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)

ý **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

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: 000-13468

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 ý No o

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

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

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 SUBSIDIARIES

Condensed 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

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

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, 2005	Three months ended September 30, 2004	Nine months ended September 30, 2005	Nine months ended September 30, 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

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

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:

		Three months ended September 30,		Nine months ended September 30,	
(in thousands, except share data)		**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:

	Three months ended September 30,		Nine months ended September 30,	
(in thousands)	**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.

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:									

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
Net revenues	$ 266,206	31,180	188,474	118,332	18,275	15,569	27,041		665,077
Operating income	$ 49,001	6,256	87,341	19,567	4,428	2,433	5,448		174,474
Identifiable assets at period end	$ 660,037	43,787	251,407	265,921	21,517	19,004	35,973	9,716	1,307,362
Capital expenditures	$ 31,013	1,405	8,211	5,175	741	1,205	1,775		49,525
Depreciation and amortization	$ 10,054	876	2,877	3,737	474	530	1,010		19,558
Equity	$ 827,659	16,548	180,835	75,683	13,769	5,010	16,112	(373,946)	761,670

Note 4. Basic and Diluted Earnings per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share for the three months and nine months ended September 30, 2005 and 2004:

	Three months ended September 30,		
(Amounts in thousands, except share and per share amounts)	**Net Earnings**	**Weighted Average Shares**	**Earnings Per Share**
2005			
Basic earnings per share	$ 55,769	106,868,687	$ .52
Effect of dilutive potential common shares		4,521,930	
Diluted earnings per share	$ 55,769	111,390,617	$ .50
2004			
Basic earnings per share	$ 43,107	106,255,293	$ .41
Effect of dilutive potential common shares		4,950,875	
Diluted earnings per share	$ 43,107	111,206,168	$ .39

	Nine months ended September 30,		
(Amounts in thousands, except share and per share amounts)	**Net Earnings**	**Weighted Average Shares**	**Earnings Per Share**
2005			
Basic earnings per share	$ 138,157	106,791,564	$ 1.29
Effect of dilutive potential common shares		4,803,782	
Diluted earnings per share	$ 138,157	111,595,346	$ 1.24
2004			
Basic earnings per share	$ 112,563	105,663,441	$ 1.07
Effect of dilutive potential common shares		4,816,813	
Diluted earnings per share	$ 112,563	110,480,254	$ 1.02

The following shares have been excluded from the computation of diluted earnings per share because the effect would have been antidilutive:

	Three months ended September 30,		Nine months ended September 30,	
	2005	**2004**	**2005**	**2004**
Shares	250		250	64,000

Note 5. Recent Accounting Pronouncements

In December 2004, the 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, beginning with the first interim or annual period of the Company s first fiscal year beginning after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense related to unvested options granted prior to the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company is required to adopt SFAS No. 123R in the first quarter of 2006, beginning January 1, 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include the modified prospective and retrospective adoption methods. Under the modified retrospective methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The modified prospective method requires that compensation expense be recorded for all unvested stock options and share awards as of the beginning of the first quarter of adoption of SFAS No. 123R, while the modified retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. 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. The Company has not determined the method of adoption or the effect of adopting SFAS No. 123R.

In December 2004, the FASB issued FASB Staff Position (FSP) No. 109-2, Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004 , which provides guidance under SFAS No. 109, Accounting for Income Taxes, with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the Jobs Act) on enterprises income tax expense and deferred tax liability. The Jobs Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. FSP No. 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret certain provisions in the Act. As such, the Company is not yet in a position to determine to what extent the Company will repatriate foreign earnings that have not yet been remitted to the U.S. and, as provided for in FSP No. 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act. The Company will complete its evaluation and quantification in 2005. Since the Company has provided U.S. taxes on all unremitted foreign earnings, the repatriation of foreign earnings in accordance with the repatriation provisions of the Jobs Act would result in a reduction of the Company s tax expense and deferred tax liability.

Note 6. Stock and Cash Dividends

On May 9, 2005, the Board of Directors declared a semi-annual cash dividend of $.15 per share payable on June 15, 2005 to shareholders of record as of June 1, 2005. The dividend of $16 million was paid on June 15, 2005.

On May 6, 2004, the Board of Directors declared a semi-annual cash dividend of $.11 per share payable on June 15, 2004 to shareholders of record as of June 1, 2004. The dividend of $12 million was paid on June 15, 2004.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Certain portions of this report on Form 10-Q including the section entitled Currency and Other Risk Factors and Liquidity and Capital Resources contain forward-looking statements which must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on or about March 16, 2005.

EXECUTIVE SUMMARY

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value-added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or ocean vessels.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and United States and foreign laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the affects adoption of any such proposal will have on the Company s business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being influenced by governmental policies concerning international trade, the Company s business may also be affected by political developments and changes in government personnel or policies in the nations in which it does business.

The Company derives its revenues from three principal sources: airfreight, ocean freight and customs brokerage and other services. These are the revenue categories presented in the financial statements.

As a non-asset based carrier, the Company does not own transportation assets. Rather, the Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. The difference between the rate billed to customers (the sell rate), and the rate paid to the carrier (the buy rate) is termed net revenue. Net revenue expressed as a percentage of the sell rate is referred to as the yield. By consolidating shipments from multiple customers and concentrating its buying power, the Company is able to negotiate favorable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

Customs brokerage and other services involves providing services at destination, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers as well as arranging for any required inspections by governmental agencies, and arranging for delivery. This is a complicated function requiring technical knowledge of customs rules and regulations in the multitude of countries in which the Company has offices.

The Company s ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean carriers, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based providers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with governmental regulations implementing security policies and procedures, inherent conflicts emerge which can, and do, affect global trade to some degree. A good reputation helps to develop practical working understandings that will effectively meet security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. Changes in space allotments available from carriers, governmental deregulation efforts, modernization of the regulations governing customs brokerage, and/or changes in governmental quota restrictions could affect the Company s business in unpredictable ways.

Historically, the Company s operating results have been subject to a seasonal trend when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors including climate, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of the Company s international network and service offerings. The Company cannot accurately forecast many of these factors nor can the Company estimate accurately the relative influence of any particular factor and, as a result, there can be no assurance that historical patterns, if any, will continue in future periods.

A significant portion of the Company s revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company s revenues are, to a large degree, impacted by factors out of the Company s control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company s stock.

As further discussed under liquidity and capital resources, total capital expenditures in 2005 are expected to exceed $80 million.

In terms of the opportunities, challenges and risks that management is focused on in 2005, the Company operates in 57 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company s greatest challenge is now, and always has been, perpetuating a consistent global culture which demands:

- Total dedication to providing superior customer service;
- Aggressive marketing of all of the Company s service offerings;
- Ongoing development of key employees;

Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth and continuous improvement;

Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and

Continuous identification, design and implementation of system solutions, both technological and otherwise, to meet and exceed the needs of our customers while simultaneously delivering tools to make our employees more efficient and more effective.

The Company has reinforced these values with a compensation system that rewards employees for profitably managing the things they can control. There is no limit to how much a key manager can be compensated for success. While base salaries are well below industry standards, incentive compensation is a fixed percentage of operating profits**.** The Company believes in a real world environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

Any failure to perpetuate this unique culture on a self-sustained basis throughout the Company, provides a greater threat to the Company s continued success than any external force, which would be largely beyond our control. Consequently, management spends the majority of its time focused on creating an environment where employees can learn and develop while also building systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future operations. As a result our focus is on building and maintaining a global culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Policies and Estimates

Management believes that the nature of the Company s business is such that there are few, if any, complex challenges in accounting for operations.

While judgments and estimates are a necessary component of any system of accounting, the Company s use of estimates is limited primarily to the following areas that in the aggregate are not a major component of the Company s statement of earnings:

accounts receivable valuation;

the useful lives of long-term assets;

the accrual of costs related to ancillary services the Company provides;

establishment of adequate insurance liabilities for the portion of the freight related exposure which the Company has self-insured; and

accrual of tax expense on an interim basis.

Management believes that the methods utilized in all of these areas are non-aggressive in approach and consistent in application. Management believes that there are limited, if any, alternative accounting principles or methods which could be applied to the Company s transactions. While the use of estimates means that actual future results may be different from those contemplated by the estimates, the Company believes that alternative principles and methods used for making such estimates would not produce materially different results than those reported.

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company s principal services and the Company s expenses for the three and nine-month periods ended September 30, 2005 and 2004, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company s principal services since total revenues earned by the Company as a freight consolidator include the carriers charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

The table and the accompanying discussion and analysis should be read in conjunction with the condensed consolidated financial statements and related notes thereto which appear elsewhere in this quarterly report.

	Three months ended September 30, 2005		Three months ended September 30, 2004		Nine months ended September 30, 2005		Nine months ended September 30, 2004	
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
	(Amounts in thousands)							
Net revenues:								
Airfreight	$ 100,536	36%	$ 91,060	38%	$ 279,927	37%	$ 256,156	39%
Ocean freight and ocean services	75,590	27	59,022	24	188,439	25	156,045	23
Customs brokerage and other services	105,799	37	90,276	38	294,902	38	252,876	38
Net revenues	281,925	100	240,358	100	763,268	100	665,077	100
Operating expenses:								
Salaries and related costs	145,629	52	124,744	52	405,024	53	353,716	53
Other	50,496	18	48,194	20	146,582	19	136,887	21
Total operating expenses	196,125	70	172,938	72	551,606	72	490,603	74
Operating income	85,800	30	67,420	28	211,662	28	174,474	26
Other income, net	4,372	2	1,954	1	11,066	1	5,991	1
Earnings before income taxes and minority interest	90,172	32	69,374	29	222,728	29	180,465	27
Income tax expense	32,343	11	24,688	10	80,129	10	64,220	10
Net earnings before minority interest	57,829	21	44,686	19	142,599	19	116,245	17
Minority interest	(2,060)	(1)	(1,579)	(1)	(4,442)	(1)	(3,682)	
Net earnings	$ 55,769	20%	$					

Management believes that the nature of the Company s business is such that there are few, if any, complex challe