

UNITED PARCEL SERVICE INC

Form 10-Q

August 06, 2014

Table of Contents

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 June 30, 2014, 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)

58-2480149

(IRS Employer

Identification No.)

55 Glenlake Parkway, NE Atlanta, Georgia

(Address of Principal Executive Offices)

(404) 828-6000

(Registrant's telephone number, including area code)

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer", "large accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Check one: Large accelerated filer Accelerated filer Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

There were 207,146,352 Class A shares, and 706,356,536 Class B shares, with a par value of \$0.01 per share, outstanding at July 29, 2014.

Table of Contents

UNITED PARCEL SERVICE, INC.

QUARTERLY REPORT ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2014

TABLE OF CONTENTS

PART I—FINANCIAL INFORMATION

| | | |
|---------------------------|--|-----------|
| | <u>Cautionary Statement About Forward-Looking Statements</u> | <u>1</u> |
| Item 1. | <u>Financial Statements</u> | <u>2</u> |
| | <u>Consolidated Balance Sheets</u> | <u>2</u> |
| | <u>Statements of Consolidated Income</u> | <u>3</u> |
| | <u>Statements of Consolidated Comprehensive Income</u> | <u>3</u> |
| | <u>Statements of Consolidated Cash Flows</u> | <u>4</u> |
| | <u>Notes to Consolidated Financial Statements</u> | <u>5</u> |
| | <u>Note 1—Basis of Presentation</u> | <u>5</u> |
| | <u>Note 2—Recent Accounting Pronouncements</u> | <u>5</u> |
| | <u>Note 3—Stock-Based Compensation</u> | <u>6</u> |
| | <u>Note 4—Investments and Restricted Cash</u> | <u>8</u> |
| | <u>Note 5—Property, Plant and Equipment</u> | <u>11</u> |
| | <u>Note 6—Employee Benefit Plans</u> | <u>12</u> |
| | <u>Note 7—Goodwill and Intangible Assets</u> | <u>15</u> |
| | <u>Note 8—Debt and Financing Arrangements</u> | <u>16</u> |
| | <u>Note 9—Legal Proceedings and Contingencies</u> | <u>17</u> |
| | <u>Note 10—Shareowners’ Equity</u> | <u>20</u> |
| | <u>Note 11—Segment Information</u> | <u>24</u> |
| | <u>Note 12—Earnings Per Share</u> | <u>25</u> |
| | <u>Note 13—Derivative Instruments and Risk Management</u> | <u>26</u> |
| | <u>Note 14—Income Taxes</u> | <u>31</u> |
| | <u>Note 15—Termination of TNT Transaction</u> | <u>31</u> |
| Item 2. | <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>32</u> |
| | <u>Overview</u> | <u>32</u> |
| | <u>Items Affecting Comparability</u> | <u>32</u> |
| | <u>Results of Operations - Segment Review</u> | <u>33</u> |
| | <u>U.S. Domestic Package Operations</u> | <u>34</u> |
| | <u>International Package Operations</u> | <u>37</u> |
| | <u>Supply Chain & Freight Operations</u> | <u>40</u> |
| | <u>Consolidated Operating Expenses</u> | <u>42</u> |
| | <u>Investment Income and Interest Expense</u> | <u>44</u> |
| | <u>Income Tax Expense</u> | <u>44</u> |
| | <u>Liquidity and Capital Resources</u> | <u>45</u> |
| | <u>Net Cash From Operating Activities</u> | <u>45</u> |
| | <u>Net Cash Used in Investing Activities</u> | <u>46</u> |
| | <u>Net Cash Used in Financing Activities</u> | <u>47</u> |
| | <u>Sources of Credit</u> | <u>48</u> |
| | <u>Contingencies</u> | <u>49</u> |
| | <u>Collective Bargaining Agreements</u> | <u>51</u> |
| | <u>Recent Accounting Pronouncements</u> | <u>53</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | <u>55</u> |
| Item 4. | <u>Controls and Procedures</u> | <u>55</u> |
| PART II—OTHER INFORMATION | | |
| Item 1. | <u>Legal Proceedings</u> | <u>56</u> |

| | | |
|----------|--|-----------|
| Item 1A. | <u>Risk Factors</u> | <u>56</u> |
| Item 2. | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | <u>56</u> |
| Item 6. | <u>Exhibits</u> | <u>57</u> |

Table of Contents

PART I. FINANCIAL INFORMATION

Cautionary Statement About Forward-Looking Statements

This report includes certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Statements in the future tense, and all statements accompanied by terms such as “believe,” “project,” “expect,” “estimate,” “assume,” “intend,” “anticipate,” “target,” “plan,” and variations thereof and similar terms are intended to be forward-looking statements. We intend that all forward-looking statements we make will be subject to safe harbor protection of the federal securities laws pursuant to Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.

Our disclosure and analysis in this report, in our Annual Report on Form 10-K for the year ended December 31, 2013 and in our other filings with the Securities and Exchange Commission contain some forward-looking statements regarding our intent, belief and current expectations about our strategic direction, prospects and future results. From time to time, we also provide forward-looking statements in other materials we release as well as oral forward-looking statements. Such statements give our current expectations or forecasts of future events; they do not relate strictly to historical or current facts. Management believes that these forward-looking statements are reasonable as and when made. However, caution should be taken not to place undue reliance on any such forward-looking statements because such statements speak only as of the date when made.

Forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or anticipated results. These risks and uncertainties include, but are not limited to: general economic conditions, both in the U.S. and internationally; significant competition on a local, regional, national, and international basis; changes in our relationships with our significant customers; the existing complex and stringent regulation in the U.S. and internationally, changes to which can impact our business; increased security requirements that may increase our costs of operations and reduce operating efficiencies; legal, regulatory or market responses to global climate change; negotiation and ratification of labor contracts; strikes, work stoppages and slowdowns by our employees; the effects of changing prices of energy, including gasoline, diesel and jet fuel, and interruptions in supplies of these commodities; changes in exchange rates or interest rates; our ability to maintain the image of our brand; breaches in data security; disruptions to the Internet or our technology infrastructure; our ability to accurately forecast our future capital investment needs; exposure to changing economic, political and social developments in international and emerging markets; changes in business strategy, government regulations, or economic or market conditions that may result in further substantial impairment write-downs of our assets; increases in our expenses relating to employee health and retiree health and our contributions to pension benefits; the potential for various claims and litigation related to labor and employment, personal injury, property damage, business practices, environmental liability and other matters; our ability to realize the anticipated benefits from acquisitions, joint ventures or strategic alliances; our ability to manage insurance and claims expenses; and other risks discussed in our filings with the Securities and Exchange Commission from time to time, including our Annual Report on Form 10-K for the year ended December 31, 2013 or described from time to time in our future reports filed with the Securities and Exchange Commission. You should consider the limitations on, and risks associated with, forward-looking statements and not unduly rely on the accuracy of predictions contained in such forward-looking statements. We do not undertake any obligation to update forward-looking statements to reflect events, circumstances, changes in expectations, or the occurrence of unanticipated events after the date of those statements.

Table of Contents

Item 1. Financial Statements

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

June 30, 2014 (unaudited) and December 31, 2013

(In millions)

| | June 30, 2014 | December 31, 2013 |
|---|------------------|----------------------|
| ASSETS | | |
| Current Assets: | | |
| Cash and cash equivalents | \$3,056 | \$4,665 |
| Marketable securities | 1,543 | 580 |
| Accounts receivable, net | 5,845 | 6,502 |
| Deferred income tax assets | 638 | 684 |
| Other current assets | 1,259 | 956 |
| Total Current Assets | 12,341 | 13,387 |
| Property, Plant and Equipment, Net | 17,787 | 17,961 |
| Goodwill | 2,202 | 2,190 |
| Intangible Assets, Net | 830 | 775 |
| Non-Current Investments and Restricted Cash | 445 | 444 |
| Derivative Assets | 342 | 323 |
| Other Non-Current Assets | 914 | 1,132 |
| Total Assets | \$34,861 | \$36,212 |
| LIABILITIES AND SHAREOWNERS' EQUITY | | |
| Current Liabilities: | | |
| Current maturities of long-term debt and commercial paper | \$1,902 | \$48 |
| Accounts payable | 2,106 | 2,478 |
| Accrued wages and withholdings | 2,060 | 2,325 |
| Self-insurance reserves | 660 | 719 |
| Other current liabilities | 1,609 | 1,561 |
| Total Current Liabilities | 8,337 | 7,131 |
| Long-Term Debt | 9,940 | 10,824 |
| Pension and Postretirement Benefit Obligations | 6,639 | 7,051 |
| Deferred Income Tax Liabilities | 933 | 1,244 |
| Self-Insurance Reserves | 2,041 | 2,059 |
| Other Non-Current Liabilities | 1,386 | 1,415 |
| Shareowners' Equity: | | |
| Class A common stock (208 and 212 shares issued in 2014 and 2013) | 2 | 2 |
| Class B common stock (707 and 712 shares issued in 2014 and 2013) | 7 | 7 |
| Additional paid-in capital | — | — |
| Retained earnings | 6,155 | 6,925 |
| Accumulated other comprehensive loss | (596) | (460) |
| Deferred compensation obligations | 58 | 69 |
| Less: Treasury stock (1 share in 2014 and 2013) | (58) | (69) |
| Total Equity for Controlling Interests | 5,568 | 6,474 |
| Total Equity for Non-Controlling Interests | 17 | 14 |
| Total Shareowners' Equity | 5,585 | 6,488 |
| Total Liabilities and Shareowners' Equity | \$34,861 | \$36,212 |
| See notes to unaudited consolidated financial statements. | | |

Table of Contents

UNITED PARCEL SERVICE, INC. AND SUBSIDIARIES

STATEMENTS OF CONSOLIDATED INCOME

(In millions, except per share amounts)

(unaudited)

| | Three Months Ended | | Six Months Ended | |
|---------|--------------------|-----------|------------------|------|
| | June 30, | | June 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Revenue | \$ 14,268 | \$ 13,507 | \$ | |