

EXPEDITORS INTERNATIONAL OF WASHINGTON INC

Form 10-K

February 26, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2009

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: 0-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of
incorporation or organization)

1015 Third Avenue, 12th Floor, Seattle, Washington
(Address of principal executive offices)

(206) 674-3400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

91-1069248
(I.R.S. Employer

Identification Number)

98104
(Zip Code)

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| Title of each class | Name of each exchange on which registered |
|---|--|
| Common Stock, par value \$.01 per share | NASDAQ Global Select Market |
| Securities registered pursuant to Section 12(g) of the Act: None | |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 (§232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

At June 30, 2009, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$6,961,475,550.

At February 22, 2010, the number of shares outstanding of registrant's Common Stock was 212,121,958.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Registrant's 2010 Annual Meeting of Shareholders to be held on May 5, 2010 are incorporated by reference into Part III of this Form 10-K.

Table of Contents

Forward-Looking Statements

In accordance with the provisions of the Private Securities Litigation Reform Act of 1995, the Company is making readers aware that forward-looking statements, because they relate to future events, are by their very nature subject to many important risk factors which could cause actual results to differ materially from those contained in the forward-looking statements. For additional information about forward-looking statements and for an identification of risk factors and their potential significance, see "Safe Harbor for Forward-Looking Statements Under Private Securities Litigation Reform Act of 1995; Certain Cautionary Statements" immediately preceding Part II, Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations in this report.

PART I**ITEM 1 BUSINESS**

Expeditors International of Washington, Inc. is engaged in the business of providing global logistics services. The Company offers its customers a seamless international network supporting the movement and strategic positioning of goods. The Company's services include the consolidation or forwarding of air and ocean freight. In each United States office, and in many overseas offices, the Company acts as a customs broker. The Company also provides additional services including distribution management, vendor consolidation, cargo insurance, purchase order management and customized logistics information. The Company does not compete for overnight courier or small parcel business and does not own aircraft or steamships.

Beginning in 1981, the Company's primary business focus was on airfreight shipments from Asia to the United States and related customs brokerage and other services. In the mid-1980s, the Company began to expand its service capabilities in export airfreight, ocean freight and distribution services. Today the Company offers a complete range of global logistics services to a diversified group of customers, both in terms of industry specialization and geographic location. As opportunities for profitable growth arise, the Company plans to create new offices. While the Company has historically expanded through organic growth, the Company has also been open to growth through acquisition of, or establishing joint ventures with, existing agents or others within the industry.

The Company, including its majority-owned subsidiaries, operates full service offices () in the cities identified below. Full service offices have also been established in locations where the Company maintains unilateral control over assets and operations and where the existence of the parent-subsidiary relationship is maintained by means other than record ownership of voting stock (#). In other cities, the Company contracts with independent agents to provide required services and has established approximately 47 such relationships world-wide. Locations where Company employees perform sales and customer service functions are identified below as international service centers (*). Wholly-owned locations operating under the supervision and control of another full service office are identified as satellite offices (+). In each case, the opening date for the full service office, international service center or satellite office is set forth in parenthesis.

UNITED STATES AND OTHER NORTH AMERICA

| UNITED STATES | Baltimore (4/92) | + Rochester (10/97) | CANADA |
|----------------------|------------------------|-------------------------|---------------------|
| Seattle (5/79) | Dallas (5/92) | McAllen (4/98) | Toronto (5/84) |
| Chicago (7/81) | Columbus (6/92) | Pittsburgh (6/99) | Vancouver (9/95) |
| San Francisco (7/81) | Charlotte (7/92) | Savannah (3/00) | + Windsor (6/98) |
| New York (11/81) | Newark (9/94) | Milwaukee (7/00) | Montreal (4/99) |
| Los Angeles (5/82) | Philadelphia (3/95) | Kansas City (8/00) | Calgary (9/04) |
| Atlanta (8/83) | Charleston (6/95) | Washington, D.C. (9/00) | MEXICO |
| Boston (11/85) | Memphis (8/95) | Nashville (10/01) | Mexico City (6/95) |
| Miami (3/86) | Salt Lake City (11/95) | + Huntsville (12/02) | Nuevo Laredo (4/97) |
| Minneapolis (7/86) | Norfolk (9/96) | Austin (2/03) | Guadalajara (9/97) |
| Denver (2/88) | Indianapolis (11/96) | Orlando (8/03) | Nogales (1/99) |

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|--------------------|--|-----------------------|--------------------------|
| Detroit (7/88) | + Port Huron-Blue Water Bridge (12/96) | Tampa (9/03) | Ciudad Juarez (5/00) |
| Portland (7/88) | + Detroit-Ambassador Bridge (12/96) | New Orleans (9/04) | Monterrey (1/05) |
| Cincinnati (8/89) | + Lewiston-Queenston (12/96) | + Omaha (7/06) | Reynosa (6/06) |
| Cleveland (7/90) | Buffalo-Peace Bridge (1/97) | + Calexico (6/06) | + Querétaro (9/06) |
| Phoenix (7/91) | El Paso (1/97) | + Knoxville (5/07) | + Lázaro Cárdenas (7/08) |
| Louisville (10/91) | Laredo (2/97) | Raleigh Durham (1/08) | PUERTO RICO |
| St. Louis (4/92) | Nogales (2/97) | + Tulsa (1/09) | San Juan (5/95) |
| Houston (4/92) | San Diego (7/97) | | |

Table of Contents**LATIN AMERICA**

| | | |
|-----------------------|-------------------|-----------------------|
| ARGENTINA | CHILE | GUATEMALA |
| Buenos Aires (1/98) | Santiago (2/95) | Guatemala City (1/07) |
| BRAZIL | COLOMBIA | PERU |
| Sao Paulo (9/95) | Bogota (12/98) | Lima (12/05) |
| Rio de Janeiro (9/95) | + Cali (12/98) | |
| Campinas (9/95) | + Medellin (7/00) | |
| + Santos (10/97) | COSTA RICA | |
| Manaus (7/00) | San Jose (10/03) | |
| Porto Alegre (1/05) | | |

ASIA

| | | | |
|-----------------------------------|---------------------|---------------------|-------------------------|
| BANGLADESH | Hangzhou (10/01) | Surabaya (2/92) | PHILIPPINES |
| Dhaka (6/89) | + Kunshan (12/01) | + Batam (3/07) | Manila (8/98) |
| + Chittagong (8/93) | Fuzhou (6/02) | JAPAN | + Olongapo City (8/98) |
| CAMBODIA | Yantai (11/02) | Tokyo (1/01) | + Cebu City (9/99) |
| Phnom Penh (4/00) | + Shenyang (12/02) | Osaka (1/01) | SINGAPORE |
| PEOPLE'S REPUBLIC OF CHINA | Wuhan (1/03) | + Nagoya (8/03) | Singapore (9/81) |
| Guangzhou (4/94) | + Huizhou (12/03) | KOREA | TAIWAN |
| Beijing (7/94) | + Zhuhai (12/03) | + Pusan (10/94) | Taipei (7/81) |
| Dalian (7/94) | + Foshan (1/04) | Seoul (10/94) | + Kaohsiung (9/81) |
| Shanghai (7/94) | Chongqing (7/04) | + Chonan (6/96) | + Taichung (9/81) |
| Shenzhen (7/94) | Dongguan (2/05) | + Kwangju (6/96) | + Hsin-Chu (9/89) |
| Qingdao (7/94) | Nanjing (3/05) | + Masan (6/96) | THAILAND |
| Tianjin (7/94) | Macau (5/05) | + Taegu (6/96) | Bangkok (9/94) |
| Xi'an (7/94) | + Shantou (12/06) | MALAYSIA | + Laem Chabang (8/05) |
| Xiamen (7/94) | + Changzhou (10/07) | Penang (11/87) | VIETNAM |
| + Chengdu (9/00) | HONG KONG | Kuala Lumpur (6/90) | Ho Chi Minh City (5/00) |
| Ningbo (7/01) | Kowloon (6/81) | Johor Bahru (11/94) | Hanoi (3/04) |
| Suzhou (9/01) | INDONESIA | | + Da Nang (9/05) |
| + Zhongshan (9/01) | Jakarta (12/90) | | |

Table of Contents**EUROPE AND AFRICA**

| | | | |
|--------------------|---------------------|------------------|----------------------|
| AUSTRIA | Hamburg (1/93) | POLAND | UNITED KINGDOM |
| Vienna (11/95) | Nuremberg (1/01) | Warsaw (2/05) | London (4/86) |
| BELGIUM | + Hannover (1/05) | + Krakow (8/07) | Manchester (11/88) |
| Brussels (7/90) | HUNGARY | PORTUGAL | Birmingham (3/90) |
| +Antwerp (4/91) | Budapest (4/00) | Lisbon (10/91) | Glasgow (4/92) |
| THE CZECH REPUBLIC | IRELAND | Oporto (10/91) | Bristol (3/97) |
| Prague (6/98) | Dublin (3/97) | ROMANIA | East Midlands (1/99) |
| FINLAND | Cork (3/97) | Bucharest (9/08) | + Hull (1/00) |
| Helsinki (4/94) | Shannon (3/97) | SPAIN | Belfast (9/01) |
| FRANCE | ITALY | Barcelona (1/94) | Aberdeen (9/05) |
| Paris (1/97) | Milan (4/93) | Madrid (1/94) | SOUTH AFRICA |
| Mulhouse (1/97) | Verona (4/93) | Alicante (4/96) | Johannesburg (3/94) |
| Lyon (1/97) | Florence (3/98) | SWEDEN | Durban (3/94) |
| Lille (3/97) | + Turin (4/05) | Stockholm (1/94) | Capetown (1/97) |
| Bordeaux (7/00) | + Rome (1/10) | Goteborg (1/94) | |
| GERMANY | THE NETHERLANDS | + Malmoe (3/05) | MADAGASCAR |
| Frankfurt (4/92) | Amsterdam (6/94) | SWITZERLAND | Antananarivo (11/01) |
| Munich (4/92) | Rotterdam (3/95) | Chiasso (2/01) | |
| Dusseldorf (4/92) | + Maastricht (9/07) | Zurich (10/05) | |
| Stuttgart (4/92) | | | |

MIDDLE EAST AND INDIA

| | | | |
|------------------------|---------------------|---------------------|------------------|
| BAHRAIN | + Jaipur (6/99) | LEBANON | SRI LANKA |
| Manama (1/08) | + Cochin (4/01) | Beirut (8/99) | Colombo (3/95) |
| EGYPT | + Hyderabad (9/01) | OMAN | TURKEY |
| Cairo (2/95) | + Tuticorin (11/03) | Muscat (4/09) | Ankara (1/99) |
| + Alexandria (2/95) | + Ahmedabad (1/05) | PAKISTAN | Istanbul (1/99) |
| CYPRUS | + Tiruppur (3/05) | Karachi (9/96) | Izmir (1/99) |
| * Nicosia (6/96) | + Ludhiana (6/05) | Lahore (9/96) | Mersin (1/99) |
| * Larnaca (1/98) | + Pune (10/06) | + Sialkot (6/03) | + Adana (1/99) |
| GREECE | + Kolkata (1/08) | + Faisalabad (5/06) | U.A.E. |
| Athens (2/99) | + Coimbatore (1/08) | + Islamabad (10/06) | Abu Dhabi (1/94) |
| + Thessaloniki (2/99) | + Mundra (4/08) | QATAR | Dubai (10/98) |
| INDIA | JORDAN | Doha (1/07) | |
| New Delhi (7/96) | Amman (9/07) | SAUDI ARABIA | |
| Mumbai (Bombay) (1/97) | KUWAIT | # Riyadh (7/92) | |

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|-------------------------|----------------------|-----------------|
| Bangalore (6/97) | # Kuwait City (7/97) | # Jeddah (7/92) |
| Chennai (Madras) (6/97) | | # Dammam (6/05) |

AUSTRALASIA

| | | | |
|------------------|------------------|---------------|------------------------|
| AUSTRALIA | Brisbane (10/93) | FIJI | NEW ZEALAND |
| Sydney (8/88) | Perth (12/94) | * Nadi (7/96) | Auckland (8/88) |
| Melbourne (8/88) | Adelaide (10/97) | * Suva (5/97) | + Christchurch (10/07) |

Table of Contents

The Company was incorporated in the State of Washington in May 1979. Its executive offices are located at 1015 Third Avenue, 12th Floor, Seattle, Washington, and its telephone number is (206) 674-3400.

The Company's internet address is <http://www.expeditors.com>. The Company makes available free of charge through its internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

For information concerning the amount of revenues, net revenues, operating income, identifiable assets, capital expenditures and depreciation and amortization attributable to the geographic areas in which the Company conducts its business, see Note 9 to the consolidated financial statements.

Airfreight Services

Airfreight services accounted for approximately 35 percent in 2009 and 36 percent for each of the Company's 2008 and 2007 consolidated revenues net of freight consolidation expenses (net revenues), respectively. When performing airfreight services, the Company typically acts either as a freight consolidator or as an agent for the airline which carries the shipment. When acting as a freight consolidator, the Company purchases cargo space from airlines on a volume basis and resells that space to its customers at lower rates than the customers could obtain directly from airlines. When moving shipments between points where the volume of business does not facilitate consolidation, the Company receives and forwards individual shipments as the agent of the airline which carries the shipment. Whether acting as a consolidator or agent, the Company offers its customers knowledge of optimum routing, familiarity with local business practices, knowledge of export and import documentation and procedures, the ability to arrange for ancillary services, and assistance with space availability in periods of peak demand.

In its airfreight forwarding operations, the Company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point. At the distribution point, the Company or its agent arranges for the consolidated lot to be broken down into its component shipments and for the transportation of the individual shipments to their final destinations.

The Company estimates its average airfreight consolidation weighs approximately 3,500 pounds and a typical consolidation includes merchandise from several shippers. Because shipment by air is relatively expensive compared with ocean transportation, air shipments are generally characterized by a high value-to-weight ratio, the need for rapid delivery, or both.

The Company typically delivers shipments from a Company warehouse at the origin to the airline after consolidating the freight into containers or onto pallets. Shipments normally arrive at the destination distribution point within forty-eight hours after such delivery. During peak shipment periods, cargo space available from the scheduled air carriers can be limited and backlogs of freight shipments may occur. When these conditions exist, the Company may charter aircraft to meet customer demand.

The Company consolidates individual shipments based on weight and volume characteristics in cost-effective combinations. Typically, as the weight or volume of a shipment increases, the cost per pound/kilo or cubic inch/centimeter charged by the Company decreases. The rates charged by airlines to forwarders and others also generally decrease as the weight or volume of the shipment increases. As a result, by aggregating shipments and presenting them to an airline as a single shipment, the Company is able to obtain a lower rate per pound/kilo or cubic inch/centimeter than that which it charges to its customers for the individual shipment, while generally offering the customer a lower rate than could be obtained from the airline for an unconsolidated shipment.

The Company's airfreight forwarding net revenues from a consolidated shipment include the differential between the rate charged to the Company by an airline and the rate which the Company charges to its customers, commissions paid to the Company by the airline carrying the freight and fees for ancillary services. Such ancillary services provided by the Company include preparation of shipping and customs documentation, packing, crating and insurance services, negotiation of letters of credit, and preparation of documentation to comply with local export laws. When the Company acts as an agent for an airline handling an unconsolidated shipment, its net revenues are primarily derived from commissions paid by the airline and fees for ancillary services paid by the customer.

The Company also performs breakbulk services which involve receiving and breaking down consolidated airfreight lots and arranging for distribution of the individual shipments. Breakbulk service revenues also include commissions from agents for airfreight shipments.

The Company does not own aircraft and does not plan to do so. Management believes that the ownership of aircraft would subject the Company to undue business risks, including large capital outlays, increased fixed operating expenses, problems of fully utilizing aircraft and competition with airlines. Because the Company relies on commercial airlines to transport its shipments, changes in carrier financial stability, policies and

practices such as pricing, payment terms, scheduling, capacity and frequency of service may affect its business.

Table of Contents

The commercial airline industry as a whole continues to incur substantial operating losses and many airlines are highly leveraged with debt. Carriers continue to merge and consolidate operations and reduce available capacity to improve financial results. Some airlines have significantly reduced their reliance on cargo-only aircraft to service their airfreight customers. The reduction in capacity allows asset-based carriers to raise rates in the face of declining or stable demand. When fewer planes are flying, the Company has fewer shipping options from which to craft service offerings to meet customers' needs. The combination of reduced capacity, higher rates and more infrequent flights could challenge the Company's ability to maintain historical unitary profitability.

Ocean Freight and Ocean Services

Ocean freight services accounted for approximately 24, 25, and 24 percent of the Company's 2009, 2008, and 2007 consolidated net revenues, respectively. The Company operates Expeditors International Ocean (EIO), an Ocean Transportation Intermediary, sometimes referred to as a Non-Vessel Operating Common Carrier (NVOCC) specializing in ocean freight consolidation from Asia to the United States. EIO also provides service, on a smaller scale, to and from any location where the Company has an office or agent. As an NVOCC, EIO contracts with ocean shipping lines to obtain transportation for a fixed number of containers between various points during a specified time period at an agreed rate. EIO solicits Less-than Container Load (LCL) freight to fill the containers and charges lower rates than those available directly from shipping lines. EIO also handles full container loads for customers that do not have annual shipping volumes sufficient to negotiate comparable contracts directly with the ocean carriers. The Company's revenues as an ocean freight forwarder are also derived from commissions paid by the carrier and revenues from fees charged to customers for ancillary services which the Company may provide, such as preparing documentation, procuring insurance, arranging for packing and crating services, and providing consultation. The Company does not own vessels and generally does not physically handle the cargo.

Ocean carriers continue to incur substantial operating losses and many are highly leveraged with debt. Carriers continue to reduce available capacity and modify sailing schedules to improve financial results. The combination of fewer ships, slower sailing schedules and pricing volatility could impact the Company's ability to maintain historical unitary profitability.

Order Management provides origin consolidation, vendor management, container management, document management, destination management and PO/SKU visibility through a web based and server based application. Customers have the ability to monitor and report against real time status of purchase orders from the date of creation through final delivery. Item quantities, required ship dates, commodity descriptions, estimated vs. actual ex factory dates, container utilization, vendor performance and document visibility are many of the managed functions that are visible and reportable via the web. Order Management is available for various modes of transportation including ocean, air, truck and rail. Order Management revenues are derived from services provided to the shipper as well as management fees associated with managing purchase order execution against customer specific rules. One basic function of Order Management involves the taking of cargo from many vendors in a particular origin and consolidating these shipments into the fewest possible number of containers to maximize space and minimize cost. Through origin consolidation customers can reduce the number of containers shipped by putting more product in larger and fewer containers. Data integrity is an increasingly critical function of Order Management. Efficient data management is a by-product of our operational processes.

Customs Brokerage and Other Services

Customs brokerage and other services accounted for approximately 41, 39 and 40 percent of the Company's 2009, 2008, and 2007 consolidated net revenues, respectively. As a customs broker, the Company assists importers to clear shipments through customs by preparing required documentation, calculating and providing for payment of duties on behalf of the importer, arranging for any required inspections by governmental agencies, and arranging for delivery. The Company also provides other value added services at destination such as warehousing and product distribution, time definite transportation and inventory management. None of these other services are currently individually significant to the Company's net revenues.

The Company provides customs clearance services in connection with many of the shipments it handles as a freight forwarder. However, substantial customs brokerage revenues are derived from customers that elect to use a competing forwarder. Conversely, shipments handled by the Company as a forwarder may be processed by another customs broker selected by the customer.

The Company also provides custom clearances for goods moving by rail and truck between the United States, Canada and/or Mexico. The commodities being cleared and the time sensitive nature of the border brokerage business require the Company to continue to make enhancements to its systems in order to provide competitive service.

The Company's wholly-owned subsidiary, Expeditors Tradewin, L.L.C., responds to customer driven requests for high-end customs consulting services. Fees for these non-transactional services are based upon hourly billing rates and bids for mutually agreed projects.

Table of Contents

Marketing and Customers

The Company provides flexible service and seeks to understand the needs of the customers from points of origin to ultimate destinations. Although the domestic importer usually designates the logistics company and the services that will be required, the foreign shipper may also participate in this selection process. Therefore, the Company coordinates its marketing program to reach both domestic importers and their overseas suppliers.

The Company's marketing efforts are focused on interacting with our customers' supply chain, including logistics, transportation, customs, compliance and purchasing departments of existing and potential customers. The district manager of each office is responsible for marketing, sales coordination, and implementation in the area in which he or she is located. All employees are responsible for customer service and relations.

The Company staffs its offices largely with managers and other key personnel who are citizens of the nations in which they operate and who have extensive experience in global logistics. Marketing and customer service staffs are responsible for marketing the Company's services directly to customers and prospects who may select or influence the selection of logistics service providers and for ensuring that customers receive timely and efficient service. The Company believes that its expertise in supplying solutions customized to the needs of its customers, its emphasis on coordinating its origin and destination customer service and marketing activities, and the incentives it gives to its managers have been important elements of its success.

The goods handled by the Company are generally a function of the products which dominate international trade between any particular origin and destination. Shipments of computer components, electronic goods, medical equipment, sporting goods, machine parts, aviation parts and toys comprise a significant percentage of the Company's business. Typical import customers include retailers and distributors of consumer electronics, department store chains, clothing and shoe wholesalers, manufacturers and catalogue stores. Historically, no single customer has accounted for five percent or more of the Company's net revenues.

Competition

The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. There are a large number of companies competing in one or more segments of the industry, but the number of firms with a global network that offer a full complement of logistics services is more limited. Depending on the location of the shipper and the importer, the Company must compete against both the niche players and larger entities. Historically, the industry has experienced consolidations into larger firms striving for stronger and more complete multinational and multi-service networks. However, regional and local competitors still maintain a strong market presence in certain areas.

The primary competitive factors in the global logistics services industry continue to be price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality service and believes that its prices are competitive with the prices of others in the industry. Larger customers utilize more sophisticated and efficient procedures for the management of their logistics supply chains by embracing strategies such as just-in-time inventory management. Accordingly, timely and accurate information integrated into customer service capabilities are a significant factor in attracting and retaining customers. This information integrated into customer service capabilities include customized Electronic Data Interchange, (EDI), on-line freight tracing and tracking applications and customized on-line reporting. The customized EDI applications allow the transfer of key information between the customers' systems and the Company's systems. Freight tracing and tracking applications provide customers with real time visibility to the location, transit time and estimated delivery time of inventory in transit.

Management believes that the ability to develop and deliver innovative solutions to meet customers' increasingly sophisticated information requirements is a critical factor in the ongoing success of the Company. The Company devotes a significant amount of resources towards the maintenance and enhancement of systems that will meet these customer demands. Management believes that the Company's existing systems are competitive with the systems currently in use by other logistics services companies with which it competes.

Unlike many of its competitors, who have tended to grow by merger and acquisition, the Company operates the same accounting and transportation computer software, running on a common hardware platform, in all of its full-service locations. Small and middle-tier competitors, in general, do not have the resources available to develop these customized systems. As a result, there is a significant amount of consolidation currently taking place in the industry. Management expects that this trend toward consolidation will continue for the short- to medium-term. Historically, growth through aggressive acquisition has proven to be a challenge for many of the Company's competitors and typically involves the purchase of significant goodwill. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions.

Table of Contents

The Company's ability to attract, retain, and motivate highly qualified personnel with experience in global logistics services is an essential, if not the most important, element of its ability to compete in the industry. To this end, the Company has adopted incentive compensation programs which make percentages of branch net revenues or profits available to managers for distribution among key personnel. The Company believes that these incentive compensation programs, combined with its experienced personnel and its ability to coordinate global marketing efforts, provide it with a distinct competitive advantage and account for historical growth that competitors have generally matched only through acquisition.

Currency and Other Risk Factors

The nature of the Company's worldwide operations necessitate the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Many of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among these offices or agents.

In addition, the Company's ability to provide service to its customers is highly dependent on good working relationships with a variety of entities including airlines, steamship lines and governmental agencies. The Company considers its current working relationships with these entities to be good. However, changes in the financial stability and operating capabilities of asset-based carriers, space allotments available from carriers, governmental deregulation efforts, modernization of the regulations governing customs clearance, and/or changes in governmental quota restrictions could affect the Company's business in unpredictable ways.

Seasonality

Historically, the Company's operating results have been subject to seasonal trends 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 has been the result of, or influenced by, numerous factors including weather patterns, 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 will continue in future periods.

Environmental

In the United States, the Company is subject to Federal, state and local provisions regulating the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many other jurisdictions in which the Company operates. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and the Company cannot predict what impact future environmental regulations may have on its business. The Company does not anticipate making any material capital expenditures for environmental control purposes during the remainder of the current or succeeding fiscal years.

Employees

At January 31, 2010, the Company employed approximately 12,010 people, 4,130 in the United States and 700 in the balance of North America, 550 in Latin America, 3,370 in Asia, 1,930 in Europe and Africa, 1,100 in the Middle East and 230 in Australasia. Approximately 1,590 of the Company's employees are engaged principally in sales and marketing and customer service, 6,720 in operations and 3,700 in finance and administration. The Company is not a party to any collective bargaining agreement and considers its relations with its employees to be satisfactory.

In order to retain the services of highly qualified, experienced, and motivated employees, the Company places considerable emphasis on its non-equity incentive compensation programs and stock option plans.

Table of Contents

Executive Officers of the Registrant

The following table sets forth the names, ages, and positions of current executive officers of the Company.

| Name | Age | Position |
|------------------------|------------|--|
| Peter J. Rose | 66 | Chairman and Chief Executive Officer and director |
| James L.K. Wang | 62 | President-Asia and director |
| R. Jordan Gates | 54 | President and Chief Operating Officer, director |
| Rommel C. Saber | 52 | President-Europe, Africa, Near/Middle East and Indian Subcontinent |
| Robert L. Villanueva | 57 | President-The Americas |
| Timothy C. Barber | 50 | President-Global Sales and Marketing |
| Rosanne Esposito | 58 | Executive Vice President-Global Customs |
| Eugene K. Alger | 49 | Executive Vice President-North America |
| Philip M. Coughlin | 49 | Executive Vice President-North America |
| Jeffrey S. Musser | 44 | Executive Vice President and Chief Information Officer |
| Roger A. Idiart | 56 | Senior Vice President-Air Cargo |
| Charles J. Lynch | 49 | Senior Vice President-Corporate Controller |
| Daniel R. Wall | 41 | Senior Vice President-Ocean Services |
| Jean Claude Carcaillet | 64 | Senior Vice President-Australasia |
| Amy J. Tangeman | 41 | Vice President-General Counsel and Secretary |
| Bradley S. Powell | 49 | Chief Financial Officer |

Peter J. Rose has served as a director and Vice President of the Company since July 1981. Mr. Rose was elected a Senior Vice President of the Company in May 1986, Executive Vice President in May 1987, President and Chief Executive Officer in October 1988, and Chairman and Chief Executive Officer in May 1991.

James L.K. Wang has served as a director and the Managing Director of Expeditors International Taiwan Ltd., the Company's former exclusive Taiwan agent, since September 1981. In 1991, Mr. Wang's employment agreement was assigned to E.I. Freight (Taiwan), Ltd., the Company's exclusive Taiwan agent through 2004. Mr. Wang's contract is now assigned to ECI Taiwan Co. Ltd., a wholly-owned subsidiary of the Company. In October 1988, Mr. Wang became a director of the Company and its Director-Far East, and Executive Vice President in January 1996. In May 2000, Mr. Wang was elected President-Asia.

R. Jordan Gates joined the Company as its Controller-Europe in February 1991. Mr. Gates was elected Chief Financial Officer and Treasurer of the Company in August 1994 and Senior Vice President-Chief Financial Officer and Treasurer in January 1998. In May 2000, Mr. Gates was elected Executive Vice President-Chief Financial Officer and Treasurer. Mr. Gates was also elected as a director in May 2000. On January 1, 2008, Mr. Gates assumed the role of President and Chief Operating Officer.

Rommel C. Saber joined the Company as Director-Near/Middle East in February 1990 and was elected Senior Vice President-Sales and Marketing in January 1993. Mr. Saber was elected Senior Vice President-Air Export in September 1993. In July 1997, Mr. Saber was elected Senior Vice President Near/Middle East and Indian Subcontinent and Executive Vice President-Europe, Africa and Near/Middle East in August 2000. In February 2006, Mr. Saber was elected President-Europe, Africa, Near/Middle East and Indian Subcontinent.

Robert L. Villanueva joined the Company as Regional Vice President Northwest U.S. Region in April 1994. In September 1999, he was elected Executive Vice President-The Americas and President-The Americas in May 2004.

Timothy C. Barber joined the Company in May 1986. Mr. Barber was promoted to District Manager of the Seattle office in January 1987 and Regional Vice President in January 1993. Mr. Barber was elected Vice President-Sales and Marketing in September 1993 and Senior Vice President-Sales and Marketing in January 1998. In September 1999, Mr. Barber was elected Executive Vice President-Global Sales. On January 1, 2008, Mr. Barber assumed the role of President-Global Sales and Marketing.

Rosanne Esposito joined the Company as its Director-U.S. Import Services in January 1996. Ms. Esposito was promoted to Vice President in May 1997 and Senior Vice President-Global Customs in May 2001. In May 2004, Ms. Esposito was promoted to Executive Vice President-Global Customs.

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Eugene K. Alger joined the Company in October 1982. Mr. Alger was promoted to District Manager and Regional Vice President of the Los Angeles office in May 1983. He was elected Regional Vice President-Southwestern U.S. and Mexico Region in January 1992, and Senior Vice President of North America in September 1999. In March, 2008, he was promoted to Executive Vice President-North America.

Table of Contents

Philip M. Coughlin joined the Company in October 1985. In August 1986, Mr. Coughlin was promoted to District Manager. Mr. Coughlin was elected Regional Manager for New England and Canada in January 1991, Regional Vice President-Northeastern U.S. and Northern Border in January 1992, and Senior Vice President of North America in September 1999. In March, 2008, he was promoted to Executive Vice President-North America.

Jeffrey S. Musser joined the Company in February 1983. Mr. Musser was promoted to District Manager in October 1989 and Regional Vice President in September 1999. Mr. Musser was elected Senior Vice President-Chief Information Officer in January 2005. In May 2009, Mr. Musser was promoted to Executive Vice President and Chief Information Officer.

Roger A. Idiart joined the Company as its Manager of Gateway Operations in December 1995. Mr. Idiart was elected Vice President-Global Air Cargo in January 1998, and Senior Vice President-Air Cargo in May 2001.

Charles J. Lynch joined the Company in September 1984. Mr. Lynch was promoted to Assistant Controller in July 1985 and Controller-Domestic Operations in January 1989. Mr. Lynch was elected Corporate Controller in January 1991 and Vice President-Corporate Controller in January 1998. In May 2002, Mr. Lynch was elected Senior Vice President-Corporate Controller.

Daniel R. Wall joined the Company in March 1987. Mr. Wall was promoted to District Manager in May 1992 and Global Director-Account Management in March 2002. Mr. Wall was elected Vice President-ECMS in January 2004 and Senior Vice President-Ocean Services in September 2004.

Jean Claude Carcaillet joined the Company as Managing Director-Australasia in August 1988. Mr. Carcaillet was elected Senior Vice President-Australasia in September 1997.

Amy J. Tangeman joined the Company in January 1997. Ms. Tangeman was promoted to Assistant General Counsel in November 2001. In October 2006, Ms. Tangeman was elected Vice-President-General Counsel and Secretary.

Bradley S. Powell joined the Company as Chief Financial Officer in October 2008. Prior to joining the Company, Mr. Powell served as President and Chief Financial Officer of Eden Bioscience Corporation, a publicly-traded biotechnology company, from December 2006 to September 2008 and as Vice President and Chief Financial Officer from July 1998 to December 2006. Mr. Powell assumed the role of Principal Financial and Accounting Officer on March 15, 2009.

Table of Contents**Regulation and Security**

With respect to the Company's activities in the air transportation industry in the United States, it is subject to regulation by the Transportation Security Administration (TSA) of the Department of Homeland Security as an indirect air carrier. All United States indirect air carriers are required to maintain prescribed security procedures and are subject to periodic audits by TSA. The Company's overseas offices and agents are licensed as airfreight forwarders in their respective countries of operation. The Company is licensed in each of its offices, or in the case of its newer offices, has made application for a license as an airfreight forwarder by the International Air Transport Association (IATA). IATA is a voluntary association of airlines and air transport related entities which prescribes certain operating procedures for airfreight forwarders acting as agents for its members. The majority of the Company's airfreight forwarding business is conducted with airlines which are IATA members.

The Company is licensed as an Ocean Transportation Intermediary (OTI) (sometimes referred to as NVOCC-Non-Vessel Operating Common Carrier) by the Federal Maritime Commission (FMC). The FMC has established certain qualifications for shipping agents, including certain surety bonding requirements. The FMC is also responsible for the economic regulation of OTI/NVOCC activity originating or terminating in the United States. To comply with these economic regulations, vessel operators and NVOCCs, such as EIO, are required to file tariffs electronically which establish the rates to be charged for the movement of specified commodities into and out of the United States. The FMC has the power to enforce these regulations by assessing penalties.

The Company is licensed as a customs broker by Customs and Border Protection (CBP) of the Department of Homeland Security in each U.S. customs district in which it does business. All United States customs brokers are required to maintain prescribed records and are subject to periodic audits by CBP. In other jurisdictions in which the Company performs clearance services, the Company is licensed by the appropriate governmental authority (where such license is required to perform these services). The Company participates in various governmental supply chain security programs, such as the Customs-Trade Partnership Against Terrorism (C-TPAT) in the United States and additional security initiatives as they continue to be enacted by different governments.

The Company does not believe that current United States and foreign governmental regulations impose significant economic restraint upon its business operations. In general, the Company conducts its business activities in each country through a majority-owned subsidiary corporation that is organized and existing under the laws of that country. However, the regulations of foreign governments can impose barriers to the Company's ability to provide the full range of its business activities in a wholly or majority United States-owned subsidiary. For example, foreign ownership of a customs brokerage business is prohibited in some jurisdictions and less frequently the ownership of the licenses required for freight forwarding and/or freight consolidation is restricted to local entities. When the Company encounters this sort of governmental restriction, it works to establish a legal structure that meets the requirements of the local regulations while also giving the Company the substantive operating and economic advantages that would be available in the absence of such regulation. This can be accomplished by creating a joint venture or exclusive agency relationship with a qualified local entity that holds the required license. In cases where the Company has unilateral control over the assets and operations of the local entity, notwithstanding the lack of technical majority ownership of common stock, the Company consolidates the accounts of the local entity. In such cases, consolidation is necessary to fairly present the financial position and results of operations of the Company because of the existence of the parent-subsidiary relationship by means other than record ownership of voting common stock.

The war on terror and governments' overriding concern for the safety of passengers and citizens who import and/or export goods into and out of their respective countries has resulted in a proliferation of cargo security regulations over the past several years. While these cargo regulations have already created a marked difference in the security arrangements required to move shipments around the globe, regulations are expected to become more stringent in the future. As governments look for ways to minimize the exposure of their citizens to potential terror related incidents, the Company and its competitors in the transportation business may be required to incorporate security procedures within their scope of services to a far greater degree than has been required in the past. The Company feels that increased security requirements may involve further investments in technology and more sophisticated screening procedures being applied to potential customers, vendors and employees. The Company's position is that any increased cost of compliance with security regulations will be passed through to those who are beneficiaries of the Company's services.

Cargo Liability

When acting as an airfreight consolidator, the Company assumes a carrier's liability for lost or damaged shipments. This legal liability is typically limited by contract to the lower of the transaction value or the released value (17 Special Drawing Rights per kilo unless the customer declares a higher value and pays a surcharge), except if the loss or damage is caused by willful misconduct or in the absence of an appropriate airway bill. The airline which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. When acting solely as the agent of the airline or shipper, the Company does not assume any contractual liability for loss or damage to shipments tendered to the airline.

Table of Contents

When acting as an ocean freight consolidator, the Company assumes a carrier's liability for lost or damaged shipments. This liability is typically limited by contract to the lower of the transaction value or the released value (\$500 per package or customary freight unit unless the customer declares a higher value and pays a surcharge). The steamship line which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. In its ocean freight forwarding and customs clearance operations, the Company does not assume cargo liability.

When providing warehouse and distribution services, the Company limits its legal liability by contract and tariff to an amount generally equal to the lower of fair value or \$0.50 per pound with a maximum of \$50 per lot which is defined as the smallest unit that the warehouse is required to track. Upon payment of a surcharge for warehouse and distribution services, the Company will assume additional liability.

The Company maintains cargo legal liability insurance covering claims for losses attributable to missing or damaged shipments for which it is legally liable. The Company also maintains insurance coverage for the property of others which is stored in Company warehouse facilities. This insurance coverage is provided by a Vermont U.S. based insurance entity wholly-owned by the Company. The coverage is fronted and reinsured by a global insurance company. The total risk retained by the Company in 2009 was approximately \$4 million. In addition, the Company is licensed as an insurance broker through its subsidiary, Expeditors Cargo Insurance Brokers, Inc. and places insurance coverage for other customers.

Table of Contents

ITEM 1A RISK FACTORS

| RISK FACTORS | DISCUSSION AND POTENTIAL SIGNIFICANCE |
|---------------------------|--|
| International Trade | <p>The Company primarily provides services to customers engaged in international commerce. Everything that affects international trade has the potential to expand or contract the Company's primary market and impact its operating results. For example, international trade is influenced by:</p> <ul style="list-style-type: none"> currency exchange rate and currency control regulations; interest rate fluctuations; changes in governmental policies, such as taxation, quota restrictions and other forms of trade barriers and/or restrictions; changes in and application of international and domestic customs, trade and security regulations; wars, strikes, civil unrest, acts of terrorism, and other conflicts; natural disasters and pandemics; changes in consumer attitudes regarding goods made in countries other than their own; changes in availability of credit; changes in the price and readily available quantities of oil and other petroleum-related products; and increased global concerns regarding environmental sustainability. |
| Third Party Suppliers | <p>The Company is a non-asset based provider of global logistics services. As a result, the Company depends on a variety of asset-based third party suppliers. The quality and profitability of the Company's services depend upon effective selection, management and discipline of third party suppliers. Many of the Company's third party suppliers have incurred significant operating losses and are highly leveraged with debt. Changes in the financial stability, operating capabilities and capacity of asset-based carriers and space allotment made available to the Company by asset-based carriers could affect the Company in unpredictable ways, including volatility of pricing, and challenge the Company's ability to maintain historical unitary profitability.</p> |
| Predictability of Results | <p>The Company is not aware of any accurate means of forecasting short-term customer requirements. However, long-term customer satisfaction depends upon the Company's ability to meet these unpredictable short-term customer requirements. Personnel costs, the Company's single largest variable expense, are always less flexible in the very near term as the Company must staff to meet uncertain demand. As a result, short-term operating results could be disproportionately affected.</p> |

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.

Foreign Operations

The majority of the Company's revenues and operating income comes from operations conducted outside the United States. To maintain a global service network, the Company may be required to operate in hostile locations and in dangerous situations.

In addition, the Company operates in parts of the world where common business practices could constitute violations of the anti-corruption laws, rules, regulations and decrees of the United States, including the U.S. Foreign Corrupt Practices Act, and of all other countries in which the Company conducts business; as well as trade control laws, or laws, regulations and Executive Orders imposing embargoes and sanctions; and anti-boycott laws and regulations. Compliance with these laws, rules, regulations and decrees is dependent on the Company's employees, subcontractors, agents, third party brokers and customers, whose individual actions could violate these laws, rules, regulations and decrees. Failure to comply could result in substantial penalties and additional expenses, damages to the Company's reputation and restrictions on its ability to conduct business.

Table of Contents

| RISK FACTORS | DISCUSSION AND POTENTIAL SIGNIFICANCE |
|---------------------------|--|
| Key Personnel | <p>The Company is a service business. The quality of this service is directly related to the quality of the Company's employees. Identifying, training and retaining key employees is essential to continued growth and future profitability. Continued loyalty to the Company will not be assured by contract.</p> <p>The Company believes that its compensation programs, which have been in place since the Company became a publicly traded entity, are one of the unique characteristics responsible for differentiating its performance from that of many of its competitors. Significant changes to its compensation programs could affect the Company's performance.</p> |
| Technology | <p>Increasingly, the Company must compete based upon the flexibility and sophistication of the technologies utilized in performing its core businesses. Future results depend upon the Company's success in the cost effective development, maintenance and integration of communication and information systems technologies. Any significant disruptions to these systems could negatively affect the Company's results.</p> |
| Growth | <p>To date, the Company has relied primarily upon organic growth and has tended to avoid growth through acquisition. Future results will depend upon the Company's ability to continue to grow internally or to demonstrate the ability to successfully identify and integrate non-dilutive acquisitions.</p> |
| Regulatory Environment | <p>The Company is affected by regulations from a number of sources. The current business environment tends to stress the avoidance of risk through regulation and oversight, the effect of which is likely to be unforeseen costs and potentially unforeseen consequences.</p> <p>In reaction to the global war on terror, governments around the world are continuously enacting or updating security regulations. These regulations are multi-layered, increasingly technical in nature and characterized by a lack of harmonization of substantive requirements amongst various governmental authorities. Furthermore, the implementation of these regulations, including deadlines and substantive requirements, is driven by political urgencies rather than the industries' realistic ability to comply. Failure to consistently and timely comply with these regulations, or the failure, breach or compromise of the Company's security procedures or those of its subcontractors or agents, may result in increased operating costs, damage to the Company's reputation, restrictions on operations and/or fines and penalties.</p> |
| Competition | <p>The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. There are a large number of companies competing in one or more segments of the industry, but the number of firms with a global network that offer a full complement of logistics services is more limited. Depending on the location of the shipper and the importer, the Company must compete against both the niche players and larger entities.</p> |
| Taxes | <p>The Company is subject to various taxes in the United States and many foreign jurisdictions. The Company is regularly under audit by tax authorities. Although the Company believes its tax estimates are reasonable, the final determination of tax audits could be materially different from the Company's tax provisions and accruals and negatively impact its financial results.</p> |
| Litigation/Investigations | <p>As a multinational corporation, the Company is subject to formal or informal investigations or litigation from governmental authorities in the countries in which it does business. The Company is currently subject to, and is cooperating fully with, an investigation by the U.S. Department of Justice (DOJ) of air cargo freight forwarders. In addition, the Company and its Hong Kong subsidiary received a Statement of Objections from the European Commission (EC) relating to an ongoing investigation of freight forwarders. These investigations will require further management time and cause the Company to incur substantial additional legal and related costs, which could include fines and/or penalties if the DOJ and/or EC concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial position, results of operations and operating cash flows.</p> |

The Company may be subject to other civil litigation arising from these investigations, including but not limited to shareholder class action lawsuits and derivative claims made on behalf of the Company. The Company has been named as a defendant in a Federal anti-trust class action lawsuit filed in New York and will incur additional costs related to defending itself in these proceedings.

Table of Contents**RISK FACTORS**

Economic Conditions

DISCUSSION AND POTENTIAL SIGNIFICANCE

The global economy and capital and credit markets continue to experience high levels of uncertainty and volatility. Unfavorable changes in economic conditions may result in lower freight volumes and adversely affect the Company's revenues. These conditions may adversely affect certain of the Company's customers and third party suppliers. Were that to occur, the Company's revenues and net earnings could also be adversely affected. Should customers' ability to pay deteriorate, additional bad debts may be incurred.

These unfavorable conditions can create situations where rate increases charged by carriers and other suppliers are implemented with little or no advanced notice. The Company often times cannot pass these rate increases on to its customers in the same time frame, if at all. As a result, the Company's yields and margins can be negatively impacted.

Catastrophic Events

A disruption or failure of the Company's systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, strike, civil unrest, pandemic or other catastrophic event could cause delays in providing services or performing other mission-critical functions. The Company's corporate headquarters, and certain other critical business operations are in the Seattle, Washington area, which is near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of the Company's critical business or information technology systems could harm the Company's ability to conduct normal business operations and its operating results.

ITEM 1B UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 PROPERTIES

The Company owns the following properties:

| Location | Nature of Property |
|---|--|
| United States: | |
| Seattle, Washington | Office buildings |
| Near Seattle-Tacoma International Airport (in Washington) | Office building |
| Houston, Texas | Office and warehouse |
| Nassau County, New York | Office and warehouse |
| Middlesex County, New Jersey | Office and warehouse |
| Near San Francisco International Airport (in California) | Office and warehouse |
| Near Los Angeles International Airport (in California) | Office and warehouse |
| Near O'Hare International Airport (in Illinois) | Office and warehouse |
| Miami, Florida | Office, warehouse and free trade zone* |
| Spokane, Washington | Office building |
| Asia: | |
| Kowloon, Hong Kong | Offices |
| Taipei, Taiwan | Office |
| Seoul, Korea | Office |
| Shanghai, China | Office building |
| Europe: | |
| Brussels, Belgium | Office and warehouse |
| Dublin, Ireland | Office and warehouse |
| Cork, Ireland | Office and warehouse |
| Near Heathrow Airport (in London, England) | Acreage |
| Latin America: | |
| Alajuela, Costa Rica | Office building |

Middle East:

Cairo, Egypt

Office and warehouse

* Company directly owns 50% with Cargo Ventures, LLC, a private, non-affiliated real estate development company.

Table of Contents

The Company leases and maintains 66 additional offices and satellite locations in the United States and 368 leased locations throughout the world, each located close to an airport, ocean port, or on an important border crossing. The majority of these facilities contain warehouse facilities. Lease terms are either on a month-to-month basis or terminate at various times through 2020. See Note 7 to the Company's consolidated financial statements for lease commitments. As an office matures, the Company will investigate the possibility of building or buying suitable facilities. The Company believes that current leases can be extended and that suitable alternative facilities are available in the vicinity of each present facility should extensions be unavailable at the conclusion of current leases.

ITEM 3 LEGAL PROCEEDINGS

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. As part of this process, the Company has met with and continues to co-operate with the DOJ. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial position, results of operations and operating cash flows.

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. On July 21, 2009, the plaintiffs filed an amended complaint adding a number of new third party defendants and various claims which they assert to violate the Sherman Act. The plaintiffs' amended complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding eight discrete surcharges in violation of the Sherman Act. The allegations concerning the Company relate to two of these surcharges. The amended complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. On August 13, 2009, the Company filed a motion to dismiss the amended complaint for failure to state a claim, which is currently pending before the Court. Plaintiffs filed their opposition to the Company's motion on January 30, 2010 and the motion is currently pending before the Court.

On June 18, 2008, the European Commission (EC) issued a request for information to the Company's UK subsidiary, Expeditors International (UK) Ltd., requesting certain information relating to an ongoing investigation of freight forwarders. The Company replied to the request. On February 18, 2009, the EC issued another request for information to the same subsidiary requesting certain additional information in connection with the EC's ongoing investigation of freight forwarders. The Company replied to the request. On February 10, 2010, the Company and its Hong Kong subsidiary, Expeditors Hong Kong Limited, received a Statement of Objections (SO) from the EC. The SO initiates a proceeding against the Company alleging possible anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

The proceedings described above generally relate to investigations of freight forwarders or allegations of anti-competitive behavior. The distractions caused by these proceedings and the legal and other costs associated with these proceedings have been and continue to be significant. The Company has incurred less than \$1 million, and approximately \$10 million and \$4 million for the years ended December 31, 2009, 2008 and 2007, respectively, in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. The Company assumes, as should investors, that these challenges could continue for a significant period of time and may require the investment of substantial additional management time and substantial financial resources. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, results of operations, financial position, and overall trends could be materially harmed.

The Company is involved in other claims and lawsuits which arise in the ordinary course of business, none of which currently, in management's opinion, will have a significant effect on the Company's operations or financial position.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

Table of Contents

PART II

ITEM 5 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the high and low sale prices for the Company's common stock as reported by The NASDAQ Global Select Market under the symbol EXPD.

| Quarter 2009 | Common Stock | | Quarter 2008 | Common Stock | |
|-----------------|--------------|----------|-----------------|--------------|----------|
| | High | Low | | High | Low |
| First | \$ 34.59 | \$ 23.86 | First | \$ 48.00 | \$ 38.16 |
| Second | \$ 38.10 | \$ 27.26 | Second | \$ 49.92 | \$ 41.95 |
| Third | \$ 37.04 | \$ 24.50 | Third | \$ 45.45 | \$ 33.28 |
| Fourth | \$ 35.83 | \$ 31.27 | Fourth | \$ 40.50 | \$ 24.05 |

There were 1,470 shareholders of record as of February 19, 2010. This figure does not include a substantially greater number of beneficial holders of the Company's common stock, whose shares are held of record by banks, brokers and other financial institutions.

The Board of Directors declared semi-annual dividends during the two most recent fiscal years paid as follows:

| | |
|-------------------|--------|
| June 15, 2009 | \$.19 |
| December 15, 2009 | \$.19 |
| June 16, 2008 | \$.16 |
| December 15, 2008 | \$.16 |

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---------------------|--|------------------------------------|---|--|
| October 1-31, 2009 | | \$ | | 32,539,675 |
| November 1-30, 2009 | 111,324 | \$ 31.63 | 111,324 | 32,445,765 |
| December 1-31, 2009 | 120,709 | \$ 32.42 | 120,709 | 32,391,055 |
| Total | 232,033 | \$ 32.04 | 232,033 | 32,391,055 |

In November 1993, the Company's Board of Directors authorized a Non-Discretionary Stock Repurchase Plan for the purpose of repurchasing the Company's common stock in the open market with the proceeds received from the exercise of stock options. This plan was amended in February 2001 to increase the authorization to repurchase up to 20 million shares of the Company's common stock. On February 9, 2009, the Plan was further amended to increase the authorization to repurchase up to 40 million shares. This authorization has no expiration date. This plan was disclosed in the Company's report on Form 10-K filed March 31, 1995. In the fourth quarter of 2009, 124,358 shares were repurchased under the Non-Discretionary Stock Repurchase Plan.

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In November 2001, under a Discretionary Stock Repurchase Plan, the Company's Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200 million shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increases. This authorization has no expiration date. This plan was announced on November 13, 2001. In the fourth quarter of 2009, 107,675 shares were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares resulting from stock option exercises.

Table of Contents**ITEM 6 SELECTED FINANCIAL DATA**

Financial Highlights

In thousands except per share data

| | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|--------------|-----------|-----------|-----------|-----------|
| Revenues | \$ 4,092,283 | 5,633,878 | 5,235,171 | 4,633,987 | 3,903,794 |
| Net revenues | 1,382,786 | 1,603,261 | 1,452,961 | 1,290,960 | 1,061,622 |
| Net earnings attributable to shareholders | 240,217 | 301,014 | 269,154 | 235,094 | 190,436 |
| Diluted earnings attributable to shareholders per share | 1.11 | 1.37 | 1.21 | 1.06 | .86 |
| Basic earnings attributable to shareholders per share | 1.13 | 1.41 | 1.26 | 1.10 | .89 |
| Dividends declared and paid per common share | .38 | .32 | .28 | .22 | .15 |
| Working capital | 1,079,444 | 903,010 | 764,944 | 632,691 | 589,460 |
| Total assets | 2,323,722 | 2,100,839 | 2,068,605 | 1,821,878 | 1,566,044 |
| Shareholders' equity | 1,553,007 | 1,366,418 | 1,226,571 | 1,070,091 | 926,382 |
| Weighted average diluted shares outstanding | 216,533 | 219,170 | 221,800 | 222,223 | 220,230 |
| Weighted average basic shares outstanding | 212,113 | 212,756 | 213,315 | 213,455 | 213,555 |

All share and per share information have been adjusted to reflect a 2-for-1 stock split effected in June, 2006.

Table of Contents

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

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by the Company with the Securities and Exchange Commission. The words or phrases "will likely result", "are expected to", "will continue", "is anticipated", "estimate", "project" or similar expressions are intended to identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are qualified in their entirety by reference to and are accompanied by the discussion in Item 1A of certain important factors that could cause actual results to differ materially from such forward-looking statements.

The risks included in Item 1A are not exhaustive. Furthermore, reference is also made to other sections of this report which include additional factors which could adversely impact the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all of such risk factors, nor can it assess the impact of all of such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of actual results.

Shareholders should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to such analysts any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of such statement or report. Furthermore, the Company has a policy against issuing financial forecasts or projections or confirming the accuracy of forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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 steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and 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 effects the 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, as well as economic turbulence or security concerns in the nations in which it does business. The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. Consistent with current economic conditions, the Company's pricing continues to be pressured by customers and service providers.

The Company derives its revenues from three principal sources: 1) airfreight services, 2) ocean freight and ocean services, and 3) customs brokerage and other services. These are the revenue categories presented in the financial statements.

The Company is managed along four geographic areas of responsibility: Americas; Asia; Europe, Africa, Near/Middle East and Indian Subcontinent (EMAIR); and Australasia. Each area is divided into sub-regions which are composed of operating units with individual profit and loss responsibility. The Company's business involves shipments between operating units and typically touches more than one geographic area. The nature of the international logistics business necessitates a high degree of communication and cooperation among operating units. Because of this inter-relationship between operating units, it is very difficult to look at one geographic area and draw meaningful conclusions as to its contribution to the Company's overall success on a stand-alone basis.

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The Company's operating units share revenue using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents. The Company's strategy closely links compensation with operating unit profitability. Individual success likely involves cooperation with other operating units.

Table of Contents

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 or 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. Buy rates were highly volatile in 2009 due to lower overall volumes and actions taken by carriers to reduce capacity in order to curtail operating losses. Consequently, price changes are absorbed by the Company during the short-term, pending negotiation with and acceptance by the Company's customers. The combination of reduced capacity, price volatility and fewer shipping options offered by carriers could challenge the Company's ability to maintain historical unitary profitability.

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 steamship lines, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based carriers 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. However, airline and ocean steamship line industries have incurred significant losses in recent years as a result of the global economic downturn and many carriers are highly leveraged with debt. This situation has required the Company to be increasingly selective in which carriers to utilize. Further changes in the financial stability, operating capabilities and capacity of asset-based carriers, space allotments available from carriers, governmental regulation or 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 weather patterns, 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.

Primarily as a result of the global economic downturn, the Company's air and ocean freight volumes were lower in 2009 as compared to 2008 and 2007. This decline in volumes started in the second half of 2008. At this point in time, the Company cannot predict the ongoing impact of the current global economic conditions or whether various governmental stimulus plans will be effective in reducing uncertainty in the global economy. Both the total revenues and net revenues for 2009 were lower as compared with 2008 and 2007. These results are unprecedented in the Company's history.

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.

In terms of the opportunities, challenges and risks that management focused on in 2009, the Company operates in 60 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 corporate culture which demands:

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Total dedication, first and foremost, to providing superior customer service;

Aggressive marketing of all of the Company's service offerings;

Ongoing development of key employees and management personnel via formal and informal means;

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

Table of Contents

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 reinforces these values with a compensation system that rewards employees for profitably managing the things they can control. This compensation system has been in place since the Company became a publicly traded entity. There is no limit to how much a key manager can be compensated for success. The Company believes in a real world environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. If these decisions result in operating losses, these losses must be made up from future operating profits, in the aggregate, before any cash incentive compensation can be earned. 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 improving 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 corporate 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 Estimates

A summary of the Company's significant accounting policies can be found in Note 1 to the consolidated financial statements in this Annual Report.

Management believes that the nature of the Company's business is such that there are few 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;

accrual of various tax liabilities; and

calculation of share-based compensation expense.

These estimates, other than the calculation of share-based compensation expense, are not highly uncertain and have not historically been subject to significant change. 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, other than the calculation of share-based compensation expense, would not produce materially different results than those reported.

As described in Note 1.I to the consolidated financial statements in this report, the Company accounts for share-based compensation based on an estimate of the fair value of options granted to employees under the Company's stock option and stock purchase rights plans. This expense is recorded on a straight-line basis over the option vesting periods.

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and the future interest rates and dividend yields. The Company uses the Black-Scholes model for estimating the fair value of stock options. Refer to Note 2 in the consolidated financial statements for the assumptions used for grants issued during the years ended December 31, 2009, 2008 and 2007. The assumptions used by the Company for estimating the fair value of options granted were developed on a basis consistent with assumptions used for valuing previous grants.

Table of Contents

Management believes that the assumptions used are appropriate based upon the Company's historical and currently expected future experience. Looking to future events, management has been strongly influenced by historical patterns which may not be valid predictors of future developments and any future deviation may be material.

The Company's expected volatility assumptions are based on the historical volatility of the Company's stock. The expected life assumption is primarily based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the corresponding yield curve in effect at the time of grant for U.S. Treasury bonds having the same term as the expected life of the option, i.e. a ten year bond rate is used for valuing an option with a ten year expected life. The expected dividend yield is based on the Company's historical experience. The forfeiture rate used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns.

The use of different assumptions would result in different amounts of stock compensation expense. Keeping all other variables constant, the indicated change in each of the assumptions below increases or decreases the fair value of an option (and the resulting stock compensation expense), as follows:

| Assumption | Change in assumption | Impact of fair value of options |
|-------------------------|-----------------------------|--|
| Expected volatility | Higher | Higher |
| Expected life of option | Higher | Higher |
| Risk-free interest rate | Higher | Higher |
| Expected dividend yield | Higher | Lower |

The fair value of an option is more significantly impacted by changes in the expected volatility and expected life assumptions. The pre-vesting forfeitures assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeitures assumption would not impact the total amount of expense ultimately recognized over the vesting period. Different forfeiture assumptions would only impact the timing of expense recognition over the vesting period. Estimated forfeitures will be reassessed in subsequent periods and may change based on new facts and circumstances.

Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2009 No. 13 Multiple-Deliverable Revenue Arrangements, which amends FASB Accounting Standards Codification Topic 605 Revenue Recognition. This provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009 No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is required to and plans to adopt the provisions of this update beginning in the first quarter of 2011. The Company is currently assessing the impact of the adoption of ASU 2009 No. 13.

Table of Contents

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 2009, 2008, and 2007, 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.

| In thousands | 2009 | | 2008 | | 2007 | |
|--|------------|-------------------------|------------|-------------------------|------------|-------------------------|
| | Amount | Percent of net revenues | Amount | Percent of net revenues | Amount | Percent of net revenues |
| Net revenues: | | | | | | |
| Airfreight services | \$ 489,475 | 35% | \$ 578,756 | 36% | \$ 528,148 | 36% |
| Ocean freight and ocean services | 324,223 | 24 | 394,637 | 25 | 346,616 | 24 |
| Customs brokerage and other services | 569,088 | 41 | 629,868 | 39 | 578,197 | 40 |
| Net revenues | 1,382,786 | 100 | 1,603,261 | 100 | 1,452,961 | 100 |
| Overhead expenses: | | | | | | |
| Salaries and related costs | 774,214 | 56 | 863,846 | 54 | 791,879 | 55 |
| Other | 223,571 | 16 | 266,279 | 17 | 237,682 | 16 |
| Total overhead expenses | 997,785 | 72 | 1,130,125 | 71 | 1,029,561 | 71 |
| Operating income | 385,001 | 28 | 473,136 | 29 | 423,400 | 29 |
| Other income, net | 17,871 | 1 | 26,436 | 2 | 26,273 | 2 |
| Earnings before income taxes | 402,872 | 29 | 499,572 | 31 | 449,673 | 31 |
| Income tax expense | 162,475 | 12 | 196,593 | 12 | 179,815 | 12 |
| Net earnings | 240,397 | 17 | 302,979 | 19 | 269,858 | 19 |
| Less: net earnings attributable to noncontrolling interest | 180 | | 1,965 | | 704 | |
| Net earnings attributable to shareholders | \$ 240,217 | 17% | \$ 301,014 | 19% | \$ 269,154 | 19% |

2009 compared with 2008

Airfreight services net revenues in 2009 decreased 15% compared with 2008. The decrease in global airfreight services net revenues was primarily due to a 13% decline in airfreight tonnage. North America, Asia and Europe airfreight services net revenues decreased 13%, 15% and 21%, respectively, in 2009 as compared with 2008, while airfreight export tonnage decreased 16%, 13% and 10%, respectively.

The decrease in airfreight tonnage is primarily due to the global economic downturn which began in the second half of 2008. During the first six months of 2009, net revenue per kilo increased as compared to the same period in 2008, as a result of favorable buying opportunities that developed in a number of short-term spot markets. This increase was offset during the second half of 2009, as air carriers removed significant capacity from the markets while rapidly and aggressively increasing airfreight pricing, particularly in Asia. The Company absorbed these price increases during the short-term, prior to negotiations with and acceptance by the Company's customers. North America and Asia net revenues declined primarily due to lower export tonnage in 2009 as compared to 2008. Europe net revenues declined principally due to lower export tonnage and lower import volumes, primarily from Asia.

Ocean freight and ocean services net revenues decreased 18% in 2009 as compared with 2008. North America, Asia and Europe ocean freight net revenues decreased approximately 19%, 18% and 21%, respectively, in 2009 as compared with 2008.

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Ocean freight net revenues are comprised of three basic services: ocean freight consolidation, direct ocean forwarding and order management. The majority of the Company's ocean freight net revenue is derived from ocean freight consolidation which represented 52% and 59% of ocean freight net revenue in 2009 and 2008, respectively.

Ocean freight consolidation net revenue decreased 27% in 2009 as compared with 2008, primarily due to a 17% decrease in volume and a 13% decrease in net revenue per container. Direct ocean freight forwarding, which is primarily fee-based, decreased 8% in 2009, as compared with 2008, due to a decrease in volume. Order management remained relatively constant in 2009 as compared with 2008.

Table of Contents

The decrease in ocean volumes is primarily due to the global economic downturn. Net revenue per container increased in the first half of 2009, as compared with 2008, as a result of favorable buying opportunities that developed in a number of short-term spot markets. Steamship lines removed significant capacity from the market and implemented price increases in the second half of 2009, particularly on the Pacific North America lanes. The combination of these moves eliminated the favorable buying opportunities that existed in the first half of 2009. These price increases were absorbed by the Company during the second half of 2009, prior to negotiations with and acceptance by the Company's customers.

Customs brokerage and other services net revenues decreased 10% in 2009 as compared with 2008, primarily as a result of declines in air and ocean freight volumes. Customers continue to seek out customs brokers with sophisticated computerized capabilities critical to an overall logistics management program, including rapid responses to changes in the regulatory and security environment.

Salaries and related costs decreased 10% in 2009, as compared with 2008, primarily as a result of (i) smaller bonuses due to lower operating income, (ii) an overall decrease in base salaries directly related to a lower headcount and (iii) lower stock compensation expense.

The effect of including stock-based compensation expense in salaries and related costs for 2009 and 2008 are as follows:

| In thousands | Years ended December 31, | |
|--------------------------------------|---------------------------------|-------------|
| | 2009 | 2008 |
| Salaries and related costs | \$ 774,214 | \$ 863,846 |
| As a % of net revenue | 56.0% | 53.9% |
| Stock compensation expense | \$ 39,135 | \$ 44,879 |
| As a % of salaries and related costs | 5.1% | 5.2% |
| As a % of net revenue | 2.8% | 2.8% |

Excluding stock compensation expense, salaries and related costs as a percentage of net revenue increased 208 basis points for 2009, as compared with 2008. This increase is largely due to the fixed nature of base salaries and management's commitment to maintaining its people during this economic downturn. Stock compensation expense declined 13% in 2009, as compared with 2008, primarily a result of a \$4 million true up credit recognized in the first quarter of 2009 for the difference between the higher actual pre-vesting forfeiture experience and the pre-vesting forfeiture assumptions used to calculate stock option expense. The net impact on salaries and related costs was \$3 million after consideration of the effect on bonuses. This credit relates primarily to stock option grants made in 2006, the majority of which began vesting in May 2009.

Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual incentive compensation will occur in proportion to changes in Company profits, creating a direct alignment between corporate performance and shareholder interests. The effectiveness of this alignment is demonstrated by comparing the year-over-year impact on 2009 management bonuses. The Company's operating income in 2009 was 19% lower than the amount reported in 2008. This was the first year since 1984 that the Company's operating income was lower than the amount which had been reported in the previous year. Bonuses paid to field and corporate management in 2009 were also both down 19% as compared with 2008. The Company's management incentive compensation programs have always been incentive-based and performance driven and there is no built-in bias that favors or enriches management in a manner inconsistent with overall corporate performance.

Because the Company's management incentive compensation programs are also cumulative, no management bonuses can be paid unless the relevant business unit is, from inception, cumulatively profitable. Any operating losses must have been offset in their entirety by operating profits before management is eligible for a bonus. Since the most significant portion of management compensation comes from the incentive bonus programs, the Company believes that this cumulative feature is a disincentive to excessive risk taking by its managers. Due to the nature of the Company's services, it has a short operating cycle. The outcome of any higher risk transactions, such as overriding established credit limits, would be known in a relatively short time frame. Management believes that when the potential and certain impact on the bonus is fully considered in light of this short operating cycle, the potential for short term gains that could be generated by engaging in risky business practices is sufficiently mitigated to discourage excessive and inappropriate risk taking. Management believes that both the stability and the long term growth in revenues, net revenues and net earnings are a result of the incentives inherent in the Company's compensation program.

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Other overhead expenses decreased 16% in 2009, as compared with 2008, primarily as a result of continued cost reduction measures, including cutbacks on travel and entertainment expenses. Legal and related expenses decreased approximately \$11 million in 2009, as compared with 2008, primarily attributable to lower activity related to governmental regulatory agencies' ongoing investigations of air cargo freight forwarders and related legal proceedings as described further in Part I Item 3 on this report on Form 10-K entitled "Legal Proceedings". The Company believes that legal and related expenses will increase in 2010 as compared to 2009 primarily as a result of receiving a Statement of Objections from the European Commission on February 10, 2010. The Company will continue to incur legal costs, which could be substantial and include judgments, fines and/or penalties, until these proceedings are concluded. Further, the Company periodically conducts reviews of the operations and procedures of its offices.

Table of Contents

worldwide relating to compliance with applicable laws and regulations. If the governmental regulatory agencies conclude that the Company has engaged in anti-competitive behavior or in the event of an adverse judgment in the class action lawsuit, such judgments, fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. Other overhead expenses as a percentage of net revenues remained constant for 2009, as compared with 2008.

Other income, net, decreased 32% in 2009, as compared with 2008. Interest income decreased \$11 million due to lower average interest rates during 2009, as compared with 2008.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2009 was 40.3% as compared to 39.4% for 2008. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock options cannot be anticipated. The higher consolidated effective income tax rate for 2009, as compared 2008, is primarily the result of a lower tax benefit received for disqualifying dispositions of incentive stock options for 2009, as compared with 2008.

2008 compared with 2007

Airfreight services net revenues in 2008 increased 10% compared with 2007 primarily due to an increase in net revenue per kilo of 12% which was offset by a 4% decline in global airfreight tonnage. Airfreight services net revenues from North America and Europe increased 14% and 13%, respectively, in 2008 as compared to 2007, primarily a result of tonnage increases of 6% and 3%, respectively, combined with net revenue per kilo increases of 11% and 6%, respectively. Airfreight services net revenues from Asia increased 1% for 2008 compared with 2007, primarily a result of a 14% increase in net revenue per kilo offset by an 11% decrease in tonnage. These changes were primarily the result of a more favorable business mix, reduction in less profitable business, development of more profitable long haul routes and enhanced opportunities to create more efficient and cost effective consolidations.

Ocean freight and ocean services net revenues increased 14% during 2008, as compared to 2007. Ocean freight net revenues are comprised of three basic services: ocean freight consolidation, direct ocean forwarding and order management. The majority of the Company's ocean freight net revenue is derived from ocean freight consolidation which represented 59% of ocean freight net revenue in 2008 and 60% in 2007. Ocean freight consolidation net revenue grew at a rate of 11% in 2008, as compared to 2007, while the other services, ocean forwarding and order management, which are primarily fee based, grew at rates of 16% and 21%, respectively. Ocean freight consolidation volumes, measured in terms of forty-foot container equivalent units (FEUs), in 2008 were approximately equal to 2007 while net revenue per container, on an aggregate basis, increased 11% for the same period. The increase in ocean freight net revenues was a combination of the Company's response to changing market dynamics with aggressive sales efforts and the underlying impact of carrier capacity cutbacks on the market in general.

The Company's North American ocean freight net revenues increased approximately 9% in 2008 compared to 2007. Over 50% of the increase in ocean freight net revenues was a result of growth in the order management and ocean forwarding business. Ocean freight net revenues for Asia and Europe increased 17% and 24%, respectively, in 2008 as compared to 2007. These increases were a result of continued marketing efforts and opportunities provided by customer service initiatives.

Customs brokerage and other services net revenues increased 9% in 2008 as compared with 2007. Consolidation within the customs brokerage market has also contributed to this increase as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program. In addition, increased emphasis on regulatory compliance continues to benefit the Company's customs brokerage offerings.

Salaries and related costs increased 9% in 2008 compared to 2007 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels.

The effect of including stock-based compensation expense in salaries and related costs for 2008 and 2007 are as follows:

| In thousands | Years ended December 31, | |
|----------------------------|--------------------------|------------|
| | 2008 | 2007 |
| Salaries and related costs | \$ 863,846 | \$ 791,879 |
| As a % of net revenue | 53.9% | 54.5% |
| Stock compensation expense | \$ 44,879 | \$ 44,917 |

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| | | |
|--------------------------------------|------|------|
| As a % of salaries and related costs | 5.2% | 5.7% |
| As a % of net revenue | 2.8% | 3.1% |

Of the 62 basis point decrease in salaries and related costs as a percentage of net revenue for 2008, as compared with 2007, 30 basis points are the result of the decrease in stock compensation expense as a percentage of net revenue. The remaining 32 basis point decrease in salaries and related costs as a percentage of net revenue for 2008, as compared with 2007, can be attributed to

Table of Contents

productivity increases which resulted from more efficient staffing utilization. Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 12% in 2008 as compared with 2007 as rent expense, communications expense, process improvement and training expenses, and other costs expanded to accommodate the Company's growing operations. Other overhead expenses as a percentage of net revenues increased 1% in 2008 as compared with 2007. The Company incurred legal and related expenses of \$10 million in 2008 as compared to \$4 million in 2007, primarily attributable to the DOJ ongoing investigations of air cargo freight forwarders and related legal proceedings as described further in Part I Item 3 on this report on Form 10-K entitled "Legal Proceedings". The Company will continue to incur substantial legal costs, which could include fines and/or penalties, until these proceedings are concluded. If the DOJ and/or EC concludes that the Company has engaged in anti-competitive behavior, such fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. Despite the legal and related expenditures mentioned above, other overhead expenses as a percentage of net revenues remained relatively constant for 2008 as compared to 2007. This was primarily due to the continued achievement of cost containment objectives.

Other income, net, remained relatively constant in 2008 when compared with 2007.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2008 was 39.4% as compared to 40.0% for 2007.

Currency and Other Risk Factors

International air/ocean freight forwarding and customs brokerage are intensively competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the Company's primary competition is confined to a relatively small number of companies within this group. Historically, the industry has experienced consolidations into larger firms striving for stronger and more complete multinational and multi-service networks. However, regional and local broker/forwarders remain a competitive force.

The primary competitive factors in the international logistics industry continue to be price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality service and believes that its prices are competitive with those of others in the industry. Larger customers utilize more sophisticated and efficient procedures for the management of their logistics supply chains by embracing strategies such as just-in-time inventory management. The Company believes that this trend has resulted in customers using fewer service providers with greater technological capacity and more consistent global coverage. Accordingly, sophisticated computerized customer service capabilities and a stable worldwide network have become significant factors in attracting and retaining customers.

Developing these systems and a worldwide network adds a considerable indirect cost to the services provided to customers. Smaller and middle-tier competitors, in general, do not have the resources available to develop customized systems and a worldwide network.

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2009, 2008 and 2007 was insignificant. Net foreign currency gains incurred in 2009 were \$1 million. Net foreign currency losses incurred in 2008 were \$191,000. Net foreign currency gains incurred in 2007 were \$1 million. The Company had no foreign currency derivatives outstanding at December 31, 2009 and 2008.

Table of Contents

Geographic Coverage

During 2009, the Company opened three full-service offices: 1) New Orleans, Louisiana (formerly a satellite of Houston, Texas); 2) Muscat, Sultanate of Oman (formerly an agent location); and 3) Wuhan, People's Republic of China (formerly a satellite of Chongqing, People's Republic of China). The Company opened one satellite office in Tulsa, Oklahoma (satellite of Dallas, Texas).

The Company closed two full-service offices: 1) Port Louis, Mauritius and 2) Caracas, Venezuela and three satellite offices: 1) Graz, Austria; 2) Port Elizabeth, South Africa; and 3) Maiquetía, Venezuela.

Acquisitions - Historically, growth through aggressive acquisition has proven to be a challenge for many of the Company's competitors and typically involves the purchase of significant goodwill, the value of which can be realized in large measure only by retaining the customers and profit margins of the acquired business. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions, where future economic benefit significantly exceeds the goodwill recorded in the transaction.

Internal Growth - Management believes that a comparison of same store results is critical in the evaluation of the quality and extent of the Company's internally generated growth. This same store analysis isolates the financial contributions from offices that have been included in the Company's operating results for at least one full year. The table below presents same store comparisons on a year-over-year basis for the years ended December 31,

| | 2009 | 2008 | 2007 |
|------------------|-------|------|------|
| Net revenues | (14)% | 10% | 12% |
| Operating income | (19)% | 12% | 13% |

Liquidity and Capital Resources

The Company's principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the year ended December 31, 2009 was \$331 million, as compared with \$409 million for 2008. This \$78 million decrease is primarily due to a decrease in net earnings offset by changes in working capital accounts. At December 31, 2009, working capital was \$1,079 million, including cash, cash equivalents and short-term investments of \$927 million. The Company had no long-term debt at December 31, 2009.

The Company's business is subject to seasonal fluctuations. Cash flow fluctuates as a result of this seasonality. Historically, the first quarter shows an excess of customer collections over customer billings. This results in positive cash flow. The increased activity associated with peak season (typically commencing late second or early third quarter and continuing well into the fourth quarter) causes an excess of customer billings over customer collections. This cyclical growth in customer receivables consumes available cash.

As a customs broker, the Company makes significant 5-10 business day cash advances for certain of its customers' obligations such as the payment of duties in the United States to the Customs and Border Protection of the Department of Homeland Security. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a pass through and are not recorded as a component of revenue and expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable from the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these pass through billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2009 was \$41 million, as compared with \$59 million during the same period of 2008. The largest use of cash in investing activities is cash paid for capital expenditures. The Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. For the year ended December 31, 2009, the Company made capital expenditures of \$40 million, including prepayment on a long-term land lease, as compared with \$60 million for the same period in 2008. Total capital expenditures in 2010 are currently estimated to be \$90 million. This includes normal capital expenditures as noted above, plus additional real estate development.

Cash used in financing activities for the year ended December 31, 2009 was \$117 million as compared with \$161 million in 2008. The Company uses the proceeds from stock option exercises to repurchase the Company's common stock on the open market. In 2009, the Company continued its policy of repurchasing stock to limit growth in issued and outstanding shares as a result of stock option exercises. The decrease in cash used in financing activities for the year ended December 31, 2009 as compared with the same period in 2008 is primarily due to fewer shares repurchased. During 2009 and 2008 the net use of cash in financing activities included the payment of dividends of \$.38 per share and \$.32 per share, respectively.

Table of Contents

The Company follows established guidelines relating to credit quality, diversification and maturities of its investments to preserve principal and maintain liquidity. The Company's investment portfolio has not been adversely impacted by the recent disruption in the credit markets. However, if there is continued and expanded disruption in the credit markets, there can be no assurance that the Company's investment portfolio will not be adversely affected in the future.

The Company cannot forecast the impact that ongoing uncertainties in the global economy will have on its operating results. Management believes that the Company has effective credit control procedures, and historically has experienced relatively insignificant collection problems. The Company cannot predict what fallout these economic uncertainties may have on freight volumes, changes in consumer demand, supplier stability and capacity or on customers' abilities to pay.

The Company maintains international unsecured bank lines of credit. At December 31, 2009, the international bank lines of credit totaled \$26 million. In addition, the Company maintains a bank facility with its U.K. bank for \$11 million which is available for issuances of standby letters of credit. At December 31, 2009, the Company had no amounts outstanding on these lines of credit, but was contingently liable for \$78 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company is required to perform.

| In thousands | Total amounts committed | Amount of Commitment Expiration Per Period | | | |
|---------------------------|-------------------------|--|-------------|-------------|---------------|
| | | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Standby letters of credit | \$ 78,465 | \$ 70,664 | \$ 5,352 | \$ 545 | \$ 1,904 |

At December 31, 2009, the Company's contractual obligations are as follows:

| In thousands | Total | Payments Due by Period | | | |
|---|-------------------|------------------------|------------------|------------------|------------------|
| | | Less than 1 year | 1 - 3 years | 3 - 5 years | After 5 years |
| Contractual Obligations: | | | | | |
| Operating leases | \$ 134,907 | \$ 41,149 | \$ 51,250 | \$ 27,349 | \$ 15,159 |
| Unconditional purchase obligations | 222,939 | 222,939 | | | |
| Equipment purchase obligations | 3,746 | 3,746 | | | |
| Total contractual cash obligations | \$ 361,592 | \$ 267,834 | \$ 51,250 | \$ 27,349 | \$ 15,159 |

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2009, will be fulfilled during 2010 in the Company's ordinary course of business.

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2009, the Company had repurchased and retired 19,634,439 shares of common stock at an average price of \$18.60 per share over the period from 1994 through 2009. During 2009, 1,472,689 shares were repurchased at an average price of \$31.47 per share.

The Company has a Discretionary Stock Repurchase Plan under which Management is allowed to repurchase such shares as may be necessary to reduce the issued and outstanding stock to 200,000,000 shares of common stock. As of December 31, 2009, the Company had repurchased and retired 16,848,598 shares of common stock at an average price of \$32.21 per share over the period from 2001 through 2009. During 2009, 1,258,596 shares were repurchased at an average price of \$30.33 per share. These discretionary repurchases were made to limit the growth in the

number of issued and outstanding shares as a result of stock option exercises.

Table of Contents

Management believes that the Company's current cash position, bank financing arrangements, and operating cash flows will be sufficient to meet its capital and liquidity requirements for the foreseeable future, including meeting any contingent liabilities related to standby letters of credit and other obligations.

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At December 31, 2009, cash and cash equivalent balances of \$486 million were held by the Company's non-United States subsidiaries, of which \$62 million was held in banks in the United States.

Impact of Inflation

To date, the Company's business has not been adversely affected by inflation. Direct carrier rate increases could occur over the short- to medium-term period. Due to the high degree of competition in the market place, these rate increases can lead to an erosion in the Company's margins. As the Company is not required to purchase or maintain extensive property and equipment and has not otherwise incurred substantial interest rate-sensitive indebtedness, the Company currently has limited direct exposure to increased costs resulting from increases in interest rates.

Off-Balance Sheet Arrangements

As of December 31, 2009, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

ITEM 7A QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risks in the ordinary course of its business. These risks are primarily related to foreign exchange risk and changes in short-term interest rates. The potential impact of the Company's exposure to these risks is presented below:

Foreign Exchange Risk

The Company conducts business in many different countries and currencies. The Company's business often results in revenue billings issued in a country and currency which differs from that where the expenses related to the service are incurred. In the ordinary course of business, the Company creates numerous intercompany transactions. This brings a market risk to the Company's earnings.

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company's functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the year ended December 31, 2009, would have had the effect of raising operating income approximately \$31 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately \$25 million. This analysis does not take into account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and decrease imports into the United States over some relevant period of time, but the exact effect of this change cannot be quantified without making speculative assumptions.

As of December 31, 2009, the Company had less than \$2 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company's ability to move money freely. Any such hedging activity throughout the year ended December 31, 2009, was insignificant. Net foreign currency gains incurred in 2009 were \$1 million. Net foreign currency losses incurred in 2008 were \$191,000. Net foreign currency gains incurred in 2007 were \$1 million. The Company had no foreign currency derivatives outstanding at December 31, 2009 and 2008. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At December 31, 2009, the Company had cash, cash equivalents and short-term investments of \$927 million, of which \$539 million was invested at various short-term market interest rates. The Company had no short-term borrowings at December 31, 2009. A hypothetical change in the interest rate of 10 basis points at December 31, 2009 would not have a significant impact on the Company's earnings.

In management's opinion, there has been no material change in the Company's market risk exposure between 2008 and 2009.

Table of Contents**ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following documents are filed on the pages listed below, as part of Part II, Item 8 of this report.

| Document | Page |
|---|------------------|
| 1. Financial Statements and Reports of Independent Registered Public Accounting Firm: | |
| <u>Reports of Independent Registered Public Accounting Firm</u> | F-1 and F-2 |
| Consolidated Financial Statements: | |
| <u>Balance Sheets as of December 31, 2009 and 2008</u> | F-3 |
| <u>Statements of Earnings for the Years Ended December 31, 2009, 2008 and 2007</u> | F-4 |
| <u>Statements of Equity and Comprehensive Income for the Years Ended December 31, 2009, 2008 and 2007</u> | F-5 |
| <u>Statements of Cash Flows for the Years Ended December 31, 2009, 2008 and 2007</u> | F-6 |
| <u>Notes to Consolidated Financial Statements</u> | F-7 through F-19 |

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in the Exchange Act Rule 13a-15(e)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report at the reasonable assurance level.

Changes in Internal Controls

There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

We have confidence in the Company's internal controls and procedures. Nevertheless, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's disclosure procedures and controls or the Company's internal controls will prevent all errors or intentional fraud. An internal control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of such internal controls are met. Further, the design of an internal control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all internal control systems, no evaluation of controls can provide absolute assurance that all the Company's control issues and instances of fraud, if any, have been detected.

Management Report on Internal Control Over Financial Reporting

The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting

principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and the Board of Directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Table of Contents

A system of internal control can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Our management, including our Chief Executive Officer and Chief Financial Officer, conducted an assessment of the effectiveness of our internal control over financial reporting, as of December 31, 2009, based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2009, our internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2009, which is included at F-2.

ITEM 9B OTHER INFORMATION

Not applicable.

Table of Contents

PART III

ITEM 10 DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is set forth below or incorporated by reference to information under the caption "Proposal 1 - Election of Directors" and to the information under the captions "Section 16(a) Beneficial Ownership Reporting Compliance" and "Corporate Governance-Director Nomination Process" in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 5, 2010. See also Part I - Item 1 - Executive Officers of the Registrant.

Audit Committee and Audit Committee Financial Expert

Our Board has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are Mark A. Emmert, Dan P. Kourkoumelis, Michael J. Malone, John W. Meisenbach and Robert R. Wright. Our Board has determined that Robert R. Wright, Chairman of the Audit Committee, is an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K under the Exchange Act and that each member of the Audit Committee is independent under the NASDAQ independence standards applicable to audit committee members.

Code of Ethics and Governance Guidelines

We have adopted a *Code of Business Conduct* that applies to all Company employees including, of course, our principal executive officer and principal financial and accounting officer. The *Code of Business Conduct* is posted on our website at <http://www.investor.expeditors.com>. We will post any amendments to the *Code of Business Conduct* at that location. In the unlikely event that the Board of Directors approves any sort of waiver to the *Code of Business Conduct* for our executive officers or directors, information concerning such waiver will also be posted at that location. No waivers were granted in 2009. In addition to posting information regarding amendments and waivers on our website, the same information will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers satisfies applicable NASDAQ listing rules.

Our investor relations website also includes under the heading "Executive Officers' and Directors' Stock Trading Plans" information regarding entries into a Rule 10b5-1 trading plan by directors or officers of the Company or by the Company itself. Any new entry into such a trading plan or amendments thereto will be posted at that location.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to information under the captions "Proposal 1 - Election of Directors" and "Executive Compensation" in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 5, 2010.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to information under the captions "Principal Holders of Voting Securities" and "Proposal 1 - Election of Directors" in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 5, 2010.

Table of Contents

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2009, regarding compensation plans under which equity securities of the Company are authorized for issuance.

| Plan Category | Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (1) | Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (2) | Number of Securities Available for Future Issuance, Other Than Securities to be Issued Upon Exercise of All Outstanding Options, Warrants and Rights (3) |
|--|---|---|--|
| Equity Compensation Plans Approved by Security Holders | 18,834,620 | \$ 28.96 | 4,801,157 |
| Equity Compensation Plans Not Approved by Security Holders | | | |
| Total | 18,834,620 | \$ 28.96 | 4,801,157 |

- (1) Does not include 29,230 restricted stock awards that were not fully vested as of December 31, 2009.
- (2) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding restricted stock awards which have no exercise price.
- (3) Includes 4,097,808 available for issuance under the employee stock purchase plans, 557,712 available for future grants of stock options and 145,637 available for issuance of restricted stock awards.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to information under the captions "Corporate Governance" and "Certain Relationships and Related Transactions" in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 5, 2010.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to information under the caption "Relationship with Independent Public Accountants" in the Company's definitive Proxy Statement for its annual meeting of shareholders to be held on May 5, 2010.

Table of Contents

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

| | Page |
|--|------------------|
| (a) 1. FINANCIAL STATEMENTS | |
| <u>Reports of Independent Registered Public Accounting Firm</u> | F-1 and F-2 |
| <u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u> | F-3 |
| <u>Consolidated Statements of Earnings for the Years Ended December 31, 2009, 2008 and 2007</u> | F-4 |
| <u>Consolidated Statements of Equity and Comprehensive Income for the Years Ended December 31, 2009, 2008 and 2007</u> | F-5 |
| <u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2008 and 2007</u> | F-6 |
| <u>Notes to Consolidated Financial Statements</u> | F-7 through F-19 |
| 2. FINANCIAL STATEMENT SCHEDULES | |
| Schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto. | |

Table of Contents

3. EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

The following list is a subset of the list of exhibits described below and contains all compensatory plans, contracts or arrangements in which any director or executive officer of the Company is a participant, unless the method of allocation of benefits thereunder is the same for management and non-management participants:

- (1) Form of Employment Agreement executed by the Company's Chairman and Chief Executive Officer. See Exhibit 10.23.
- (2) Form of Employment Agreement executed by the Company's President and Chief Operating Officer and certain of the Company's executive officers. See Exhibit 10.24.
- (3) Form of Employment Agreement executed by the Company's Chief Financial Officer. See Exhibit 10.25.
- (4) The Company's Amended 1985 Stock Option Plan. See Exhibit 10.4.
- (5) Form of Stock Option Agreement used in connection with options granted under the Company's Amended 1985 Stock Option Plan. See Exhibit 10.5.
- (6) The Company's Amended 1993 Directors' Non-Qualified Stock Option Plan. See Exhibit 10.39.
- (7) Form of Stock Option Agreement used in connection with options granted under the Company's 1993 Directors' Non-Qualified Stock Option Plan. See Exhibit 10.9.
- (8) The Company's Amended 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.40.
- (9) Form of Stock Option Agreement used in connection with Non-Qualified options granted under the Company's 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.30.
- (10) Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.31.
- (11) The Company's 2008 Executive Incentive Compensation Plan. See Exhibit 10.35.
- (12) The Company's 2008 Directors' Restricted Stock Plan. See Exhibit 10.36.
- (13) The Company's 2002 Employee Stock Purchase Plan. See Exhibit 10.42.
- (14) The Company's 2005 Stock Option Plan. See Exhibit 10.45.
- (15) Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2005 Incentive Stock Option Plan. See Exhibit 10.46.
- (16) The Company's 2006 Stock Option Plan. See Exhibit 10.47.
- (17) Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2006 Incentive Stock Option Plan. See Exhibit 10.48.
- (18) The Company's 2007 Stock Option Plan. See Exhibit 10.49.
- (19) Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2007 Incentive Stock Option Plan. See Exhibit 10.50.
- (20) The Company's 2008 Stock Option Plan. See Exhibit 10.51.
- (21) Form of Stock Option Agreement used in connection with options granted under the Company's 2008 Stock Option Plan. See Exhibit 10.52.
- (22) The Company's 2009 Stock Option Plan. See Exhibit 10.53.
- (23) Form of Stock Option Agreement used in connection with options granted under the Company's 2009 Stock Option Plan. See Exhibit 10.54.

Table of Contents

(b) EXHIBITS

| Exhibit Number | Exhibit |
|---------------------------|--|
| 3.1 | The Company's Restated Articles of Incorporation and the Articles of Amendment thereto dated December 9, 1993. (Incorporated by reference to Exhibit 3.1 to Form 10-K, filed on or about March 31, 1995.) |
| 3.1.1 | Articles of Amendment to the Restated Articles of Incorporation dated November 12, 1996. (Incorporated by reference to Exhibit 3.1.1 to Form 10-K, filed on or about March 31, 1997.) |
| 3.1.2 | Articles of Amendment to the Restated Articles of Incorporation dated May 20, 1999. (Incorporated by reference to Exhibit 3.1.2 to Form 10-K, filed on or about March 28, 2003.) |
| 3.1.3 | Articles of Amendment to the Restated Articles of Incorporation dated June 12, 2002. (Incorporated by reference to Exhibit 3.1.3 to Form 10-K, filed on or about March 28, 2003.) |
| 3.2 | The Company's Amended and Restated Bylaws. (Incorporated by reference to Exhibit 3.2 to Form 8-K, filed on or about January 16, 2009.) |
| 10.4 | The Company's Amended 1985 Stock Option Plan. (Incorporated by reference to Exhibit 10.14 to Form 10-K, filed on or about March 28, 1991.) |
| 10.5 | Form of Stock Option Agreement used in connection with options granted under the Company's Amended 1985 Stock Option Plan. (Incorporated by reference to Exhibit 10.15 to Form 10-K, filed on or about March 28, 1991.) |
| 10.9 | Form of Stock Option Agreement used in connection with options granted under the Company's 1993 Directors' Non-Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10.9 to Form 10-K, filed on or about March 28, 1994.) |
| 10.18 | Plan and Agreement of Reorganization, dated as of January 1, 1984, between the Company and the individual shareholders of Fons Pte. Ltd. (Incorporated by reference to Exhibit 2.5 to Registration Statement No. 2-91224, filed on May 21, 1984.) |
| 10.19 | Plan and Agreement of Reorganization, dated as of January 1, 1984, among the Company, EIO Investment Ltd., Wong Hoy Leung, Chiu Chi Shing, and James Li Kou Wang. (Incorporated by reference to Exhibit 2.6 to Registration Statement No. 2-91224, filed on May 21, 1984.) |
| 10.23 | Form of Employment Agreement executed by the Company's Chairman and Chief Executive Officer dated December 31, 2008. (Incorporated by reference to Exhibit 10.23 to Form 10-K, filed on or about February 27, 2009.) |
| 10.24 | Form of Employment Agreement executed by the Company's President and Chief Operating Officer and certain of the Company's executive officers dated December 31, 2008. (Incorporated by reference to Exhibit 10.24 to Form 10-K, filed on or about February 27, 2009.) |
| 10.25 | Form of Employment Agreement executed by the Company's Chief Financial Officer dated December 31, 2008. (Incorporated by reference to Exhibit 10.25 to Form 10-K, filed on or about February 27, 2009.) |
| 10.30 | Form of Stock Option Agreement used in connection with Non-Qualified options granted under the Company's 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.30 to Form 10-K, filed on or about March 31, 1998.) |
| 10.31 | Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.31 to Form 10-K, filed on or about March 31, 1998.) |

Table of Contents

| | |
|---------|--|
| 10.35 | The Company's 2008 Executive Incentive Compensation Plan. (Incorporated by reference to Appendix C of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 21, 2008.) |
| 10.36 | The Company's 2008 Directors' Restricted Stock Plan. (Incorporated by reference to Appendix B of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 21, 2008.) |
| 10.39 | The Company's Amended 1993 Directors' Non-Qualified Stock Option Plan. (Incorporated by reference to Appendix B of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 28, 2001.) |
| 10.39.1 | Amendment to Amended 1993 Directors' Non-Qualified Stock Option Plan (Incorporated by reference to Exhibit 10.39.1 to Form 10-Q filed on or about August 9, 2007.) |
| 10.40 | The Company's Amended 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Appendix C of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 28, 2001.) |
| 10.42 | The Company's 2002 Employee Stock Purchase Plan. (Incorporated by reference to Appendix B of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 30, 2007.) |
| 10.45 | The Company's 2005 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 31, 2005.) |
| 10.46 | Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2005 Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.46 to Form 10-K filed on or about March 1, 2007.) |
| 10.47 | The Company's 2006 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about April 4, 2006.) |
| 10.48 | Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2006 Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.48 to Form 10-K filed on or about March 1, 2007.) |
| 10.49 | The Company's 2007 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 30, 2007.) |
| 10.50 | Form of Stock Option Agreement used in connection with Incentive options granted under the Company's 2007 Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.50 to Form 10-K filed on or about February 9, 2008.) |
| 10.51 | The Company's 2008 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 21, 2008.) |
| 10.52 | Form of Stock Option Agreement used in connection with options granted under the Company's 2008 Stock Option Plan. (Incorporated by reference to Exhibit 10.52 to Form 10-K filed on or about February 27, 2009.) |
| 10.53 | The Company's 2009 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 20, 2009.) |
| 10.54 | Form of Stock Option Agreement used in connection with options granted under the Company's 2009 Stock Option Plan. (Incorporated by reference to Exhibit 10.2 to Form 8-K filed on or about May 11, 2009.) |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

Table of Contents

| | |
|---------|--|
| 101.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 26, 2010

EXPEDITORS INTERNATIONAL OF
WASHINGTON, INC.

By: /s/ BRADLEY S. POWELL
Bradley S. Powell
Chief Financial Officer

Table of Contents

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 26, 2010.

| Signature | Title |
|--|---|
| /s/ Peter J. Rose (Peter J. Rose) | Chairman of the Board and Chief Executive Officer (Principal Executive Officer) and Director |
| /s/ R. Jordan Gates (R. Jordan Gates) | President and Chief Operating Officer and Director |
| /s/ James Li Kou Wang (James Li Kou Wang) | President-Asia and Director |
| /s/ Bradley S. Powell (Bradley S. Powell) | Chief Financial Officer (Principal Financial and Accounting Officer) |
| /s/ Mark A. Emmert (Mark A. Emmert) | Director |
| /s/ Dan P. Kourkoumelis (Dan P. Kourkoumelis) | Director |
| /s/ Michael J. Malone (Michael J. Malone) | Director |
| /s/ John W. Meisenbach (John W. Meisenbach) | Director |
| /s/ Robert R. Wright (Robert R. Wright) | Director |

Table of Contents

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
COMPRISING ITEM 8
ANNUAL REPORT ON FORM 10-K
TO SECURITIES AND EXCHANGE COMMISSION FOR THE
YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Expeditors International of Washington, Inc.:

We have audited the accompanying consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the Company changed its accounting policy for minority interest as required by Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51 (included in FASB ASC Topic 810, Consolidation), effective as of January 1, 2009.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Expeditors International of Washington, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2010 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP
Seattle, Washington
February 26, 2010

F - 1

Table of Contents

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Expeditors International of Washington, Inc.:

We have audited Expeditors International of Washington, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Expeditors International of Washington, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting under Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Expeditors International of Washington, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of earnings, equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2009 and our report dated February 26, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Seattle, Washington
February 26, 2010

Table of Contents**Consolidated Balance Sheets**

In thousands except share data

December 31,

| | 2009 | 2008 |
|---|--------------|-----------|
| Current Assets: | | |
| Cash and cash equivalents | \$ 925,929 | 741,028 |
| Short-term investments | 655 | 658 |
| Accounts receivable, less allowance for doubtful accounts of \$14,235 in 2009 and \$14,414 in 2008 | 810,369 | 788,176 |
| Deferred Federal and state income taxes | 8,338 | 7,986 |
| Other | 42,539 | 35,511 |
| Total current assets | 1,787,830 | 1,573,359 |
| Property and Equipment: | | |
| Land | 165,528 | 160,293 |
| Buildings and leasehold improvements | 372,470 | 351,022 |
| Furniture, fixtures, equipment and purchased software | 205,817 | 193,810 |
| Construction in progress | 16,258 | 16,029 |
| Property and equipment, at cost | 760,073 | 721,154 |
| Less accumulated depreciation and amortization | 264,372 | 228,025 |
| Property and equipment, net | 495,701 | 493,129 |
| Goodwill, net | 7,927 | 7,927 |
| Other intangibles, net | 4,938 | 6,503 |
| Other assets, net | 27,326 | 19,921 |
| Total assets | \$ 2,323,722 | 2,100,839 |
| Current Liabilities: | | |
| Accounts payable | \$ 546,675 | 491,823 |
| Accrued expenses, primarily salaries and related costs | 145,545 | 150,487 |
| Federal, state, and foreign income taxes | 16,166 | 28,039 |
| Total current liabilities | 708,386 | 670,349 |
| Deferred Federal and state income taxes | 53,989 | 46,574 |
| Commitments and contingencies | | |
| 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 212,025,494 shares at December 31, 2009 and 211,973,377 shares at December 31, 2008 | 2,120 | 2,120 |
| Additional paid-in capital | 18,265 | 7,150 |
| Retained earnings | 1,532,018 | 1,372,356 |
| Accumulated other comprehensive income (loss) | 604 | (15,208) |
| Total shareholders equity | 1,553,007 | 1,366,418 |
| Noncontrolling interest | 8,340 | 17,498 |

| | | |
|------------------------------|--------------|-----------|
| Total equity | 1,561,347 | 1,383,916 |
| Total liabilities and equity | \$ 2,323,722 | 2,100,839 |

See accompanying notes to consolidated financial statements.

F - 3

Table of Contents**Consolidated Statements of Earnings**

In thousands except share data

Years ended December 31,

| | 2009 | 2008 | 2007 |
|--|--------------|-------------|-------------|
| Revenues: | | | |
| Airfreight services | \$ 1,831,317 | 2,541,377 | 2,407,582 |
| Ocean freight and ocean services | 1,297,685 | 1,990,983 | 1,820,558 |
| Customs brokerage and other services | 963,281 | 1,101,518 | 1,007,031 |
| Total revenues | 4,092,283 | 5,633,878 | 5,235,171 |
| Operating Expenses: | | | |
| Airfreight consolidation | 1,341,842 | 1,962,621 | 1,879,434 |
| Ocean freight consolidation | 973,462 | 1,596,346 | 1,473,942 |
| Customs brokerage and other services | 394,193 | 471,650 | 428,834 |
| Salaries and related costs | 774,214 | 863,846 | 791,879 |
| Rent and occupancy costs | 74,324 | 76,984 | 67,676 |
| Depreciation and amortization | 40,035 | 40,003 | 39,303 |
| Selling and promotion | 26,295 | 37,778 | 38,735 |
| Other | 82,917 | 111,514 | 91,968 |
| Total operating expenses | 3,707,282 | 5,160,742 | 4,811,771 |
| Operating income | 385,001 | 473,136 | 423,400 |
| Other Income (Expense): | | | |
| Interest income | 10,177 | 21,077 | 22,341 |
| Interest expense | (499) | (183) | 45 |
| Other, net | 8,193 | 5,542 | 3,887 |
| Other income, net | 17,871 | 26,436 | 26,273 |
| Earnings before income taxes | 402,872 | 499,572 | 449,673 |
| Income tax expense | 162,475 | 196,593 | 179,815 |
| Net earnings | 240,397 | 302,979 | 269,858 |
| Less: net earnings attributable to noncontrolling interest | 180 | 1,965 | 704 |
| Net earnings attributable to shareholders | \$ 240,217 | 301,014 | 269,154 |
| Diluted earnings attributable to shareholders per share | \$ 1.11 | 1.37 | 1.21 |
| Basic earnings attributable to shareholders per share | \$ 1.13 | 1.41 | 1.26 |
| Dividends declared and paid per common share | \$ 0.38 | 0.32 | 0.28 |
| Weighted average diluted shares outstanding | 216,533,240 | 219,170,003 | 221,799,868 |

| | | | |
|---|-------------|-------------|-------------|
| Weighted average basic shares outstanding | 212,112,744 | 212,755,946 | 213,314,761 |
|---|-------------|-------------|-------------|

See accompanying notes to consolidated financial statements.

F - 4

Table of Contents**Consolidated Statements of Equity****and Comprehensive Income****In thousands except share data****Years ended December 31, 2009, 2008 and 2007**

| | Common stock | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | Total shareholders equity | Noncontrolling interest | Total equity |
|--|--------------|-----------|----------------------------------|----------------------|--|---------------------------------|----------------------------|-----------------|
| | Shares | Par Value | | | | | | |
| Balance at December 31, 2006 | 213,080,466 | \$ 2,131 | 119,582 | 934,058 | 14,320 | 1,070,091 | 15,816 | 1,085,907 |
| Exercise of stock options | 3,978,908 | 40 | 43,138 | | | 43,178 | | 43,178 |
| Issuance of shares under stock purchase plan | 632,548 | 6 | 21,801 | | | 21,807 | | 21,807 |
| Shares repurchased under provisions of stock repurchase plans | (4,695,146) | (47) | (207,537) | | | (207,584) | | (207,584) |
| Stock compensation expense | | | 44,917 | | | 44,917 | | 44,917 |
| Tax benefits from stock plans | | | 28,105 | | | 28,105 | | 28,105 |
| Comprehensive income | | | | | | | | |
| Net earnings | | | | 269,154 | | 269,154 | 704 | 269,858 |
| Unrealized gains on securities, net of tax of \$28 | | | | | 44 | 44 | | 44 |
| Reclassification adjustment for realized gain, net of tax of \$286 | | | | | (443) | (443) | | (443) |
| Foreign currency translation adjustments, net of tax of \$9,264 | | | | | 17,050 | 17,050 | 544 | 17,594 |
| Total comprehensive income | | | | | | 285,805 | 1,248 | 287,053 |
| Dividends paid (\$.28 per share) | | | | (59,748) | | (59,748) | | (59,748) |
| Distributions or declaration of dividends to noncontrolling interest | | | | | | | (316) | (316) |
| Balance at December 31, 2007 | 212,996,776 | \$ 2,130 | 50,006 | 1,143,464 | 30,971 | 1,226,571 | 16,748 | 1,243,319 |
| Exercise of stock options | 2,140,819 | 22 | 29,322 | | | 29,344 | | 29,344 |
| Issuance of shares under stock purchase plan | 732,719 | 7 | 22,109 | | | 22,116 | | 22,116 |
| Shares repurchased under provisions of stock repurchase plans | (3,896,937) | (39) | (150,120) | (4,019) | | (154,178) | | (154,178) |
| Stock compensation expense | | | 44,879 | | | 44,879 | | 44,879 |
| Tax benefits from stock plans | | | 10,954 | | | 10,954 | | 10,954 |
| Comprehensive income | | | | | | | | |
| Net earnings | | | | 301,014 | | 301,014 | 1,965 | 302,979 |
| Foreign currency translation adjustments, net of tax of \$25,018 | | | | | (46,179) | (46,179) | (336) | (46,515) |
| Total comprehensive income | | | | | | 254,835 | 1,629 | 256,464 |
| Dividends paid (\$.32 per share) | | | | (68,103) | | (68,103) | | (68,103) |
| Distributions or declaration of dividends to noncontrolling interest | | | | | | | (879) | (879) |
| Balance at December 31, 2008 | 211,973,377 | \$ 2,120 | 7,150 | 1,372,356 | (15,208) | 1,366,418 | 17,498 | 1,383,916 |
| Exercise of stock options and release of restricted shares | 2,068,603 | 20 | 26,393 | | | 26,413 | | 26,413 |

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| | | | | | | | |
|--|-------------|-------|----------|-----------|----------------|--------------|-----------------|
| Issuance of shares under stock purchase plan | 714,799 | 7 | 20,505 | | 20,512 | | 20,512 |
| Shares repurchased under provisions of stock repurchase plans | (2,731,285) | (27) | (84,482) | | (84,509) | | (84,509) |
| Stock compensation expense | | | 39,135 | | 39,135 | | 39,135 |
| Tax benefits from stock plans | | | 5,726 | | 5,726 | | 5,726 |
| Purchase of noncontrolling interest | | | 3,838 | | 3,838 | (4,306) | (468) |
| Comprehensive income | | | | | | | |
| Net earnings | | | 240,217 | | 240,217 | 180 | 240,397 |
| Foreign currency translation adjustments, net of tax of \$8,672 | | | | | 15,812 | 15,812 | (634) 15,178 |
| Total comprehensive income | | | | | 256,029 | (454) | 255,575 |
| Dividends paid (\$.38 per share) | | | | | (80,555) | | (80,555) |
| Distributions or declaration of dividends to noncontrolling interest | | | | | | (4,398) | (4,398) |
| Balance at December 31, 2009 | 212,025,494 | 2,120 | 18,265 | 1,532,018 | 604 | 1,553,007 | 8,340 1,561,347 |

See accompanying notes to consolidated financial statements.

Table of Contents**Consolidated Statements of Cash Flows**

In thousands

Years ended December 31,

| | 2009 | 2008 | 2007 |
|---|------------|-----------|-----------|
| Operating Activities: | | | |
| Net earnings | \$ 240,397 | 302,979 | 269,858 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Provision for losses on accounts receivable | 804 | 1,976 | 940 |
| Deferred income tax (benefit) expense | (1,609) | 16,350 | 18,991 |
| Excess tax benefits from stock plans | (5,726) | (10,954) | (28,105) |
| Stock compensation expense | 39,135 | 44,879 | 44,917 |
| Depreciation and amortization | 40,035 | 40,003 | 39,303 |
| Gain on sale of assets | (42) | (699) | (1,053) |
| Amortization of other intangible assets | 1,520 | 1,618 | 1,483 |
| Changes in operating assets and liabilities: | | | |
| (Increase) decrease in accounts receivable | (1,077) | 85,841 | (84,950) |
| Increase (decrease) in accounts payable and accrued expenses | 29,910 | (66,470) | 46,881 |
| (Increase) decrease in income taxes payable, net | (12,706) | (5,552) | 4,673 |
| Other | 159 | (1,005) | (353) |
| Net cash provided by operating activities | 330,800 | 408,966 | 312,585 |
| Investing Activities: | | | |
| Decrease (increase) in short-term investments | 26 | (72) | (10) |
| Purchase of property and equipment | (34,700) | (59,726) | (82,786) |
| Proceeds from sale of property and equipment | 276 | 369 | 504 |
| Prepayment on long-term land lease, net | (5,049) | | (2,820) |
| Other | (1,901) | 204 | (2,859) |
| Net cash used in investing activities | (41,348) | (59,225) | (87,971) |
| Financing Activities: | | | |
| Proceeds from issuance of common stock | 46,925 | 51,460 | 64,985 |
| Repurchases of common stock | (84,509) | (154,178) | (207,584) |
| Excess tax benefits from stock plans | 5,726 | 10,954 | 28,105 |
| Dividends paid | (80,555) | (68,103) | (59,748) |
| Distributions to noncontrolling interest | (1,084) | (879) | (316) |
| Purchase of noncontrolling interest | (3,851) | | |
| Net cash used in financing activities | (117,348) | (160,746) | (174,558) |
| Effect of exchange rate changes on cash and cash equivalents | 12,797 | (22,566) | 13,185 |
| Increase in cash and cash equivalents | 184,901 | 166,429 | 63,241 |
| Cash and cash equivalents at beginning of year | 741,028 | 574,599 | 511,358 |
| Cash and cash equivalents at end of year | \$ 925,929 | 741,028 | 574,599 |

Interest and Taxes Paid:

| | | | | |
|--------------|----|---------|---------|---------|
| Interest | \$ | 497 | 173 | 83 |
| Income taxes | | 158,745 | 172,146 | 146,353 |

See accompanying notes to consolidated financial statements.

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

Expeditors International of Washington, Inc. (the Company) is a non-asset based provider of global logistics services operating through a worldwide network of offices, international service centers and exclusive or non-exclusive agents. The Company's customers include retailing and wholesaling, electronics, and manufacturing companies around the world.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and 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 effects 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 affected by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies as well as economic turbulence or security concerns in the nations in which it does business.

The consolidated financial statements include the accounts of the Company and its subsidiaries stated in U.S. dollars, the Company's reporting currency. In addition, the consolidated financial statements also include the accounts of operating entities where the Company maintains a parent-subsidiary relationship through unilateral control over assets and operations together with responsibility for payment of all liabilities, notwithstanding a lack of technical majority ownership of the subsidiary common stock.

All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain 2008 and 2007 amounts have been reclassified to conform with the 2009 presentation. Subsequent events have been evaluated through the date of issuance of these financial statements.

All dollar amounts in the notes are presented in thousands except for share data.

B. Cash Equivalents

All highly liquid investments with a maturity of three months or less at date of purchase are considered to be cash equivalents.

C. Short-term Investments

Short-term investments have a maturity date of greater than three months at date of purchase and are designated as available-for-sale. Cost approximates market at December 31, 2009 and 2008.

D. Accounts Receivable

The Company grants credit upon approval to customers. The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services and advances. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates. The Company has recorded accounts receivable allowances in the amounts of \$14,235, \$14,414 and \$14,830 as of December 31, 2009, 2008 and 2007, respectively. Additions and write-offs have not been significant in any of these years.

E. Long-Lived Assets, Depreciation and Amortization

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Property and equipment are recorded at cost and are depreciated or amortized on the straight-line method over the shorter of the assets' estimated useful lives or lease terms. Useful lives for major categories of property and equipment are as follows:

| | |
|---|----------------|
| Land Improvements | 50 years |
| Buildings | 28 to 40 years |
| Furniture, fixtures, equipment and purchased software | 3 to 5 years |

Expenditures for maintenance, repairs, and replacements of minor items are charged to earnings as incurred. Major upgrades and improvements that extend the life of the asset are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in income for the period.

F - 7

Table of Contents

Goodwill is recorded net of accumulated amortization of \$765 at December 31, 2009 and 2008. For the years ended December 31, 2009 and 2008, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

Other intangibles consist principally of payments made to purchase customer lists of agents in countries where the Company established its own presence by opening offices. Other intangible assets are amortized over their estimated useful lives for periods up to 15 years and are reviewed for impairment if an event or circumstance indicates that an impairment loss may have been incurred.

Balances as of December 31 are as follows:

| | 2009 | 2008 |
|---|-----------------|--------------|
| Other intangibles | \$ 22,081 | 22,150 |
| Less accumulated amortization | (17,143) | (15,647) |
| Other intangibles, net | \$ 4,938 | 6,503 |
| Aggregate amortization expense for the year ended December 31 | \$ 1,520 | 1,618 |

Estimated annual amortization expense during each of the next five years is as follows:

| | |
|------|----------|
| 2010 | \$ 1,345 |
| 2011 | 1,065 |
| 2012 | 927 |
| 2013 | 812 |
| 2014 | 450 |

F. Revenues and Revenue Recognition

The Company derives its revenues from three principal sources: 1) airfreight services, 2) ocean freight and ocean services, and 3) 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 or 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.

Airfreight services revenues include the charges to the Company for carrying the shipments when the Company acts as a freight consolidator. Ocean freight services revenues include the charges to the Company for carrying the shipments when the Company acts as a Non-Vessel Operating Common Carrier (NVOCC). In each case the Company is acting as an indirect carrier. When acting as an indirect carrier, the Company will issue a House Airway Bill (HAWB) or a House Ocean Bill of Lading (HOBL) to customers as the contract of carriage. In turn, when the freight is physically tendered to a direct carrier, the Company receives a contract of carriage known as a Master Airway Bill for airfreight shipments and a Master Ocean Bill of Lading for ocean shipments. At this point, the risk of loss passes to the carrier, however, in order to claim for any such loss, the customer is first obligated to pay the freight charges.

Based upon the terms in the contract of carriage, revenues related to shipments where the Company issues an HAWB or an HOBL are recognized at the time the freight is tendered to the direct carrier at origin. Costs related to the shipments are also recognized at this same time.

Revenues realized in other capacities, for instance, when the Company acts as an agent for the shipper, and does not issue an HAWB or an HOBL, include only the commissions and fees earned for the services performed. These revenues are recognized upon completion of the services.

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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. Revenues related to customs brokerage and other services are recognized upon completion of the services.

F - 8

Table of Contents

Arranging international shipments is a complex task. Each actual movement can require multiple services. In some instances, the Company is asked to perform only one of these services. However, in most instances, the Company may perform multiple services. These services include destination breakbulk services and value added ancillary services such as local transportation, export customs formalities, distribution services and logistics management. Each of these services has an associated fee which is recognized as revenue upon completion of the service.

Typically, the fees for each of these services are quoted as separate components, however, customers on occasion will request an all-inclusive rate for a set of services known in the industry as door-to-door service. This means that the customer is billed a single rate for all services from pickup at origin to delivery at destination. In these instances, the revenue for origin and destination services, as well as revenue that will be characterized as freight charges, is allocated to branches as set by preexisting Company policy perhaps supplemented by customer specific negotiations between the offices involved. Each of the Company's branches are separate profit centers and the primary compensation for the branch management group comes in the form of incentive-based compensation calculated directly from the operating income of that branch. This compensation structure ensures that the allocation of revenue and expense among components of services, when provided under an all-inclusive rate, is done in an objective manner on a fair value basis.

The Company presents revenues net of sales and value-added taxes.

G. Income Taxes

Income taxes are accounted for under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, the tax effect of loss carryforwards and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is established when necessary to reduce deferred tax assets to amounts expected to be realized. The Company recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses.

H. Net Earnings Attributable to Shareholders per Common Share

Diluted earnings attributable to shareholders per share is computed using the weighted average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares represent outstanding stock options and stock purchase rights. Basic earnings attributable to shareholders per share is calculated using the weighted average number of common shares outstanding without taking into consideration dilutive potential common shares outstanding.

I. Stock Plans

The Company recognizes stock compensation expense based on an estimate of the fair value of awards granted to employees and directors under the Company's stock option, director restricted stock and employee stock purchase rights plans. This expense, adjusted for expected forfeitures, is recognized on a straight-line basis over the stock awards vesting periods.

J. Foreign Currency

Foreign currency amounts attributable to foreign operations have been translated into U.S. dollars using year-end exchange rates for assets and liabilities, historical rates for equity, and weighted average rates for revenues and expenses. Unrealized gains or losses arising from fluctuations in the year-end exchange rates are generally recorded as components of other comprehensive income as adjustments from foreign currency translation. Currency fluctuations are a normal operating factor in the conduct of the Company's business and exchange transaction gains and losses are generally included in freight consolidation expenses.

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2009, 2008, and 2007 was insignificant. Net foreign

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currency gains incurred in 2009 were \$1,418. Net foreign currency losses incurred in 2008 were \$191. Net foreign currency gains incurred in 2007 were \$1,300. The Company had no foreign currency derivatives outstanding at December 31, 2009 and 2008.

F - 9

Table of Contents

K. Comprehensive Income

Comprehensive income consists of net earnings and other gains and losses affecting equity that, under generally accepted accounting principles in the United States, are excluded from net earnings. For the Company, these consist of foreign currency translation gains and losses and unrealized gains on available for sale securities, net of related income tax effects and comprehensive income attributable to noncontrolling interest.

Accumulated other comprehensive income consisted entirely of foreign currency translation adjustments, net of related income tax effects, as of December 31, 2009 and 2008.

L. Segment Reporting

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 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.

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

N. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51 (SFAS 160) and incorporated in Topic 810 Consolidation of the FASB Accounting Standards Codification (Codification). SFAS 160 changes the accounting and reporting for minority interest, which is recharacterized as noncontrolling interest and classified as a component of equity. SFAS 160 modifies the accounting for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted the provisions of SFAS 160 beginning in the first quarter of 2009. Accordingly, minority interest of \$17,498, \$16,748 and \$15,816 as of December 31, 2008, 2007 and 2006, respectively, have been reclassified to the noncontrolling interest section of equity. Also, the presentation of the consolidated balance sheets, statements of earnings, statements of equity and comprehensive income and cash flows have been modified to meet the reporting requirements of SFAS 160. The adoption of this statement had no impact on net earnings attributable to shareholders.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R), supplemented by FASB Financial Staff Position 141R-1 and incorporated in Codification Topic 805 Business Combinations. SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company adopted the provisions of SFAS 141R beginning in the first quarter of 2009. The adoption had no impact on the Company's consolidated financial condition or results of operations.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS 165), incorporated in Codification Topic 855 Subsequent Events. SFAS 165 establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are issued. This standard is effective for reporting periods ending after June 15, 2009. The Company adopted the provisions of SFAS 165 beginning in the second quarter of 2009. The adoption had no impact on the Company's consolidated financial condition or results of operations.

In June 2009, the FASB issued Accounting Standards Update (ASU) 2009 No. 1 to Codification Topic 105 Generally Accepted Accounting Principles, based on SFAS No. 168, FASB Accounting Guidance Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of SFAS No. 162. This statement establishes that the Codification becomes the single official source of authoritative

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U.S. GAAP superseding all non-SEC accounting and reporting standards and literature. Only one level of authoritative U.S. GAAP exists and all other literature is considered non-authoritative. The Codification became effective for interim and annual periods ending on or after September 15, 2009. The Company applied the Codification beginning in the third quarter of 2009. Given that the Codification does not change U.S. GAAP this statement had no impact on the Company's consolidated financial condition or results of operations.

F - 10

Table of Contents

In October 2009, the FASB issued ASU 2009 No. 13 Multiple-Deliverable Revenue Arrangements, which amends Codification Topic 605 Revenue Recognition. This update provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009 No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company is required to and plans to adopt the provisions of this update beginning in the first quarter of 2011. The Company is currently assessing the impact of the adoption of ASU 2009 No. 13.

NOTE 2. SHAREHOLDERS' EQUITY**A. Stock Repurchase Plans**

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase shares of the Company's common stock in the open market with the proceeds received from the exercise of employee and director stock options. On February 9, 2009, the Plan was amended to increase the authorization to repurchase shares from 20,000,000 up to 40,000,000 shares. As of December 31, 2009, the Company had repurchased and retired 19,634,439 shares of common stock at an average price of \$18.60 per share over the period from 1994 through 2009.

In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200,000,000 shares of common stock. As of December 31, 2009, the Company had repurchased and retired 16,848,598 shares of common stock at an average price of \$32.21 per share over the period from 2001 through 2009.

B. Stock Option Plans

At December 31, 2009, the Company has two stock option plans (the 1985 Plan and the 2009 Plan) under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. On May 6, 2009, the shareholders approved the Company's 2009 Plan, which made available a total of 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2009 Plan. The 1985 Plan provides for non-qualified grants. The 2009 Plan provides for qualified and non-qualified grants. Grants under the 2009 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2009 Plan after April 30, 2010. Outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant.

Upon the exercise of non-qualified stock options and disqualifying dispositions of incentive stock options, the Company derives a tax deduction measured by the excess of the market value over the option price at the date of disqualifying disposition. The portion of the benefit from the deduction which equals the estimated fair value of the options (previously recognized as compensation expense) is recorded as a credit to the deferred tax asset for non-qualified stock options and is recorded as a credit to current tax expense for any disqualified dispositions of incentive stock options. All of the tax benefit received upon option exercise for the tax deduction in excess of the estimated fair value of the options is credited to additional paid-in capital.

The following table summarizes by plan stock option activity and shares available for granting of options:

| | 1985 Plan | 2006 Plan | 2007 Plan | 2008 Plan | 2009 Plan | Directors Plan |
|------------------------------|-----------|-----------|-------------|-----------|-----------|----------------|
| Balance at December 31, 2006 | 6,912 | 79,690 | | | | 128,000 |
| Options authorized | | | 3,000,000 | | | |
| Options granted | | | (1,803,260) | | | (128,000) |
| Options not granted | | (79,960) | | | | |
| Balance at December 31, 2007 | 6,912 | | 1,196,740 | | | |
| Options authorized | | | | 3,000,000 | | |

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| | | |
|------------------------------|-------------|-------------|
| Options granted | | (2,088,415) |
| Options not granted | (1,196,740) | |
| Balance at December 31, 2008 | 6,912 | 911,585 |
| Options authorized | | 3,000,000 |
| Options granted | | (2,449,200) |
| Options not granted | | (911,585) |
| Balance at December 31, 2009 | 6,912 | 550,800 |

F - 11

Table of Contents**C. Stock Purchase Plan**

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan (2002 Plan), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan (1988 Plan) on July 31, 2002. In May 2007, the shareholders approved an amendment to the 2002 Plan to increase by 5,000,000 the number of shares of the Company's common stock available for purchase under the 2002 Plan. The Company's amended 2002 Plan provides for 9,305,452 shares of the Company's common stock, including 305,452 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 2009, an aggregate of 5,207,644 shares had been issued under the 2002 Plan and \$10,217 had been withheld in connection with the plan year ending July 31, 2010.

D. Director Restricted Stock Plan

In May 2008, the shareholders approved the Company's 2008 Directors' Restricted Stock Plan (the 2008 Directors' Plan), which provides for annual awards of restricted stock to non-employee directors and makes 200,000 shares of the Company's common stock available for grant. The 2008 Directors' Plan replaced the 1993 Directors' Non-qualified Stock Option Plan. The plan provides for an annual grant of restricted stock awards with a fair market value equal to \$200,000 to each participant. There were 145,637 shares available for granting of restricted stock awards under the 2008 Directors' Plan as of December 31, 2009. Each restricted stock award under the 2008 Directors' Plan vests in equal amounts monthly over one year. Restricted shares entitle the grantees to all shareholder rights once vested, except for cash dividends and transfer rights which are forfeited until the final vesting date of the award. If a non-employee director's service is terminated, any unvested portion of an award will be forfeited unless the Compensation Committee of the Board of Directors determines otherwise.

E. Stock Option and Restricted Stock Award Activity

The following tables summarize information about stock options and restricted stock awards for the year ended December 31, 2009:

| | Number of shares | Weighted average exercise price per share | Weighted average remaining contractual life | Aggregate intrinsic value (in thousands) |
|----------------------------------|------------------|---|---|--|
| Outstanding at December 31, 2008 | 18,836,826 | \$ 26.44 | | |
| Options granted | 2,449,200 | \$ 37.13 | | |
| Options exercised | (2,043,470) | \$ 12.93 | | |
| Options forfeited | (295,361) | \$ 41.36 | | |
| Options cancelled | (112,575) | \$ 43.07 | | |
| Outstanding at December 31, 2009 | 18,834,620 | \$ 28.96 | 5.26 years | \$ 177,196 |
| Exercisable at December 31, 2009 | 11,029,687 | \$ 20.54 | 3.39 years | \$ 171,047 |

| | Unvested options | | Unvested restricted stock awards | |
|------------------------------|-------------------|---------------------------------------|----------------------------------|---------------------------------------|
| | Number of options | Weighted average fair value per share | Number of shares | Weighted average fair value per share |
| Balance at December 31, 2008 | 7,981,549 | \$ 18.24 | 10,626 | \$ 47.08 |
| Awards granted | 2,449,200 | \$ 13.84 | 29,230 | \$ 34.21 |
| Awards vested | (2,330,455) | \$ 17.74 | (27,321) | \$ 39.05 |
| Awards forfeited | (295,361) | \$ 17.72 | (355) | \$ 47.08 |
| Balance at December 31, 2009 | 7,804,933 | \$ 17.03 | 12,180 | \$ 34.21 |

Table of Contents**F. Share-Based Compensation Expense**

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | For the years ended December 31, | | | | | |
|--|----------------------------------|-------|------|-------|------|-------|
| | 2009 | | 2008 | | 2007 | |
| Dividend yield | 1.22 | 1.25% | .72 | .76% | .65% | |
| Volatility stock option plans | 38 | 39% | 34 | 37% | 33 | 41% |
| Volatility stock purchase rights plans | 59% | | 45% | | 31% | |
| Risk-free interest rates | 0.48 | 3.37% | 2.28 | 3.46% | 4.69 | 4.96% |
| Expected life (years) stock option plans | 6.09 | 7.86 | 6.37 | 7.99 | 6.15 | 8.70 |
| Expected life (years) stock purchase rights plans | 1 | | 1 | | 1 | |
| Weighted average fair value of stock options granted during the period | \$ | 13.84 | \$ | 17.84 | \$ | 18.49 |
| Weighted average fair value of stock purchase rights granted during the period | \$ | 12.78 | \$ | 11.12 | \$ | 12.81 |

The Company's expected volatility assumptions are based on the historical volatility of the Company's stock. The expected life assumption is primarily based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the corresponding yield curve in effect at the time of grant for U.S. Treasury bonds having the same term as the expected life of the option, i.e. a ten year bond rate is used for valuing an option with a ten year expected life. The expected dividend yield is based on the Company's historical experience. The forfeiture assumption used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns.

The compensation for restricted stock awards is based on the fair market value of the Company's share of common stock on the date of grant. On June 1, 2009 and June 1, 2008, restricted shares were granted with a fair value per share of \$34.21 and \$47.08, respectively.

The total intrinsic value of options exercised during the years ended December 31, 2009, 2008 and 2007 was approximately \$38 million, \$61 million and \$138 million, respectively. The estimated fair value of options vested during the years ended December 31, 2009, 2008 and 2007 was approximately \$41 million, \$29 million and \$28 million, respectively. The estimated fair value of restricted stock awards vested during the year ended December 31, 2009 and 2008 was approximately \$1,100 and \$700, respectively.

As of December 31, 2009, the total unrecognized compensation cost related to unvested stock options, unvested restricted stock awards and stock purchase rights is \$83 million and the weighted average period over which that cost is expected to be recognized is 2.9 years.

Total stock compensation expense and the total related tax benefit recognized as follows:

| | For the years ended December 31, | | |
|----------------------------|-------------------------------------|-----------|-----------|
| | 2009 | 2008 | 2007 |
| Stock compensation expense | \$ 39,135 | \$ 44,879 | \$ 44,917 |
| Recognized tax benefit | \$ 258 | \$ 1,283 | \$ 1,714 |

Shares issued as a result of stock option exercises, restricted stock awards and employee stock plan purchases are issued as new shares outstanding by the Company's transfer agent.

NOTE 3. 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 attributable to shareholders per share.

| Net earnings attributable to | Weighted average | Earnings per share |
|------------------------------|------------------|--------------------|
|------------------------------|------------------|--------------------|

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| | shareholders | shares | | |
|---|--------------|-------------|----|------|
| 2009 | | | | |
| Basic earnings attributable to shareholders | \$ 240,217 | 212,112,744 | \$ | 1.13 |
| Effect of dilutive potential common shares | | 4,420,496 | | |
| Diluted earnings attributable to shareholders | \$ 240,217 | 216,533,240 | \$ | 1.11 |

F - 13

Table of Contents

| | Net earnings attributable to shareholders | Weighted average shares | Earnings per share |
|---|---|-------------------------------|-----------------------|
| 2008 | | | |
| Basic earnings attributable to shareholders | \$ 301,014 | 212,755,946 | \$ 1.41 |
| Effect of dilutive potential common shares | | 6,414,057 | |
| Diluted earnings attributable to shareholders | \$ 301,014 | 219,170,003 | \$ 1.37 |
| 2007 | | | |
| Basic earnings attributable to shareholders | \$ 269,154 | 213,314,761 | \$ 1.26 |
| Effect of dilutive potential common shares | | 8,485,107 | |
| Diluted earnings attributable to shareholders | \$ 269,154 | 221,799,868 | \$ 1.21 |

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

| Years ended December 31, | 2009 | 2008 | 2007 |
|--------------------------|-----------|-----------|-----------|
| Shares | 8,698,730 | 6,604,623 | 4,760,520 |

NOTE 4. INCOME TAXES

Income tax expense includes the following components:

| | Federal | State | Foreign | Total |
|-------------|-----------|--------|---------|---------|
| 2009 | | | | |
| Current | \$ 62,865 | 10,908 | 90,311 | 164,084 |
| Deferred | (1,388) | (221) | | (1,609) |
| | \$ 61,477 | 10,687 | 90,311 | 162,475 |
| 2008 | | | | |
| Current | \$ 65,867 | 12,489 | 101,887 | 180,243 |
| Deferred | 15,996 | 354 | | 16,350 |
| | \$ 81,863 | 12,843 | 101,887 | 196,593 |
| 2007 | | | | |
| Current | \$ 65,799 | 9,825 | 85,200 | 160,824 |
| Deferred | 18,274 | 717 | | 18,991 |
| | \$ 84,073 | 10,542 | 85,200 | 179,815 |

Table of Contents

Income tax expense differs from amounts computed by applying the United States Federal income tax rate of 35% to earnings before income taxes as a result of the following:

| | 2009 | 2008 | 2007 |
|---|------------|---------|---------|
| Computed expected tax expense | \$ 141,005 | 174,850 | 157,386 |
| Increase in income taxes resulting from: | | | |
| State income taxes, net of Federal income tax benefit | 6,947 | 8,347 | 6,852 |
| Nondeductible stock compensation expense, net | 11,586 | 12,768 | 11,856 |
| Other, net | 2,937 | 628 | 3,721 |
| | \$ 162,475 | 196,593 | 179,815 |

The components of earnings before income taxes are as follows:

| | 2009 | 2008 | 2007 |
|---------------|------------|---------|---------|
| United States | \$ 117,889 | 126,659 | 117,447 |
| Foreign | 284,983 | 372,913 | 332,226 |
| | \$ 402,872 | 499,572 | 449,673 |

The tax effects of temporary differences and tax credits that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2009 and 2008 are as follows:

| Years ended December 31, | 2009 | 2008 |
|---|--------------------|-----------------|
| Deferred Tax Assets: | | |
| Accrued third party charges, deductible for taxes upon economic performance (i.e. actual payment) | \$ 4,853 | 4,406 |
| Provision for doubtful accounts receivable | 2,301 | 2,270 |
| Excess of financial statement over tax depreciation | 7,550 | 6,912 |
| Foreign currency translation adjustment | | 8,341 |
| Retained liability for cargo claims | 1,286 | 764 |
| Capital loss | 598 | 623 |
| Deductible stock compensation expense, net | 9,870 | 11,208 |
| Total gross deferred tax assets | 26,458 | 34,524 |
| Deferred Tax Liabilities: | | |
| Unremitted foreign earnings, net of related foreign tax credits | (71,675) | (72,590) |
| Foreign currency translation adjustment | (331) | |
| Other | (103) | (522) |
| Total gross deferred tax liabilities | \$(72,109) | (73,112) |
| Net deferred tax liabilities | \$ (45,651) | (38,588) |
| Current deferred tax assets | \$ (8,338) | (7,986) |
| Noncurrent deferred tax liabilities | \$ (53,989) | (46,574) |

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Based on management's review of the Company's tax positions, the Company had no significant unrecognized tax benefits as of December 31, 2009 and 2008.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to 2006. With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years prior to 2001. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that may result from these open tax years. Any interest and penalties expensed in relation to the underpayment of income taxes were insignificant for the years ended December 31, 2009, 2008 and 2007.

F - 15

Table of Contents

NOTE 5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company's financial instruments, other than cash, consist primarily of cash equivalents, short-term investments, accounts receivable, accounts payable and accrued expenses. The carrying value of these financial instruments approximates their fair value. Cash equivalents consist of highly liquid investments with a maturity of three months or less at date of purchase. Short term investments have a maturity of greater than three months at date of purchase. Cash, cash equivalents and short-term investments consist of the following:

| | December 31, 2009 | | December 31, 2008 | |
|--|-------------------|-------------------|-------------------|-------------------|
| | Cost | Fair Value | Cost | Fair Value |
| Cash and cash equivalents: | | | | |
| Cash and overnight deposits | \$ 387,612 | \$ 387,612 | \$ 344,853 | \$ 344,853 |
| Corporate commercial paper | 489,557 | 489,626 | 317,230 | 317,796 |
| Time deposits | 48,760 | 48,760 | 78,945 | 78,945 |
| Total cash and cash equivalents | 925,929 | 925,998 | 741,028 | 741,594 |
| Short-term investments: | | | | |
| Time deposits | 655 | 655 | 658 | 658 |
| Total | \$ 926,584 | \$ 926,653 | \$ 741,686 | \$ 742,252 |

The fair value of corporate commercial paper is based on the use of market interest rates for identical or similar assets.

NOTE 6. CREDIT ARRANGEMENTS

Certain of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit totaling \$25,839 and \$22,284 at December 31, 2009 and 2008, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2009, the Company had no amounts outstanding under these lines and was contingently liable for approximately \$78,465 under outstanding standby letters of credit and guarantees. In addition, the Company maintains a bank facility with its U.K. bank for \$11,366 which is available for issuances of standby letters of credit.

The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

At December 31, 2009, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities.

NOTE 7. COMMITMENTS

A. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2020. The Company also has two long term leasing arrangements to use land, for which the usage rights were entirely prepaid in 2009 and 2007. Usage rights for those arrangements are recognized in rent expense over the lease terms up to 2057. Total rent expense for 2009, 2008 and 2007 was \$52,581, \$54,059 and \$48,200, respectively.

At December 31, 2009, future minimum annual lease payments under all leases are as follows:

| | |
|------------|------------|
| 2010 | \$ 41,149 |
| 2011 | 28,422 |
| 2012 | 22,828 |
| 2013 | 17,354 |
| 2014 | 9,995 |
| Thereafter | 15,159 |
| | \$ 134,907 |

F - 16

Table of Contents

B. Unconditional Purchase Obligations

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2009 of \$222,939, will be fulfilled during 2010 in the Company's ordinary course of business.

C. Employee Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2009, 2008 and 2007, the Company's contributions under the plans were \$6,100, \$6,196, and \$6,790, respectively.

NOTE 8. CONTINGENCIES

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. As part of this process, the Company has met with and continues to co-operate with the DOJ. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial position, results of operations and operating cash flows.

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. On July 21, 2009, the plaintiffs filed an amended complaint adding a number of new third party defendants and various claims which they assert to violate the Sherman Act. The plaintiffs' amended complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding eight discrete surcharges in violation of the Sherman Act. The allegations concerning the Company relate to two of these surcharges. The amended complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. On August 13, 2009, the Company filed a motion to dismiss the amended complaint for failure to state a claim, which is currently pending before the Court. Plaintiffs filed their opposition to the Company's motion on January 30, 2010 and the motion is currently pending before the Court.

On June 18, 2008, the European Commission (EC) issued a request for information to the Company's UK subsidiary, Expeditors International (UK) Ltd., requesting certain information relating to an ongoing investigation of freight forwarders. The Company replied to the request. On February 18, 2009, the EC issued another request for information to the same subsidiary requesting certain additional information in connection with the EC's ongoing investigation of freight forwarders. The Company replied to the request. On February 10, 2010, the Company and its Hong Kong subsidiary, Expeditors Hong Kong Limited, received a Statement of Objections (SO) from the EC. The SO initiates a proceeding against the Company alleging possible anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

The Company has incurred less than \$1 million, and approximately \$10 million and \$4 million for the years ended December 31, 2009, 2008 and 2007, respectively, in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, results of operations, financial position, and overall trends could be materially harmed.

The Company is involved in other claims and lawsuits which arise in the ordinary course of business, none of which currently, in management's opinion, will have a significant effect on the Company's operations or financial position.

Table of Contents

NOTE 9. BUSINESS SEGMENT INFORMATION

Financial information regarding 2009, 2008 and 2007 operations by the Company's designated geographic areas are as follows:

| | United States | Other North America | Latin America | Asia | Europe and Africa | Middle East and India | Australasia | Eliminations | Consolidated |
|--------------------------------------|---------------|---------------------|---------------|-----------|-------------------|-----------------------|-------------|--------------|--------------|
| 2009 | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 982,103 | 129,272 | 64,060 | 2,035,568 | 582,759 | 232,766 | 65,755 | | 4,092,283 |
| Transfers between geographic areas | 75,964 | 7,344 | 13,520 | 16,624 | 27,699 | 14,602 | 10,147 | (165,900) | |
| Total revenues | \$ 1,058,067 | 136,616 | 77,580 | 2,052,192 | 610,458 | 247,368 | 75,902 | (165,900) | 4,092,283 |
| Net revenues | \$ 547,879 | 65,331 | 44,182 | 372,033 | 229,432 | 82,335 | 41,594 | | 1,382,786 |
| Operating income | \$ 117,908 | 20,253 | 12,538 | 155,158 | 43,953 | 23,050 | 12,141 | | 385,001 |
| Identifiable assets at year end | \$ 1,188,111 | 82,166 | 42,478 | 454,023 | 387,494 | 128,690 | 39,315 | 1,445 | 2,323,722 |
| Capital expenditures | \$ 24,908 | 724 | 688 | 2,018 | 3,407 | 2,201 | 754 | | 34,700 |
| Depreciation and amortization | \$ 21,010 | 1,391 | 1,087 | 7,446 | 5,968 | 2,473 | 660 | | 40,035 |
| Equity | \$ 965,620 | 40,421 | 17,809 | 338,208 | 148,592 | 77,566 | 24,796 | (51,665) | 1,561,347 |
| 2008 | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 1,269,858 | 162,730 | 81,586 | 2,974,328 | 789,442 | 274,094 | 81,840 | | 5,633,878 |
| Transfers between geographic areas | 108,864 | 10,205 | 15,742 | 21,156 | 44,721 | 17,598 | 8,888 | (227,174) | |
| Total revenues | \$ 1,378,722 | 172,935 | 97,328 | 2,995,484 | 834,163 | 291,692 | 90,728 | (227,174) | 5,633,878 |
| Net revenues | \$ 622,367 | 75,376 | 52,334 | 436,050 | 280,229 | 86,712 | 50,193 | | 1,603,261 |
| Operating income | \$ 119,115 | 20,094 | 15,059 | 213,555 | 63,156 | 25,795 | 16,362 | | 473,136 |
| Identifiable assets at year end | \$ 978,189 | 64,652 | 44,377 | 469,819 | 392,820 | 116,167 | 30,364 | 4,451 | 2,100,839 |
| Capital expenditures | \$ 25,640 | 2,149 | 1,158 | 20,359 | 7,074 | 2,836 | 510 | | 59,726 |
| Depreciation and amortization | \$ 21,558 | 1,347 | 1,177 | 6,294 | 6,470 | 2,274 | 883 | | 40,003 |
| Equity | \$ 773,565 | 32,530 | 26,030 | 357,855 | 138,710 | 60,504 | 18,593 | (23,871) | 1,383,916 |
| 2007 | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 1,077,872 | 134,436 | 71,176 | 2,959,873 | 684,661 | 236,062 | 71,091 | | 5,235,171 |
| Transfers between geographic areas | 105,830 | 9,030 | 11,073 | 18,234 | 36,563 | 13,883 | 7,854 | (202,467) | |
| Total revenues | \$ 1,183,702 | 143,466 | 82,249 | 2,978,107 | 721,224 | 249,945 | 78,945 | (202,467) | 5,235,171 |
| Net revenues | \$ 590,147 | 65,534 | 39,711 | 402,613 | 245,761 | 67,151 | 42,044 | | 1,452,961 |
| Operating income | \$ 111,569 | 17,497 | 9,683 | 199,389 | 53,837 | 19,060 | 12,365 | | 423,400 |
| Identifiable assets at year end | \$ 942,500 | 72,150 | 43,195 | 421,578 | 443,758 | 100,934 | 34,174 | 10,316 | 2,068,605 |
| Capital expenditures | \$ 25,491 | 1,899 | 1,205 | 41,773 | 7,879 | 3,119 | 1,420 | | 82,786 |
| Depreciation and amortization | \$ 21,315 | 1,321 | 1,412 | 4,917 | 7,759 | 1,657 | 922 | | 39,303 |
| Equity | \$ 810,639 | 33,272 | 23,378 | 169,199 | 158,194 | 49,386 | 19,681 | (19,830) | 1,243,319 |

Table of Contents

Other than the United States, only the People's Republic of China, including Hong Kong, represented more than 10% of the Company's total revenue, net revenue or total identifiable assets in any period presented as noted in the table below.

| | 2009 | 2008 | 2007 |
|---------------------------------|------|------|------|
| Total revenues | 34% | 36% | 38% |
| Net revenues | 17% | 16% | 16% |
| Identifiable assets at year end | 13% | 14% | 11% |

NOTE 10. QUARTERLY RESULTS (UNAUDITED)

| | 1st | 2nd | 3rd | 4th |
|---|------------|---------|-----------|-----------|
| 2009 | | | | |
| Revenues | \$ 912,685 | 895,360 | 1,037,327 | 1,246,911 |
| Net revenues | 336,515 | 330,047 | 346,512 | 369,712 |
| Net earnings | 59,369 | 53,814 | 57,564 | 69,650 |
| Net earnings attributable to shareholders | 59,260 | 54,070 | 57,752 | 69,135 |
| Diluted earnings attributable to shareholders per share | .27 | .25 | .27 | .32 |
| Basic earnings attributable to shareholder per share | .28 | .25 | .27 | .33 |

| | | | | |
|--|--------------|-----------|-----------|-----------|
| 2008 | | | | |
| Revenues | \$ 1,307,321 | 1,454,255 | 1,564,913 | 1,307,389 |
| Net revenues | 374,328 | 397,325 | 429,127 | 402,481 |
| Net earnings | 66,521 | 71,606 | 86,146 | 78,706 |
| Net earnings attributable to shareholders | 66,472 | 71,249 | 85,565 | 77,728 |
| Diluted earnings attributable to shareholder per share | .30 | .32 | .39 | .36 |
| Basic earnings attributable to shareholder per share | .31 | .33 | .40 | .37 |

Net revenues are determined by deducting freight consolidation costs from total revenues. The sum of quarterly per share data may not equal the per share total reported for the year.

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C.

ANNUAL REPORT

ON

FORM 10-K

FOR FISCAL YEAR ENDED

DECEMBER 31, 2009

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

EXHIBITS

Table of Contents

INDEX TO EXHIBITS

| Exhibit Number | Description |
|---------------------------|---|
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |