

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 8-K
July 25, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: **July 24, 2003**

(Date of earliest event reported)

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

Washington

000-13468

91-1069248

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(State or other jurisdiction of
incorporation or organization)

(Commission File No.)

(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)

N/A

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(Former name or former address, if changed since last report)

Item 9. Regulation FD Disclosure.

The following information is included in this document as a result of Expeditors' policy regarding public disclosure of corporate information. Answers to additional inquiries, if any, that comply with this policy are scheduled to become available on or about August 14, 2003.

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

Certain portions of this document including the answers to questions 1, 3, 4, 6, 10, 11, 12, 13, 14, 15, 16, 17, 18 and 19 contain forward-looking statements which are based on certain assumptions and expectations of future events that are subject to risks and uncertainties. Actual future results and trends may differ materially from historical results or those projected in any forward-looking statements depending on a variety of factors including, but not limited to, changes in customer demand for Expeditors' services caused by a general economic slow-down, inventory build-up, decreased consumer confidence, volatility in equity markets, energy prices, political changes, or the unpredictable acts of competitors.

SELECTED INQUIRIES RECEIVED THROUGH JULY 15, 2003

1. *Does IATA Resolution 502 (calling for the amendment of dimensional weight pricing standards) stand a chance at being implemented this year?*

In May 2002, IATA adopted Resolution 502 with a scheduled effective date of October 2002. This change to the dimensional factor was subject to review by several governments and as a result of concerns, the effective date was postponed to October 2003. In the United States, the agency with the authority to approve or reject the change is the Department of Transportation (DOT).

Among the many comments received by DOT was a May 29, 2003 filing by the Department of Justice (DOJ) which did more than just urge the rejection of the change to the volumetric weight rule by urging that the DOT reactivate an investigation of the antitrust immunity granted to IATA itself.

Commentators have referred to the DOJ action as a stinging opinion and a potentially lethal blow. As we said, the DOT has the final say, but our guess is that DOT will go along with the DOJ recommendation that any airline that desires to adopt a new weight factor do so alone without the collective imprimatur of IATA. Implementation by individual airlines would likely be much more problematic.

2. *The Port of Los Angeles reported modest, and decelerated, year-over-year growth for inbound containers during June. How did Expeditors Asia to U.S. ocean freight volumes track during June and into July?*

While much attention has been directed to aggregate port traffic as a proxy for our ocean results, we wonder about the validity of the general container count as a predictive tool. We make this statement because our figures show that our June 2003 Asia to North America container count (on an FEU basis) was up 23% over June 2002. Comparing 2002 with 2001 for the same month of June, the increase in the monthly container count was 38%.

We also worry when we release a number like year-over-year container count for one month that we have failed to provide sufficient context for the reader. So we want to recall the fact that in June 2002 there was significant conjecture that the increase in freight handled in the California ports was in anticipation of a potential labor disruption a disruption that actually occurred during the third quarter of 2002.

While we do not consider a 23% increase in anything to be modest, it is true that 23 is less than 38 so in the sense of your analysis it is decelerated year-over-year growth although in both cases we did better than the overall port figures might cause an analyst to predict.

Dichotomizing increases into decelerated and accelerated can be a relatively harmless observation, unless of course you go a step further and label one good and the other bad.

Even if total port activity could be used to predict the number of containers we handled, and we hope you see that it really can't, tonnage is tonnage. What we think you should care about is the amount of net revenue from whatever tonnage we handled.

3. *We have been trying to set up a visit to come see senior management at Expeditors in Seattle for over two months now and no one from Expeditors will return our many phone calls or emails. Are you too busy to respond to the sell side? Are you afraid the sell side's tarnish may somehow rub off on Expeditors? Or are we having this problem for the first time in the over five years we have covered Expeditors as a result of our current sell rating?*

We were surprised to get a question like this and we spent some amount of time trying to decide whether or not you really wanted an answer. It was possible, after all, that this was really just another effort to get the appointment you have been seeking. But, then as you say it has been 5 years and so could we be safe in assuming that you know that a question like this one would be impossible to ignore?

So we were left wondering whether you knew us or not. We frankly still aren't sure and fear that we may be making a mistake, but we are going to answer anyway.

Let's start with the fact that for a couple of months we have been ignoring your calls and emails. This is true. Your calls and emails requesting a visit have been ignored. The message is one that any seventeen-year-old boy would understand; you are not going to get your date. We were hoping not to have to give reasons, but we certainly wanted you to get the message: no date.

We could stop here, and most seventeen-year-old girls likely would, but your question sets forth numerous incorrect assumptions as to why we aren't giving you the time and attention you seek. Each is incorrect and for the sake of other sell-side analysts and interested readers, we want to deal with each one in turn.

Are you too busy to respond to sell-side analysts?

The answer is no. We do speak with plenty of other sell-side analysts, so your plight is much more personal.

We regard talking with the analysts, sell-side or buy-side, as an important function. It is so important, in fact, that we delegate only two people to meet with the financial community – our CEO and our CFO. While it is true that given the growth in our company, we are busier than we have ever been, we do try to cover all of our analyst bases. We’ve always said that actions speak louder than words and we honestly feel that the best thing we can do for the investors is to actually spend time making money through customer service, as opposed to spending a lot of time huddled in a conference room talking. As with many things, those who talk the most probably do the least.

Do you think that spending time with sell-side analysts will tarnish your reputation?

We’ve made our reputation as freight forwarders so the only folks we avoid are the competition.

Much has been made lately of abuses on Wall Street and the board rooms of Main Street. We applaud the efforts made by the SEC to recognize that it takes two to tango, and many more if you are going to host a dance. What we have to say about analysts, we will say. For a long time the rules rightly punished corporate insiders for any effort to profit from inside information, while looking the other way and allowing the sell side free reign to traffic in it. Honest analysis is valuable and we hope that the information put out in this forum gives everyone an equal opportunity to predict what our future holds.

Are we having this problem because of our sell recommendation on Expeditors stock?

No, you could raise your rating to strong buy and your problem would remain. Most of the sell-side analysts who follow us have had sell recommendations or their equivalent on Expeditors at one time or another. This includes one respected analyst who has been following this sector nearly forever. This particular analyst comes like clockwork and we welcome the visits even when this analyst has a sell rating on us.

We won't pretend that we like sell recommendations, but that having been said, we have never refused an analyst access to management on the basis of a negative recommendation.

So why won't you meet with me and my clients?

In fairness you did not ask this last question, but we think it is the one you still want answered. You have expressed your opinions and have done a great deal to advance your thesis. What you write gets out there for everyone to read, and that is fair enough.

However, you do more and some of it has gotten back to us. From the messages you have left for people you likely assume are clients, it is clear that you have lost your objectivity. These are not our words, these are the words of your presumed clients. These same investors have gone on to urge that we have nothing more to do with you because of this loss of professional detachment.

Now, it is true that the folks we talk with are likely long-term investors in Expeditors so maybe they are less than completely objective. But in the final analysis, you are asking us to take time out of our day, time that belongs to Expeditors and its shareholders, to meet with you and certain clients of yours. This is taking shareholder time to build value into your business and enhance your professional standing. More than one institutional investor thinks that this would be a huge waste, and we agree.

Basically it comes down to this: you can say whatever you want. We have no problem with that. However, when we feel that you have lost your objectivity to the point that whatever you say will be skewed and slanted to fit your own purposes, why should we provide you with the façade of legitimacy by permitting you to take up our time with a visit to our corporate office? Your clients are always welcome, they just need a new escort.

So, how about cutting the Dixie Chicks routine? You've said what you've said and taken the positions you've taken. You're allowed to do that and in fact we have no doubt we are in for another round as there is no way we could be lucky enough to have you drop coverage. So go ahead and huff and puff. This company was not built from straw or sticks. It is made of cash and bricks. You're not going to blow it down and you're not getting in not by the hairs of our chinny chin chin!

4. *Has your business been affected and/or do you expect it to be affected in any way by the LTL consolidation over the past year? If so, how? (Please consider that the number of national LTL carriers may be reduced from four just one year ago to two by the end of 2003 as a result of the Consolidated Freightways bankruptcy and the pending merger between Yellow and Roadway).*

Our business does not appear to have been affected by the consolidation in the LTL sector. LTL business didn't go away just some of the firms who service it.

5. *We noticed a significant year-over-year decline in overall airfreight flow in June. Did Expeditors experience a similar trend?*

At Expeditors, overall airfreight tonnage was down year-over-year for the month of June 2003, however, we were up on a net revenue basis for the same period. As we have said before, there is often an inverse relationship between overall tonnage and yields such that when tonnage contracts, yields tend to expand.

6. Please describe the quarter-ending trends experienced in the second quarter of 2003 relative to historical trends and relative to your expectations. Did the trends differ with airfreight and ocean freight? If so, how?

As we said consistently last year, we know that our 2002 numbers were in some measure changed by shipping patterns leading up to and following the west coast port concerns, but it is hard for us to quantify.

If we make the assumption that the proportion of freight that flew airfreight in June 2002 was historically higher than it otherwise would have been, it would stand to reason that we might see a dip in airfreight tonnage for June 2003, which in fact we did.

Trends normally differ between air and ocean freight. The third quarter is typically an ocean freight quarter where our ocean freight revenues can be expected to peak. Airfreight revenues typically peak in the fourth quarter. Last year was obviously an anomaly and we will have to see how 2003 shakes out to fully answer this question if we are able to then.

7. Have you experienced weaker volumes with your European business, corresponding Europe's weakening economy?

Volumes related to overall European business have actually held up pretty well for us. In June 2003, export tonnage was up nearly 9% on a year-over-year basis and year to date, through the end of June, our European tonnage is up nearly 12%. Given the status of the European economy, we're happy with these volumes.

8. Please provide your headcount breakdown by region.

As of June 30th, our headcount was as follows:

	2003	2002	Change	%
<i>North America</i>	<i>3,055</i>	<i>2,830</i>	<i>225</i>	<i>8.0%</i>
<i>South America</i>	<i>310</i>	<i>249</i>	<i>61</i>	<i>24.5</i>
<i>Europe and Africa</i>	<i>1,511</i>	<i>1,465</i>		

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