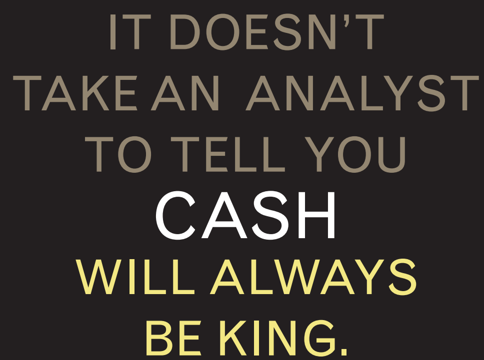
LEAD DON'T FOLLOW

Mare de
TOLOMA
DESERT
SCYTIA
INDIA
Mare
Indi
cum
Mare
abba
cuch
TROPICVS
CANCRI

IF WE FOLLOW

THE BUY AND SELL SIDE ANALYSTS,
THE CONSULTANTS AND COMPETITORS,
THE PUNDITS AND PROGNOSTICATORS,
THE TRENDS AND MEGATRENDS,
THERE WOULD BE NO EXPEDITORS.

INSTEAD, WE LEAD.



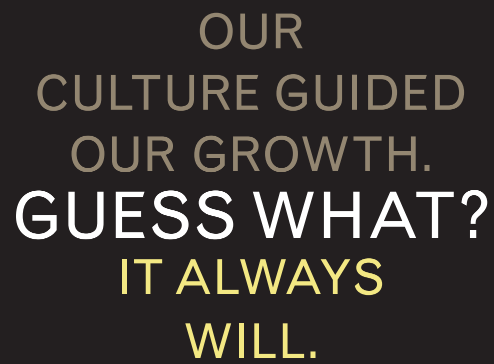
IT DOESN'T TAKE AN ANALYST TO TELL YOU CASH WILL ALWAYS BE KING.

FROM ANALYSTS, QUESTIONS THAT LEAD NOWHERE :

2005 . "So, our question goes to maximizing ROA. Why does Expeditors carry so much cash?"

2008 . "With liquidity drying up, how much cash does Expeditors have on hand? And where are you keeping it?"

Unless you've been on another planet for the past year, the wisdom of Wall Street has given this world a clear, close-up look at the abyss. When the investment community routinely disconnects the ties between accomplishment and reward, you might understand why at Expeditors we trust our own values, learn from our own experience and take our own advice more seriously than the make-believe analysts call "analysis".

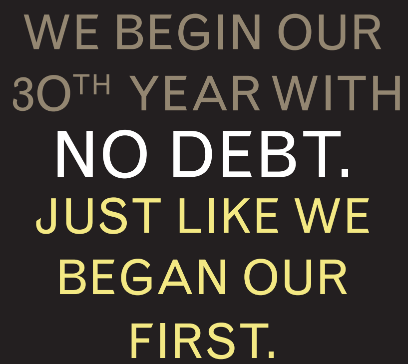


FROM CONSULTANTS, STRATEGIES THAT LEAD TO FAILURE:

1996 . "The only meaningful growth in logistics is through acquistion."

2008 . "The only meaningful way to survive is to sell assets and lay off more people."

Consultants advise that the way to grow is to just buy another business. But there are no short cuts in building and sustaining a global culture. That has to be built and renewed every day, in every situation. Expeditors has been told that our style of organic growth would fail. So here's what we have to show for not listening to them: 30 years of consistent, reliable growth driven by our consistent, deeply rooted culture.



WE BEGIN OUR 30TH YEAR WITH NO DEBT. JUST LIKE WE BEGAN OUR FIRST.

FROM THE PUNDITS, ADVICE THAT LEADS TO COLLAPSE:

1999 . "Y2K will completely destroy your IT infrastructure."

2008 . "Put your leverage to work – debt doesn't matter."

Of course debt matters. Debt makes a company more vulnerable to takeover. Debt would drain some of the resources that we apply to building up our competitve advantage, to ensuring our employees are secure in their jobs and their futures, in building confidence among our shareholders and in letting our customers know that we're always ready and able to put their interests first—without compromise and without delay.

NEW
REGULATIONS TO
ENFORCE THE
STATUS QUO
WON'T SOLVE
OLD PROBLEMS.

FROM THE GOVERNMENT, THE IDEA THAT NEW LAWS LEAD TO HONESTY:

2004. "The Sarbanes-Oxley Act goes beyond addressing scandals to building a durable framework on the foundation of the Securities Acts of 1933 and 1934."

2008. "The new laws and regulations have neither prevented frauds nor instituted fairness, but killed the creation of new public companies in the U.S., crippled the venture capital business, and damaged entrepreneurship."

Passing more regulations does not guarantee more compliance. For Expeditors, the time and expense of additional audits, and filling out more forms and filings has simply confirmed the fact that we have always and will always do business ethically. Because from corporate governance to our merit-driven system of disbursing options, each employee knows that nothing short of basic, unconditional honesty offers success.

NO-ONE NEEDS
TO TELL US TO USE
COMMON SENSE:

1860. "Many laws as certainly make bad men, as bad men make many laws."

2008. "...at least now we won't have to address it at the annual meeting anymore."

It's a maxim as old as humankind: gain respect by showing respect. The employees of Expeditors know that they are judged solely on performance. Not on race. Not on sexual preference, age, or gender. While the world may continue to demand even more rules and pledges, all we'll ever demand is the best performance. And in turn, every employee can expect the recognition, respect and reward that go with being the best.

FROM CUSTOMERS, THE ONLY OBJECTIVE THAT MATTERS:

1979. “We want your full attention on our business.”

2008. “We couldn’t have come this far without your commitment to our business.”

Keep asking: How can we improve? How can we not just keep up the pace, but continue to set the pace? If you kid yourself about Wall Street, about debt, about some patchwork business model, about regulation and the role of your employees, you might as well kid yourself about how successful your business really is. At Expeditors we know the secret is no secret at all. It begins and ends with our customers. First and last.

TO OUR
SHAREHOLDERS

KNOW WHAT YOU STAND FOR
AND ACHIEVE GOOD RESULTS
IN A VERY TOUGH YEAR

Expeditors has now logged 29 years of successful growth. Last year we mentioned that we "look forward with great zeal" to 2008, and we were quite pleased with the experience. We managed to avoid the "R" word through cost control, productivity, the ability to retain the best people in the business and, of course, our superb customer base. Our relationships with our service providers have never been stronger.

Mid-year, Armageddon set in but we've come through largely unscathed. We have a stronger balance sheet with a larger cash balance than ever.

Most of the analysts' questions have been answered: new President

IT'S NO GAME
WE DON'T FOLLOW MEGATRENDS
WE FOLLOW OUR PRINCIPLES

Jordan Gates; new CFO Brad Powell; and two new Board members; Mark Emmert and Robert Wright all point to continuity for the future.

Of course, we made formal adjustments to account for the sexual orientation of employees – which has never been an issue here anyway – but at least now we won't have to address it at the annual meeting anymore. Inevitably, someone else with another cause célèbre will want to promote something to require us to do things "their" way that we're already addressing "our" way, i.e. carbon credits, global warming, green position or some other topic geared towards impinging our progress.

WE NEVER GAMBLE

THERE'S NO VALUE IN A QUICK PROFIT

MEANINGFUL VALUE IS LONG-TERM

Then again, thanks to the implementation of SOX (Sarbanes Oxley), we're very pleased by both the expense and outcome of this endeavor as it has halted all the dishonesty, greed and avarice in business. It's really neat to be able to legislate honesty and integrity. Meanwhile, the DOJ and the European Commission's investigations into various allegations of anti-competitive activity are ongoing. We have responded to all requests made of us and we look forward to the day when this is neither a topic of concern nor an item we feel compelled to comment on in this letter.

Fortunately, Expeditors will not

be in need of a bailout. But it's comforting to know that if we run into trouble thanks to mishandling funds or poor leadership, we will at least know where to go.

Expeditors continued to open new offices and made capital expenditures for two beautiful new offices in Hong Kong and Shanghai. Each had well-attended open houses and both are showpieces.

Next year it's our 30th anniversary and we look forward with great zeal to the coming year, and to all the surprises it will bring.

Peter J. Rose Chairman and Chief Executive Officer

GEOGRAPHIC
REVIEW

Frank Schaeffer

District Manager
Lyon,
France

Sonia Milanovic

District Manager
Perth,
Australia

Chorina Khoo

Director,
Training & Personnel
Development
Asia

Brett McAllen

District Manager
Melbourne,
Australia

Danny Lee

Managing Director
Thailand

Rene Grabmuller

Country Manager
Czech Republic

Dana Lorenze

District Manager
Salt Lake City,
Utah

Reinhold Dahlke

District Manager
Hamburg,
Germany

John Kerner

District Manager
Dallas,
Texas

Tracy Peveri

District Manager
Boston,
Massachusetts

Jose Molina

District Manager
El Paso,
Texas

REGIONAL MANAGERS OF THE YEAR

(name appears on the back of each portrait)

Namik Kemal Karas

District Manager
Ankara,
Turkey

Maged Al-Rajji

District Manager
Dubai,
United Arab Emirates

Craig Wilwerding

District Manager
Atlanta,
Georgia

Mong Pheng Koh

District Manager
Hanoi,
Vietnam

Vikram Mohite

District Manager
Bombay,
India

Ron Nordberg

District Manager
Brisbane,
Australia

Mary Yao

General Manager
Shanghai,
People's Republic
of China

Michael Leong

District Manager
Penang,
Malaysia

Dave Takano

General Manager
Tokyo,
Japan

Rachel Mancuso

District Manager
Sydney,
Australia

Patrick Duffy

District Manager
New York,
New York

ASIA

WINNING CUSTOMERS
EXPANDING INFRASTRUCTURE

2008 is another year of good external and internal growth. We gained numerous new accounts – especially noteworthy was winning Walmart's order management service from various Asia origins, as well as expanding into distribution services and vertical industries. We converted Fuzhou and Suzhou in the People's Republic of China (PRC), and Hanoi in Vietnam from satellite offices to full-service offices, adding to our wide spectrum of logistics services in China and Vietnam. In 2009, Wuhan, in the PRC will be upgraded to a full-service office, further expanding our inland business. We foresee a very challenging year ahead, but we are already working hard to turn this challenge into opportunity. While some carriers may merge and others actually drop out, Expeditors will protect the interests of our customers by continuing to enhance our strategic carrier relationships. We'll also strike quickly to gain new accounts while we continue to grow our business with existing accounts by further enhancing our retention program. China development remains one of our key strategies. It includes developing our road freight and domestic networks, expanding and strengthening our satellite and smaller full-service offices and further integrating warehouse and distribution services. The result will be more mature and complex supply chain services. Last but not the least, we continue our efforts to drive overall efficiency improvements in our business processes to help us reduce costs and position ourselves to be even more competitive.

EMAIR

CONTROLLING COSTS
HIGHER CUSTOMER RETENTION

Surely 2008 was an exciting year for the EMAIR region. Along with our productivity improvement drive, Cost Control, Customer Retention and Sales programs, we kept our focus on our first and foremost initiative, "Customer Service". It paid off well – we had a 25% increase in operating income as compared with 2007. As we prepare for a very challenging 2009, we are confident that we are well positioned. With our EMAIR goals, starting with Customer and Employee retention, continuing with our productivity drive and ensuring that we work closely with our World Class Service providers, we should finish the year stronger and healthier. Like usual we wish to extend a big "thank you" to our Customers, to our service providers, and to our 110% dedicated EMAIR Team. 2009 will be a year of Execution and Delivery.

THE AMERICAS
OPERATIONAL EXCELLENCE
BEST IN CLASS

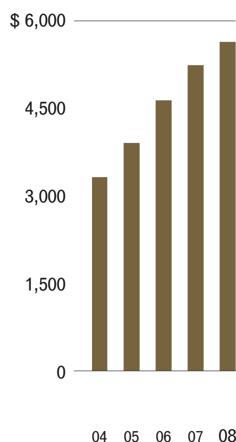
The Americas posted a solid 2008, due mainly to the dedication of our staff. We continued to focus on operational excellence in order to promote Superior Customer Service, Employee Development and Financial Results. We collaborated with our other Geography, Product and Service groups to create a 2008 training plan that was specifically tied to our Americas Goals. In 2009, we will continue to work with our Service Providers to offer "best in class" service to our Customers. We also understand the challenges that lie ahead but we look at this as an opportunity to gain market share. We will challenge our staff to analyze and to improve our operational processes in order to continue to provide superior Customer Service to our customers in the most cost-effective and efficient manner.

SOUTH PACIFIC
HIGH STAFF RETENTION
CONTINUED PROFIT GROWTH

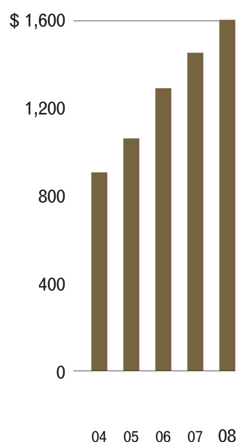
Barack Obama may well have summed up 2008 with three simple words from his victory speech: "Change has come". From horrifying highs at the petrol bowsers and vertiginous lows for the markets, 2008 was a year that brought change to nearly every facet of life in the South Pacific. During this turmoil, Expeditors South Pacific managed to grow another 31.97% in net profit contribution, a result brought about by making sure that our focus was constantly on our Customer, our Customer Service and our sales performance. Staff turnover was at an all time low, management focusing their efforts on the retention of our best performing employees. Expenses were kept controlled and contained while Productivity, Revenue per desk and Revenue/Expense ratio were all up over the previous year. Keeping up with exchange rate fluctuations, constantly changing freight rates, soaring as well as collapsing fuel prices, proved to be challenges of a magnitude never encountered before, but an excellent training experience to help us face the opportunities and challenges that will come our way in 2009.

THE 2008 FINANCIAL REPORT EXPEDITORS

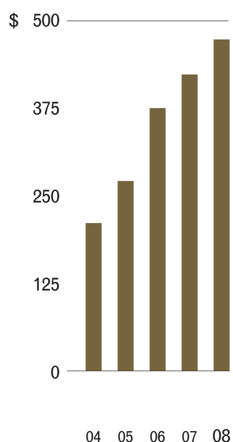
Revenues



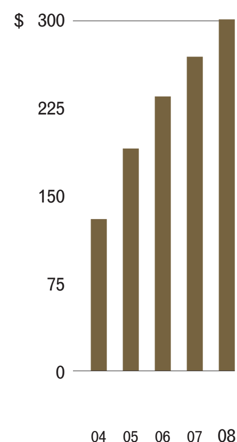
Net Revenues



Operating Income



Net Earnings



dollars in millions

Table of Contents

27. Financial Highlights
28. Consolidated Balance Sheets
30. Consolidated Statements of Earnings
32. Consolidated Statements of Shareholders' Equity and Comprehensive Income
34. Consolidated Statements of Cash Flows
36. Notes to Consolidated Financial Statements
53. Management Report on Internal Controls
54. Reports of Independent Registered Public Accounting Firm
56. Management's Discussion and Analysis
69. Stock Price Peformance Graph
70. Directors, Officers and Managers
74. Corporate Information

Financial Highlights

In thousands except per share data

	2008	2007	2006	2005	2004
Revenues	$ 5,633,878	5,235,171	4,633,987	3,903,794	3,317,989
Net revenues	1,603,261	1,452,961	1,290,960	1,061,622	906,727
Net earnings	301,014	269,154	235,094	190,436	129,949
Diluted earnings per share	1.37	1.21	1.06	.86	.59
Basic earnings per share	1.41	1.26	1.10	.89	.61
Dividends declared and paid per share	.32	.28	.22	.15	.11
Working capital	903,010	764,944	632,691	589,460	521,544
Total assets	2,100,839	2,069,065	1,822,338	1,566,044	1,364,053
Shareholders' equity	1,366,418	1,226,571	1,070,091	926,382	821,144
Diluted weighted average shares outstanding	219,170	221,800	222,223	220,230	220,117
Basic weighted average shares outstanding	212,756	213,315	213,455	213,555	212,768

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

Consolidated Balance Sheets

In thousands except per share data

December 31,		2008	2007
Current Assets:	Cash and cash equivalents	$ 741,028	574,599
	Short-term investments	658	674
	Accounts receivable, less allowance for doubtful accounts of $14,414 in 2008 and $14,830 in 2007	788,176	933,519
	Deferred Federal and state income taxes	7,986	8,278
	Other	35,511	17,627
	Total current assets	1,573,359	1,534,697
Property and Equipment:	Land	160,293	178,834
	Buildings and leasehold improvements	351,022	337,095
	Furniture, fixtures, equipment and purchased software	189,680	180,661
	Construction in progress	16,029	11,072
	Vehicles	4,130	4,453
		721,154	712,115
	Less accumulated depreciation and amortization	228,025	214,223
	Property and equipment, net	493,129	497,892
	Goodwill, net	7,927	7,927
	Other intangibles, net	6,503	7,832
	Other assets, net	19,921	20,717
		$ 2,100,839	2,069,065

	December 31,		2008	2007
Current Liabilities:	Accounts payable	$	491,823	613,108
	Accrued expenses, primarily salaries and related costs		150,487	129,669
	Federal, state, and foreign income taxes		28,039	26,976
	Total current liabilities		670,349	769,753
	Deferred Federal and state income taxes		46,574	55,533
	Minority interest		17,498	17,208
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 211,973,377 shares at December 31, 2008 and 212,996,776 shares at December 31, 2007		2,120	2,130
	Additional paid-in capital		7,150	50,006
	Retained earnings		1,372,356	1,143,464
	Accumulated other comprehensive (loss) income		(15,208)	30,971
	Total shareholders' equity		1,366,418	1,226,571
	Commitments and contingencies			
		$	2,100,839	2,069,065

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

In thousands except share data

Years ended December 31,		2008	2007	2006
Revenues:				
	Airfreight services	$ 2,541,377	2,407,582	2,229,545
	Ocean freight and ocean services	1,990,983	1,820,558	1,553,048
	Customs brokerage and other services	1,101,518	1,007,031	851,394
	Total revenues	5,633,878	5,235,171	4,633,987
Operating Expenses:	Airfreight consolidation	1,962,621	1,879,434	1,758,907
	Ocean freight consolidation	1,596,346	1,473,942	1,230,468
	Customs brokerage and other services	471,650	428,834	353,652
	Salaries and related costs	863,846	791,879	701,824
	Rent and occupancy costs	76,984	67,676	61,627
	Depreciation and amortization	40,003	39,303	35,448
	Selling and promotion	37,778	38,735	35,050
	Other	111,514	91,968	81,895
	Total operating expenses	5,160,742	4,811,771	4,258,871
	Operating income	473,136	423,400	375,116

Years ended December 31,		2008	2007	2006
Other Income (Expense):				
Interest income		21,077	22,341	18,020
Interest expense		(183)	45	(198)
Other, net		5,542	3,887	2,726
Other income, net		26,436	26,273	20,548
Earnings before income taxes and minority interest		499,572	449,673	395,664
Income tax expense		196,593	179,815	160,661
Net earnings before minority interest		302,979	269,858	235,003
Minority interest		(1,965)	(704)	91
Net earnings	$	301,014	269,154	235,094
Diluted earnings per share	$	1.37	1.21	1.06
Basic earnings per share	$	1.41	1.26	1.10
Dividends declared and paid per common share	$	0.32	0.28	0.22
Weighted average diluted shares outstanding		219,170,003	221,799,868	222,223,312
Weighted average basic shares outstanding		212,755,946	213,314,761	213,454,579

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

In thousands except share data. Years ended December 31, 2008, 2007 and 2006

		Common stock	
		Shares	Par Value
	Balance at December 31, 2005	213,227,042	$ 2,132
2006	Exercise of stock options	3,053,425	31
	Issuance of shares under stock purchase plan	730,814	7
	Shares repurchased under provisions of stock repurchase plans	(3,930,815)	(39)
	Stock compensation expense	—	—
	Tax benefits from stock plans	—	—
	Comprehensive income		
	Net earnings	—	—
	Unrealized gains on securities, net of tax of $0	—	—
	Foreign currency translation adjustments, net of tax of $9,015	—	—
	Total comprehensive income	—	—
	Dividends paid ($.22 per share)	—	—
	Balance at December 31, 2006	213,080,466	$ 2,131
2007	Exercise of stock options	3,978,908	40
	Issuance of shares under stock purchase plan	632,548	6
	Shares repurchased under provisions of stock repurchase plans	(4,695,146)	(47)
	Stock compensation expense	—	—
	Tax benefits from stock plans	—	—
	Comprehensive income		
	Net earnings	—	—
	Unrealized gains on securities, net of tax of $28	—	—
	Reclassification adjustment for realized gain, net of tax $286	—	—
	Foreign currency translation adjustments, net of tax of $9,264	—	—
	Total comprehensive income	—	—
	Dividends paid ($.28 per share)	—	—
	Balance at December 31, 2007	212,996,776	$ 2,130
2008	Exercise of stock options	2,140,819	22
	Issuance of shares under stock purchase plan	732,719	7
	Shares repurchased under provisions of stock repurchase plans	(3,896,937)	(39)
	Stock compensation expense	—	—
	Tax benefits from stock plans	—	—
	Comprehensive income		
	Net earnings	—	—
	Foreign currency translation adjustments, net of tax of $25,018	—	—
	Total comprehensive income	—	—
	Dividends paid ($.32 per share)	—	—
	Balance at December 31, 2008	211,973,377	$ 2,120

Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
180,905	745,984	(2,639)	926,382
32,268	—	—	32,299
17,008	—	—	17,015
(175,744)	—	—	(175,783)
41,739	—	—	41,739
23,406	—	—	23,406
—	235,094	—	235,094
—	—	61	61
—	—	16,898	16,898
—	—	—	252,053
—	(47,020)	—	(47,020)
119,582	934,058	14,320	1,070,091
43,138	—	—	43,178
21,801	—	—	21,807
(207,537)	—	—	(207,584)
44,917	—	—	44,917
28,105	—	—	28,105
—	269,154	—	269,154
—	—	44	44
—	—	(443)	(443)
—	—	17,050	17,050
—	—	—	285,805
—	(59,748)	—	(59,748)
50,006	1,143,464	30,971	1,226,571
29,322	—	—	29,344
22,109	—	—	22,116
(150,120)	(4,019)	—	(154,178)
44,879	—	—	44,879
10,954	—	—	10,954
—	301,014	—	301,014
—	—	(46,179)	(46,179)
—	—	—	254,835
—	(68,103)	—	(68,103)
7,150	1,372,356	(15,208)	1,366,418

See accompanying notes to consolidated financial statements.

All share and per share amounts have been adjusted for the 2-for-1 stock split effective June 2006.

Consolidated Statements of Cash Flows

In thousands

Years ended December 31,			2008	2007	2006
Operating Activities:	Net earnings	$	301,014	269,154	235,094
	Adjustments to reconcile net earnings to net cash provided by operating activities:				
	Provision for losses on accounts receivable		1,976	940	1,197
	Deferred income tax expense		16,350	18,991	4,172
	Excess tax benefits from stock plans		(10,954)	(28,105)	(23,406)
	Stock compensation expense		44,879	44,917	41,739
	Depreciation and amortization		40,003	39,303	35,448
	Gain on sale of assets		(699)	(1,053)	(182)
	Amortization of other intangible assets		1,618	1,483	1,369
	Minority interest in earnings of consolidated entities		1,965	704	(91)
	Changes in operating assets and liabilities:				
	Decrease (increase) in accounts receivable		85,841	(84,950)	(96,414)
	(Decrease) increase in accounts payable and accrued expenses		(66,470)	46,881	85,012
	(Decrease) increase in income taxes payable, net		(5,552)	4,673	48,392
	Other		(1,005)	(353)	957
	Net cash provided by operating activities		408,966	312,585	333,287

Years ended December 31,		2008	2007	2006
Investing Activities:	Increase in short-term investments	(72)	(10)	(419)
	Purchase of property and equipment	(59,726)	(82,786)	(139,464)
	Proceeds from sale of property and equipment	369	504	397
	Prepayment on long-term land lease	—	(2,820)	(1,761)
	Other	204	(2,859)	(1,260)
	Net cash used in investing activities	(59,225)	(87,971)	(142,507)
Financing Activities:	Net distributions to minority interests	(879)	(316)	(10,024)
	Proceeds from issuance of common stock	51,460	64,985	49,314
	Repurchases of common stock	(154,178)	(207,584)	(175,783)
	Excess tax benefits from stock plans	10,954	28,105	23,406
	Dividends paid	(68,103)	(59,748)	(47,020)
	Net cash used in financing activities	(160,746)	(174,558)	(160,107)
	Effect of exchange rate changes on cash	(22,566)	13,185	16,791
	Increase in cash and cash equivalents	166,429	63,241	47,464
	Cash and cash equivalents at beginning of year	574,599	511,358	463,894
	Cash and cash equivalents at end of year	$ 741,028	574,599	511,358
Interest and Taxes Paid:	Interest	$ 173	83	194
	Income taxes	172,146	146,353	103,715

See accompanying notes to consolidated financial statements.

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 global logistics company 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 Company grants credit upon approval to customers.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and United States and foreign 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 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.

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 are designated as available-for-sale and cost approximates market at December 31, 2008 and 2007.

D. 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. 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 $14,414, $14,830 and $13,454 as of December 31, 2008, 2007 and 2006, respectively. Additions and write-offs have not been significant in any of these years.

E. Long-Lived Assets, Depreciation and Amortization

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
Vehicles	3 to 5 years

Expenditures for maintenance, repairs, and renewals of minor items are charged to earnings as incurred. Major renewals and improvements 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.

Goodwill is recorded net of accumulated amortization of $765 at December 31, 2008 and 2007. For the years ended December 31, 2008 and 2007, 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:

	2008	2007
Other intangibles	$ 22,150	21,585
Less accumulated amortization	(15,647)	(13,753)
	$ 6,503	7,832
Aggregate amortization expense for the year ended December 31	$ 1,618	1,483

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

2009	$ 1,459
2010	1,424
2011	1,358
2012	929
2013	820

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 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.

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.

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 in accordance with Emerging Issues Task Force (EITF) Issue 00-21, "Revenue Arrangements with Multiple Deliverables."

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.

H.
Net Earnings per Common Share

Diluted earnings 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 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 accounts for share-based compensation in accordance with Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This accounting standard requires the recognition of compensation expense based on an estimate of the fair value of options granted to employees and directors under the Company's stock option, director restricted stock and employee stock purchase rights plans. This expense is recorded on a straight-line basis over the stock award 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 2008, 2007, and 2006 was insignificant. Net unrealized foreign currency losses incurred in 2008 were $191. Net unrealized foreign currency gains incurred in 2007 were $1,300. Net unrealized foreign currency losses incurred in 2006 were $321. The Company had no foreign currency derivatives outstanding at December 31, 2008 and 2007.

K.
Comprehensive Income

Comprehensive income consists of net earnings and other gains and losses affecting shareholders' 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 and losses on available for sale securities, net of related income tax effects.

Accumulated other comprehensive income consisted entirely of foreign currency translation adjustments, net of related income tax effects, as of December 31, 2008 and 2007.

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 September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, "Fair Value Measurements" (SFAS 157), supplemented by FASB Financial Staff Position 157-1, 2 and 3. SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted the provisions of SFAS 157 beginning in the first quarter of 2008, except for certain nonfinancial assets and liabilities for which it will adopt the provisions of SFAS 157 in the first quarter of 2009. The adoption of SFAS 157 had no material impact on the Company's consolidated financial condition or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). Under the provisions of SFAS 159, companies may choose to account for eligible financial instruments, warranties and insurance contracts at fair value on a contract-by-contract basis. Changes in fair value will be recognized in earnings each reporting period. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company adopted the provisions of SFAS 159 beginning in the first quarter of 2008. The adoption of SFAS 159 had no material impact on the Company's consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests 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 is required to and plans to adopt the provisions of SFAS 160 beginning in the first quarter of 2009. The Company had minority interest of $17,498 as of December 31, 2008 and $17,208 as of December 31, 2007, that it expects will be reclassified to equity under the provisions of SFAS 160.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141R). 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 is required to and plans to adopt the provisions of SFAS 141R beginning in the first quarter of 2009. The impact will depend upon the acquisitions, if any, the Company consummates after the effective date.

Note 2. Credit Arrangements

The Company has a $50,000 United States bank line of credit extending through July 1, 2009. Borrowings under the line bear interest at LIBOR + .75% (1.25% at December 31, 2008) and are unsecured. As of December 31, 2008, the entire $50,000 was available and the Company had no borrowings under this line.

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 $22,284 and $19,067 at December 31, 2008 and 2007, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2008, the Company had no amounts outstanding under these lines and was contingently liable for approximately $79,449 under outstanding 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.

At December 31, 2008, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities, including maintenance of certain minimum asset, working capital and equity balances and ratios.

Note 3. Income Taxes

Income tax expense for 2008, 2007, and 2006 includes the following components:

		Federal	State	Foreign	Total
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
2006					
Current	$	68,176	9,760	78,553	156,489
Deferred		2,096	2,076	—	4,172
	$	70,272	11,836	78,553	160,661

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

		2008	2007	2006
Computed "expected" tax expense	$	174,850	157,386	138,482
Increase in income taxes resulting from:				
State income taxes, net of Federal income tax benefit		8,347	6,852	7,694
Nondeductible stock compensation expense, net		12,768	11,856	10,426
IRC 965 tax benefit for repatriated foreign earnings		—	—	2,328
Other, net		628	3,721	1,731
	$	196,593	179,815	160,661

The components of earnings before income taxes and minority interest are as follows:

		2008	2007	2006
United States	$	126,659	117,447	117,725
Foreign		372,913	332,226	277,939
	$	499,572	449,673	395,664

The tax effects of temporary differences, tax credits and operating loss carryforwards that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2008 and 2007 are as follows:

Years ended December 31,		2008	2007
Deferred Tax Assets:			
Accrued third party charges, deductible for taxes upon economic performance (i.e. actual payment)	$	4,406	4,567
Provision for doubtful accounts receivable		2,270	2,313
Excess of financial statement over tax depreciation		6,912	5,900
Foreign currency translation adjustment		8,341	—
Retained liability for cargo claims		764	783
Capital loss		623	844
Deductible stock compensation expense, net		11,208	11,639
Total gross deferred tax assets		34,524	26,046
Deferred Tax Liabilities:			
Unremitted foreign earnings, net of related foreign tax credits		(72,590)	(56,167)
Foreign currency translation adjustment		—	(16,677)
Other		(522)	(457)
Total gross deferred tax liabilities	$	(73,112)	(73,301)
Net deferred tax liabilities	$	(38,588)	(47,255)
Current deferred tax assets	$	(7,986)	(8,278)
Noncurrent deferred tax liabilities	$	(46,574)	(55,533)

Based on management's review of the Company's tax positions the Company had no significant unrecognized tax benefits as of December 31, 2008 and 2007.

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 2005. In October 2007, the Internal Revenue Service initiated an audit of the Company's federal income tax return for the year 2005. 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.

The Company recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses. Any interest and penalties expensed in relation to the underpayment of income taxes were insignificant for the years ended December 31, 2008 and 2007.

Note 4. Shareholders' Equity

A. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 20,000,000 shares of the Company's common stock in the open market with the proceeds received from the exercise of employee and director stock options. As of December 31, 2008, the Company had repurchased and retired 18,161,750 shares of common stock at an average price of $17.56 per share over the period from 1994 through 2008. On February 9, 2009, the Plan was amended to increase the authorization to repurchase up to 40,000,000 shares.

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, 2008, the Company had repurchased and retired 15,590,002 shares of common stock at an average price of $32.36 per share over the period from 2001 through 2008.

B. Stock Option Plans

At December 31, 2008, the Company has two stock option plans (the "1985 Plan" and the "2008 Plan") for employees 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 7, 2008, the shareholders approved the Company's 2008 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 2008 Plan. The 1985 Plan provides for non-qualified grants. The 2008 Plan provides for qualified and non-qualified grants. Grants under the 2008 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2008 Plan after April 30, 2009. Under the 1985, 1997, 2005, 2006, 2007 and 2008 Plans, 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	2005 Plan	2006 Plan	2007 Plan	2008 Plan	Directors' Plan
Balance at December 31, 2005	6,912	150,250	—	—	—	256,000
Options authorized	—	—	3,000,000	—	—	—
Options granted	—	—	(2,984,610)	—	—	(128,000)
Options forfeited	—	—	64,300	—	—	—
Options not granted	—	(150,250)	—	—	—	—
Balance at December 31, 2006	6,912	—	79,690	—	—	128,000
Options authorized	—	—	—	3,000,000	—	—
Options granted	—	—	—	(1,803,260)	—	(128,000)
Options forfeited	—	—	—	—	—	—
Options not granted	—	—	(79,690)	—	—	—
Balance at December 31, 2007	6,912	—	—	1,196,740	—	—
Options authorized	—	—	—	—	3,000,000	—
Options granted	—	—	—	—	(2,088,415)	—
Options forfeited	—	—	—	—	—	—
Options not granted	—	—	—	(1,196,740)	—	—
Balance at December 31, 2008	6,912	—	—	—	911,585	—

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, 2008, an aggregate of 4,492,845 shares had been issued under the 2002 Plan and $11,403 had been withheld in connection with the plan year ending July 31, 2009.

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. 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 fixed-price stock options and restricted stock awards for the year ended December 31, 2008:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractual life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2007	19,278,408	$ 23.03		
Options granted	2,088,415	$ 46.90		
Options exercised	(2,140,819)	$ 13.71		
Options forfeited	(375,800)	$ 37.94		
Options cancelled	(15,478)	$ 22.29		
Outstanding at December 31, 2008	18,834,726	$ 26.44	5.34 years	$ 204,041
Exercisable at December 31, 2008	10,854,827	$ 16.31	3.53 years	$ 187,903

	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, 2007	8,776,176	$ 16.40	—	—
Awards granted	2,088,415	$ 17.84	25,488	$ 47.08
Awards vested	(2,508,892)	$ 11.57	(14,862)	$ 47.08
Awards forfeited	(375,800)	$ 17.53	—	$ —
Balance at December 31, 2008	7,979,899	$ 18.24	10,626	$ 47.08

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 used for grants issued during the years ended December 31, 2008, 2007, and 2006:

	For the years ended December 31,		
	2008	2007	2006
Dividend yield	.72 – .76%	.65%	.51%
Volatility	34 – 45%	31 – 41%	40 - 43%
Risk-free interest rates	2.28 – 3.46%	4.69 – 4.96%	4.69 – 5.11%
Expected life (years) – stock option plans	6.37 – 7.99	6.15 – 8.70	7.14 – 8.89
Expected life (years) – stock purchase rights plans	1	1	1
Weighted average fair value of stock options granted during the period	$ 17.84	$ 18.49	$ 22.69
Weighted average fair value of stock purchase rights granted during the period	$ 11.12	$ 12.81	$ 13.27

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 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.

The total intrinsic value of options exercised during the years ended December 31, 2008, 2007, and 2006 was approximately $61 million, $138 million and $111 million, respectively. The estimated fair value of options vested during the years ended December 31, 2008, 2007, and 2006 was approximately $29 million, $28 million and $29 million, respectively. The estimated fair value of restricted stock awards vested during the year ended December 31, 2008 was approximately $700.

As of December 31, 2008, the total unrecognized compensation cost related to unvested stock options, unvested restricted stock awards and stock purchase rights is $94 million and the weighted average period over which that cost is expected to be recognized is 3.1 years.

Total stock compensation expense and the total related tax benefit recognized for the years ended December 31, 2008, 2007, and 2006 are as follows:

	For the years ended December 31,		
	2008	2007	2006
Stock compensation expense	$ 44,879	$ 44,917	$ 41,739
Recognized tax benefit	$ 1,283	$ 1,714	$ 1,982

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.

G. 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 per share in 2008, 2007 and 2006.

	Net earnings	Weighted average shares	Earnings per share
2008			
Basic earnings per share	$ 301,014	212,755,946	$ 1.41
Effect of dilutive potential common shares	—	6,414,057	—
Diluted earnings per share	$ 301,014	219,170,003	$ 1.37
2007			
Basic earnings per share	$ 269,154	213,314,761	$ 1.26
Effect of dilutive potential common shares	—	8,485,107	—
Diluted earnings per share	$ 269,154	221,799,868	$ 1.21
2006			
Basic earnings per share	$ 235,094	213,454,579	$ 1.10
Effect of dilutive potential common shares	—	8,768,733	—
Diluted earnings per share	$ 235,094	222,223,312	$ 1.06

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,	2008	2007	2006
Shares	6,604,623	4,760,520	132,510

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, 2008		December 31, 2007	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents:				
Cash and overnight deposits	$ 344,853	$ 344,853	$ 300,422	$ 300,422
Corporate commercial paper	317,230	317,796	212,830	213,116
Time deposits	78,945	78,945	61,347	61,347
Total cash and cash equivalents	741,028	741,594	574,599	574,885
Short-term investments:				
Time deposits	658	658	674	674
Total	$ 741,686	$ 742,252	$ 575,273	$ 575,559

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

Note 6. Commitments

A. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2019. Total rent expense for 2008, 2007 and 2006 was $54,059, $48,200 and $44,496, respectively. At December 31, 2008, future minimum annual lease payments under all leases are as follows:

2009	$ 33,721
2010	22,374
2011	12,105
2012	8,458
2013	6,187
Thereafter	2,104
	$ 84,949

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, 2008 of $362,354, will be fulfilled during 2009 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 2008, 2007 and 2006, the Company's contributions under the plans were $6,196, $6,790, and $5,814, respectively.

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. As of December 31, 2008, the Company had incurred approximately $14 million of cumulative legal and associated costs. 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 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 again requesting certain additional information in connection with the EC's ongoing investigation of freight forwarders. The Company intends to respond to this latest request for information. The Company expects to incur additional costs during the course of this ongoing investigation, 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.

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. The plaintiffs' 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 the provision of freight forwarding services in violation of the Sherman Act. The complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself.

On May 16, 2008, a former employee filed a putative class action lawsuit against the Company in the United States District Court for the Northern District of California, Kingery v. Expeditors International of Washington, Inc., No. 08-02510. The original lawsuit purported to be brought on behalf of some group of current and former salaried management and supervisory employees, which the plaintiff alleges were misclassified as exempt from overtime and meal/rest breaks under California and Federal law. In February 2009, plaintiff, through his counsel, announced that the lawsuit will not be prosecuted as a class action, but solely as a lawsuit involving plaintiff individually. The complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. Further, in management's opinion, the lawsuit will not have a significant effect on the Company's operations or financial position.

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 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

Financial information regarding 2008, 2007, and 2006 operations by the Company's designated geographic areas are as follows:

		United States	Other North America
2008			
	Revenues from unaffiliated customers	$ 1,260,995	162,730
	Transfers between geographic areas	108,439	10,205
	Total revenues	$ 1,369,434	172,935
	Net revenues	$ 618,970	75,376
	Operating income	$ 128,326	18,356
	Identifiable assets at year end	$ 974,284	64,652
	Capital expenditures	$ 25,615	2,149
	Depreciation and amortization	$ 21,498	1,347
	Equity	$ 1,507,700	31,476
2007			
	Revenues from unaffiliated customers	$ 1,069,734	134,436
	Transfers between geographic areas	105,263	9,030
	Total revenues	$ 1,174,997	143,466
	Net revenues	$ 586,938	65,534
	Operating income	$ 120,311	15,893
	Identifiable assets at year end	$ 939,203	72,150
	Capital expenditures	$ 25,437	1,899
	Depreciation and amortization	$ 21,204	1,321
	Equity	$ 1,371,296	32,309
2006			
	Revenues from unaffiliated customers	$ 940,186	120,381
	Transfers between geographic areas	109,552	7,956
	Total revenues	$ 1,049,738	128,337
	Net revenues	$ 533,060	61,531
	Operating income	$ 102,041	15,433
	Identifiable assets at year end	$ 906,256	62,584
	Capital expenditures	$ 121,005	820
	Depreciation and amortization	$ 18,533	1,339
	Equity	$ 1,215,454	26,160

The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis.

Latin America	Asia	Europe & Africa	Middle East & India	Australasia	Eliminations	Consolidated
90,449	2,974,328	789,442	274,094	81,840	—	5,633,878
16,167	21,156	44,721	17,598	8,888	(227,174)	—
106,616	2,995,484	834,163	291,692	90,728	(227,174)	5,633,878
55,731	436,050	280,229	86,712	50,193	—	1,603,261
15,236	211,140	60,047	24,251	15,780	—	473,136
48,282	469,819	392,820	116,167	30,364	4,451	2,100,839
1,183	20,359	7,074	2,836	510	—	59,726
1,237	6,294	6,470	2,274	883	—	40,003
28,542	365,612	136,824	59,568	18,240	(781,544)	1,366,418
79,314	2,959,873	684,661	236,062	71,091	—	5,235,171
11,640	18,234	36,563	13,883	7,854	(202,467)	—
90,954	2,978,107	721,224	249,945	78,945	(202,467)	5,235,171
42,920	402,613	245,761	67,151	42,044	—	1,452,961
9,958	197,017	50,762	17,546	11,913	—	423,400
46,492	422,038	443,758	100,934	34,174	10,316	2,069,065
1,259	41,773	7,879	3,119	1,420	—	82,786
1,523	4,917	7,759	1,657	922	—	39,303
25,341	306,115	156,349	48,477	19,410	(732,726)	1,226,571
67,463	2,616,098	618,999	215,912	54,948	—	4,633,987
8,368	16,228	32,595	11,293	6,383	(192,375)	—
75,831	2,632,326	651,594	227,205	61,331	(192,375)	4,633,987
32,931	359,613	216,110	54,821	32,894	—	1,290,960
7,519	178,265	48,366	14,605	8,887	—	375,116
33,273	360,904	363,332	67,794	26,055	2,140	1,822,338
1,205	8,269	6,086	1,633	446	—	139,464
1,548	5,108	6,739	1,396	785	—	35,448
16,133	249,017	117,738	31,570	14,844	(600,825)	1,070,091

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.

	2008	2007	2006
Total revenues	36%	38%	36%
Net revenues	16%	16%	17%
Identifiable assets at year end	14%	11%	—*

*Represents less than 10% in the period presented.

Note 9. Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
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	66,472	71,249	85,565	77,728
Diluted earnings per share	.30	.32	.39	.36
Basic earnings per share	.31	.33	.40	.37
2007				
Revenues	$ 1,118,946	1,258,618	1,411,025	1,446,582
Net revenues	334,136	354,574	384,810	379,441
Net earnings	59,288	65,489	74,320	70,057
Diluted earnings per share	.27	.30	.34	.32
Basic earnings per share	.28	.31	.35	.33

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.

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.

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 Operating Officer, conducted an assessment of the design and operating effectiveness of our internal control over financial reporting 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, 2008, 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, 2008, which is included at page 55.

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, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008. 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, 2008 and 2007, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

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, 2008, 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 27, 2009 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Seattle, Washington
February 27, 2009

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, 2008, 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. 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, 2008, 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, 2008 and 2007, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2008 and our report dated February 27, 2009 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Seattle, Washington
February 27, 2009

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 United States and foreign laws and policies relating to tariffs, trade restrictions, foreign investments, taxation and regional and global conflicts. 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 in the nations in which it does business.

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.

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.

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.

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, changes in the financial stability and operating capabilities 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 climate, 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 the second half of 2008 as compared to the same period in 2007. Also, airfreight volumes in the second half of 2008 were lower than volumes in the first half of 2008. These results are unprecedented in the Company's history. At this point in time, the Company cannot predict the ongoing impact of the current global economic downturn or whether various governmental stimulus plans will be effective.

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 2008, the Company operates in 61 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 other wise, to meet and exceed the needs of our customers while simultaneously delivering tools to make our employees more efficient and more effective.

The Company has reinforced these values with a compensation system that rewards employees for profitably managing the things they can control. 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. 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 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:

- 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 1I to the consolidated financial statements in this report, the Company accounts for share-based compensation in accordance with Statement of Financial Accounting Standard No. 123R (revised 2004), "Share-based Payment" (SFAS 123R). This accounting standard requires the recognition of compensation expense based on an estimate of the fair value of options granted to employees and directors under the Company's stock option and employee stock purchase 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 cancellations, 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 4F in the consolidated financial statements for the assumptions used for grants issued during the years ended December 31, 2008, 2007 and 2006. The assumptions used by the Company for estimating the fair value of options

granted under SFAS 123R were developed on a basis consistent with assumptions used for valuing previous grants.

Management believes that these assumptions are appropriate, based upon the requirements of SFAS 123R, the guidance included in Securities and Exchange Commission Staff Accounting Bulletin No. 107 (SAB 107) and 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 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). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests 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 is required to and plans to adopt the provisions of SFAS 160 beginning in the first quarter of 2009. The Company had minority interest of $17,498 as of December 31, 2008 and $17,208 as of December 31, 2007, that it expects will be reclassified to equity under the provisions of SFAS 160.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141R). 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 is

required to and plans to adopt the provisions of SFAS 141R beginning in the first quarter of 2009. The impact will depend upon the acquisitions, if any, the Company consummates after the effective date.

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 2008, 2007, and 2006, 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.

	2008		2007		2006	
In thousands	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
Net revenues:						
Airfreight services	$ 578,756	36%	$ 528,148	36%	$ 470,638	36%
Ocean freight and ocean services	394,637	25	346,616	24	322,580	25
Customs brokerage and other services	629,868	39	578,197	40	497,742	39
Net revenues	1,603,261	100	1,452,961	100	1,290,960	100
Overhead expenses:						
Salaries and related costs	863,846	54	791,879	55	701,824	54
Other	266,279	17	237,682	16	214,020	17
Total overhead expenses	1,130,125	71	1,029,561	71	915,844	71
Operating income	473,136	29	423,400	29	375,116	29
Other income, net	26,436	2	26,273	2	20,548	2
Earnings before income taxes and minority interest	499,572	31	449,673	31	395,664	31
Income tax expense	196,593	12	179,815	12	160,661	13
Net earnings before minority interest	302,979	19	269,858	19	235,003	18
Minority interest	(1,965)	—	(704)	—	91	—
Net earnings	$ 301,014	19%	$ 269,154	19%	$ 235,094	18%

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 are 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 is a combination of the Company's response to changing market dynamics with aggressive sales efforts in 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:

	Years ended December 31,	
In thousands	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
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 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 Department of Justice's ("DOJ") ongoing investigations of air cargo freight forwarders and related legal proceedings as described further in Note 7 to the consolidated financial statements in this Annual Report. 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.

2007 compared with 2006

Airfreight services net revenues in 2007 increased 12% compared with 2006 primarily because of an increase in airfreight volumes. Global airfreight tonnages in 2007 increased 8% compared with 2006. Airfreight yields expended 83 basis points (a 4% increase) as compared with 2006. The Company's North American export airfreight net revenues increased 7% in 2007 compared to 2006, primarily the result of increased market share attributable to focused sales activity. Airfreight services net revenues from Asia and from Europe increased 17% and 9%, respectively, for 2007 compared with 2006.These changes are the result of market pricing and tonnage increases of 9% from Asia and 3% from Europe. Management attributes these tonnage increases to effective sales efforts.

Ocean freight volumes, measured in terms of forty-foot container equivalent units (FEUs), increased 15% over 2006 while ocean freight and ocean services net revenues increased 7% during the same period. The difference between these two rates is a result of a year-over-year decrease in ocean freight yields of 173 basis points (an 8% decrease) which were partially offset by year-over-year increases in the Company's fee-based order management and ocean forwarding business. The primary reason for the decline in ocean freight yields was due to direct carrier cost increases that market conditions would not allow to be passed on in a timely manner. The Company's North American ocean freight net revenues increased approximately 5% in 2007 compared to 2006. This was due to an increase in container traffic, primarily from Asia. Increases in ocean freight net revenues were primarily a result of increases in the order management and ocean forwarding business, which were an outcome of continued marketing efforts and customer service initiatives. Ocean freight net revenues for Asia and Europe increased 6% and 10%, respectively, in 2007 as compared to 2006. These increases were also a result of continued marketing efforts and customer service initiatives.

Customs brokerage and other services net revenues increased 16% in 2007 as compared with 2006. 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 13% in 2007 compared to 2006 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 2007 and 2006 are as follows:

In thousands	Years ended December 31, 2007	2006
Salaries and related costs	$ 791,879	$ 701,824
As a % of net revenue	54.5%	54.4%
Stock compensation expense	$ 44,917	$ 41,739
As a % of salaries and related costs	5.7%	5.9%
As a % of net revenue	3.1%	3.2%

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 11% in 2007 as compared with 2006 as rent expense, communications expense, process improvement and training expenses, and other costs expanded to accommodate the Company's growing operations. The Company incurred legal and related expenses of $4 million in 2007, primarily attributable to the DOJ ongoing investigation of air cargo freight forwarders and related legal proceedings as described further in Note 7 to the consolidated financial statements in this Annual Report. Other overhead expenses as a percentage of net revenues decreased 1% in 2007 as compared with 2006.

Other income, net, increased 28% in 2007 as compared with 2006. Due to higher interest rates on higher average cash balances and short-term investments during 2007, interest income increased by $4 million for the year ended December 31, 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 2007 was 40.0% as compared to 40.6% for 2006.

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. While there is currently a marked trend within the industry toward consolidation into large firms with multinational offices and agency networks, regional and local broker/forwarders remain a competitive force.

Historically, the primary competitive factors in the international logistics industry have been 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. Customers have exhibited a trend towards 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. 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.

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 2008, 2007 and 2006 was insignificant. Net unrealized foreign currency losses incurred in 2008 were $191. Net unrealized foreign currency gains incurred in 2007 were $1,300. Net unrealized foreign currency losses incurred in 2006 were $321. The Company had no foreign currency derivatives outstanding at December 31, 2008 and 2007.

Sources of Growth

During 2008, the Company opened 7 full-service offices (+) and 4 satellite offices (*) as follows:

Asia	Europe	Latin America	North America	Near/Middle East
+ Fuzhou, People's Republic of China	+ Bucharest, Romania	* Lázaro Cárdenas, Mexico	+ Raleigh Durham, North Carolina	* Coimbatore, India
+ Suzhou, People's Republic of China			+ Milwaukee, Wisconsin	+ Dammam, Kingdom of Saudi Arabia
				* Kolkata, India
				+ Manama, Kingdom of Bahrain
				* Mundra, India

Suzhou, People's Republic of China and Milwaukee, Wisconsin converted from satellite offices to full-service offices during 2008.

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" growth 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, 2008, 2007 and 2006.

Same store comparisons for the years ended December 31,

	2008	2007	2006
Net revenues	10%	12%	21%
Operating income	12%	13%	38%

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, 2008 was $409 million, as compared with $313 million for 2007. This $96 million increase is primarily due to increased net earnings and a decrease in accounts receivable which outpaced the decrease in accounts payable and other accrued current liabilities

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 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 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 year ended December 31, 2008 was $59 million, as compared with $88 million during the same period of 2007. The largest use of cash in investing activities is cash paid for capital expenditures. As a non-asset based provider of integrated logistics services, the Company does not own any physical means of transportation (i.e., airplanes, ships, trucks, etc.). However, 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, 2008, the Company made capital expenditures of $60 million as compared with $83 million for the same period in 2007. Capital expenditures in 2007 included $35 million for the purchase of 48,300 square feet of office space in Kowloon, Hong Kong. Other capital expenditures in 2008 and 2007 related primarily to investments in technology, office furniture and equipment and leasehold improvements. Total capital expenditures in 2009 are currently estimated to be $70 million. This includes normal capital expenditures as noted above, plus additional real estate acquisitions and development, although to a lesser extent than in the past few years. The Company expects to finance capital expenditures in 2009 with cash.

Cash used in financing activities for the year ended December 31, 2008 was $161 million as compared with $175 million in 2007. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. In 2008, 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, 2008 as compared with the same period in 2007 is primarily due to fewer shares repurchased. The proceeds from issuance of stock during 2008 were also significantly lower due to fewer aggregate shares exercised, as compared to 2007. During 2008 and 2007 the net use of cash in financing activities included the payment of dividends of $.32 per share and $.28 per share, respectively.

At December 31, 2008, working capital was $903 million, including cash and short-term investments of $742 million. The Company had no long-term debt at December 31, 2008. 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 potential impact that the recent disruptions in the world financial markets and associated credit tightening may have on the underlying global economy. 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 disruptions might have on freight volumes due to changes in consumer demand or on customers' abilities to pay.

The Company maintains international and domestic unsecured bank lines of credit. At December 31, 2008, the United States facility totaled $50 million and the international bank lines of credit totaled $22 million. In addition, the Company maintains a bank facility with its U.K. bank for $10 million which is available for issuances of standby letters of credit. At December 31, 2008, 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.

At December 31, 2008, the Company's contractual obligations and other commitments are as follows:

		Payments Due by Period			
In thousands	Total amounts committed	Less than 1 year	1-3 years	3-5 years	After 5 years
Contractual Obligations:					
Operating leases	$ 84,949	$ 33,721	$ 34,479	$ 14,645	$ 2,104
Unconditional purchase obligations	362,354	362,354	—	—	—
Construction obligations	8,980	8,980	—	—	—
Total contractual cash obligations	$ 456,283	$ 405,055	$ 34,479	$ 14,645	$ 2,104

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, 2008, will be fulfilled during 2009 in the Company's ordinary course of business.

		Amount of Commitment Expiration Per Period			
In thousands	Total amounts committed	Less than 1 year	1-3 years	3-5 years	After 5 years
Standby letters of credit	$ 79,449	$ 71,947	$ 6,644	$ 95	$ 763

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2008, the Company had repurchased and retired 18,161,750 shares of common stock at an average price of $17.56 per share over the period from 1994 through 2008. During 2008, 1,255,514 shares were repurchased at an average price of $39.31 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, 2008, the Company had repurchased and retired 15,590,002 shares of common stock at an average price of $32.36 per share over the period from 2001 through 2008. During 2008, 2,641,423 shares were repurchased at an average price of $39.69. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares as a result of stock option exercises.

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, 2008, cash and cash equivalent balances of $482 million were held by the Company's non-United States subsidiaries, of which $65 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, 2008, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

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 reporting 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, 2008, would have had the effect of raising operating income approximately $40 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately $33 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 depress 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, 2008, the Company had approximately $5 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, 2008, was insignificant. Net unrealized foreign currency losses incurred in 2008 were $191. Net unrealized foreign currency gains incurred in 2007 were $1,300. Net unrealized foreign currency losses incurred in 2006 were $321. The Company had no foreign currency derivatives outstanding at December 31, 2008 and 2007. 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.

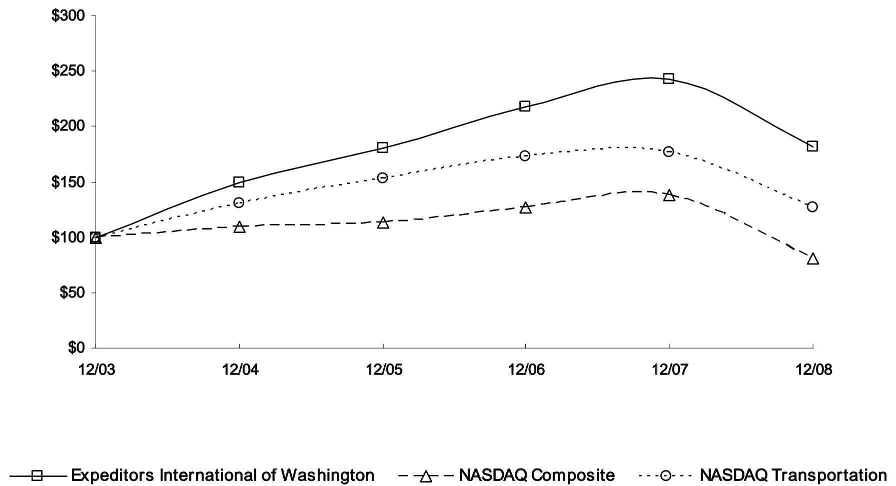
Interest Rate Risk

At December 31, 2008, the Company had cash and cash equivalents and short-term investments of $742 million, of which $397 million was invested at various short-term market interest rates. There were no short-term borrowings at December 31, 2008. A hypothetical change in the interest rate of 10% 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 2007 and 2008.

Stock Price Performance Graph

The following graph compares the cumulative 5-year total return attained by shareholders on Expeditors International of Washington's common stock relative to the cumulative returns of the NASDAQ Composite index and the NASDAQ transportation index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 12/31/2003 and its relative performance is tracked through 12/31/2008.



*$100 invested on 12/31/03 in stock & index-including reinvestment of dividends.
Fiscal year ending December 31.

	12/03	12/04	12/05	12/06	12/07	12/08
Expeditors International of Washington	100.00	149.04	180.96	218.13	242.18	181.80
NASDAQ Composite	100.00	110.08	112.88	126.51	138.13	80.47
NASDAQ Transportation	100.00	130.10	153.17	173.60	176.28	126.49

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Directors and Executive Officers

Directors

Peter J. Rose
Chairman of the Board
and Chief Executive Officer,
Director

James L. K. Wang
President – Asia,
Director

R. Jordan Gates
President and
Chief Operating Officer,
Director

James J. Casey
Director

Mark A. Emmert
Director, President,
University of Washington

Dan P. Kourkoumelis
Director

Michael J. Malone
Director

John W. Meisenbach
Director, President,
MCM Financial,
A Financial Services Company

Robert R. Wright
Director, President and
Chief Executive Officer,
Matthew G. Norton Co.,
A Real Estate Firm

Executive Officers

Timothy C. Barber
President –
Global Sales and Marketing

Rommel C. Saber
President –
Europe, Africa, Near/Middle East
and Indian Sub-continent

Robert L. Villanueva
President – The Americas

Eugene K. Alger
Executive Vice President –
North America

Philip M. Coughlin
Executive Vice President –
North America

Rosanne Esposito
Executive Vice President –
Global Customs

Bradley S. Powell
Chief Financial Officer

Jean Claude Carcaillet
Senior Vice President –
Australasia

Roger A. Idiart
Senior Vice President –
Air Cargo

Charles J. Lynch
Senior Vice President –
Corporate Controller

Jeffrey S. Musser
Senior Vice President
and Chief Information Officer

Daniel R. Wall
Senior Vice President –
Ocean Services

Amy J. Tangeman
Vice President –
General Counsel and Secretary

Product and Service Managers

Global and Product Services

Erin M. Thomasson
Senior Vice President –
Insurance

Bret C. Backman
Vice President –
Research and Development

Richard P. Ballantyne
Vice President –
Global Distribution Services

Samuel R. Bokor
Vice President –
Training and
Personnel Development

Sean M. Francisco
Vice President –
Air Cargo,
The Americas

Rebecca A. Cates
Vice President –
Treasurer

Steven J. Grimmer
Vice President –
Account Management

Scott M. Kelly
Vice President –
Global Ocean Services

Carol Kijac
Vice President –
Americas,
Sales and Marketing

Deanna L. Wilson
Vice President –
Global Business Processes

Geographic Managers

Asia

David Hsieh
Senior Vice President –
Asia

Andrew Goh
Senior Vice President
and Regional Director –
South East Asia

Paul Arthur
Regional Director –
Indo China and Philippines

T. H. Chiu
Regional Director –
Japan, Korea and Northern China

Alan Lo
Regional Director –
South China, Hong Kong and Macao

Danny Lee
Managing Director –
Thailand

Simon Jung
Managing Director –
Korea

Syed Ershad Ahmed
Managing Director –
Bangladesh

Derby Lam
Managing Director –
South China

Lim Khoon Ling
General Manager –
Singapore

Megan Jeng
General Manager –
Taipei

David Hsia
General Manager –
Beijing

Mary Yao
General Manager –
Shanghai

Michael Leong
General Manager –
Penang

Shehan Mohamed
General Manager –
Sri Lanka

Simon Liu
General Manager –
Vietnam

Dave Takano
General Manager –
Tokyo

Aristotle Aniceto
General Manager –
Phillipines

Gary Chen
General Manager –
Jakarta

Tom Tan
General Manager –
Cambodia

Geographic Managers

North America

Brian Carrabes
Regional Vice President –
Southeast Region

Joseph P. Coogan
Regional Vice President –
Northeast Region

Karl C. Francisco
Regional Vice President –
Southwest Region

Todd Hinkle
Regional Vice President –
North Central Region

J. Ross Hurst
Regional Vice President –
Canada

Bruce Krebs
Regional Vice President –
Southern Border and Mexico

Bryan Lilly
Regional Vice President –
South Central Region

William A. Romberger III
Regional Vice President –
Mid-Atlantic Region

Richard H. Rostan
Regional Vice President –
Midwest Region

Jose A. Ubeda
Regional Vice President –
Northwest Region

Europe and Africa

Kurt Meister
Regional Vice President –
South Europe

Henrik Hedensio
Regional Vice President –
North Europe

Barry L. Baron
Managing Director –
United Kingdom, Ireland
and South Africa

Kees Wagenaar
Managing Director –
Benelux

Paolo Domante
Managing Director –
Italy and Switzerland

Rainer Kirschner
Managing Director –
Germany

Magdolna Acs
Managing Director –
Hungary

Rene Grabmuller
Managing Director –
Czech Republic

Ingeborg Drueckler
Director –
European Agents

Billy Griffiths
Director –
African States

Geographic Managers (continued)

Near/Middle East & Indian Sub-continent

Tony Helayel
Regional Vice President –
East Mediterranean
and North Africa

David Macpherson
Regional Vice President –
Gulf States, Pakistan, India
and Nepal

Samir Ghaoui
Managing Director –
Levant

Afsar Mahmood
Managing Director –
Pakistan

K. Murali
Managing Director –
India

Suleyman Ture
Managing Director –
Turkey

Latin America

Guillermo Ayerbe
Regional Vice President –
Latin America

Diego Estrin
Regional Director –
Andean Countries

Jose Antonio Bedoya
Country Manager –
Peru

Giannina Odio
Regional Director –
Central America and
Caribbean

Corporate Information

Transfer Agent and Registrar, Dividend Disbursing Agent

Computershare Trust
Company, N.A.
250 Royall Street
Canton, MA 02021

Shareholder Services
(877) 498-8861

Hearing Impaired / TDD
(800) 952-9245

Website
http://www.computershare.com

Independent Registered
Public Accounting Firm

KPMG LLP
801 Second Avenue
Suite 900
Seattle, WA 98104

Corporate Headquarters

Expeditors International
of Washington, Inc.
1015 Third Avenue
12th Floor
Seattle, WA 98104

Information is available on
the World Wide Web at
http://www.expeditors.com

Offices and Agents

Major cities of the world

Annual Meeting

The annual meeting of shareholders is Wednesday, May 6, 2009, at 2:00 pm at:

Expeditors'
Corporate Headquarters
1015 Third Avenue
Seattle, Washington

Form 10-K

The Company files an Annual Report with the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this report without charge by writing:

R. Jordan Gates,
President and
Chief Operating Officer
Expeditors International
of Washington, Inc.
1015 Third Avenue
12th Floor
Seattle, WA 98104

Stock Price and Shareholder Data

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.

Common Stock

QUARTER		HIGH	LOW
2008			
First	$	48.00	38.16
Second		49.92	41.95
Third		45.45	33.28
Fourth		40.50	24.05
2007			
First	$	48.05	38.31
Second		48.70	40.51
Third		54.46	41.08
Fourth		53.48	42.44

There were 7,055 shareholders of record as of February 20, 2009. This figure does not include a substantially greater number of beneficial shareholders of the Company's common stock, whose shares are held of record by banks, brokers and other financial institutions.

In 2008 and 2007, the Board of Directors declared a semi-annual dividend of $.16 per and $.14 per share, respectively, which was paid as follows:

2008	16 June
	15 December
2007	15 June
	17 December

Library of Congress, Geography and Map Division

Expeditors