

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-Q
November 08, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2005

OR

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

For the transition period from to

Commission File Number: 000-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

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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 No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

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

At November 1, 2005, the number of shares outstanding of the issuer's Common Stock was 106,630,712.

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, 2005	December 31, 2004
Assets		
Current assets:		
Cash and cash equivalents	\$ 461,443	\$ 408,983
Short-term investments	96	109
Accounts receivable, less allowance for doubtful accounts of \$12,347 at September 30, 2005 and \$12,842 at December 31, 2004	714,112	614,044
Other current assets	15,440	22,724
Total current assets	1,191,091	1,045,860
Property and equipment, less accumulated depreciation and amortization of \$155,336 at September 30, 2005 and \$150,766 at December 31, 2004	319,362	287,379
Goodwill, less accumulated amortization of \$765 at September 30, 2005 and December 31, 2004	7,774	7,774
Other intangibles, net	9,433	10,839
Other assets, net	14,213	12,201
	\$ 1,541,873	\$ 1,364,053
Liabilities and Shareholders Equity		
Current liabilities:		
Short-term debt		2,250
Accounts payable	479,298	410,251
Accrued expenses, primarily salaries and related costs	106,197	84,778
Deferred Federal and state income taxes	3,889	6,369
Federal, state and foreign income taxes	25,868	20,668
Total current liabilities	615,252	524,316
Deferred Federal and state income taxes	33,311	24,861
Minority interest	11,570	7,472

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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 106,704,124 shares at September 30, 2005, and 106,643,953 shares at December 31, 2004

	1,067	1,066
Additional paid-in capital	12,121	44,678
Retained earnings	868,502	749,974
Accumulated other comprehensive income	50	11,686
Total shareholders equity	881,740	807,404

Commitments and contingencies

\$	1,541,873	\$	1,364,053
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See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Revenues:				
Airfreight	\$ 478,294	\$ 406,754	\$ 1,272,392	\$ 1,100,231
Ocean freight and ocean services	383,975	335,908	1,018,053	859,063
Customs brokerage and other services	184,173	154,526	509,160	423,410
Total revenues	1,046,442	897,188	2,799,605	2,382,704
Operating expenses:				
Airfreight consolidation	377,758	315,694	992,465	844,075
Ocean freight consolidation	308,385	276,886	829,614	703,018
Customs brokerage and other services	78,374	64,250	214,258	170,534
Salaries and related costs	145,629	124,744	405,024	353,716
Rent and occupancy costs	13,993	12,711	41,198	38,077
Depreciation and amortization	7,840	6,806	22,782	19,558
Selling and promotion	7,059	6,769	21,725	20,388
Other	21,604	21,908	60,877	58,864
Total operating expenses	960,642	829,768	2,587,943	2,208,230
Operating income	85,800	67,420	211,662	174,474
Interest expense	(14)	(6)	(262)	(34)
Interest income	3,031	1,436	7,903	3,700
Other, net	1,355	524	3,425	2,325
Other income, net	4,372	1,954	11,066	5,991
Earnings before income taxes and minority interest	90,172	69,374	222,728	180,465
Income tax expense	32,343	24,688	80,129	64,220
Net earnings before minority interest	57,829	44,686	142,599	116,245
Minority interest	(2,060)	(1,579)	(4,442)	(3,682)
Net earnings	\$ 55,769	\$ 43,107	\$ 138,157	\$ 112,563
Diluted earnings per share	\$.50	\$.39	\$ 1.24	\$ 1.02

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Basic earnings per share	\$.52	\$.41	\$	1.29	\$	1.07
Weighted average diluted shares outstanding		111,390,617		111,206,168		111,595,346		110,480,254
Weighted average basic shares outstanding		106,868,687		106,255,293		106,791,564		105,663,441

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Operating activities:				
Net earnings	\$ 55,769	\$ 43,107	\$ 138,157	\$ 112,563
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for losses on accounts receivable	782	2,063	424	2,307
Deferred income tax expense	4,258	8,155	12,245	18,035
Tax benefits from employee stock plans	2,852	4,597	11,807	14,637
Depreciation and amortization	7,840	6,806	22,782	19,558
Gain on sale of property and equipment	(811)	(18)	(856)	(66)
Impairment write down of other assets				2,000
Other	775	860	1,068	2,408
Changes in operating assets and liabilities:				
Increase in accounts receivable	(97,236)	(72,797)	(98,884)	(147,409)
Decrease (increase) in other current assets	9,015	(409)	7,269	(8,974)
Increase in minority interest	2,087	931	3,757	2,750
Increase in accounts payable and other current liabilities	67,580	40,041	97,805	124,690
Net cash provided by operating activities	52,911	33,336	195,574	142,499
Investing activities:				
Decrease in short-term investments	25	7	13	8
Purchase of property and equipment	(22,967)	(29,232)	(66,159)	(49,525)
Proceeds from sale of property and equipment	1,082	153	1,331	440
Other	77	(1)	(1,262)	227
Net cash used in investing activities	(21,783)	(29,073)	(66,077)	(48,850)
Financing activities:				
Borrowings (repayments) of short-term debt, net	37	3	(2,093)	(210)
Proceeds from issuance of common stock	21,153	14,949	32,228	26,440
Repurchases of common stock	(30,153)	(14,984)	(80,166)	(26,768)
Dividends paid			(16,055)	(11,642)
Net cash used in financing activities	(8,963)	(32)	(66,086)	(12,180)
Effect of exchange rate changes on cash	405	931	(10,951)	320

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Increase in cash and cash equivalents	22,570	5,162	52,460	81,789
Cash and cash equivalents at beginning of period	438,873	372,459	408,983	295,832
Cash and cash equivalents at end of period	\$ 461,443	\$ 377,621	\$ 461,443	\$ 377,621

Interest and taxes paid:

Interest	\$ 6	\$ 5	\$ 240	\$ 37
Income taxes	10,297	7,459	38,857	34,206

See accompanying notes to condensed consolidated financial statements.

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, 2005.

The Company applies 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 has been recognized for its fixed stock option or employee stock purchase rights plans. Had compensation cost for the Company's three stock-based compensation and employee stock purchase rights plans been determined consistent with SFAS No. 123, the Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

(in thousands, except share data)	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
Net earnings as reported	\$ 55,769	43,107	138,157	112,563
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,629)	(6,584)	(22,142)	(20,483)
Net earnings pro forma	\$ 49,140	36,523	116,015	92,080
Basic earnings per share as reported	\$.52	.41	1.29	1.07
Basic earnings per share pro forma	\$.46	.34	1.09	.87
Diluted earnings per share as reported	\$.50	.39	1.24	1.02
Diluted earnings per share pro forma	\$.44	.33	1.05	.84

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and supersedes APB Opinion No. 25,

Accounting for Stock Issued to Employees. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans, to be recognized in the financial statements based on their fair values. The Company is required to adopt SFAS No. 123R in the first quarter of 2006. The Company is evaluating the requirements of SFAS No. 123R and expects the adoption of SFAS No. 123R will have a material impact on the consolidated results of operations, earnings per share and consolidated statement of cash

flows.

Note 2. Comprehensive Income

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,	
	2005	2004	2005	2004
Net earnings	\$ 55,769	\$ 43,107	\$ 138,157	\$ 112,563
Foreign currency translation adjustments net of tax of: \$(17) and \$(743) for the 3 months ended September 30, 2005 and 2004, and \$6,235 and \$(535) for the 9 months ended September 30, 2005 and 2004.	33	1,379	(11,578)	994
Unrealized loss on securities net of tax of \$4 and \$14 for the 3 months ended September 30, 2005 and 2004 and \$41 and \$31 for the 9 months ended September 30, 2005 and 2004.	(6)	(26)	(57)	(57)
Total comprehensive income	\$ 55,796	\$ 44,460	\$ 126,522	\$ 113,500

Note 3. Business Segment Information

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.

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Financial information regarding the Company's operations by geographic area for the three and nine months ended September 30, 2005 and 2004 are as follows:

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	FAR EAST	EUROPE	AUSTRALIA/NEW ZEALAND	LATIN AMERICA	MIDDLE EAST	ELIMI-NATIONS	CONSOLI-DATED
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	\$ 27,769	1,759	43,513	7,911	2,075	1,546	1,227		85,800
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	\$ 947,826	21,590	279,783	90,077	16,783	9,798	20,635	(504,752)	881,740
Three months ended September 30, 2004:									
Revenues from unaffiliated customers	\$ 166,438	19,836	522,274	123,740	11,503	15,086	38,311		897,188
Transfers between geographic areas	19,254	1,267	3,000	4,778	1,366	1,569	1,753	(32,987)	
Total revenues	\$ 185,692	21,103	525,274	128,518	12,869	16,655	40,064	(32,987)	897,188
Net revenues	\$ 96,495	11,215	68,925	41,288	6,636	5,673	10,126		240,358
Operating income	\$ 20,892	1,953	32,324	6,969	1,804	1,165	2,313		67,420
Identifiable assets at quarter end	\$ 660,037	43,787	251,407	265,921	21,517	19,004	35,973	9,716	1,307,362
Capital expenditures	\$ 23,516	354	3,570	854	165	480	293		29,232
Depreciation and amortization	\$ 3,383	307	1,084	1,290	173	195	374		6,806
Equity	\$ 827,659	16,548	180,835	75,683	13,769	5,010	16,112	(373,946)	761,670
Nine months ended September 30, 2005:									

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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	\$ 68,805	7,050	101,341	20,689	5,365	3,987	4,425		211,662
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	1,084		22,782
Equity	\$ 947,826	21,590	279,783	90,077	16,783	9,798	20,635	(504,752)	881,740

Nine months ended September 30, 2004:

Revenues from unaffiliated customers	\$ 455,227	55,923	1,343,241	354,655	31,992	39,025	102,641		2,382,704
Transfers between geographic areas	50,536	3,014	8,187	13,098	3,799	4,668	4,595	(87,897)	
Total revenues	\$ 505,763	58,937	1,351,428	367,753	35,791	43,693	107,236	(87,897)	2,382,704