EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-Q
August 06, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2010

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	**91-1069248**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification Number)**
1015 Third Avenue, 12th Floor, Seattle, Washington	**98104**
(Address of principal executive offices)	**(Zip Code)**

(206) 674-3400

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 x	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
		(Do not check if a 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 x

At August 2, 2010, the number of shares outstanding of the issuer s Common Stock was 212,176,095.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	June 30, 2010	December 31, 2009
Current Assets:		
Cash and cash equivalents	$ 960,300	$ 925,929
Short-term investments	705	655
Accounts receivable, less allowance for doubtful accounts of $13,391 at June 30, 2010 and $14,235 at December 31, 2009	1,016,575	810,369
Deferred Federal and state income taxes	8,141	8,338
Other	36,686	42,539
Total current assets	2,022,407	1,787,830
Property and equipment, less accumulated depreciation and amortization of $264,468 at June 30, 2010 and $264,372 at December 31, 2009	483,827	495,701
Goodwill, net	7,927	7,927
Other intangibles, net	4,218	4,938
Other assets, net	28,163	27,326
Total assets	$ 2,546,542	$ 2,323,722
Current Liabilities:		
Accounts payable	659,237	546,675
Accrued expenses, primarily salaries and related costs	176,943	145,545
Federal, state and foreign income taxes	28,356	16,166
Total current liabilities	864,536	708,386
Deferred Federal and state income taxes	47,198	53,989
Commitments and contingencies		
Shareholders Equity:		
Preferred stock, none issued	0	0
Common stock, par value $.01 per share		
Issued and outstanding 212,018,342 shares at June 30, 2010, and 212,025,494 shares at December 31, 2009	2,120	2,120
Additional paid-in capital	6,572	18,265
Retained earnings	1,634,771	1,532,018
Accumulated other comprehensive (loss) income	(17,043)	604
Total shareholders equity	1,626,420	1,553,007
Noncontrolling interest	8,388	8,340
Total equity	1,634,808	1,561,347

Total liabilities and equity	$ 2,546,542	$ 2,323,722

See accompanying notes to condensed consolidated financial statements.

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EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(In thousands, except share data)

(Unaudited)

	Three months ended June 30, 2010	Three months ended June 30, 2009	Six months ended June 30, 2010	Six months ended June 30, 2009
Revenues:				
Airfreight services	$ 732,881	$ 371,359	$ 1,292,264	$ 745,815
Ocean freight and ocean services	493,613	299,292	874,857	617,926
Customs brokerage and other services	290,276	224,709	550,758	444,304
Total revenues	1,516,770	895,360	2,717,879	1,808,045
Operating Expenses:				
Airfreight consolidation	571,023	257,016	998,365	507,385
Ocean freight consolidation	400,729	218,891	701,819	457,117
Customs brokerage and other services	126,160	89,406	237,014	176,981
Salaries and related costs	221,105	189,565	420,953	376,774
Rent and occupancy costs	18,699	17,954	37,926	36,678
Depreciation and amortization	9,110	10,244	18,505	20,202
Selling and promotion	7,550	5,547	14,585	11,769
Other	23,898	19,810	49,675	42,738
Total operating expenses	1,378,274	808,433	2,478,842	1,629,644
Operating income	138,496	86,927	239,037	178,401
Other Income (Expense):				
Interest income	1,484	2,433	3,259	6,039
Interest expense	(151)	(64)	(238)	(79)
Other, net	10,288	2,081	10,897	6,634
Other income, net	11,621	4,450	13,918	12,594
Earnings before income taxes	150,117	91,377	252,955	190,995
Income tax expense	59,708	37,563	101,236	77,812
Net earnings	90,409	53,814	151,719	113,183
Less: net earnings (losses) attributable to the noncontrolling interest	91	(256)	154	(147)
Net earnings attributable to shareholders	$ 90,318	$ 54,070	$ 151,565	$ 113,330

Diluted earnings attributable to shareholders per share	$ .42	$ .25	$ .70	$ .52
Basic earnings attributable to shareholders per share	$ .43	$ .25	$ .71	$ .53
Dividends declared and paid per common share	$ .20	$ .19	$ .20	$ .19
Weighted average diluted shares outstanding	216,460,977	216,653,968	216,576,596	216,519,551
Weighted average basic shares outstanding	212,332,375	212,116,679	212,262,928	212,108,636

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Operating Activities:				
Net earnings	$ 90,409	$ 53,814	$ 151,719	$ 113,183
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for losses on accounts receivable	(618)	(1,075)	1,825	1,569
Deferred income tax expense (benefit)	10,814	(12,695)	3,086	(6,244)
Excess tax benefits from stock plans	(4,107)	(2,073)	(8,119)	(5,135)
Stock compensation expense	11,003	11,371	22,201	18,271
Depreciation and amortization	9,110	10,244	18,505	20,202
Gain on sale of assets	(109)	(6)	(404)	(10)
Other	367	365	845	727
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	(219,602)	60,379	(232,567)	214,343
Decrease (increase) in other current assets	2,947	(1,308)	1,136	(1,323)
Increase (decrease) in accounts payable and accrued expenses	121,941	(20,329)	165,110	(100,499)
(Decrease) increase in income taxes payable, net	(1,609)	(13,601)	24,332	2,284
Net cash provided by operating activities	20,546	85,086	147,669	257,368
Investing Activities:				
Decrease (increase) in short-term investments	6	(13)	(30)	31
Purchase of property and equipment	(8,118)	(7,166)	(15,700)	(15,822)
Proceeds from sale of property and equipment	111	33	170	77
Prepayment on long-term land lease	0	(7,344)	0	(7,344)
Other	(707)	(109)	(895)	(1,591)
Net cash used in investing activities	(8,708)	(14,599)	(16,455)	(24,649)
Financing Activities:				
Proceeds from issuance of common stock	11,020	8,868	23,240	17,404
Repurchases of common stock	(53,649)	(23,760)	(71,668)	(42,972)
Excess tax benefits from stock plans	4,107	2,073	8,119	5,135
Dividends paid	(42,397)	(40,276)	(42,397)	(40,276)
Purchase of noncontrolling interest	0	0	0	(2,122)
Net cash used in financing activities	(80,919)	(53,095)	(82,706)	(62,831)
Effect of exchange rate changes on cash and cash equivalents	(12,267)	14,911	(14,137)	5,066

(Decrease) increase in cash and cash equivalents	(81,348)	32,303	34,371	174,954
Cash and cash equivalents at beginning of period	1,041,648	883,679	925,929	741,028
Cash and cash equivalents at end of period	$ 960,300	$ 915,982	$ 960,300	$ 915,982
Interest and Taxes Paid:				
Interest	$ 152	$ 65	$ 239	$ 80
Income taxes	56,846	59,746	76,842	75,110

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

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.

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company s Form 10-K as filed with the Securities and Exchange Commission on February 26, 2010. Certain 2009 amounts have been reclassified to conform with the 2010 presentation. All dollar amounts in the notes are presented in thousands except for share data.

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

B. Accounts Receivable

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 $13,391 as of June 30, 2010 and $14,235 as of December 31, 2009. Additions and write-offs have not been significant in the periods presented.

C. Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, these consist of foreign currency translation adjustments, net of related income tax effects, and comprehensive income or loss attributable to the noncontrolling interests.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

E. Recent Accounting Pronouncements

In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2009 No. 13 Multiple-Deliverable Revenue Arrangements , which amends Accounting Standards 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. Income Taxes

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 three and six months ended June 30, 2010 and 2009. Based on management s review of the Company s tax positions, the Company had no significant unrecognized tax benefits as of June 30, 2010 and December 31, 2009.

Note 3. Share Based Compensation

The Company provides compensation benefits by granting stock options and employee stock purchase rights to its employees and restricted shares to its directors. On May 5, 2010, the shareholders approved the Company s 2010 Stock Option Plan (2010 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 2010 Plan. The Company s annual grant of option awards and restricted shares generally takes place during the second quarter of each fiscal year. For the six-month periods ended June 30, 2010 and 2009, 2,634,885 and 2,446,400 options were granted, respectively. Also, for the six months ended June 30, 2010 and 2009, 26,735 and 29,230 shares were granted to non-employee directors under the 2008 Directors Restricted Stock Plan. The grant of employee stock purchase rights and the issuance of shares under the employee stock purchase plan are made in the third quarter of each fiscal year and none were issued in the three and six-month periods ended June 30, 2010 and 2009.

The Company recognizes compensation expense based on the estimated fair value of options awarded under its stock option and employee stock purchase rights plans. The stock compensation expense, adjusted for expected forfeitures, is recognized on a straight-line basis over the vesting period. The forfeiture assumption used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns. 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:

	Six months ended June 30,	
	2010	**2009**
Dividend yield	1.08%	1.25%
Volatility stock option plans	38 - 40%	38 - 39%
Risk-free interest rates	2.18 - 2.86%	2.81%
Expected life (years) stock option plans	5.44 - 6.90	6.09 - 7.86
Weighted average fair value of stock options granted during the period	$ 14.51	$ 13.84

The compensation expense 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, 2010 and June 1, 2009, restricted shares were granted with a fair value per share of $37.40 and $34.21, respectively.

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

	Three months ended June 30,		Six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Stock compensation expense	$ 11,003	$ 11,371	$ 22,201	$ 18,271
Recognized tax benefit	$ 52	$ 71	$ 109	$ 148

Note 4. Basic and Diluted Earnings per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings attributable to shareholders per share:

	Three months ended June 30,		
(Amounts in thousands, except share and per share amounts)	**Net Earnings Attributable to Shareholders**	**Weighted Average Shares**	**Earnings Per Share**
<u>2010</u>			
Basic earnings attributable to shareholders	$ 90,318	212,332,375	$ .43
Effect of dilutive potential common shares		4,128,602	

Dilutive earnings attributable to shareholders	$ 90,318	216,460,977	$	.42
2009				
Basic earnings attributable to shareholders	$ 54,070	212,116,679	$	.25
Effect of dilutive potential common shares		4,537,289		
Dilutive earnings attributable to shareholders	$ 54,070	216,653,968	$	.25

(Amounts in thousands, except share and per share amounts)	Six months ended June 30, Net Earnings Attributable to Shareholders	Weighted Average Shares	Earnings Per Share
2010			
Basic earnings attributable to shareholders	$ 151,565	212,262,928	$ .71
Effect of dilutive potential common shares		4,313,668	
Dilutive earnings attributable to shareholders	$ 151,565	216,576,596	$ .70
2009			
Basic earnings attributable to shareholders	$ 113,330	212,108,636	$ .53
Effect of dilutive potential common shares		4,410,915	
Dilutive earnings attributable to shareholders	$ 113,330	216,519,551	$ .52

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

	Three months ended June 30,		Six months ended June 30,	
	2010	2009	2010	2009
Shares	11,114,502	8,928,830	11,114,502	8,931,630

Note 5. Components of Equity and Comprehensive Income

The components of equity for the six months ended June 30, 2010 and 2009 are as follows:

	Shareholders equity	Noncontrolling interest	Total equity
Balance at December 31, 2009	$ 1,553,007	8,340	1,561,347
Exercise of stock options	23,240		23,240
Shares repurchased under provisions of stock repurchase plans	(71,668)		(71,668)
Stock compensation expense	22,201		22,201
Tax benefits from stock plans	8,119		8,119
Comprehensive Income			
Net earnings	151,565	154	151,719
Foreign currency translation adjustments, net of tax of $9,681	(17,647)	(106)	(17,753)
Total comprehensive income	133,918	48	133,966
Dividends paid ($.20 per share)	(42,397)		(42,397)
Balance at June 30, 2010	$ 1,626,420	8,388	1,634,808
Balance at December 31, 2008	$ 1,366,418	17,498	1,383,916
Exercise of stock options	17,404		17,404
Shares repurchased under provisions of stock repurchase plans	(42,972)		(42,972)
Stock compensation expense	18,271		18,271
Tax benefits from stock plans	5,135		5,135
Purchase of noncontrolling interest	(281)	(186)	(467)
Comprehensive Income			
Net earnings	113,330	(147)	113,183
Foreign currency translation adjustments, net of tax of $4,684	8,539	8	8,547

Total comprehensive income	121,869	(139)	121,730
Dividends paid ($.19 per share)	(40,276)		(40,276)
Distributions or declaration of dividends to noncontrolling interest[1]		(8,058)	(8,058)
Balance at June 30, 2009	$ 1,445,568	9,115	1,454,683

[1] Amount of earnings owed to the noncontrolling interest at the time their ownership interest was purchased. These earnings, reclassified from noncontrolling interest to accounts payable, were distributed in periods subsequent to the effective date of the purchase, including $1,655 paid during the six months ended June 30, 2009.

The components of total comprehensive income for interim periods are as follows:

	Three months ended June 30,		Six months ended June 30,	
(in thousands)	**2010**	**2009**	**2010**	**2009**
Net earnings	$ 90,409	$ 53,814	$ 151,719	$ 113,183
Foreign currency translation adjustments, net of tax of $7,970 and $10,989 for the three months ended June 30, 2010 and 2009, and $9,681 and $4,684 for the six months ended June 30, 2010 and 2009	(14,621)	20,059	(17,753)	8,547
Comprehensive income	75,788	73,873	133,966	121,730
Less: comprehensive (loss) income attributable to the noncontrolling interest	(1)	(232)	48	(139)
Comprehensive income attributable to shareholders	$ 75,789	$ 74,105	$ 133,918	$ 121,869

On May 5, 2010, the Board of Directors declared a semi-annual cash dividend of $.20 per share payable on June 15, 2010 to shareholders of record as of June 1, 2010.

On May 7, 2009, the Board of Directors declared a semi-annual cash dividend of $.19 per share payable on June 15, 2009 to shareholders of record as of June 1, 2009.

Note 6. 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:

	June 30, 2010		December 31, 2009	
	Cost	**Fair Value**	**Cost**	**Fair Value**
Cash and Cash Equivalents:				
Cash and overnight deposits	$ 352,870	$ 352,870	$ 387,612	$ 387,612
Corporate commercial paper	545,523	545,583	489,557	489,626
Time deposits	61,907	61,907	48,760	48,760
Total cash and cash equivalents	960,300	960,360	925,929	925,998
Short-Term Investments:				
Time deposits	705	705	655	655
Total	$ 961,005	$ 961,065	$ 926,584	$ 926,653

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

Note 7. 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.

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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. Plaintiffs filed their opposition to the Company s motion on January 30, 2010, to which the Company filed a reply, 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 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 filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. The Company continues 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 approximately $160 and $750 for the three and six months ended June 30, 2010, respectively, in legal and associated costs on the above matters, as compared with less than $100 during the same periods in 2009. Since the beginning of these proceedings in 2007, the Company has incurred approximately $15 million 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, financial position, results of operations, operating cash flows 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.

Note 8. Business Segment Information

The Company is organized functionally in geographic operating segments. Accordingly, management focuses its attention on revenues, net revenues, operating income, identifiable assets, capital expenditures, depreciation and amortization and equity generated in each of these geographical areas when evaluating the effectiveness of geographic management. The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis. Transactions among the Company s various offices are conducted using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents.

Financial information regarding the Company s operations by geographic area are as follows:

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	LATIN AMERICA	ASIA	EUROPE and AFRICA	MIDDLE EAST and INDIA	AUSTRAL-ASIA	ELIMI-NATIONS	CONSOLI-DATED
Three months ended June 30, 2010:									
Revenues from unaffiliated customers	$ 331,619	41,675	18,621	855,568	172,869	75,916	20,502		1,516,770
Transfers between geographic areas	25,429	2,346	4,231	5,573	10,429	3,894	2,585	(54,487)	
Total revenues	$ 357,048	44,021	22,852	861,141	183,298	79,810	23,087	(54,487)	1,516,770
Net revenues	$ 163,036	19,424	12,729	124,802	64,054	22,287	12,526		418,858
Operating income	$ 52,516	5,572	3,787	52,464	14,888	5,599	3,670		138,496
Identifiable assets at quarter end	$ 1,324,522	85,645	46,951	517,346	394,430	134,715	35,827	7,106	2,546,542
Capital expenditures	$ 3,366	149	357	1,386	2,231	591	38		8,118
Depreciation and amortization	$ 4,848	353	211	1,693	1,225	612	168		9,110
Equity	$ 1,047,968	46,978	22,232	315,631	134,216	77,541	22,471	(32,229)	1,634,808
Three months ended June 30, 2009:									
Revenues from unaffiliated customers	$ 222,569	29,500	14,804	427,914	135,259	50,466	14,848		895,360
Transfers between geographic areas	18,046	1,742	3,069	3,903	5,826	3,700	2,552	(38,838)	
Total revenues	$ 240,615	31,242	17,873	431,817	141,085	54,166	17,400	(38,838)	895,360
Net revenues	$ 129,236	14,852	11,173	91,492	53,648	19,382	10,264		330,047
Operating income	$ 27,345	3,082	3,716	35,894	7,996	5,599	3,295		86,927
Identifiable assets at quarter end	$ 1,023,955	62,133	32,222	452,563	360,322	114,673	27,824	252	2,073,944
Capital expenditures	$ 5,514	142	180	470	256	558	46		7,166
Depreciation and amortization	$ 5,470	347	246	1,913	1,492	619	157		10,244
Equity	$ 862,133	39,227	12,813	334,446	142,949	69,815	18,034	(24,734)	1,454,683

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	LATIN AMERICA	ASIA	EUROPE and AFRICA	MIDDLE EAST and INDIA	AUSTRAL-ASIA	ELIMI-NATIONS	CONSOLI-DATED
Six months ended June 30, 2010:									
Revenues from unaffiliated customers	$ 618,555	77,287	34,917	1,474,457	334,714	139,148	38,801		2,717,879
Transfers between geographic areas	44,172	4,155	7,892	10,350	18,362	7,470	4,918	(97,319)	
Total revenues	$ 662,727	81,442	42,809	1,484,807	353,076	146,618	43,719	(97,319)	2,717,879
Net revenues	$ 309,941	35,846	24,247	220,797	123,977	42,233	23,640		780,681
Operating income	$ 90,690	9,471	7,318	88,353	26,742	9,924	6,539		239,037
Identifiable assets at quarter end	$ 1,324,522	85,645	46,951	517,346	394,430	134,715	35,827	7,106	2,546,542
Capital expenditures	$ 7,840	325	634	2,012	3,452	1,335	102		15,700
Depreciation and amortization	$ 9,870	706	416	3,405	2,537	1,219	352		18,505
Equity	$ 1,047,968	46,978	22,232	315,631	134,216	77,541	22,471	(32,229)	1,634,808
Six months ended June 30, 2009:									
Revenues from unaffiliated customers	$ 458,897	59,268	30,933	856,196	268,125	107,579	27,047		1,808,045
Transfers between geographic areas	36,554	3,624	6,511	7,636	12,599	7,267	4,853	(79,044)	
Total revenues	$ 495,451	62,892	37,444	863,832	280,724	114,846	31,900	(79,044)	1,808,045
Net revenues	$ 260,381	31,052	21,686	186,190	107,765	40,458	19,030		666,562
Operating income	$ 57,981	7,422	6,080	74,121	16,767	9,938	6,092		178,401
Identifiable assets at quarter end	$ 1,023,955	62,133	32,222	452,563	360,322	114,673	27,824	252	2,073,944
Capital expenditures	$ 11,612	291	411	1,010	1,341	899	258		15,822
Depreciation and amortization	$ 10,780	673	485	3,845	2,897	1,214	308		20,202
Equity	$ 862,133	39,227	12,813	334,446	142,949	69,815	18,034	(24,734)	1,454,683

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

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

Certain portions of this report on Form 10-Q including the sections entitled Critical Accounting Estimates, Results of Operations, Currency and Other Risk Factors and Liquidity and Capital Resources contain forward-looking statements which must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on February 26, 2010.

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.

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. In the three months and six months ended June 30, 2010, buy rates continued to be challenging as demand increased while carriers limited overall capacity. The combination of reduced capacity, price volatility and fewer shipping options offered by carriers continues to 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 providers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with governmental regulations implementing security policies and procedures, inherent conflicts emerge which can and do affect global trade to some degree. A good reputation helps to develop practical working understandings that will effectively meet security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. 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 that started in the second half of 2008, the Company s air and ocean volumes were at exceptionally low levels in the first half of 2009. In the fourth quarter of 2009, the Company s air and ocean volumes began to improve and this trend continued through the first half of 2010. At this point in time, the Company cannot predict whether this trend will continue or the potential impact of any global economic recovery.

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 is focused on in 2010, 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 culture which demands:

- 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;
- 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 building systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future operations. As a result our focus is on building and maintaining a global culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Estimates

Management believes that the nature of the Company s business is such that there are few complex measurement issues or 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 would not produce materially different results than those reported.

As described in Note 3 in the condensed consolidated financial statements in this quarterly 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 employee stock purchase plans. The stock compensation expense, adjusted for expected forfeitures, is recognized on a straight-line basis over the option vesting period.

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 3 in the condensed consolidated financial statements for the assumptions used for grants issued during the six months ended June 30, 2010 and 2009. 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.

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 forfeitures 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.

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company s principal services and the Company s expenses for the three and six-month periods ended June 30, 2010 and 2009, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company s principal services since total revenues earned by the Company as a freight consolidator include the carriers charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

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

	Three months ended June 30,				Six months ended June 30,			
	2010		2009		2010		2009	
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
	(Amounts in thousands)							
Net revenues:								
Airfreight services	$ 161,858	39%	$ 114,343	35%	$ 293,899	38%	$ 238,430	36%
Ocean freight and ocean services	92,884	22	80,401	24	173,038	22	160,809	24
Customs brokerage and other services	164,116	39	135,303	41	313,744	40	267,323	40
Net revenues	418,858	100	330,047	100	780,681	100	666,562	100
Overhead expenses:								
Salaries and related costs	221,105	53	189,565	57	420,953	54	376,774	56
Other	59,257	14	53,555	17	120,691	15	111,387	17
Total overhead expenses	280,362	67	243,120	74	541,644	69	488,161	73
Operating income	138,496	33	86,927	26	239,037	31	178,401	27
Other income, net	11,621	3	4,450	2	13,918	1	12,594	2
Earnings before income taxes	150,117	36	91,377	28	252,955	32	190,995	29
Income tax expense	59,708	14	37,563	12	101,236	13	77,812	12
Net earnings	90,409	22	53,814	16	151,719	19	113,183	17
Less: net earnings (losses) attributable to noncontrolling interest	91	0	(256)	0	154	0	(147)	0
Net earnings attributable to shareholders	$ 90,318	22%	$ 54,070	16%	$ 151,565	19%	$ 113,330	17%

Airfreight services net revenues increased 42% for the three-month period ended June 30, 2010, as compared with the same period for 2009. North America, Asia and Europe airfreight services net revenues increased 47%, 46% and 36%, respectively, for the second quarter of 2010 as compared with the same period in 2009. The increase in global airfreight services net revenues was primarily due to a 54% increase in airfreight tonnage, which was partially offset by an overall 14% decrease in net revenue per kilo.

Airfreight services net revenues increased 23% for the six-month period ended June 30, 2010, as compared with the same period for 2009. North America, Asia and Europe airfreight services net revenues increased 34%, 19% and 22%, respectively, for the first half of 2010 as compared with the same period in 2009. The increase in global airfreight services net revenues was primarily due to a 48% increase in airfreight tonnage, which was partially offset by an overall 24% decrease in net revenue per kilo.

The increase in airfreight tonnage is primarily due to improvements in the global economy which began in the fourth quarter of 2009. During the first half of 2009, net revenue per kilo was higher than historical levels as the Company benefited from favorable buying opportunities that existed in a number of short-term spot markets. Net revenue per kilo for the three months and six months ended June 30, 2010 was lower as spot market buying opportunities were not available because carriers continued to manage capacity even as demand increased, which increased buy rates. In contrast to the first two quarters of 2009, net revenue per kilo in the three months and six months ended June 30, 2010 was more in line with the Company s historical experience.

Ocean freight and ocean services net revenues increased 16% for the three-month period ended June 30, 2010, as compared with the same period for 2009. North America, Asia and Europe ocean freight net revenues increased approximately 15%, 18% and 11%, respectively, for the second quarter of 2010 as compared with the same period in 2009.

Ocean freight and ocean services net revenues increased 8% for the six-month period ended June 30, 2010, as compared with the same period for 2009. North America, Asia and Europe ocean freight net revenues increased approximately 5%, 13% and 4%, respectively, for the first half of 2010 as compared with the same period in 2009.

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 50% and 55% of ocean freight net revenue for the six-month periods ended June 30, 2010 and 2009, respectively.

Ocean freight consolidation net revenue increased 8% for the three-month period ended June 30, 2010 as compared with the same period in 2009, primarily due to a 26% increase in volume as measured in terms of forty-foot container equivalent units (FEUs), partially offset by a 14% decrease in net revenue per container. Order management and direct ocean forwarding, which are primarily fee-based, increased 38% and 15%, respectively, for the three-month period ended June 30, 2010 as compared with the same period in 2009, due to an increase in volume.

Ocean freight consolidation net revenue decreased 2% for the six-month period ended June 30, 2010 as compared with the same period in 2009, as the 21% increase in volume was more than offset by a 19% decrease in net revenue per container. Order management and direct ocean forwarding, which are primarily fee-based, increased 32% and 11%, respectively for the six-month period ended June 30, 2010 as compared with the same period in 2009, due to an increase in volume.

The increase in ocean volumes is primarily due to an improvement in the global economy which began in the fourth quarter of 2009. Similar to the airfreight market, in the first half of 2009, net revenue per container was higher than historical levels as the Company benefited from favorable buying opportunities that existed in a number of short-term spot markets. Net revenue per container in the first half of 2010 was lower as spot market buying opportunities were not available because steamship lines continued to manage capacity even as demand increased, which increased buy rates. In contrast to the first two quarters of 2009, net revenue per container in the first and second quarters of 2010 was more in line with the Company s historical experience.

Customs brokerage and other services net revenues increased 21% and 17%, respectively, for the three and six-month periods ended June 30, 2010, as compared with the same periods for 2009, primarily as a result of increases in international air and ocean and domestic time definite 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, excluding stock compensation expense, increased 18% and 11%, respectively, during the three and six-month periods ended June 30, 2010, as compared with the same periods in 2009, primarily as a result of larger bonuses earned from achieving higher operating income before bonuses and an increase in employees.

The effects of including stock-based compensation expense in salaries and related costs are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2010	**2009**	**2010**	**2009**
Salaries and related costs	$ 221,105	$ 189,565	$ 420,953	$ 376,774
As a % of net revenue	52.8%	57.4%	53.9%	56.5%
Stock compensation expense	$ 11,003	$ 11,371	$ 22,201	$ 18,271
As a % of salaries and related costs	5.0%	6.0%	5.3%	4.8%
As a % of net revenue	2.6%	3.4%	2.8%	2.7%

Excluding stock compensation expense, salaries and related costs as a percentage of net revenue decreased 383 and 271 basis points, respectively, for the three and six-month periods ended June 30, 2010, as compared with the same period for 2009. Stock compensation expense slightly decreased for the three-month period ended June 30, 2010, as compared with the same period for 2009. Stock compensation expense increased 22% for the six-month period ended June 30, 2010, as compared with the same period for 2009, 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.

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 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.

Other overhead expenses increased 11% and 8%, respectively, for the three and six-month periods ended June 30, 2010, as compared with the same periods in 2009, primarily as a result of higher business taxes, travel and other expenses primarily due to increased activity. Other overhead expenses as a percentage of net revenues decreased for the three and six-month periods ended June 30, 2010, as compared with the same periods in 2009. Legal and related expenses increased slightly in the second quarter of 2010 and approximately $700 in the first half of 2010 as compared to the same periods in 2009, primarily attributable to preparing the Company s responses to a Statement of Objections issued by the European Commission as described further in Part II Item 1 on this report on Form 10-Q entitled Legal Proceedings . 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 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 income, net, increased $7 million for the three months ended June 30, 2010, as compared to the same period in 2009, primarily due to net foreign exchange gains of $6 million in the second quarter of 2010 versus a net $1 million loss in the second quarter of 2009. For the six months ended June 30, 2010 compared to the same period in 2009, foreign exchange gains increased $3 million. These net foreign exchange gains in 2010 resulted primarily from holding U.S. dollars in Euro-based subsidiaries as the Euro weakened significantly against the dollar during the second quarter of 2010.

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 during the three-month period ended June 30, 2010 was 39.8% as compared to 41.1% for the same period in 2009. The Company s consolidated effective income tax rate for the six-month periods ended June 30, 2010 and 2009 was 40.0% and 40.7%, respectively. 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 lower consolidated effective income tax rate during the three and six-month periods ended June 30, 2010, as compared to the same periods in 2009, is primarily the result of a higher tax benefit received for disqualifying dispositions of incentive stock options occurring during the second quarter of 2010 compared to 2009.

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 customer service and believes that its prices are competitive with those of others in the industry. Large customers utilize more sophisticated and efficient procedures for the management of the logistics supply chain 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 has added 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 the three and six months ended June 30, 2010 and 2009 was insignificant. During the three and six months ended June 30, 2010, the Company incurred net foreign exchange gains of approximately $6 million and $4 million, respectively. For the same periods of 2009 the Company incurred net foreign exchange losses of approximately $1 million and net foreign exchange gains of approximately $1 million, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2010 and December 31, 2009.

Geographic Coverage

During the second quarter of 2010, the Company opened two full-service offices: 1) in Oslo, Norway (formerly an agent location); and 2) Zhongshan, People s Republic of China (formerly a satellite of Shenzhen, People s Republic of China). Macau, People s Republic of China (formerly a full-service office) became a satellite office of Hong Kong.

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. The 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. There were no significant differences between the same store analysis and the Company s results for the three and six months ended June 30, 2010 and 2009.

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 three and six months ended June 30, 2010, was $21 million and $148 million, respectively, as compared with $85 million and $257 million for the same periods of 2009. The decreases of $64 million and $109 million for the three and six-month periods ended June 30, 2010, respectively, are primarily due to an increase in accounts receivable offset by improved net earnings and higher accounts payable. The increases are primarily a result of higher volumes in the second quarter of 2010 compared to the fourth quarter of 2009. At June 30, 2010, working capital was $1,158 million, including cash and short-term investments of $961 million. The Company had no long-term debt at June 30, 2010.

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) 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 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 or expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable to 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 three and six months ended June 30, 2010, was $9 million and $16 million, respectively, as compared with $15 million and $25 million during the same periods of 2009. 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. In the second quarter of 2010, the Company made capital expenditures of $8 million as compared with $15 million (including prepayment on a long-term land lease) for the same period in 2009. Capital expenditures in the second quarter of 2010 and 2009 related primarily to investments in real estate, technology, office furniture and equipment building improvements and leasehold improvements. Total capital expenditures in 2010 are estimated to be $90 million. This includes normal capital expenditures as noted above plus additional real estate development. In the second quarter of 2010, the Company entered into a $27 million contractual obligation for the development of office/warehouse facilities in London, United Kingdom. The Company expects to finance this capital expenditure in cash in 2010 and 2011.

Cash used in financing activities during the three and six months ended June 30, 2010, was $81 million and $83 million, respectively, as compared with $53 million and $63 million for each of the same periods in 2009. The Company uses the proceeds from stock option exercises to repurchase the Company s stock on the open market. The Company follows a policy of repurchasing

stock to limit growth in issued and outstanding shares as a result of stock option exercises. The increase in cash used in financing activities during both the three and six-month periods ended June 30, 2010, as compared with the same periods in 2009, is primarily the result of this policy. During the three months ended June 30, 2010 and 2009, the Company paid dividends of $.20 per share and $.19 per share, respectively.

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 disruptions in the credit markets. However, 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 any of 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 June 30, 2010, the international bank lines of credit totaled $17 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 June 30, 2010, the Company had no amounts outstanding on these lines of credit, but was contingently liable for $79 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 were to be required to perform.

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 June 30, 2010, cash and cash equivalent balances of $477 million were held by the Company s non-United States subsidiaries, of which $79 million was held in banks in the United States.

Item 3. 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 and may hold currencies that are not the local functional currency. This brings foreign exchange 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 six months ended June 30, 2010, would have had the effect of raising operating income approximately $17 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately $14 million. This analysis does not take in to 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 June 30, 2010, the Company had approximately $7 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 during the three and six months ended June 30, 2010, was insignificant. During the three and six months ended June 30, 2010, the Company incurred net foreign exchange gains of approximately $6 million and $4 million, respectively. For the same periods of 2009, the Company incurred net foreign exchange losses of approximately $1 million and net foreign exchange gains of approximately $1 million, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2010 and December 31, 2009. 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 June 30, 2010, the Company had cash and cash equivalents and short-term investments of $961 million, of which $608 million was invested at various short-term market interest rates. The Company had no short-term borrowings at June 30, 2010. A hypothetical change in the interest rate of 10 basis points 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 interest rate risk exposure in the second quarter of 2010.

Item 4. 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.

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.

PART II. OTHER INFORMATION

Item 1. 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. Plaintiffs filed their opposition to the Company s motion on January 30, 2010, to which the Company filed a reply, 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 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 filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. The Company continues 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 approximately $160 and $750 for the three and six months ended June 30, 2010, respectively, in legal and associated costs on the above matters, as compared with less than $100 during the same periods in 2009. Since the beginning of these proceedings in 2007, the Company has incurred approximately $15 million 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, financial position, results of operations, operating cash flows 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 1A. Risk Factors

There have been no material changes in the Company s risk factors from those disclosed in the report on Form 10-K filed on February 26, 2010.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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
April 1-30, 2010	3,003	$ 40.14	3,003	32,976,474
May 1-31, 2010	1,251,879	40.14	1,251,879	31,756,287
June 1-30, 2010	88,549	37.00	88,549	31,755,648
Total	1,343,431	$ 39.93	1,343,431	31,755,648

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 second quarter of 2010, 394,123 shares of common stock were repurchased under the Non-Discretionary Stock Repurchase Plan.

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 second quarter of 2010, 949,308 shares of common stock 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.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K.

Exhibit Number	Description
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements 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.

	EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
August 6, 2010	/s/ PETER J. ROSE Peter J. Rose, Chairman and Chief Executive Officer
August 6, 2010	/s/ BRADLEY S. POWELL Bradley S. Powell, Chief Financial Officer

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

AND SUBSIDIARIES

Form 10-Q Index and Exhibits

June 30, 2010

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101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document