

EXPEDITORS INTERNATIONAL OF WASHINGTON INC

Form 10-Q

November 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2006

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 0-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
incorporation or organization)

91-1069248

(IRS Employer Identification Number)

**1015 Third Avenue, 12th Floor, Seattle,
Washington**

(Address of principal executive offices)

98104

(Zip Code)

(206) 674-3400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes **x** No **o**

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

At November 6, 2006, the number of shares outstanding of the issuer's Common Stock was 213,170,373.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIESCondensed Consolidated Balance Sheets
(In thousands, except share data)
(Unaudited)

	September 30, 2006	December 31, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 499,529	\$ 463,894
Short-term investments	386	123
Accounts receivable, less allowance for doubtful accounts of \$13,280 at September 30, 2006 and \$12,777 at December 31, 2005	812,224	709,331
Deferred Federal and state income taxes	8,717	7,208
Other current assets	14,161	21,405
Total current assets	1,335,017	1,201,961
Property and equipment, less accumulated depreciation and amortization of \$170,228 at September 30, 2006 and \$152,304 at December 31, 2005	445,964	333,787
Goodwill, less accumulated amortization of \$765 at September 30, 2006 and December 31, 2005	7,774	7,774
Other intangibles, net	7,957	8,997
Other assets, net	14,952	13,525
	\$ 1,811,664	\$ 1,566,044
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	562,592	479,546
Accrued expenses, primarily salaries and related costs	135,467	103,674
Federal, state and foreign income taxes	36,225	29,281
Total current liabilities	734,284	612,501
Deferred Federal and state income taxes	34,430	13,278
Minority interest	21,338	13,883
Shareholders' equity:		
Preferred stock, par value \$.01 per share		
Authorized 2,000,000 shares; none issued		
Common stock, par value \$.01 per share		
Authorized 320,000,000 shares; issued and outstanding 213,121,366 shares at September 30, 2006, and 213,227,042 shares at December 31, 2005	2,131	2,132
Additional paid-in capital	120,343	180,905
Retained earnings	894,893	745,984
Accumulated other comprehensive income	4,245	(2,639)
Total shareholders' equity	1,021,612	926,382

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Commitments and contingencies

\$	1,811,664	\$	1,566,044
----	-----------	----	-----------

See accompanying notes to condensed consolidated financial statements.

Certain 2005 amounts have been restated as required by the modified retrospective method in connection with the implementation of FAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

All share and per share amounts have been adjusted for the 2-for-1 stock split effective June 2006.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings
(In thousands, except share data)

(Unaudited)

	Three months ended September 30, 2006	2005	Nine months ended September 30, 2006	2005
Revenues:				
Airfreight	\$ 575,285	\$ 478,294	\$ 1,611,556	\$ 1,272,392
Ocean freight and ocean services	433,212	383,975	1,158,151	1,018,053
Customs brokerage and other services	221,226	184,173	613,932	509,160
Total revenues	1,229,723	1,046,442	3,383,639	2,799,605
Operating expenses:				
Airfreight consolidation	453,246	377,758	1,263,803	992,465
Ocean freight consolidation	343,909	308,385	915,568	829,614
Customs brokerage and other services	93,230	78,374	255,163	214,258
Salaries and related costs	183,995	155,450	517,422	433,965
Rent and occupancy costs	13,877	13,993	40,972	41,197
Depreciation and amortization	9,341	7,840	26,020	22,782
Selling and promotion	8,484	7,059	25,398	21,725
Other	22,384	20,147	63,832	56,985
Total operating expenses	1,128,466	969,006	3,108,178	2,612,991
Operating income	101,257	77,436	275,461	186,614
Interest expense	(4)	(14)	(41)	(262)
Interest income	4,236	3,031	12,900	7,903
Other, net	743	1,355	2,875	3,425
Other income, net	4,975	4,372	15,734	11,066
Earnings before income taxes and minority interest	106,232	81,808	291,195	197,680
Income tax expense	47,133	31,344	119,688	77,090
Net earnings before minority interest	\$ 59,099	\$ 50,464	\$ 171,507	\$ 120,590
Minority interest	4,704	(2,060)	977	(4,442)
Net earnings	\$ 63,803	\$ 48,404	\$ 172,484	\$ 116,148
Diluted earnings per share	\$.29	\$.22	\$.78	\$.53
Basic earnings per share	\$.30	\$.23	\$.81	\$.54
Dividends declared per common share	\$	\$	\$.11	\$.075
Weighted average diluted shares outstanding	221,417,053	221,334,628	220,539,975	220,901,210
Weighted average basic shares outstanding	213,524,680	213,737,374	213,557,892	213,583,128

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

Certain 2005 amounts have been restated as required by the modified retrospective method in connection with the implementation of FAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

All share and per share amounts have been adjusted for the 2-for-1 stock split effective June 2006.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Three months ended September 30, 2006		2005	Nine months ended September 30, 2006		2005		
Operating activities:								
Net earnings	\$	63,803	\$	48,404	\$	172,484	\$	116,148
Adjustments to reconcile net earnings to net cash provided by operating activities:								
Provision for losses on accounts receivable		259		782		752		424
Deferred income tax expense		4,572		6,111		38,169		21,013
Excess tax benefits from employee stock plans		(1,194)	)	(1,919)	)	(22,202)	)	(8,241)
Stock compensation expense		11,813		8,364		29,629		25,048
Depreciation and amortization		9,341		7,840		26,020		22,782
Gain on sale of property and equipment				(811)	)	(214)	)	(856)
Minority interest in earnings of consolidated entities		(4,768)	)	2,087		(757)	)	3,890
Other		1,704		775		3,280		1,068
Changes in operating assets and liabilities:								
Increase in accounts receivable		(66,758)	)	(97,236)	)	(95,757)	)	(98,884)
Increase in other current assets		14,011		9,015		7,711		7,269
Increase in accounts payable and other current liabilities		51,895		67,580		119,274		97,805
Net cash provided by operating activities		84,678		50,992		278,389		187,466
Investing activities:								
(Increase) decrease in short-term investments		30		25		(253)	)	13
Purchase of property and equipment		(9,668)	)	(22,967)	)	(131,501)	)	(66,159)
Proceeds from sale of property and equipment		52		1,082		317		1,331
Other		(1,999)	)	77		(1,513)	)	(1,262)
Net cash used in investing activities		(11,585)	)	(21,783)	)	(132,950)	)	(66,077)
Financing activities:								
Proceeds (repayments) of short-term debt, net				37				(2,093)
Proceeds from issuance of common stock		19,353		21,153		45,373		32,228
Repurchases of common stock		(44,139)	)	(30,153)	)	(157,767)	)	(80,166)
Excess tax benefits from employee stock plans		1,194		1,919		22,202		8,241
Net distributions to minority interests		(4,053)	)			(4,053)	)	(133)
Dividends paid						(23,576)	)	(16,055)
Net cash used in financing activities		(27,645)	)	(7,044)	)	(117,821)	)	(57,978)
Effect of exchange rate changes on cash		(613)	)	405		8,017		(10,951)
Increase in cash and cash equivalents		44,835		22,570		35,635		52,460
Cash and cash equivalents at beginning of period		454,694		438,873		463,894		408,983
Cash and cash equivalents at end of period	\$	499,529	\$	461,443	\$	499,529	\$	461,443
Interest and taxes paid:								
Interest	\$	22	\$	6	\$	54	\$	240
Income taxes		17,713		10,297		60,764		38,857

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

See accompanying notes to condensed consolidated financial statements.

Certain 2005 amounts have been restated as required by the modified retrospective method in connection with the implementation of FAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The attached condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's Form 10-K as filed with the Securities and Exchange Commission on or about March 16, 2006.

Prior to January 1, 2006, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option and its employee stock purchase rights plans. Accordingly, no compensation cost had been recognized for its fixed stock option or employee stock purchase rights plans.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R) using the modified retrospective transition method. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The Company has elected to restate all periods presented to include compensation expense for all unvested stock options and share awards. Accordingly, salaries and related costs for the three and nine-month periods ended September 30, 2005 have been increased to include compensation expense for the fair value of unvested stock options. See Note 6 for further discussion of the impact of the adoption of SFAS 123R on the consolidated balance sheet, the consolidated results of operations, earnings per share and consolidated statement of cash flows.

Certain 2005 amounts have been reclassified to conform to the 2006 presentation.

Note 2. Comprehensive Income

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles in the United States, are excluded from net income. For the Company, these consist of foreign currency translation gains and losses and unrealized gains and losses on securities, net of related income tax effects.

The components of total comprehensive income for interim periods are presented in the following table:

(in thousands)	Three months ended September 30,		Nine months ended September 30,	
	2006	2005	2006	2005
Net earnings	\$ 63,803	\$ 48,404	\$ 172,484	\$ 116,148
Foreign currency translation adjustments net of tax of: \$18 and \$(18) for the three months ended September 30, 2006 and 2005, and \$(3,714) and \$6,235 for the nine months ended September 30, 2006 and 2005.	(33)	32	6,897	(11,578)
Unrealized loss on securities net of tax of \$(14) and \$4 for the three months ended September 30, 2006 and 2005, and \$38 and \$41 for the nine months ended September 30, 2006 and 2005.	20	(6)	(13)	(57)
Total comprehensive income	\$ 63,790	\$ 48,430	\$ 179,368	\$ 104,513

Note 3. Business Segment Information

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Statement of Financial Accounting Standards (SFAS) No. 131, "Disclosure about Segments of an Enterprise and Related Information" establishes standards for the way that public companies report selected information about segments in their financial statements.

The Company is organized functionally in geographic operating segments. Accordingly, management focuses its attention on revenues, net revenues, operating income, identifiable assets, capital expenditures, depreciation and amortization and equity generated in each of these geographical areas when evaluating the effectiveness of geographic management. The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis. Transactions among the Company's various offices are conducted using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents.

5

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Financial information regarding the Company's operations by geographic area for the three and nine-months ended September 30, 2006 and 2005 are as follows:

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	ASIA	EUROPE	AUSTRALASIA	LATIN AMERICA	MIDDLE EAST	ELIMINATIONS	CONSOLIDATED
Three months ended September 30, 2006:									
Revenues from unaffiliated customers	\$ 240,300	30,085	709,222	160,565	14,595	17,305	57,651		1,229,723
Transfers between geographic areas	29,516	2,136	4,266	8,335	1,573	2,092	3,082	(51,000))
Total revenues	\$ 269,816	32,221	713,488	168,900	16,168	19,397	60,733	(51,000)	) 1,229,723
Net revenues	\$ 136,810	15,251	101,202	54,412	8,403	8,388	14,872		339,338
Operating income	\$ 27,313	3,718	50,380	11,998	2,311	1,546	3,991		101,257
Identifiable assets at quarter end	\$ 854,409	67,458	415,273	349,654	27,506	33,518	63,802	44	1,811,664
Capital expenditures	\$ 6,378	226	799	1,430	29	269	537		9,668
Depreciation and amortization	\$ 4,976	318	1,369	1,738	197	406	337		9,341
Equity	\$ 1,165,850	27,797	307,047	102,363	16,065	13,533	27,779	(638,822)	) 1,021,612
Three months ended September 30, 2005:									
Revenues from unaffiliated customers	\$ 199,139	25,354	616,305	133,297	12,372	14,500	45,475		1,046,442
Transfers between geographic areas	25,313	1,547	3,511	6,368	1,492	1,999	2,173	(42,403))
Total revenues	\$ 224,452	26,901	619,816	139,665	13,864	16,499	47,648	(42,403)	) 1,046,442
Net revenues	\$ 115,242	12,036	84,226	44,837	7,559	7,095	10,930		281,925
Operating income	\$ 21,127	1,475	43,083	7,344	2,030	1,419	958		77,436
Identifiable assets at quarter end	\$ 705,474	55,849	372,276	304,809	25,636	26,573	43,848	7,408	1,541,873
Capital expenditures	\$ 20,333	204	767	913	135	330	285		22,967
Depreciation and amortization	\$ 3,875	377	1,192	1,529	191	312	364		7,840
Equity	\$ 950,642	21,120	279,106	89,116	16,713	9,593	20,202	(504,752)	) 881,740
Nine months ended September 30, 2006:									
Revenues from unaffiliated customers	\$ 689,680	88,720	1,894,933	457,198	40,383	50,215	162,510		3,383,639
Transfers between geographic areas	82,443	5,828	12,120	23,560	4,603	6,096	8,144	(142,794))
Total revenues	\$ 772,123	94,548	1,907,053	480,758	44,986	56,311	170,654	(142,794)	) 3,383,639
Net revenues	\$ 388,670	45,804	270,896	156,345	23,827	23,862	39,701		949,105
Operating income	\$ 80,059	10,921	132,519	32,622	6,419	4,485	8,436		275,461
Identifiable assets at period end	\$ 854,409	67,458	415,273	349,654	27,506	33,518	63,802	44	1,811,664
Capital expenditures	\$ 115,142	521	8,020	5,240	375	1,060	1,143		131,501
Depreciation and amortization	\$ 13,461	1,014	3,769	5,003	584	1,153	1,036		26,020
Equity	\$ 1,165,850	27,797	307,047	102,363	16,065	13,533	27,779	(638,822)	) 1,021,612
Nine months ended September 30, 2005:									

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Revenues from unaffiliated customers	\$ 549,915	68,968	1,578,092	394,040	35,857	43,165	129,568		2,799,605
Transfers between geographic areas	60,939	3,894	9,359	17,366	4,139	5,437	5,956	(107,090))
Total revenues	\$ 610,854	72,862	1,587,451	411,406	39,996	48,602	135,524	(107,090)	) 2,799,605
Net revenues	\$ 311,261	36,231	211,777	131,731	21,328	19,638	31,302		763,268
Operating income	\$ 48,391	6,276	100,227	19,107	5,250	3,650	3,713		186,614
Identifiable assets at period end	\$ 705,474	55,849	372,276	304,809	25,636	26,573	43,848	7,408	1,541,873
Capital expenditures	\$ 56,770	716	2,917	3,432	672	882	770		66,159
Depreciation and amortization	\$ 11,097	1,106	3,578	4,541	517	859			