be made within fourteen (14) business days after Contractor delivers the fully-executed Agreement to the designated representative(s) of terminal management at Contractor's home terminal.

(b) In exchange for Contractor's delivery of one of (i) a fully-executed Termination Agreement as set forth in Exhibit A, (ii) documentation showing assignment of Contractor's Operating Agreement to another contractor, or (iii) documentation showing assignment of another contractor's operating agreement to Contractor, and Contractor's and Principal's execution of the release attached as Exhibit B on or after the effective date of the termination or assignment, FedEx Ground shall pay to Contractor the total sum of [\$_____]. This payment shall be made within fourteen (14) business days after Contractor delivers the applicable documents (i.e., Exhibit B, and one of items (i), (ii), and (iii)) to the designated representative(s) of terminal management at Contractor's home terminal.

3. **Release of Claims.**

(a) In exchange for the consideration stated in Article 2(a) and for other good and valuable consideration, and except for those obligations created by or arising out of this Agreement, Contractor and Principal, on their own behalf, and on behalf of any corporation, limited liability company, sole proprietorship, and any other business entity with which Contractor and Principal are affiliated, hereby covenant not to sue and acknowledge full and complete satisfaction of and release and discharge, to the fullest extent permitted by law, FedEx Ground, its subsidiaries, divisions (including, without limitation, FedEx Home Delivery), parent and affiliated companies, past and present, and each of them, as well as its and their trustees, directors, officers, shareholders, agents, attorneys, insurers and employees, past and present, and each of them, hereinafter collectively referred to as "***Releasees***," with respect to and from any and all claims, demands, liens, agreements, contracts, covenants, actions, suits, causes of action, wages, obligations, debts, expenses, attorneys' fees, damages, judgments, orders and liabilities of whatever kind, whether known or unknown, suspected or unsuspected, which Principal, Contractor, or any Contractor- and Principal-related business entity now own or hold or have at any time heretofore owned or held as against Releasees, or any of them, arising out of or in any way connected with (i) FedEx Ground's announcement(s) that it is modifying its relationship with contractors in California, and (ii) any and all actions related to FedEx Ground's modification of its relationship with California contractors, including, without limitation, any contemplated or actual termination, non-renewal or assignment of the Operating Agreement, and any contemplated or actual sale, assignment or other disposition of a primary service area (whether Contractor and/or Principal was the transferor or transferee of said primary service area).

(b) Contractor and Principal agree that this Agreement shall be effective as a bar to each and every claim, demand and cause of action described above. Accordingly, Contractor and Principal, on their own behalf, and on behalf of any corporation, limited liability company, sole

proprietorship, and any other business entity with which Contractor and Principal are affiliated, hereby expressly waive any and all rights and benefits conferred upon Contractor and Principal by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE with respect to the above-described release of claims, and expressly consent that this Agreement shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims, demands and causes of action, if any, as well as those relating to any other claims, demands and causes of action referred to above. SECTION 1542 provides:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

4. **Non-Admission Of Liability.** Neither this Agreement, nor FedEx Ground’s offer to enter into this Agreement with Contractor and Principal, shall constitute an admission on the part of FedEx Ground of any violation of federal, state or local law, ordinance or regulation, or of any violation of FedEx Ground’s policies or procedures, or any violation of or wrongdoing under the Operating Agreement, or of any liability or wrongdoing whatsoever. Neither this Agreement nor anything in this Agreement shall be construed to be or shall be admissible in any proceeding as evidence of liability or wrongdoing on the part of any party.
5. **Consultation With Attorney.** Contractor and Principal are advised to consult with an attorney before executing this Agreement. Should Contractor and Principal execute this Agreement without consulting an attorney, Contractor and Principal agree that their decision to execute this Agreement without legal consultation was the result of their voluntary choice.
6. **Severability.** If any provision of this Agreement or the application thereof is held invalid, the invalidity shall not affect other provisions or applications of this Agreement which can be given effect without the invalid provisions or application. To this end, the provisions of this Agreement are declared to be severable.
7. **Assignment.** The rights of FedEx Ground under this Agreement shall inure to the benefit of the successors, assigns and legal representatives of FedEx Ground. This Agreement may not be assigned, nor the duties hereunder delegated, by Contractor or Principal.
8. **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to principles of conflict of laws.
9. **No Tax Representations.** Contractor and Principal acknowledge that FedEx Ground has not made any representations to Contractor or Principal regarding the taxability of any payment to Contractor and Principal under this Agreement.
10. **Reproductions.** Photocopies and other reproductions of the fully-executed Agreement (including where the Agreement contains electronic or other facsimile signatures) shall have the force and effect of an original executed document.
11. **Entire Agreement.** This Agreement (including Exhibits A and B, if executed) constitutes the entire and only understanding and complete agreement among the parties, and supersedes any prior discussion, agreement or understanding, whether verbal or written, with

respect to the subject matter herein. Any representation, promise or agreement not specifically included in this Agreement shall not be binding upon or enforceable against any party. This is a fully integrated agreement. No modifications or revisions of this Agreement shall have any force or effect unless put in writing and executed by all parties.

I have read the foregoing Agreement, and I understand and acknowledge the significance and consequence of it and execute it voluntarily with full understanding of its consequences. I declare under penalty of perjury that the foregoing is true and correct.

FedEx Ground's offer to enter into this Agreement, as reflected in its officer's signature below, shall remain open until October 26, 2007.

PRINCIPAL:

CONTRACTOR:

Signature

Signature

Print Name

Print Name

Name of Business Entity

Title

Contractor ID No.:

Date: _____

Date: _____

Location: _____

Location: _____

FEDEX GROUND PACKAGE SYSTEM, INC.

By: _____
Signature

Michael P. Mannion

Its: Sr. Vice President, Terminal Management

Date: September 19, 2007

Location: Pittsburgh, Pennsylvania

EXHIBIT A
TERMINATION AGREEMENT

This Termination Agreement is entered into by and between FedEx Ground Package System, Inc. (“**FedEx Ground**”), on the one hand, and [Business Entity] (“**Contractor**”) and , [Individual], (“**Principal**”), on the other hand.

WHEREAS, Contractor has previously entered into a FedEx Ground Package System, Inc. Pickup and Delivery Contractor Operating Agreement or a FedEx Home Delivery Standard Contractor Operating Agreement (the “*Operating Agreement*”).

WHEREAS, Contractor, Principal, and FedEx Ground have previously entered into that certain Contractor Conversion and Release Agreement (the “*Conversion and Release Agreement*”).

WHEREAS, Contractor and Principal have elected “Option 2: Surrender or Transfer Primary Service Area” under Article 1(b) of the Conversion and Release Agreement and desire voluntarily and irrevocably to terminate the Operating Agreement, and FedEx Ground consents to such termination.

NOW THEREFORE, in consideration of the covenants and agreements herein and in the Conversion and Release Agreement, and for other good and valuable consideration, the parties agree as follows:

1. **Termination of Operating Agreement.** FedEx Ground and Contractor and Principal hereby agree to terminate the Operating Agreement effective on or before the earlier of: (i) the end of the Operating Agreement’s current term, as amended by any extension agreement, or (ii) May 31, 2008.
2. **Obligations Upon Termination.** Upon termination of the Operating Agreement, Contractor and Principal shall fulfill their “Obligations Upon Termination” as set forth in the Operating Agreement, and the provisions of the Operating Agreement that by their terms survive termination shall survive termination of the Operating Agreement under this Agreement.

I have read the foregoing Agreement, and I understand and acknowledge the significance and consequence of it and execute it voluntarily with full understanding of its consequences. I declare under penalty of perjury that the foregoing is true and correct.

PRINCIPAL:

CONTRACTOR:

Signature

Signature

Print Name

Print Name

Name of Business Entity

Title

Contractor ID No.: _____

Date: _____

Date: _____

Location: _____

Location: _____

FEDEX GROUND PACKAGE SYSTEM, INC.

By: _____
Signature

Michael P. Mannion
Print Name

Its: Sr. Vice President, Terminal Management

Date: September 19, 2007

Location: Pittsburgh, Pennsylvania

EXHIBIT B
SUPPLEMENTAL RELEASE OF CLAIMS

Recitals

This Supplemental Release of Claims is executed by [Business Entity] (“**Contractor**”) and [Individual], (“**Principal**”), as of the date set forth below.

WHEREAS, Contractor has previously entered into a FedEx Ground Package System, Inc. (“**FedEx Ground**”) Pickup and Delivery Contractor Operating Agreement or a FedEx Home Delivery Standard Contractor Operating Agreement (the “**Operating Agreement**”).

WHEREAS, Contractor, Principal and FedEx Ground have also previously entered into that certain Contractor Conversion and Release Agreement (the “**Conversion and Release Agreement**”), which, as specified in Articles 2(a) and 3, provided for a monetary payment by FedEx Ground in exchange for, among other things, Contractor’s and Principal’s release of claims as set forth in Article 3.

WHEREAS, the Conversion and Release Agreement provided for an additional payment by FedEx Ground in consideration of Contractor’s and Principal’s supplemental release of claims and delivery of certain documentation to FedEx Ground, as set forth in Article 2(b) of the Conversion and Release Agreement.

NOW THEREFORE, in consideration of the covenants and agreements in the Conversion and Release Agreement, and for other good and valuable consideration, Contractor and Principal agree as follows:

Release of Claims

(a) In exchange for the consideration stated in Article 2(b) of the Conversion and Release Agreement, and except for those obligations created by or arising out of said Agreement, Contractor and Principal, on their own behalf, and on behalf of any corporation, limited liability company, sole proprietorship, and any other business entity with which Contractor and Principal are affiliated, hereby covenant not to sue and acknowledge full and complete satisfaction of and release and discharge, to the fullest extent permitted by law, FedEx Ground, its subsidiaries, divisions (including, without limitation, FedEx Home Delivery), parent and affiliated companies, past and present, and each of them, as well as its and their trustees, directors, officers, shareholders, agents, attorneys, insurers and employees, past and present, and each of them, hereinafter collectively referred to as “**Releasees**,” with respect to and from any and all claims, demands, liens, agreements, contracts, covenants, actions, suits, causes of action, wages, obligations, debts, expenses, attorneys’ fees, damages, judgments, orders and liabilities of whatever kind, whether known or unknown, suspected or unsuspected, which Principal, Contractor, or any Contractor- and Principal-related business entity now own or hold or have at any time heretofore owned or held as against Releasees, or any of them, arising out of or in any way connected with (i) FedEx Ground’s announcement(s) that it is modifying its relationship with contractors in California, and (ii) any and all actions related to FedEx Ground’s modification of its relationship with California contractors, including, without limitation, any contemplated or actual termination, non-renewal or assignment of the Operating Agreement, and any contemplated or actual sale, assignment or other disposition of a primary service area (whether Contractor and/or Principal was the transferor or transferee of said primary service area).

(b) Contractor and Principal agree that this Supplemental Release of Claims shall be effective as a bar to each and every claim, demand and cause of action described above. Accordingly, Contractor and Principal, on their own behalf, and on behalf of any corporation, limited liability company, sole proprietorship, and any other business entity with which Contractor and Principal are affiliated, hereby expressly waives any and all rights and benefits conferred upon Contractor and Principal by the provisions of SECTION 1542 OF THE CALIFORNIA CIVIL CODE with respect to the above-described release of claims, and expressly consent that this Supplemental Release of Claims shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims, demands and causes of action, if any, as well as those relating to any other claims, demands and causes of action referred to above. SECTION 1542 provides:

“A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.”

Consultation With Attorney.

Contractor and Principal are advised to consult with an attorney before executing this Supplemental Release of Claims. Should Contractor and Principal execute this Supplemental Release of Claims without consulting an attorney, Contractor and Principal agree that their decision to execute this Supplemental Release of Claims without legal consultation was the result of their voluntary choice.

I have read the foregoing Supplemental Release of Claims, and I understand and acknowledge the significance and consequence of it and execute it voluntarily with full understanding of its consequences. I declare under penalty of perjury that the foregoing is true and correct.

PRINCIPAL:

CONTRACTOR:

Signature

Signature

Print Name

Print Name

Name of Business Entity

Title

Contractor ID No.: _____

Date: _____

Date: _____

Location: _____

Location: _____

ADDENDUM 10

PICK-UP AND DELIVERY CONTRACTOR OPERATING AGREEMENT

COMPLIANCE DISCLOSURE

Pursuant to Section 13 of the FedEx Ground Package System, Inc. Pick-Up and Delivery Contractor Operating Agreement ("Agreement") entered into between FedEx Ground and the undersigned Contractor, Contractor and FedEx Ground hereby amend the Agreement by replacing Section 2.2 of the Agreement with the following language:

2.2 Use of Qualified Persons. Contractor may utilize persons to assist Contractor in performing the obligations specified by this Agreement.

To the extent that Contractor utilizes such persons in the performance of Contractor's obligations hereunder, Contractor shall only use persons that Contractor ensures are treated as employees. Contractor must submit documentation to FedEx Ground establishing to the satisfaction of FedEx Ground that such persons are treated as employees for all payroll, tax, withholding and other purposes.

Furthermore, all persons utilized by Contractor shall be qualified pursuant to applicable federal, state and municipal safety standards and the FedEx Ground Safe Driving Standards, and shall be fully trained, at Contractor's expense, to operate the Equipment. Contractor understands and agrees that such persons shall not be considered employees of FedEx Ground and that it is Contractor's responsibility to ensure that such persons conform fully to the applicable obligations undertaken by Contractor pursuant to this Agreement.

Furthermore, as between FedEx Ground and Contractor, Contractor agrees to:

- (a) Assume sole responsibility for all expenses associated with qualifying such persons to perform the services agreed to be provided herein, including, without limitation, the cost of physical examinations and drug screen tests;
- (b) Assume sole responsibility for all applicable expenses associated with the employment of such persons, including, without limitation, wages, salaries, employment taxes, unemployment insurance, and workers' compensation coverage, and, at the request of FedEx Ground, provide proof that the foregoing obligations are being met, including, but not limited to, payment of withholding taxes, unemployment taxes, as well as procurement and maintenance of workers' compensation insurance and any other employer obligations required by law;
- (c) Assume sole responsibility for compliance with all applicable laws, rules, regulations and orders respecting payroll deductions and maintenance of payroll and employment records, and, at the request of FedEx Ground, provide evidence of such compliance;

- (d) Assume sole responsibility for compliance with all applicable federal, state, and local laws, including without limitation, wage payment, final payment of wages, deductions, overtime, and rest and meal periods, and, at the request of FedEx Ground, provide evidence of such compliance;
- (e) Employ only persons who are legally authorized to work in the United States and to maintain an I-9 employment authorization form, if required, for each person utilized, and, at the request of FedEx Ground, provide evidence of such compliance; and,
- (f) Indemnify FedEx Ground for, and hold FedEx Ground harmless from, any liability and claims by Contractor or any third party, including, but not limited to, any persons utilized by Contractor or governmental entities, arising from Contractor's use or employment of any other person(s) in the performance of Contractor's obligations, including, but not limited to, claims or liabilities arising under industrial accident prevention, workers' compensation, or similar laws or any federal, state or municipal laws applicable to the relationship between and among employers and employees.

By execution of this Addendum to the current Pickup and Delivery Contractor Operating Agreement (the "Agreement"), FedEx Ground and Contractor each agree that effective on _____, this Addendum supersedes Section 2.2 of the Agreement and, except for the changes and additions in this Addendum, the Agreement remains in full force and effect, and each party agrees to continue to be bound by the terms of that Agreement.

FedEx Ground Package System, Inc.:

Contractor:

Signature

Signature

Printed Name

Printed Name

Title

Email Address