

UNITED PARCEL SERVICE INC
Form 10-Q
May 10, 2007

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 March 31, 2007, 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 001-15451

United Parcel Service, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or Other Jurisdiction of

Incorporation or Organization)

55 Glenlake Parkway, NE Atlanta, Georgia
(Address of Principal Executive Offices)

(404) 828-6000

(Registrant's telephone number, including area code)

58-2480149
(IRS Employer

Identification No.)

30328
(Zip Code)

Former name, former address and former fiscal year, if changed since last report.

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 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.

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 ☒

There were 381,806,724 Class A shares, and 677,237,752 Class B shares, with a par value of \$0.01 per share, outstanding at May 4, 2007.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

March 31, 2007 (unaudited) and December 31, 2006

(In millions)

	March 31, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 871	\$ 794
Marketable securities and short-term investments	1,527	1,189
Accounts receivable, net	5,490	5,794
Finance receivables, net	409	426
Deferred income tax assets	489	414
Other current assets	736	760
Total Current Assets	9,522	9,377
Property, Plant and Equipment, Net	16,738	16,779
Pension and Postretirement Benefit Assets	2,036	2,044
Goodwill	2,543	2,533
Intangible Assets, Net	703	688
Long-Term Finance Receivables, Net	394	374
Other Non-Current Assets	1,439	1,415
	\$ 33,375	\$ 33,210
LIABILITIES AND SHAREOWNERS' EQUITY		
Current Liabilities:		
Current maturities of long-term debt and commercial paper	\$ 976	\$ 983
Accounts payable	1,797	1,841
Accrued wages and withholdings	1,473	1,303
Dividends payable		400
Self-insurance reserves	737	682
Income taxes payable	539	101
Other current liabilities	1,495	1,409
Total Current Liabilities	7,017	6,719
Long-Term Debt	3,139	3,133
Pension and Postretirement Benefit Obligations	2,788	2,748
Deferred Income Tax Liabilities	2,535	2,529
Self-Insurance Reserves	1,589	1,604
Other Non-Current Liabilities	999	995
Shareowners' Equity:		
Class A common stock (389 and 401 shares issued in 2007 and 2006)	4	4
Class B common stock (677 and 672 shares issued in 2007 and 2006)	7	7
Additional paid-in capital		
Retained earnings	17,476	17,676
Accumulated other comprehensive loss	(2,179)	(2,205)

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Deferred compensation obligations	135	147
	15,443	15,629
Less: Treasury stock (3 shares in 2007 and 2006)	(135)	(147)
Total Shareowners' Equity	15,308	15,482
Total Liabilities and Shareowners' Equity	\$ 33,375	\$ 33,210

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(In millions, except per share amounts)

(unaudited)

	Three Months Ended March 31,	
	2007	2006
Revenue	\$ 11,906	\$ 11,521
Operating Expenses:		
Compensation and benefits	6,341	6,019
Repairs and maintenance	306	289
Depreciation and amortization	436	439
Purchased transportation	1,330	1,279
Fuel	616	578
Other occupancy	252	252
Other expenses	1,267	1,110
Total Operating Expenses	10,548	9,966
Operating Profit	1,358	1,555
Other Income and (Expense):		
Investment income	14	23
Interest expense	(49)	(48)
Total Other Income and (Expense)	(35)	(25)
Income Before Income Taxes	1,323	1,530
Income Taxes	480	555
Net Income	\$ 843	\$ 975
Basic Earnings Per Share	\$ 0.79	\$ 0.89
Diluted Earnings Per Share	\$ 0.78	\$ 0.89

STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

(In millions)

(unaudited)

	Three Months Ended March 31,	
	2007	2006
Net income	\$ 843	\$ 975
Change in foreign currency translation adjustment	31	27
Change in unrealized gain (loss) on marketable securities, net of tax	4	(1)
Change in unrealized gain (loss) on cash flow hedges, net of tax	(39)	(18)

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Change in unrecognized pension and postretirement benefit costs, net of tax	30	
Comprehensive income	\$ 869	\$ 983

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED CASH FLOWS

(In millions)

(unaudited)

	Three Months Ended March 31,	
	2007	2006
Cash Flows From Operating Activities:		
Net income	\$ 843	\$ 975
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	436	439
Pension & postretirement benefit expense	130	144
Pension & postretirement benefit contributions	(29)	(28)
Self-insurance reserves	40	126
Deferred taxes, credits, and other	(129)	8
Stock compensation expense	95	68
Asset impairment and obsolescence charge	221	
Other (gains) losses	24	15
Changes in assets and liabilities:		
Accounts receivable, net	270	163
Other current assets	(17)	54
Accounts payable	(16)	(149)
Accrued wages and withholdings	169	249
Income taxes payable	469	296
Other current liabilities	84	203
Other operating activities	(97)	(35)
Net cash from operating activities	2,493	2,528
Cash Flows From Investing Activities:		
Capital expenditures	(668)	(596)
Proceeds from disposals of property, plant and equipment	20	10
Purchases of marketable securities and short-term investments	(3,019)	(1,692)
Sales and maturities of marketable securities and short-term investments	2,687	1,354
Net decrease in finance receivables	24	15
Other investing activities	11	(69)
Net cash (used in) investing activities	(945)	(978)
Cash Flows From Financing Activities:		
Net change in short-term debt	(14)	(175)
Proceeds from long-term borrowings	80	
Repayments of long-term borrowings	(79)	(32)
Purchases of common stock	(669)	(867)
Issuances of common stock	38	40
Dividends	(830)	(763)
Net cash (used in) financing activities	(1,474)	(1,797)
Effect Of Exchange Rate Changes On Cash and Cash Equivalents	3	2
Net Increase (Decrease) In Cash And Cash Equivalents	77	(245)

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Cash And Cash Equivalents:

Beginning of period	794	1,369
End of period	\$ 871	\$ 1,124

See notes to unaudited consolidated financial statements.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

In our opinion, the accompanying interim, unaudited, consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. These consolidated financial statements contain all adjustments (consisting of normal recurring accruals) necessary to present fairly our financial position as of March 31, 2007, our results of operations for the three months ended March 31, 2007 and 2006, and cash flows for the three months ended March 31, 2007 and 2006. The results reported in these consolidated financial statements should not be regarded as necessarily indicative of results that may be expected for the entire year. The interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

For interim consolidated financial statement purposes, we provide for accruals under our various employee benefit plans and self-insurance reserves for each three month period based on one quarter of the estimated annual expense.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Note 2. Stock-Based Compensation

We issue employee share-based awards under the UPS Incentive Compensation Plan, which permits the grant of nonqualified stock options, incentive stock options, stock appreciation rights, restricted stock, performance shares, performance units, and management incentive awards to eligible employees. The primary compensation programs offered under the UPS Incentive Compensation Plan include the UPS Management Incentive Awards Program, the UPS Long-Term Incentive Program and the UPS Long-Term Incentive Performance Award program. We also maintain an employee stock purchase plan which allows eligible employees to purchase shares of UPS class A common stock at a discount.

During the first quarter of 2007, we granted target restricted stock units (RSUs) under the UPS Long-Term Incentive Performance Award program to eligible management. Of the total 2007 target award, 90% of the target award will be divided into three substantially equal tranches, one for each calendar year in the three-year award cycle from 2007 to 2009, using performance criteria targets established each year consisting of consolidated operating return on invested capital and growth in consolidated revenue. The remaining 10% of the total 2007 target award will be based upon our achievement of adjusted earnings per share for the three-year award cycle compared to a target established at the beginning of the award cycle.

The number of RSUs earned each year will be the target number adjusted for the percentage achievement of performance criteria targets for the year. The percentage of achievement used to determine the RSUs earned may be a percentage less than or more than 100% of the target RSUs for each tranche. Target RSU award grants range in size from 50% to 250% of annual salary based upon the participant's responsibility level within UPS. The target RSU grant for the 2007 Long-Term Incentive Performance Awards program was valued using the closing New York Stock Exchange price of \$70.12 on March 1, 2007.

Awards granted under the UPS Long-Term Incentive program are normally granted during the second quarter of each year, and awards granted under the Management Incentive Awards program are normally granted during the fourth quarter of each year. Compensation expense for share-based awards recognized in net income for the three months ended March 31, 2007 and 2006 was \$95 and \$68 million pre-tax, respectively.

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 3. New Accounting Pronouncements

In February 2007, the FASB issued Statement No. 159 The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159), which allows for voluntary measurement of financial assets and financial liabilities as well as certain other items at fair value. Unrealized gains and losses on financial instruments for which the fair value option has been elected are reported in earnings. The provisions of FAS 159 are effective for us on January 1, 2008, and we are currently evaluating the impact of adopting FAS 159 on our financial statements.

On January 1, 2007, we adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (an interpretation of FASB Statement No. 109) (FIN 48). The impact of this Interpretation is discussed in Note 14.

Note 4. Marketable Securities and Short-Term Investments

The following is a summary of marketable securities and short-term investments as of March 31, 2007 and December 31, 2006 (in millions):

		Unrealized	Unrealized	Estimated
	Cost	Gains	Losses	Fair Value
March 31, 2007				
U.S. government and agency securities	\$ 125	\$	\$	\$ 125
Mortgage and asset-backed securities	209	1	2	208
Corporate securities	89			89
State and local municipal securities	846			846
Other debt securities	2			2
Total debt securities	1,271	1	2	1,270
Common equity securities	38	15		53
Preferred equity securities	204			