

Note 1. Summary of Significant Accounting Policies

A.

Basis of
Presentation

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

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

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

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

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

B.

Cash
Equivalents

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

C.

Short-term
Investments

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

D.

Accounts
Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates. The Company has recorded accounts receivable allowances in the amounts of \$14,414, \$14,830 and \$13,454 as of December 31, 2008, 2007 and 2006, respectively. Additions and write-offs have not been significant in any of these years.

E.
Long-Lived Assets,
Depreciation and
Amortization

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

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

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

Goodwill is recorded net of accumulated amortization of \$765 at December 31, 2008 and 2007. For the years ended December 31, 2008 and 2007, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

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

Balances as of December 31 are as follows:

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

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

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

F.
Revenues and
Revenue
Recognition

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

As a non-asset based carrier, the Company does not own transportation assets. Rather, the Company generates the major portion of its air and ocean freight revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. The difference between the rate billed to customers (the sell rate), and the rate paid to the carrier (the buy rate) is termed "net revenue" or "yield". By consolidating shipments from multiple customers and concentrating its buying power, the Company is able to negotiate favorable buy rates from the direct carriers, while at the same time offering lower sell rates than customers would otherwise be able to negotiate themselves.

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

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

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

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

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

Typically, the fees for each of these services are quoted as separate components, however, customers on occasion will request an all-inclusive rate for a set of services known in the industry as "door-to-door service." This means that the customer is billed a single rate for all services from pickup at origin to delivery at destination. In these instances, the revenue for origin and destination services, as well as revenue that will be characterized as freight charges, is allocated to branches as set by preexisting Company policy perhaps supplemented by customer specific negotiations between the offices involved. Each of the Company's branches are separate profit centers and the primary compensation for the branch management group comes in the form of incentive-based compensation calculated directly from the operating income of that branch. This compensation structure ensures that the allocation of revenue and expense among components of services, when provided under an all-inclusive rate, is done in an objective manner on a fair value basis in accordance with Emerging Issues Task Force (EITF) Issue 00-21, "Revenue Arrangements with Multiple Deliverables."

G.
Income Taxes

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

H.
Net Earnings per
Common Share

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

I.
Stock Plans

The Company accounts for share-based compensation in accordance with Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This accounting standard requires the recognition of compensation expense based on an estimate of the fair value of options granted to employees and directors under the Company's stock option, director restricted stock and employee stock purchase rights plans. This expense is recorded on a straight-line basis over the stock award vesting periods.

J.
Foreign Currency

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

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2008, 2007, and 2006 was insignificant. Net unrealized foreign currency losses incurred in 2008 were \$191. Net unrealized foreign currency gains incurred in 2007 were \$1,300. Net unrealized foreign currency losses incurred in 2006 were \$321. The Company had no foreign currency derivatives outstanding at December 31, 2008 and 2007.

K.
Comprehensive
Income

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

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

L.
Segment
Reporting

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

M.
Use of Estimates

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

N.
Recent
Accounting
Pronouncements

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

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

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 modifies the accounting for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is required to and plans to adopt the provisions of SFAS 160 beginning in the first quarter of 2009. The Company had minority interest of \$17,498 as of December 31, 2008 and \$17,208 as of December 31, 2007, that it expects will be reclassified to equity under the provisions of SFAS 160.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. SFAS 141R is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is required to and plans to adopt the provisions of SFAS 141R beginning in the first quarter of 2009. The impact will depend upon the acquisitions, if any, the Company consummates after the effective date.

Note 2. Credit Arrangements

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

Certain of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit totaling \$22,284 and \$19,067 at December 31, 2008 and 2007, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2008, the Company had no amounts outstanding under these lines and was contingently liable for approximately \$79,449 under outstanding standby letters of credit and guarantees.

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

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

Note 3. Income Taxes

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

		Federal	State	Foreign	Total
2008					
	Current	\$ 65,867	12,489	101,887	180,243
	Deferred	15,996	354	—	16,350
		<u>\$ 81,863</u>	<u>12,843</u>	<u>101,887</u>	<u>196,593</u>
2007					
	Current	\$ 65,799	9,825	85,200	160,824
	Deferred	18,274	717	—	18,991
		<u>\$ 84,073</u>	<u>10,542</u>	<u>85,200</u>	<u>179,815</u>
2006					
	Current	\$ 68,176	9,760	78,553	156,489
	Deferred	2,096	2,076	—	4,172
		<u>\$ 70,272</u>	<u>11,836</u>	<u>78,553</u>	<u>160,661</u>

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

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

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

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

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

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

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

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to 2005. In October 2007, the Internal Revenue Service initiated an audit of the Company's federal income tax return for the year 2005. With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years prior to 2001. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that may result from these open tax years.

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

Note 4. Shareholders' Equity

A.

Stock Repurchase Plans

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

In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200,000,000 shares of common stock. As of December 31, 2008, the Company had repurchased and retired 15,590,002 shares of common stock at an average price of \$32.36 per share over the period from 2001 through 2008.

B.

Stock Option Plans

At December 31, 2008, the Company has two stock option plans (the "1985 Plan" and the "2008 Plan") for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. On May 7, 2008, the shareholders approved the Company's 2008 Plan, which made available a total of 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2008 Plan. The 1985 Plan provides for non-qualified grants. The 2008 Plan provides for qualified and non-qualified grants. Grants under the 2008 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2008 Plan after April 30, 2009. Under the 1985, 1997, 2005, 2006, 2007 and 2008 Plans, outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant.

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

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

	1985 Plan	2005 Plan	2006 Plan	2007 Plan	2008 Plan	Directors' Plan
Balance at December 31, 2005	6,912	150,250	—	—	—	256,000
Options authorized	—	—	3,000,000	—	—	—
Options granted	—	—	(2,984,610)	—	—	(128,000)
Options forfeited	—	—	64,300	—	—	—
Options not granted	—	(150,250)	—	—	—	—
Balance at December 31, 2006	6,912	—	79,690	—	—	128,000
Options authorized	—	—	—	3,000,000	—	—
Options granted	—	—	—	(1,803,260)	—	(128,000)
Options forfeited	—	—	—	—	—	—
Options not granted	—	—	(79,690)	—	—	—
Balance at December 31, 2007	6,912	—	—	1,196,740	—	—
Options authorized	—	—	—	—	3,000,000	—
Options granted	—	—	—	—	(2,088,415)	—
Options forfeited	—	—	—	—	—	—
Options not granted	—	—	—	(1,196,740)	—	—
Balance at December 31, 2008	6,912	—	—	—	911,585	—

C.

Stock Purchase
Plan

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan ("2002 Plan"), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan ("1988 Plan") on July 31, 2002. In May 2007, the shareholders approved an amendment to the 2002 Plan to increase by 5,000,000 the number of shares of the Company's common stock available for purchase under the 2002 Plan. The Company's amended 2002 Plan provides for 9,305,452 shares of the Company's common stock, including 305,452 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 2008, an aggregate of 4,492,845 shares had been issued under the 2002 Plan and \$11,403 had been withheld in connection with the plan year ending July 31, 2009.

D.
Director
Restricted
Stock Plan

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

E.
Stock Option
and Restricted
Stock Award
Activity

The following tables summarize information about fixed-price stock options and restricted stock awards for the year ended December 31, 2008:

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

	Unvested options		Unvested restricted stock awards	
	Number of options	Weighted average fair value per share	Number of shares	Weighted average fair value per share
Balance at December 31, 2007	8,776,176	\$ 16.40	—	—
Awards granted	2,088,415	\$ 17.84	25,488	\$ 47.08
Awards vested	(2,508,892)	\$ 11.57	(14,862)	\$ 47.08
Awards forfeited	(375,800)	\$ 17.53	—	\$ —
Balance at December 31, 2008	7,979,899	\$ 18.24	10,626	\$ 47.08

F.
Share-Based
Compensation
Expense

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants issued during the years ended December 31, 2008, 2007, and 2006:

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

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

The compensation for restricted stock awards is based on the fair market value of the Company's share of common stock on the date of grant.

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

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

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

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

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

G.
Basic and
Diluted Earnings
Per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share in 2008, 2007 and 2006.

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

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

Years ended December 31,	2008	2007	2006
Shares	6,604,623	4,760,520	132,510

Note 5. Fair Value of Financial Instruments

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

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

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

Note 6. Commitments

A.

Leases

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

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

B.

Unconditional Purchase Obligations

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2008 of \$362,354, will be fulfilled during 2009 in the Company's ordinary course of business.

C.
Employee
Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2008, 2007 and 2006, the Company's contributions under the plans were \$6,196, \$6,790, and \$5,814, respectively.

Note 7. Contingencies

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. As part of this process, the Company has met with and continues to co-operate with the DOJ. As of December 31, 2008, the Company had incurred approximately \$14 million of cumulative legal and associated costs. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial position, results of operations and operating cash flows.

On June 18, 2008, the European Commission (EC) issued a request for information to the Company's UK subsidiary, Expeditors International (UK) Ltd., requesting certain information relating to an ongoing investigation of freight forwarders. The Company replied to the request. On February 18, 2009, the EC issued another request for information to the same subsidiary again requesting certain additional information in connection with the EC's ongoing investigation of freight forwarders. The Company intends to respond to this latest request for information. The Company expects to incur additional costs during the course of this ongoing investigation, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. The plaintiffs' complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding the provision of freight forwarding services in violation of the Sherman Act. The complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself.

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

At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings.

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

Note 8. Business Segment Information

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

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

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

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

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

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

*Represents less than 10% in the period presented.

Note 9. Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2008				
Revenues	\$ 1,307,321	1,454,255	1,564,913	1,307,389
Net revenues	374,328	397,325	429,127	402,481
Net earnings	66,472	71,249	85,565	77,728
Diluted earnings per share	.30	.32	.39	.36
Basic earnings per share	.31	.33	.40	.37
2007				
Revenues	\$ 1,118,946	1,258,618	1,411,025	1,446,582
Net revenues	334,136	354,574	384,810	379,441
Net earnings	59,288	65,489	74,320	70,057
Diluted earnings per share	.27	.30	.34	.32
Basic earnings per share	.28	.31	.35	.33

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