(we’re still standing)

30

29 May 1979

Expeditors'
first
thirty
years

29 May 2009

Still true to our principles.

It's more than what we've practiced for thirty years, it's what we are.

16,000 in 2009 >

Expeditors
customer
base

1 in 1979 >

A customer is not just a number.

Our progress – our existence – is possible for a single reason… our customers. From day one Expeditors has been committed to meeting the unique requirements and goals of each. We constantly optimize and expand our services to offer more completely integrated service solutions. Our IT systems are designed to provide the information specific to each customers' own way of working. Our focus does not end at merely meeting each individual customers' needs, it goes on to create a deeper understanding of their business; which in turn allows Expeditors to anticipate those needs and become an integral part of their operations. And we pursue new customers with an uncompromising honesty about how we can contribute, what we know is possible and what may be possible in the future. Our evolution from a regional airfreight forwarder and customs broker focused on Asia-Pacific trade to a global logistics and specialized services resource for some of the world's largest manufacturers and retailers has far from ended – because our commitment to our customers will never change.

16,000

1

24

1

< 24 in 2009

Expeditors' proprietary products and services which are designed to provide our customers with integrated solutions that deliver flawless execution and total cost value.

< 1 in 1979

Turning experience into answers.

When we see a better way to consolidate freight or to monitor its progress from sourcing to distribution, we apply it. Since we began offering customs brokerage services in 1979, Expeditors has continued to apply meaningful innovations to day-to-day, real-world, real-time challenges. Our network of offices and experts are intimately connected to the realities of each assignment, allowing us to design and implement battle-tested services and products capable of directly benefiting our customers' approach to business and the bottom line. As our experience grows, so does our expertise. It's nothing as simple as a menu of choices. Expeditors offers its customers a fully integrated system to manage its supply chain logistics needs to every commercially significant point on the globe.

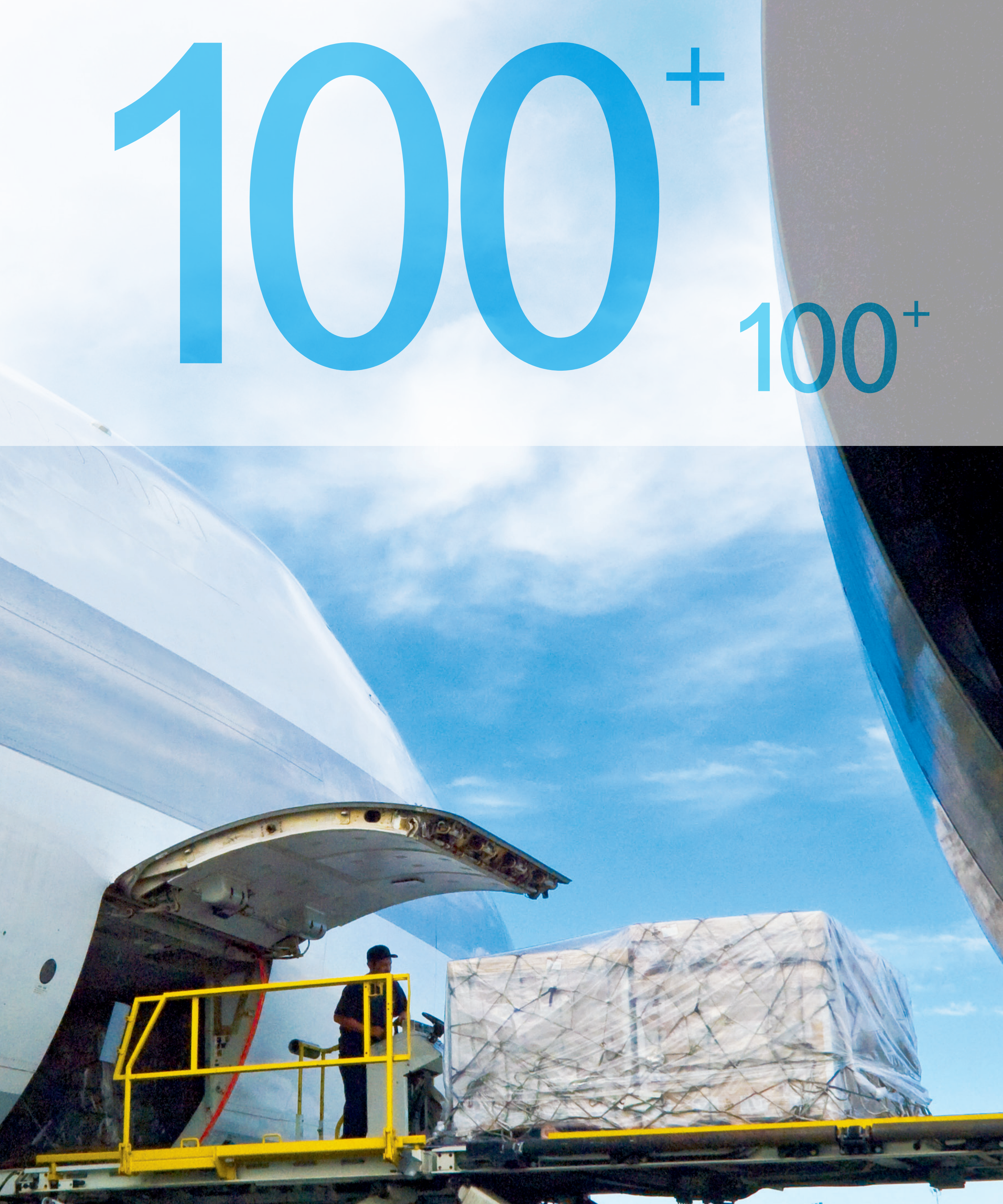
100+
Mergers
1979 - 2009 >

Approximate
mergers of
major logistics
companies

100+
Major logistics
companies
in 1979 >

Conventional wisdom is often wrong.

Thirty years ago there were by some counts over one hundred companies, that could be considered major players in the market, offering logistics services. These titans promised that their conception of the industry would stand the test of time. Run by visionaries who claimed to have discovered the only path to growth and success: acquisition. Boards with members who identified their only assets as trucks and ships and jet aircraft. They staked their futures on these ideas and watched as their businesses piled up huge debts or dissolved into the anonymous no-man's land of acquisition. Along the way many customers became alienated, the personal and professional lives of employees were uprooted while new opportunities disappeared amid the clamor of egos. This was the result of the so-called conventional wisdom that created unprecedented levels of industry consolidation. Expeditors is still standing, still thriving because we chose a different path – our growth is organic, our real assets are our people. And our only debt is to our customers.



100+
100+

2.4

< 468Mbps in 2009

Expeditors
data transmission
capacity

< 2.4kb in 1979

A three-decade long primer in organic growth.

There's nothing pre-packaged about Expeditors. We build our own culture, our own systems, our own brand. There are no short cuts in building a global business and the list of companies that tried to grow and provide more and more comprehensive services simply through acquisition is a list of companies that no longer exist. You can't buy the intangibles that make the true difference. You can't buy the commitment and innovation of a worldwide team. You can't graft a group of people from Mexico City onto an office in Riyadh and expect priorities and systems to find a seamless fit. These are attributes and capabilities that are best built from within, that are propagated through training and practice and experience and constant evaluation. By exclusively pursuing organic growth, Expeditors has realized a compound annual growth rate of nearly 40% in operating income over the past 30 years. We provide our customers with unbeatable responsiveness thanks to the global consistency of our processes and the daily commitment of our managers and our people who not only grow with the systems, but who continue the systems that they helped to perfect.

12,000
employees
in 2009 >

Expeditors
and
loyalty

0 layoffs >

Our culture defines our business.

We don't view our employees as disposable – in fact, we prefer to think of them as our people. In times of economic stress the experience and skill of employees are too often traded-in for short-term savings that can cost a company much more in turnover, training and lost potential. As things got tough in 2009, our people could concentrate on helping our customers through these difficult times. They could focus on their jobs, not worry about their futures. Because at Expeditors, we didn't resort to lay-offs designed to create short-term gains at the loss of long-term value. In 1991 we launched EXCEL, a system of accountability that has evolved into practical process improvement and productivity programs. These programs have enhanced our success by enhancing the security of our peoples' positions, the clarity of their mission and the scale of their advancement and reward while increasing both the quality and efficiency of the services we provide to our customers. The result is a distinct culture that encourages individual responsibility in maintaining and improving performance, that unites us across six continents and 60 countries. It is a culture of mutual respect and loyalty that delivers a uniform global standard of service and unbeatable continuity. 105 of Expeditors people have reached the 25-year mark; an additional 2,998 of our people have over 10-years experience and of our remaining employees 2,392 have been with Expeditors for 5-years or more. Shareholders and customers benefit directly from the tenure and the commitment of more than 12,000 people always at work on new opportunities.

At Expeditors, we wear our tenure on our sleeves – or more accurately on our collars and lapels in the form of service pins.

25 Years – Gold with 2 Diamonds

20 Years – Gold with 1 Diamond

15 Years – Gold with Emerald

10 Years – Gold with Ruby

5 Years – Gold

3 Years – Silver

12,000

29 May

’79

From day one.

On 29 May 1979 we launched a company grounded with a practical focus on doing the best for customers; a company that demanded a level of performance from its people that would consistently meet and exceed those expectations; that created an environment which encourages continuous improvement; that inculcates a culture capable of thriving in the best and the hardest of times in every nation on the globe. Expeditors is a company that knows itself and its business and will never be distracted by fads, inflated egos or plain old greed. In thirty years we’ve witnessed astounding growth and progress, experienced events that have reshaped our lives and our world. And we’ve also seen progress hampered by equally astounding instances of greed and hubris. Still, at Expeditors, today has a lot in common with yesterday because today and every day thousands of individuals working together in every major commercial center on earth, get up, get to work and go about proving themselves all over again, hour-by-hour, customer by customer. A 30 year anniversary is no small accomplishment. But the way we see it, it’s still just the beginning.

Our first office occupied 600 square feet in the historic Maynard Building in Seattle, WA.

29 May

’09

To our shareholders

David Frost had a program in the 1960s called “TWTWTW” “That Was The Week That Was.” We have the longer version now, which is TWTYTW. Never in all my years had I witnessed a business disaster until now. Fortunately we saw what lay ahead in the latter part of 2008 and made some critical decisions. We instituted a hiring freeze, cut expenses, and implemented a policy of no layoffs. This should stand us in good stead when things turn around. On the positive side we have lots of cash, no long-term debt and we’re profitable. Yes, revenues are down, but whose aren’t? Just to get through the year unscathed was a modest victory.

2009 marked our 30th anniversary and when you look at our progress over those 30 years, we’re extremely proud of the results. This year we received awards from numerous customers including Walmart, H.P., Cisco Systems, Kohler, Target and Parker Hannifin which is a credit to everyone here. We also opened our “Disaster Recovery Center” in Spokane, Washington. This facility is 25,000 square feet and will facilitate all our global backup I.T. requirements.

Our current corporate headquarters, still in Seattle, opened in 1998 and provides 215,000 square feet for 750 employees.

Our 25,000 square foot Disaster Recovery Center opened in Spokane, Washington on 12 October 2009.

What about 2010? It certainly couldn't get worse, or could it? Unemployment (in the United States) is at record levels, the dollar (in the United States) is weak, and the national debt (in the United States) is in the trillions (remember when a million was a lot?). Taxes (in the United States) will be higher, health care (in the United States) is up in the air, and the economy (in the United States) drags along. Fortunately for us, we're not just in the United States. We're a global network, with 70% of our operational capabilities residing outside the United States. As the global economy starts to recover, we're positioned to benefit from that recovery when and where it occurs. That isn't to say we're down playing our U.S. presence. Historically, betting against the U.S. economy and its people has not been a winning proposition. We're not economists, nor are we gamblers, but we are betting that there still remains a lot of strength and stability in the U.S. markets. While there may be some short-term trauma, in the long run the U.S. economy will be fine. We're merely pointing out that the U.S. is just one of many nodes in our global network and that some of those nodes are recovering faster than others. We believe our long-

Success is in the details: even in 1981 we needed more room to grow.

A $1,000 investment on our IPO date (18 September 1984), assuming the exercise of associated warrants (for $528), was worth approximately $278,000 on 31 December 2009.

term future well-being will have as much to do with how other countries recover from the turbulence of the last 18 months than what will happen solely in the United States.

Finally, I'd be remiss to not address what is probably the most oft-asked question I get these days. Will there be an uptick in 2010? From our perspective, maybe a slight one, but the next few years we think we will see slow, albeit steady, growth. However, thanks to our people, our customers and our service providers we feel confident in our future. When your legacy rests firmly on a foundation built by a 30-year focus on building long-term stability, you won't be dislodged, even by a strong jolt of seismic activity, no matter how severe.

Peter J. Rose
Chairman and Chief Executive Officer

First South Pacific office: Sydney
01 August 1988

The global financial crisis defined 2009. Expeditors adapted to a rapidly changing airline and shipping line environment of reduced or cancelled services and frequent rate changes as carriers tried to fine-tune their response to unpredictable changes in supply and demand. Our business was affected by companies drastically cutting down their inventories and consumers curtailing their purchases. Margins were eroded and the majority of our customers traded less internationally. By the end of the year, we noticed the prospect of a small recovery. Our customers began increasing the number of orders placed overseas. We did not retrench anyone but asked that everyone take special care of our customers and minimise our exposure to bad debts. Happily, 2010 is a year of opportunity. As the global economy begins to recover, we will continue to do the things that have made Expeditors successful for the last 30 years. We firmly believe that we have the people, the systems and the values to benefit from this changed business environment.

Jean-Claude Carcaillet
Senior Vice President – Australasia

SOUTH PACIFIC

First EMAIR
office: London
02 April 1986

Sticking to our core values throughout the EMAIR region paid off, especially during conditions as difficult as those in 2009 . Most important was our focus on retaining our employees, our customers, and our service providers, as well as keeping our focus on implementing cost control initiatives, which also helped us tremendously. As we continue to enforce our sales programs and ride the economic tidal wave we're confident that the EMAIR region will certainly emerge even stronger in 2010.

Rommel C. Saber
President – Europe, Africa, Near/Middle East & Indian Subcontinent

EMAIR

First Asia
office:Hong Kong
15 June 1981

2009 was a dramatic year defined by great challenges and great opportunities. Despite the economic slowdown, we worked more aggressively to secure new business while controlling our operating costs. On the other hand, the market fluctuation during the fourth quarter peak season made capacity management extremely difficult. While continuous improvement of customer service quality and efficiency has always been our operational focus, we continued to develop new services to meet customer needs. Our most recent example is our road freight service network in China. In the meantime, our Wuhan satellite office was upgraded to a full-service branch to meet the increasing demand in inland central China. In the coming year we expect to see the market rebound, but fluctuating demand and capacity management will continue to be critical issues. To cope with the changes, we will continue to enhance strategic partnerships with service providers to ensure capacity stability and performance sustainability. This will be supported by our vigilant focus on compliance matters such as FCPA, security and anti-competition awareness. On top of that, continuous development for distribution, road freight and brokerage services will enrich our product portfolio and service capability, in turn enabling us to provide more solutions to our customers. Last but not least, an aggressive approach to new business opportunities, internal cost control and efficiency improvements will help us set and reach our goals in 2010.

James L. Wang
President – Asia

ASIA

First Americas office: Seattle 29 May 1979

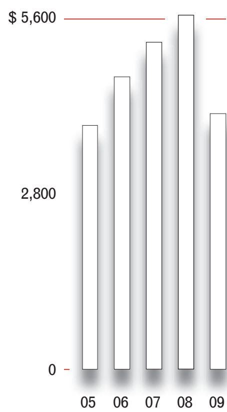
Aren't we glad 2009 is over? It certainly was a year that we hope to forget. We've all learned some valuable lessons which will help us in the future. We protected our biggest assets – our people – with no layoffs. We focused on customer retention which proved to be the correct strategy. We added capacity through our total commitment in business process, providing exceptional customer service. We aggressively went after new business and were successful in expanding our market share. Our focus on expense control, which was something that has always been part of our culture, helped us weather the storm as we focused even more keenly on each major category of expense. As we look ahead, our efforts in strengthening our service provider strategy is having a positive impact on our service offerings, and we expect that to continue throughout 2010. With so many changes in regulations, compliance will continue to be an even greater focus for us than it has always been. Finally, as we take inventory of our most important assets, our commitment will be to continue to work on preparing and mentoring our future leaders to enable them to continue to perpetuate the Expeditors culture far into the future.

Robert L. Villanueva
President – The Americas

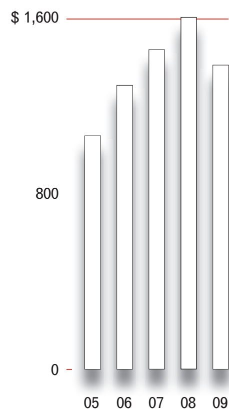
THE AMERICAS

The 2009 Financial Report.

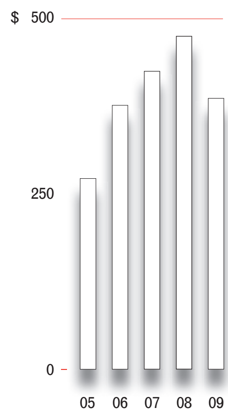
dollars in millions



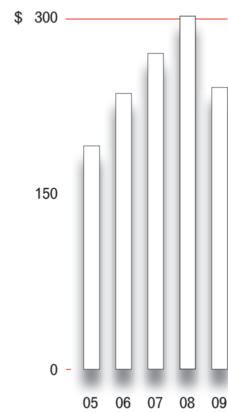
Revenues



Net Revenues



Operating Income



Net Earnings Attributable to Shareholders

Financial Highlights

In thousands except per share data

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

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

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Consolidated Balance Sheets

In thousands except share data

December 31,		2009	2008
Current Assets:			
Cash and cash equivalents	$	925,929	741,028
Short-term investments		655	658
Accounts receivable, less allowance for doubtful accounts of $14,235 in 2009 and $14,414 in 2008		810,369	788,176
Deferred Federal and state income taxes		8,338	7,986
Other		42,539	35,511
Total current assets		1,787,830	1,573,359
Property and Equipment:			
Land		165,528	160,293
Buildings and leasehold improvements		372,470	351,022
Furniture, fixtures, equipment and purchased software		205,817	193,810
Construction in progress		16,258	16,029
Property and equipment, at cost		760,073	721,154
Less accumulated depreciation and amortization		264,372	228,025
Property and equipment, net		495,701	493,129
Goodwill, net		7,927	7,927
Other intangibles, net		4,938	6,503
Other assets, net		27,326	19,921
Total assets	$	2,323,722	2,100,839

December 31,		2009	2008
Current Liabilities:			
Accounts payable	$	546,675	491,823
Accrued expenses, primarily salaries and related costs		145,545	150,487
Federal, state, and foreign income taxes		16,166	28,039
Total current liabilities		708,386	670,349
Deferred Federal and state income taxes		53,989	46,574
Commitments and contingencies			
Shareholders' Equity:			
Preferred stock, par value $.01 per share			
Authorized 2,000,000 shares; none issued		—	—
Common stock, par value $.01 per share			
Authorized 320,000,000 shares;			
issued and outstanding 212,025,494 shares at			
December 31, 2009 and 211,973,377 shares at			
December 31, 2008		2,120	2,120
Additional paid-in capital		18,265	7,150
Retained earnings		1,532,018	1,372,356
Accumulated other comprehensive income (loss)		604	(15,208)
Total shareholders' equity		1,553,007	1,366,418
Noncontrolling interest		8,340	17,498
Total equity		1,561,347	1,383,916
Total liabilities and equity	$	2,323,722	2,100,839

See accompanying notes to consolidated financial statements.

Consolidated Statements of Earnings

In thousands except share data

Years ended December 31,		2009	2008	2007
Revenues:				
Airfreight services	$	1,831,317	2,541,377	2,407,582
Ocean freight and ocean services		1,297,685	1,990,983	1,820,558
Customs brokerage and other services		963,281	1,101,518	1,007,031
Total revenues		4,092,283	5,633,878	5,235,171
Operating Expenses:				
Airfreight consolidation		1,341,842	1,962,621	1,879,434
Ocean freight consolidation		973,462	1,596,346	1,473,942
Customs brokerage and other services		394,193	471,650	428,834
Salaries and related costs		774,214	863,846	791,879
Rent and occupancy costs		74,324	76,984	67,676
Depreciation and amortization		40,035	40,003	39,303
Selling and promotion		26,295	37,778	38,735
Other		82,917	111,514	91,968
Total operating expenses		3,707,282	5,160,742	4,811,771
Operating income		385,001	473,136	423,400

Years ended December 31,		2009	2008	2007
Other Income (Expense):				
Interest income		10,177	21,077	22,341
Interest expense		(499)	(183)	45
Other, net		8,193	5,542	3,887
Other income, net		17,871	26,436	26,273
Earnings before income taxes		402,872	499,572	449,673
Income tax expense		162,475	196,593	179,815
Net earnings		240,397	302,979	269,858
Less: net earnings attributable to noncontrolling interest		180	1,965	704
Net earnings attributable to shareholders	$	240,217	301,014	269,154
Diluted earnings attributable to shareholders per share	$	1.11	1.37	1.21
Basic earnings attributable to shareholders per share	$	1.13	1.41	1.26
Dividends declared and paid per common share	$	0.38	0.32	0.28
Weighted average diluted shares outstanding		216,533,240	219,170,003	221,799,868
Weighted average basic shares outstanding		212,112,744	212,755,946	213,314,761

See accompanying notes to consolidated financial statements.

Consolidated Statements of Equity and Comprehensive Income

In thousands except share data. Years ended December 31, 2009, 2008 and 2007

		Common stock	
		Shares	Par Value
	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 of $286	—	—
	Foreign currency translation adjustments, net of tax of $9,264	—	—
	Total comprehensive income	—	—
	Dividends paid ($.28 per share)	—	—
	Distributions or declaration of dividends to noncontrolling interest	—	—
	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)	—	—
	Distributions or declaration of dividends to noncontrolling interest	—	—
	Balance at December 31, 2008	211,973,377	$ 2,120
2009	Exercise of stock options and release of restricted shares	2,068,603	20
	Issuance of shares under stock purchase plan	714,799	7
	Shares repurchased under provisions of stock repurchase plans	(2,731,285)	(27)
	Stock compensation expense	—	—
	Tax benefits from stock plans	—	—
	Purchase of noncontrolling interest	—	—
	Comprehensive income		
	Net earnings	—	—
	Foreign currency translation adjustments, net of tax of $8,672	—	—
	Total comprehensive income	—	—
	Dividends paid ($.38 per share)	—	—
	Distributions or declaration of dividends to noncontrolling interest	—	—
	Balance at December 31, 2009	212,025,494	$ 2,120

Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total shareholders' equity	Noncontrolling interest	Total equity
119,582	934,058	14,320	1,070,091	15,816	1,085,907
43,138	—	—	43,178	—	43,178
21,801	—	—	21,807	—	21,807
(207,537)	—	—	(207,584)	—	(207,584)
44,917	—	—	44,917	—	44,917
28,105	—	—	28,105	—	28,105
—	269,154	—	269,154	704	269,858
—	—	44	44	—	44
—	—	(443)	(443)	—	(443)
—	—	17,050	17,050	544	17,594
—	—	—	285,805	1,248	287,053
—	(59,748)	—	(59,748)	—	(59,748)
—	—	—	—	(316)	(316)
50,006	1,143,464	30,971	1,226,571	16,748	1,243,319
29,322	—	—	29,344	—	29,344
22,109	—	—	22,116	—	22,116
(150,120)	(4,019)	—	(154,178)	—	(154,178)
44,879	—	—	44,879	—	44,879
10,954	—	—	10,954	—	10,954
—	301,014	—	301,014	1,965	302,979
—	—	(46,179)	(46,179)	(336)	(46,515)
—	—	—	254,835	1,629	256,464
—	(68,103)	—	(68,103)	—	(68,103)
—	—	—	—	(879)	(879)
7,150	1,372,356	(15,208)	1,366,418	17,498	1,383,916
26,393	—	—	26,413	—	26,413
20,505	—	—	20,512	—	20,512
(84,482)	—	—	(84,509)	—	(84,509)
39,135	—	—	39,135	—	39,135
5,726	—	—	5,726	—	5,726
3,838	—	—	3,838	(4,306)	(468)
—	240,217	—	240,217	180	240,397
—	—	15, 812	15,812	(634)	15,178
—	—	—	256,029	(454)	255,575
—	(80,555)	—	(80,555)	—	(80,555)
—	—	—	—	(4,398)	(4,398)
18,265	1,532,018	604	1,553,007	8,340	1,561,347

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

In thousands

Years ended December 31,		2009	2008	2007
Operating Activities:				
Net earnings	$	240,397	302,979	269,858
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for losses on accounts receivable		804	1,976	940
Deferred income tax (benefit) expense		(1,609)	16,350	18,991
Excess tax benefits from stock plans		(5,726)	(10,954)	(28,105)
Stock compensation expense		39,135	44,879	44,917
Depreciation and amortization		40,035	40,003	39,303
Gain on sale of assets		(42)	(699)	(1,053)
Amortization of other intangible assets		1,520	1,618	1,483
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable		(1,077)	85,841	(84,950)
Increase (decrease) in accounts payable and accrued expenses		29,910	(66,470)	46,881
(Increase) decrease in income taxes payable, net		(12,706)	(5,552)	4,673
Other		159	(1,005)	(353)
Net cash provided by operating activities		330,800	408,966	312,585

Years ended December 31,		2009	2008	2007
Investing Activities:				
Decrease (increase) in short-term investments		26	(72)	(10)
Purchase of property and equipment		(34,700)	(59,726)	(82,786)
Proceeds from sale of property and equipment		276	369	504
Prepayment on long-term land lease, net		(5,049)	—	(2,820)
Other		(1,901)	204	(2,859)
Net cash used in investing activities		(41,348)	(59,225)	(87,971)
Financing Activities:				
Proceeds from issuance of common stock		46,925	51,460	64,985
Repurchases of common stock		(84,509)	(154,178)	(207,584)
Excess tax benefits from stock plans		5,726	10,954	28,105
Dividends paid		(80,555)	(68,103)	(59,748)
Distributions to noncontrolling interest		(1,084)	(879)	(316)
Purchase of noncontrolling interest		(3,851)	—	—
Net cash used in financing activities		(117,348)	(160,746)	(174,558)
Effect of exchange rate changes on cash and cash equivalents		12,797	(22,566)	13,185
Increase in cash and cash equivalents		184,901	166,429	63,241
Cash and cash equivalents at beginning of year		741,028	574,599	511,358
Cash and cash equivalents at end of year	$	925,929	741,028	574,599
Interest and Taxes Paid:				
Interest	$	497	173	83
Income taxes		158,745	172,146	146,353

See accompanying notes to consolidated financial statements.

note 1. Summary of Significant Accounting Policies

A | Basis of Presentation

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

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the effects adoption of any such proposal will have on the Company's business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being affected by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies as well as economic turbulence or security concerns in the nations in which it does business.

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

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

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

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

B | Cash Equivalents

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

C | Short-term Investments

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

D | Accounts Receivable

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

E | Long-Lived Assets, Depreciation and Amortization

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

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

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

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

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

Balances as of December 31 are as follows:

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

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

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

F | Revenues and Revenue Recognition

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

As a non-asset based carrier, the Company does not own transportation assets. Rather, the Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. The difference between the rate billed to

customers (the sell rate), and the rate paid to the carrier (the buy rate) is termed "net revenue" or "yield". By consolidating shipments from multiple customers and concentrating its buying power, the Company is able to negotiate favorable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

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

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

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

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.

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

G | Income Taxes

Income taxes are accounted for under the asset and liability method of accounting. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributed to differences between the financial

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

H | Net Earnings Attributable to Shareholders per Common Share

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

I | Stock Plans

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

J | Foreign Currency

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

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2009, 2008, and 2007 was insignificant. Net foreign currency gains incurred in 2009 were $1,418. Net foreign currency losses incurred in 2008 were $191. Net foreign currency gains incurred in 2007 were $1,300. The Company had no foreign currency derivatives outstanding at December 31, 2009 and 2008.

K | Comprehensive Income

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

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

L | Segment Reporting

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

M | Use of Estimates

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

N | Recent Accounting Pronouncements

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

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

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

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

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

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

note 2. Shareholders' Equity

A | Stock Repurchase Plans

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

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

B | Stock Option Plans

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

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

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

	1985 Plan	2006 Plan	2007 Plan	2008 Plan	2009 Plan	Directors' Plan
Balance at December 31, 2006	6,912	79,690	—	—	—	128,000
Options authorized	—	—	3,000,000	—	—	—
Options granted	—	—	(1,803,260)	—	—	(128,000)
Options not granted	—	(79,960)	—	—	—	—
Balance at December 31, 2007	6,912	—	1,196,740	—	—	—
Options authorized	—	—	—	3,000,000	—	—
Options granted	—	—	—	(2,088,415)	—	—
Options not granted	—	—	(1,196,740)	—	—	—
Balance at December 31, 2008	6,912	—	—	911,585	—	—
Options authorized	—	—	—	—	3,000,000	—
Options granted	—	—	—	—	(2,449,200)	—
Options not granted	—	—	—	(911,585)	—	—
Balance at December 31, 2009	6,912	—	—	—	550,800	—

C | Stock Purchase Plan

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

D | Director Restricted Stock Plan

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

E | Stock Option and Restricted Stock Award Activity

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

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

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

F | Share-Based Compensation Expense

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

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

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

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

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

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

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

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

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

note 3. Basic and Diluted Earnings Per Share

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

	Net earnings attributable to shareholders	Weighted average shares	Earnings per share
2009			
Basic earnings attributable to shareholders	$ 240,217	212,112,744	$ 1.13
Effect of dilutive potential common shares	—	4,420,496	—
Diluted earnings attributable to shareholders	$ 240,217	216,533,240	$ 1.11
2008			
Basic earnings attributable to shareholders	$ 301,014	212,755,946	$ 1.41
Effect of dilutive potential common shares	—	6,414,057	—
Diluted earnings attributable to shareholders	$ 301,014	219,170,003	$ 1.37
2007			
Basic earnings attributable to shareholders	$ 269,154	213,314,761	$ 1.26
Effect of dilutive potential common shares	—	8,485,107	—
Diluted earnings attributable to shareholders	$ 269,154	221,799,868	$ 1.21

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

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

note 4. Income Taxes

Income tax expense includes the following components:

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

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

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

The components of earnings before income taxes are as follows:

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

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

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

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

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

note 5. Fair Value of Financial Instruments

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

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

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

note 6. Credit Arrangements

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

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

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

note 7. Commitments

A | Leases

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

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

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

B | Unconditional Purchase Obligations

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

C | Employee Benefits

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

note 8. Contingencies

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

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

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

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

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

note 9. Business Segment Information

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

	United States	Other North America
2009		
Revenues from unaffiliated customers	$ 982,103	129,272
Transfers between geographic areas	75,964	7,344
Total revenues	$ 1,058,067	136,616
Net revenues	$ 547,879	65,331
Operating income	$ 117,908	20,253
Identifiable assets at year end	$ 1,188,111	82,166
Capital expenditures	$ 24,908	724
Depreciation and amortization	$ 21,010	1,391
Equity	$ 965,620	40,421
2008		
Revenues from unaffiliated customers	$ 1,269,858	162,730
Transfers between geographic areas	108,864	10,205
Total revenues	$ 1,378,722	172,935
Net revenues	$ 622,367	75,376
Operating income	$ 119,115	20,094
Identifiable assets at year end	$ 978,189	64,652
Capital expenditures	$ 25,640	2,149
Depreciation and amortization	$ 21,558	1,347
Equity	$ 773,565	32,530
2007		
Revenues from unaffiliated customers	$ 1,077,872	134,436
Transfers between geographic areas	105,830	9,030
Total revenues	$ 1,183,702	143,466
Net revenues	$ 590,147	65,534
Operating income	$ 111,569	17,497
Identifiable assets at year end	$ 942,500	72,150
Capital expenditures	$ 25,491	1,899
Depreciation and amortization	$ 21,315	1,321
Equity	$ 810,639	33,272

Latin America	Asia	Europe & Africa	Middle East & India	Australasia	Eliminations	Consolidated
64,060	2,035,568	582,759	232,766	65,755	—	4,092,283
13,520	16,624	27,699	14,602	10,147	(165,900)	—
77,580	2,052,192	610,458	247,368	75,902	(165,900)	4,092,283
44,182	372,033	229,432	82,335	41,594	—	1,382,786
12,538	155,158	43,953	23,050	12,141	—	385,001
42,478	454,023	387,494	128,690	39,315	1,445	2,323,722
688	2,018	3,407	2,201	754	—	34,700
1,087	7,446	5,968	2,473	660	—	40,035
17,809	338,208	148,592	77,566	24,796	(51,665)	1,561,347
81,586	2,974,328	789,442	274,094	81,840	—	5,633,878
15,742	21,156	44,721	17,598	8,888	(227,174)	—
97,328	2,995,484	834,163	291,692	90,728	(227,174)	5,633,878
52,334	436,050	280,229	86,712	50,193	—	1,603,261
15,059	213,555	63,156	25,795	16,362	—	473,136
44,377	469,819	392,820	116,167	30,364	4,451	2,100,839
1,158	20,359	7,074	2,836	510	—	59,726
1,177	6,294	6,470	2,274	883	—	40,003
26,030	357,855	138,710	60,504	18,593	(23,871)	1,383,916
71,176	2,959,873	684,661	236,062	71,091	—	5,235,171
11,073	18,234	36,563	13,883	7,854	(202,467)	—
82,249	2,978,107	721,224	249,945	78,945	(202,467)	5,235,171
39,711	402,613	245,761	67,151	42,044	—	1,452,961
9,683	199,389	53,837	19,060	12,365	—	423,400
43,195	421,578	443,758	100,934	34,174	10,316	2,068,605
1,205	41,773	7,879	3,119	1,420	—	82,786
1,412	4,917	7,759	1,657	922	—	39,303
23,378	169,199	158,194	49,386	19,681	(19,830)	1,243,319

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

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

note 10. Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2009				
Revenues	$ 912,685	895,360	1,037,327	1,246,911
Net revenues	336,515	330,047	346,512	369,712
Net earnings	59,369	53,814	57,564	69,650
Net earnings attributable to shareholders	59,260	54,070	57,752	69,135
Diluted earnings attributable to shareholders per share	.27	.25	.27	.32
Basic earnings attributable to shareholders per share	.28	.25	.27	.33
2008				
Revenues	$ 1,307,321	1,454,255	1,564,913	1,307,389
Net revenues	374,328	397,325	429,127	402,481
Net earnings	66,521	71,606	86,146	78,706
Net earnings attributable to shareholders	66,472	71,249	85,565	77,728
Diluted earnings attributable to shareholders per share	.30	.32	.39	.36
Basic earnings attributable to shareholders per share	.31	.33	.40	.37

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

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 Financial Officer, conducted an assessment of the effectiveness of our internal control over financial reporting, as of December 31, 2009, based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, our management has concluded that, as of December 31, 2009, our internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2009, which is included at page 53.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Expeditors International of Washington, Inc.:

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

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

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

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

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

KPMG LLP

Seattle, Washington
February 26, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Expeditors International of Washington, Inc.:

We have audited Expeditors International of Washington, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Expeditors International of Washington, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting at page 51. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

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

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

KPMG LLP

Seattle, Washington
February 26, 2010

Executive Summary

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value-added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to current tariffs and trade restrictions. The Company cannot predict which, if any, of these proposals may be adopted, nor can the Company predict the effects the adoption of any such proposal will have on the Company's business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being influenced by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies, as well as economic turbulence or security concerns in the nations in which it does business. The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. Consistent with current economic conditions, the Company's pricing continues to be pressured by customers and service providers.

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

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

Customs brokerage and other services involves providing services at destination, such as helping customers clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the customers as well as arranging for any required inspections by governmental agencies, and arranging for delivery. This is a complicated function requiring technical knowledge of customs rules and regulations in the multitude of countries in which the Company has offices.

The Company's ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based carriers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with governmental regulations implementing security policies and procedures, inherent conflicts emerge which can and do affect global trade to some degree. A good reputation helps to develop practical working understandings that will effectively meet security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. However, airline and ocean steamship line industries have incurred significant losses in recent years as a result of the global economic downturn and many carriers are highly leveraged with debt. This situation has required the Company to be increasingly selective in which carriers to utilize. Further changes in the financial stability, operating capabilities and capacity of asset-based carriers, space allotments available from carriers, governmental regulation or deregulation efforts, "modernization" of the regulations governing customs brokerage, and/or changes in governmental quota restrictions could affect the Company's business in unpredictable ways.

Historically, the Company's operating results have been subject to a seasonal trend when measured on a quarterly basis. The first quarter has traditionally been the weakest and the third and fourth quarters have traditionally been the strongest. This pattern is the result of, or is influenced by, numerous factors including weather patterns, national holidays, consumer demand, economic conditions and a myriad of other similar and subtle forces. In addition, this historical quarterly trend has been influenced by the growth and diversification of the Company's international network and service offerings. The Company cannot accurately forecast many of these factors nor can the Company estimate accurately the relative influence of any particular factor and, as a result, there can be no assurance that historical patterns, if any, will continue in future periods.

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

A significant portion of the Company's revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company's revenues are, to a large degree, impacted by factors out of the Company's control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company's stock.

In terms of the opportunities, challenges and risks that management focused on in 2009, the Company operates in 60 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training,

and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global corporate culture which demands:

- 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 reinforces these values with a compensation system that rewards employees for profitably managing the things they can control. This compensation system has been in place since the Company became a publicly traded entity. There is no limit to how much a key manager can be compensated for success. The Company believes in a "real world" environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. If these decisions result in operating losses, these losses must be made up from future operating profits, in the aggregate, before any cash incentive compensation can be earned. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

Any failure to perpetuate this unique culture on a self-sustained basis throughout the Company provides a greater threat to the Company's continued success than any external force, which would be largely beyond our control. Consequently, management spends the majority of its time focused on creating an environment where employees can learn and develop while also improving systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future operations. As a result, our focus is on building and maintaining a global corporate culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Estimates

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

Management believes that the nature of the Company's business is such that there are few complex challenges in accounting for operations.

While judgments and estimates are a necessary component of any system of accounting, the Company's use of estimates is limited primarily to the following areas that in the aggregate are not a major component of the Company's statement of earnings:

- accounts receivable valuation;
- the useful lives of long-term assets;
- the accrual of costs related to ancillary services the Company provides;
- establishment of adequate insurance liabilities for the portion of the freight related exposure which the Company has self-insured;
- accrual of various tax liabilities; and
- calculation of share-based compensation expense.

These estimates, other than the calculation of share-based compensation expense, are not highly uncertain and have not historically been subject to significant change. Management believes that the methods utilized in all of these areas are non-aggressive in approach and consistent in application. Management believes that there are limited, if any, alternative accounting principles or methods which could be applied to the Company's transactions. While the use of estimates means that actual future results may be different from those contemplated by the estimates, the Company believes that alternative principles and methods used for making such estimates, other than the calculation of share-based compensation expense, would not produce materially different results than those reported.

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

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

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

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

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

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

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

Recent Accounting Pronouncements

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

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for 2009, 2008, and 2007, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

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

2009 compared with 2008

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

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

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

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

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

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

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

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

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

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

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

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

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

Other overhead expenses decreased 16% in 2009, as compared with 2008, primarily as a result of continued cost reduction measures, including cutbacks on travel and entertainment expenses. Legal and related expenses decreased approximately $11 million in 2009, as compared with 2008, primarily attributable to lower activity related to governmental regulatory agencies' ongoing investigations of air cargo freight forwarders and related legal proceedings as described further in Part I—Item 3 on this report on Form 10-K entitled "Legal Proceedings". The Company believes that legal and related expenses will increase in 2010 as compared to 2009 primarily as a result of receiving a Statement of Objections from the European Commission on February 10, 2010. The Company will continue to incur legal costs, which could be substantial and include judgments, fines and/or penalties, until these proceedings are concluded. Further, the Company periodically conducts reviews of the operations and procedures of its offices worldwide relating to compliance with applicable laws and regulations. If the governmental regulatory agencies conclude that the Company has engaged in anti-competitive behavior or in the event of an adverse judgment in the class action lawsuit, such judgments, fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. Other overhead expenses as a percentage of net revenues remained constant for 2009, as compared with 2008.

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

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2009 was

40.3% as compared to 39.4% for 2008. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock options cannot be anticipated. The higher consolidated effective income tax rate for 2009, as compared 2008, is primarily the result of a lower tax benefit received for disqualifying dispositions of incentive stock options for 2009, as compared with 2008.

2008 compared with 2007

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

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

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

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

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

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

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

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

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

Currency and Other Risk Factors

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

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

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

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

international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2009, 2008 and 2007 was insignificant. Net foreign currency gains incurred in 2009 were $1 million. Net foreign currency losses incurred in 2008 were $191,000. Net foreign currency gains incurred in 2007 were $1 million. The Company had no foreign currency derivatives outstanding at December 31, 2009 and 2008.

Geographic Coverage

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

result of these "pass through" billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

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

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

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

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

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

		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	$ 78,465	$ 70,664	$ 5,352	$ 545	$ 1,904

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

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

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

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

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

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

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

Impact of Inflation

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

Off-Balance Sheet Arrangements

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

Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Risk

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

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

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

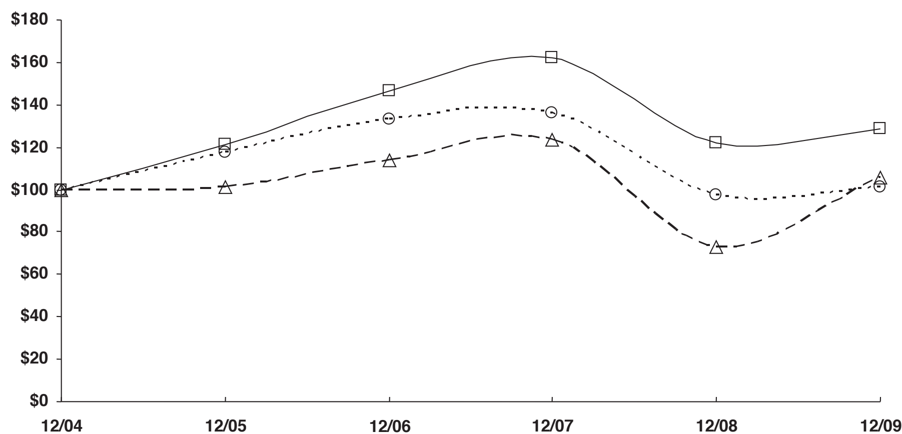
Interest Rate Risk

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

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

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 total returns of the NASDAQ Composite index and the NASDAQ Transportation index. The graph tracks the performance of a $100 investment in our common stock and in each of the indexes (with the reinvestment of all dividends) from 12/31/2004 to 12/31/2009.



Expeditors International of Washington — **NASDAQ Composite** — **NASDAQ Transportation**

*$100 invested on 12/31/04 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/04	12/05	12/06	12/07	12/08	12/09
Expeditors International of Washington	100.00	121.41	146.35	162.49	121.98	128.99
NASDAQ Composite	100.00	101.33	114.01	123.71	73.11	105.61
NASDAQ Transportation	100.00	117.73	133.35	136.06	97.37	100.88

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

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

Jeffrey S. Musser
Executive Vice President
and Chief Information Officer

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

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

Todd R. N. Brown
Vice President –
Security, Health and Safety

Christopher J. McClincy
Vice President –
Information Services

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

Simon Liu
Managing Director –
Hong Kong

Wilson Yang
Managing Director –
Thailand

Simon Jung
Managing Director –
Korea

Megan Jeng
Managing Director –
Taiwan

Lim Khoon Ling
Managing Director –
Singapore

Mary Yao
General Manager –
Shanghai, China

Allen Wang
General Manager –
Beijing, China

Mong Pheng Koh
General Manager –
Shenzhen, China

Michael Leong
General Manager –
Penang, Malaysia

Junnosuke Dojo
General Manager –
Tokyo, Japan

Gina Hsieh
General Manager –
Vietnam

Gary Chen
General Manager –
Jakarta, Indonesia

Danny Lee
General Manager –
Sri Lanka

Syed Ershad Ahmed
General Manager –
Bangladesh

Aristotle Aniceto
General Manager –
Phillipines

Kounthea Tho
General Manager –
Cambodia

North America

Brian R. Carrabes
Regional Vice President –
Southeast Region

Joseph P. Coogan
Regional Vice President –
Northeast Region

Karl C. Francisco
Regional Vice President –
Southwest Region

Todd A. Hinkle
Regional Vice President –
North Central Region

J. Ross Hurst
Regional Vice President –
Canada

Bruce J. Krebs
Regional Vice President –
Southern Border and Mexico

Bryan K. 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
Regional Vice President –
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

Frank Schaeffer
Country Manager –
France

Ingeborg Drueckler
Director –
European Agents

Billy Griffiths
Director –
African States

Near/Middle East and 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

Paulo Fernandes
Country Manager –
Brazil

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 5, 2010, 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:

Bradley S. Powell,
Chief Financial 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
2009		
First	$ 34.59	23.86
Second	38.10	27.26
Third	37.04	24.50
Fourth	35.83	31.27
2008		
First	$ 48.00	38.16
Second	49.92	41.95
Third	45.45	33.28
Fourth	40.50	24.05

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

In 2009 and 2008, the Board of Directors declared a semi-annual dividend of $.19 per and $.16 per share, respectively, which was paid as follows:

2009	15 June 15 December
2008	16 June 15 December

Expeditors