

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File Number: 0-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
(Exact name of registrant as specified in its charter)

Washington
(State or other jurisdiction of incorporation or organization) 91-1069248
(IRS Employer Identification Number)

1015 Third Avenue, 12thFloor, Seattle, Washington 98104
(Address of principal executive offices) (Zip Code)
(206) 674-3400
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

At August 1, 2011, the number of shares outstanding of the issuer's Common Stock was 212,085,663.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	June 30, 2011	December 31, 2010
Current Assets:		
Cash and cash equivalents	\$1,225,830	\$1,084,465
Short-term investments	1,071	524
Accounts receivable, less allowance for doubtful accounts of \$12,991 at June 30, 2011 and \$14,636 at December 31, 2010	1,028,015	1,003,884
Deferred Federal and state income taxes	9,469	8,706
Other	48,657	42,776
Total current assets	2,313,042	2,140,355
Property and equipment, less accumulated depreciation and amortization of \$292,556 at June 30, 2011 and \$281,651 at December 31, 2010	523,400	498,648
Goodwill, net	7,927	7,927
Other intangibles, net	3,159	3,716
Other assets, net	30,476	28,533
Total assets	\$2,878,004	\$2,679,179
Current Liabilities:		
Accounts payable	688,854	652,161
Accrued expenses, primarily salaries and related costs	196,813	177,869
Federal, state and foreign income taxes	35,858	31,948
Total current liabilities	921,525	861,978
Deferred Federal and state income taxes	77,329	69,047
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock, none issued	—	—
Common stock, par value \$.01 per share. Issued and outstanding 211,992,082 shares at June 30, 2011 and 212,047,774 shares at December 31, 2010	2,120	2,120
Additional paid-in capital	2,698	13,412
Retained earnings	1,844,771	1,717,249
Accumulated other comprehensive income	22,459	8,125
Total shareholders' equity	1,872,048	1,740,906
Noncontrolling interest	7,102	7,248
Total equity	1,879,150	1,748,154
Total liabilities and equity	\$2,878,004	\$2,679,179

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Earnings

(In thousands, except share data)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues:				
Airfreight services	\$749,861	\$732,881	\$1,450,784	\$1,292,264
Ocean freight and ocean services	486,831	493,613	926,972	874,857
Customs brokerage and other services	344,676	290,276	664,460	550,758
Total revenues	1,581,368	1,516,770	3,042,216	2,717,879
Operating Expenses:				
Airfreight consolidation	576,280	571,023	1,100,916	998,365
Ocean freight consolidation	377,805	400,729	717,354	701,819
Customs brokerage and other services	154,722	126,160	297,470	237,014
Salaries and related costs	249,114	221,105	486,929	420,953
Rent and occupancy costs	21,354	18,699	42,735	37,926
Depreciation and amortization	9,257	9,110	18,431	18,505
Selling and promotion	10,022	7,550	19,185	14,585
Other	30,539	23,898	59,691	49,675
Total operating expenses	1,429,093	1,378,274	2,742,711	2,478,842
Operating income	152,275	138,496	299,505	239,037
Other Income (Expense):				
Interest income	2,312	1,484	4,632	3,259
Interest expense	(229)	(151)	(443)	(238)
Other, net	857	10,288	1,974	10,897
Other income, net	2,940	11,621	6,163	13,918
Earnings before income taxes	155,215	150,117	305,668	252,955
Income tax expense	60,195	59,708	119,441	101,236
Net earnings	95,020	90,409	186,227	151,719
Less: net earnings (losses) attributable to the noncontrolling interest	20	91	(5)	154
Net earnings attributable to shareholders	\$95,000	\$90,318	\$186,232	\$151,565
Diluted earnings attributable to shareholders per share	\$.44	\$.42	\$.86	\$.70
Basic earnings attributable to shareholders per share	\$.45	\$.43	\$.88	\$.71
Dividends declared and paid per common share	\$.25	\$.20	\$.25	\$.20
Weighted average diluted shares outstanding	215,659,043	216,460,977	215,780,230	216,576,596
Weighted average basic shares outstanding	212,136,164	212,332,375	212,112,643	212,262,928

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Operating Activities:				
Net earnings	\$95,020	\$90,409	\$186,227	\$151,719
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for losses on accounts receivable	(63	) (618	) 1,790	1,825
Deferred income tax expense (benefit)	1,601	10,814	(335	) 3,086
Excess tax benefits from stock plans	(2,285	) (4,107	) (4,531	) (8,119
Stock compensation expense	10,236	11,003	20,708	22,201
Depreciation and amortization	9,257	9,110	18,431	18,505
Gain on sale of assets	(21	) (109	) (51	) (404
Other	311	367	618	845
Changes in operating assets and liabilities:				
Increase in accounts receivable	(14,173	) (219,602	) (7,490	) (232,567
Decrease in other current assets	3,896	2,947	2,481	1,136
Increase in accounts payable and accrued expenses	7,943	121,941	38,130	165,110
(Decrease) increase in income taxes payable, net	(33,665	) (1,609	) (88	) 24,332
Net cash provided by operating activities	78,057	20,546	255,890	147,669
Investing Activities:				
(Increase) decrease in short-term investments, net	(449	) 6	(538	) (30
Purchase of property and equipment	(17,110	) (8,118	) (38,235	) (15,700
Proceeds from sale of property and equipment	42	111	85	170
Other	(64	) (707	) (1,506	) (895
Net cash used in investing activities	(17,581	) (8,708	) (40,194	) (16,455
Financing Activities:				
Proceeds from issuance of common stock	15,821	11,020	23,625	23,240
Repurchases of common stock	(45,690	) (53,649	) (65,274	) (71,668
Excess tax benefits from stock plans	2,285	4,107	4,531	8,119
Dividends paid	(53,014	) (42,397	) (53,014	) (42,397
Net cash used in financing activities	(80,598	) (80,919	) (90,132	) (82,706
Effect of exchange rate changes on cash and cash equivalents	7,481	(12,267	) 15,801	(14,137
(Decrease) increase in cash and cash equivalents	(12,641	) (81,348	) 141,365	34,371
Cash and cash equivalents at beginning of period	1,238,471	1,041,648	1,084,465	925,929
Cash and cash equivalents at end of period	\$1,225,830	\$960,300	\$1,225,830	\$960,300
Interest and Taxes Paid:				
Interest	\$13	\$35	\$17	\$44
Income taxes	91,035	56,846	117,311	76,842

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(in thousands, except share data)

(Unaudited)

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

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

The condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Form 10-K as filed with the Securities and Exchange Commission on February 28, 2011. Certain 2010 amounts have been reclassified to conform with the 2011 presentation. All dollar amounts in the notes are presented in thousands except for share data. All significant intercompany accounts and transactions have been eliminated in consolidation.

B. Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services and advances. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates. The Company has recorded an allowance for doubtful accounts in the amounts of \$12,991 as of June 30, 2011 and \$14,636 as of December 31, 2010. Additions and write-offs have not been significant in the periods presented.

C. Comprehensive Income

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

D. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. The Company uses estimates primarily in the following areas: accounts receivable valuation, accrual of costs related to ancillary services the Company provides, accrual of insurance liabilities for the portion of the freight related exposure which the Company has self-insured, accrual of various tax liabilities, accrual of loss contingencies and calculation of share-based compensation expense. Actual results could differ from those estimates.

E. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-No. 05 “Presentation of Comprehensive Income”, which amends Accounting Standards Codification Topic 220 - “Comprehensive Income”. This update is intended to increase the prominence of items reported in other comprehensive income by giving the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company is required to and plans to adopt the provisions of ASU

2011-No. 05 beginning in the first quarter of 2012. The adoption is only expected to have a presentation impact on the Company's consolidated statements of earnings and

5

consolidated statements of equity and comprehensive income.

In October 2009, the FASB issued ASU 2009–No. 13 “Multiple-Deliverable Revenue Arrangements”, which amends Accounting Standards Codification Topic 605 – “Revenue Recognition”. This update provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. This update establishes a selling price hierarchy for determining the selling price of a deliverable. ASU 2009–No. 13 is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The Company adopted the provisions of ASU 2009–No. 13 beginning in the first quarter of 2011. The adoption had no material impact on the Company’s consolidated financial condition or results of operations.

Note 2. Share-Based Compensation

The Company provides compensation benefits by granting stock options and employee stock purchase rights to its employees and restricted shares to its directors. On May 4, 2011, the shareholders approved the 2011 Stock Option Plan (“2011 Plan”), which made available 3,000,000 shares of the Company’s common stock for purchase upon exercise of options granted under the 2011 Plan. The Company’s annual grant of option awards generally takes place during the second quarter of each fiscal year. For the six months ended June 30, 2011 and 2010, 2,998,390 and 2,634,885 options were granted, respectively. The grant of employee stock purchase rights and the issuance of shares under the employee stock purchase plan are made in the third quarter of each fiscal year and none were issued in the three and six-month periods ended June 30, 2011 and 2010.

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

The forfeiture assumption used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing with the following assumptions:

	Six months ended June 30,			
	2011	2010		
Dividend yield	0.97	%	1.08	%
Volatility - stock option plans	38 - 40 %		38 - 40 %	
Risk free interest rates	2.17 - 2.84%		2.18 - 2.86%	
Expected life (years) - stock option plans	5.50 - 7.11		5.44 - 6.90	
Weighted average fair value of stock options granted during the period	\$19.35		\$14.51	

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Stock compensation expense	\$10,236	\$11,003	\$20,708	\$22,201
Recognized tax benefit	\$39	\$52	\$77	\$109

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:

(Amounts in thousands, except share and per share amounts)	Three months ended June 30,		
	Net earnings attributable to shareholders	Weighted average shares	Earnings per share
2011			
Basic earnings attributable to shareholders	\$95,000	212,136,164	\$.45
Effect of dilutive potential common shares	—	3,522,879	—
Diluted earnings attributable to shareholders	\$95,000	215,659,043	\$.44
2010			
Basic earnings attributable to shareholders	\$90,318	212,332,375	\$.43
Effect of dilutive potential common shares	—	4,128,602	—
Diluted earnings attributable to shareholders	\$90,318	216,460,977	\$.42

(Amounts in thousands, except share and per share amounts)	Six months ended June 30,		
	Net earnings attributable to shareholders	Weighted average shares	Earnings per share
2011			
Basic earnings attributable to shareholders	\$186,232	212,112,643	\$.88
Effect of dilutive potential common shares	—	3,667,587	—
Diluted earnings attributable to shareholders	\$186,232	215,780,230	\$.86
2010			
Basic earnings attributable to shareholders	\$151,565	212,262,928	\$.71
Effect of dilutive potential common shares	—	4,313,668	—
Diluted earnings attributable to shareholders	\$151,565	216,576,596	\$.70

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

	Three months ended June 30,		Six months ended June 30,	
	2011	2010	2011	2010
Shares	7,413,458	11,114,502	7,415,063	11,114,502

Note 4. Components of Equity and Comprehensive Income

The components of equity for the six months ended June 30, 2011 and 2010 are as follows:

	Shareholders' equity	Non controlling interest	Total equity
Balance at December 31, 2010	\$1,740,906	7,248	1,748,154
Exercise of stock options	23,625	—	23,625
Shares repurchased under provisions of stock repurchase plans	(65,274)	—	(65,274)
Stock compensation expense	20,708	—	20,708
Tax benefits from stock plans	4,531	—	4,531
Comprehensive income:			
Net earnings	186,232	(5)	186,227
Foreign currency translation adjustments, net of tax of \$7,855	14,334	(141)	14,193
Total comprehensive income	200,566	(146)	200,420
Dividends paid (\$.25 per share)	(53,014)	—	(53,014)
Balance at June 30, 2011	\$1,872,048	7,102	1,879,150
Balance at December 31, 2009	\$1,553,007	8,340	1,561,347
Exercise of stock options	23,240	—	23,240
Shares repurchased under provisions of stock repurchase plans	(71,668)	—	(71,668)
Stock compensation expense	22,201	—	22,201
Tax benefits from stock plans	8,119	—	8,119
Comprehensive income:			
Net earnings	151,565	154	151,719
Foreign currency translation adjustments, net of tax of \$9,681	(17,647)	(106)	(17,753)
Total comprehensive income	133,918	48	133,966
Dividends paid (\$.20 per share)	(42,397)	—	(42,397)
Balance at June 30, 2010	\$1,626,420	8,388	1,634,808

On May 4, 2011, the Board of Directors declared a semi-annual cash dividend of \$.25 per share payable on June 15, 2011 to shareholders of record as of June 1, 2011. On May 5, 2010, the Board of Directors declared a semi-annual cash dividend of \$.20 per share payable on June 15, 2010 to shareholders of record as of June 1, 2010.

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

	Three months ended		Six months ended	
	June 30, 2011	2010	June 30, 2011	2010
Net earnings	\$95,020	\$90,409	\$186,227	\$151,719
Foreign currency translation adjustments, net of tax of \$3,014 and \$7,970 for the three months ended June 30, 2011 and 2010, and \$7,855 and \$9,681 for the six months ended June 30, 2011 and 2010	5,372	(14,621)	14,193	(17,753)
Comprehensive income	100,392	75,788	200,420	133,966
Less: comprehensive (loss) income attributable to the noncontrolling interest	(109)	(1)	(146)	48
Comprehensive income attributable to shareholders	\$100,501	\$75,789	\$200,566	\$133,918

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:

	June 30, 2011		December 31, 2010	
	Cost	Fair Value	Cost	Fair Value
Cash and Cash Equivalents:				
Cash and overnight deposits	\$530,817	\$530,817	\$443,716	\$443,716
Corporate commercial paper	629,976	630,128	571,260	571,373
Time deposits	65,037	65,037	69,489	69,489
Total cash and cash equivalents	1,225,830	1,225,982	1,084,465	1,084,578
Short-Term Investments:				
Time deposits	1,071	1,071	524	524
Total	\$1,226,901	\$1,227,053	\$1,084,989	\$1,085,102

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

Note 6. 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. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary damages could be substantial. 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 anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. On January 20, 2011, the EC issued another request for information to the Company and its Hong Kong subsidiary requesting certain additional information in connection with its on-going investigation of freight forwarders. The Company replied to the request. The Company continues to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which

could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows.

On August 17, 2010, the Company and its Brazilian subsidiary, Expeditors Internacional do Brasil Ltda received an Administrative Proceeding (AP) from the Brazilian Ministry of Justice (MOJ). The AP initiates a proceeding against the Company and one of its employees, alleging possible anti-competitive behavior. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this proceeding, which could include administrative fines if the MOJ 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.

Legal and associated costs incurred by the Company on the above matters were not significant for the three and six-month periods ended June 30, 2011 and 2010. Since the beginning of the proceedings in 2007, the Company has incurred approximately \$16 million in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, financial position, results of operations, and operating cash flows 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 7. Business Segment Information

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

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

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

(in thousands)	UNITED STATES	OTHER NORTH AMERICA	LATIN AMERICA	ASIA PACIFIC	EUROPE and AFRICA	MIDDLE EAST and INDIA	ELIMI-NATIONS	CONSOLI-DATED
Three months ended June 30, 2011:								
Revenues from unaffiliated customers	\$390,806	47,816	21,136	816,350	229,724	75,536	—	1,581,368
Transfers between geographic areas	25,973	2,783	5,220	10,170	11,355	4,500	(60,001)	—
Total revenues	\$416,779	50,599	26,356	826,520	241,079	80,036	(60,001)	1,581,368
Net revenues	\$181,603	21,581	15,157	150,616	78,828	24,776	—	472,561
Operating income	\$57,752	5,761	4,486	61,542	16,877	5,857	—	152,275
Identifiable assets at quarter end	\$1,411,881	91,678	58,396	678,668	479,852	155,503	2,026	2,878,004
Capital expenditures	\$3,350	448	144	4,622	7,881	665	—	17,110
Depreciation and amortization	\$4,926	277	264	1,847	1,416	527	—	9,257
Equity	\$1,123,482	52,814	33,784	420,962	184,252	94,447	(30,591)	1,879,150
Three months ended June 30, 2010:								
Revenues from unaffiliated customers	\$331,619	41,675	18,621	876,070	172,869	75,916	—	1,516,770
Transfers between geographic areas	25,429	2,346	4,231	8,158	10,429	3,894	(54,487)	—
Total revenues	\$357,048	44,021	22,852	884,228	183,298	79,810	(54,487)	1,516,770
Net revenues	\$163,036	\$19,424	\$12,729	\$137,328	\$64,054	\$22,287	\$—	418,858
Operating income	\$52,516	\$5,572	\$3,787	\$56,134	\$14,888	\$5,599	\$—	138,496
Identifiable assets at quarter end	\$1,324,522	\$85,645	\$46,951	\$553,173	\$394,430	\$134,715	\$7,106	2,546,542
Capital expenditures	\$3,366	\$149	\$357	\$1,424	\$2,231	\$591	\$—	8,118
Depreciation and amortization	\$4,848	\$353	\$211	\$1,861	\$1,225	\$612	\$—	9,110
Equity	\$1,047,968	\$46,978	\$22,232	\$338,102	\$134,216	\$77,541	\$(32,229)	1,634,808
Six months ended June 30, 2011:								
Revenues from unaffiliated customers	\$767,911	91,663	41,469	1,544,480	443,335	153,358	—	3,042,216
Transfers between geographic areas	49,938	5,465	10,841	19,353	22,062	8,709	(116,368)	—
Total revenues	\$817,849	97,128	52,310	1,563,833	465,397	162,067	(116,368)	3,042,216
Net revenues	\$359,537	42,282	30,260	292,104	152,753	49,540	—	926,476
Operating income	\$111,486	11,550	9,249	120,980	34,584	11,656	—	299,505
Identifiable assets at quarter end	\$1,411,881	91,678	58,396	678,668	479,852	155,503	2,026	2,878,004
Capital expenditures	\$7,380	608	300	9,334	19,587	1,026	—	38,235

Edgar Filing: EXPEDITORS INTERNATIONAL OF WASHINGTON INC - Form 10-Q

Depreciation and amortization	\$9,911	580	533	3,816	2,526	1,065	—	18,431
Equity	\$1,123,482	52,814	33,784	420,962	184,252	94,447	(30,591)	1,879,150
Six months ended June 30, 2010:								
Revenues from unaffiliated customers	\$618,555	77,287	34,917	1,513,258	334,714	139,148	—	2,717,879
Transfers between geographic areas	44,172	4,155	7,892	15,268	18,362	7,470	(97,319)	—
Total revenues	\$662,727	81,442	42,809	1,528,526	353,076	146,618	(97,319)	2,717,879
Net revenues	\$309,941	35,846	24,247	244,437	123,977	42,233	—	780,681
Operating income	\$90,690	9,471	7,318	94,892	26,742	9,924	—	239,037
Identifiable assets at quarter end	\$1,324,522	85,645	46,951	553,173	394,430	134,715	7,106	2,546,542
Capital expenditures	\$7,840	325	634	2,114	3,452	1,335	—	15,700
Depreciation and amortization	\$9,870	706	416	3,757	2,537	1,219	—	18,505
Equity	\$1,047,968	46,978	22,232	338,102	134,216	77,541	(32,229)	1,634,808

In the fourth quarter of 2010, the Company changed its geographical area organization by incorporating the management of its Australasia region with its Asia region. Accordingly, the financial information of the Company's Asia and Australasia segments, previously reported separately, have been combined in the Asia Pacific operating segment for all periods presented.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

Certain portions of this report on Form 10-Q including the sections entitled "Executive Summary," "Critical Accounting Estimates," "Results of Operations," "Currency and Other Risk Factors" and "Liquidity and Capital Resources" contain forward-looking statements. Words such as "expects," "goals," "plans," "believes," "continues," "may," "will," and variations words and similar expressions are intended to identify such forward-looking statements. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our businesses, and other characterizations of future events or circumstances are forward-looking statements. These statements must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on February 28, 2011.

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, regulatory environments, cargo and other security concerns, laws and policies relating to tariffs, trade restrictions, foreign investments and taxation. Periodically, governments consider a variety of changes to regulations, current tariffs and trade restrictions and accords. 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, political unrest or security concerns in the nations in which it does business, such as the current events in the Middle East and the future impact that these events may have on international trade and oil prices. 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 and terms continue to be pressured by customers and service providers.

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

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

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. A good reputation helps to develop practical working understandings that will assist in meeting security requirements while minimizing potential international trade obstacles. The Company considers its current working relationships with these entities to be satisfactory. However, the 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 or trade accords 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.

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

In terms of the opportunities, challenges and risks that management is focused on in 2011, the Company operates in 60 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global culture which demands:

- Total dedication, first and foremost, to providing superior customer service;
- Aggressive marketing of all of the Company's service offerings;
- Ongoing development of key employees and management personnel via formal and informal means;
- Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth, ethical behavior and continuous improvement;
- Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and
- Continuous identification, design and implementation of system solutions, both technological and otherwise, to meet and exceed the needs of our customers while simultaneously delivering tools to make our employees more efficient and more effective.

The Company reinforces these values with a compensation system that rewards employees for profitably managing the things they can control. This compensation system has been in place since the Company became a publicly traded entity. There is no limit to how much a key manager can be compensated for success. The Company believes in a "real

world” environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. If these decisions result in operating losses, these losses must be made up from future operating profits, in the aggregate, before any cash incentive compensation can be earned. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

Any failure to perpetuate this unique culture on a self-sustained basis throughout the Company provides a greater threat to the Company’s continued success than any external force, which would be largely beyond our control. Consequently, management spends the majority of its time focused on creating an environment where employees can learn and develop while also building systems and taking preventative action to reduce exposure to negative events. The Company strongly believes that it is nearly impossible to predict events that, in the aggregate, could have a positive or a negative impact on future

operations. As a result our focus is on building and maintaining a global culture of well-trained employees and managers that are prepared to identify and react to subtle changes as they develop and thereby help the Company adapt and thrive as major trends emerge.

Critical Accounting Estimates

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

While judgments and estimates are a necessary component of any system of accounting, the Company's use of estimates is limited primarily to the following areas:

- accounts receivable valuation;
- accrual of costs related to ancillary services the Company provides;
- accrual of insurance liabilities for the portion of the freight related exposure which the Company has self-insured;
- accrual of various tax liabilities;
- accrual of loss contingencies; and
- calculation of share-based compensation expense.

These estimates, other than the accrual of loss contingencies and 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.

The outcomes of legal proceedings and claims brought against the Company are subject to significant uncertainty. An estimated loss from a contingency such as a legal proceeding or claim is accrued by a charge to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. Disclosure of a loss contingency is required if there is at least a reasonable possibility that a significant loss has been incurred. In determining whether a loss should be accrued, management evaluates several factors, including advice from outside counsel, in order to estimate the degree of probability of an unfavorable outcome and make a reasonable estimate of the amount of loss. Changes in these factors could have a material impact on the Company's financial position, results of operations and operating cash flows.

As described in Note 2 in the condensed consolidated financial statements in this quarterly report, the Company accounts for share-based compensation based on an estimate of the fair value of options granted to employees under the Company's stock option and stock purchase rights plans. This expense is recorded on a straight-line basis over the option vesting period.

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and the future interest rates and dividend yields. The Company uses the Black-Scholes model for estimating the fair value of stock options.

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

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for the three and six-month periods ended June 30, 2011 and 2010, 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

14

in its other capacities include only the commissions and fees actually earned by the Company.

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

	Three months ended June 30,			Six months ended June 30,					
	2011	Percent	2010	Percent	2011	Percent	2010	Percent	
	Amount	of net	Amount	of net	Amount	of net	Amount	of net	
		revenues		revenues		revenues		revenues	
	(Amounts in thousands)								
Net Revenues:									
Airfreight services	\$173,581	37	% \$161,858	39	% \$349,868	38	% \$293,899	38	%
Ocean freight and ocean services	109,026	23	92,884	22	209,618	23	173,038	22	
Customs brokerage and other services	189,954	40	164,116	39	366,990	39	313,744	40	
Net revenues	472,561	100	418,858	100	926,476	100	780,681	100	
Overhead Expenses:									
Salaries and related costs	249,114	53	221,105	53	486,929	53	420,953	54	
Other	71,172	15	59,257	14	140,042	15	120,691	15	
Total overhead expenses	320,286	68	280,362	67	626,971	68	541,644	69	
Operating income	152,275	32	138,496	33	299,505	32	239,037	31	
Other income, net	2,940	1	11,621	3	6,163	1	13,918	1	
Earnings before income taxes	155,215	33	150,117	36	305,668	33	252,955	32	
Income tax expense	60,195	13	59,708	14	119,441	13	101,236	13	
Net earnings	95,020	20	90,409	22	186,227	20	151,719	19	
Less: net earnings (losses) attributable to noncontrolling interest	20	—	91	—	(5)	—	154	—	
Net earnings attributable to shareholders	\$95,000	20	% \$90,318	22	% \$186,232	20	% \$151,565	19	%

Airfreight services net revenues increased 7% for the three-month period ended June 30, 2011, as compared with the same period for 2010. The increase in global airfreight services net revenues was primarily due to a 12% increase in net revenue per kilo offset by a 1% decrease in airfreight tonnage. Airfreight export tonnage for North America and Europe increased 7% and 6%, respectively, while it decreased 6% for Asia Pacific for the second quarter of 2011 as compared with the same period in 2010. Whereas, airfreight services net revenues increased 8%, 4% and 17% in North America, Asia Pacific and Europe, respectively, in the second quarter of 2011 as compared with the same period in 2010. The increase in net revenues can be attributed to a slower global economy in the second quarter of 2011, which led to the decrease in overall tonnage and the creation of limited spot market buying opportunities, particularly in Asia. The 1% decrease in global airfreight tonnage is due to a slow down in shipment volumes moving from Asia to North America and Europe. Management believes that uncertainty over a myriad of economic concerns has affected consumer buying patterns in these areas relative to the same period in 2010.

Airfreight services net revenues increased 19% for the six-month period ended June 30, 2011, as compared with the same period for 2010. The increase in global airfreight services net revenues was primarily due to a 7% increase in airfreight tonnage and a 16% increase in net revenue per kilo. Airfreight export tonnage for North America and Europe increased 20% and 9%, respectively, while it remained constant for Asia Pacific for the first half of 2011 as compared with the same period in 2010. Whereas, airfreight services net revenues increased 23%, 18% and 16% in

North America, Asia Pacific and Europe, respectively, during the six months ended June 30, 2011, as compared with the same period in 2010. The increase in airfreight tonnage is primarily due to growth in market share and higher customer volumes in the first quarter of 2011. Net revenue per kilo in the first half of 2011 was higher as the Company benefited from limited spot market buying opportunities primarily in Asia.

Ocean freight net revenues are comprised of three basic services: ocean freight consolidation, direct ocean forwarding and order management. The majority of the Company's ocean freight net revenue is derived from ocean freight consolidation which represented 50% and 51% of ocean freight net revenue for the three and six-month periods ended June 30, 2011,

respectively, and 51% and 50% for the same periods ended June 30, 2010, respectively.

Ocean freight and ocean services net revenues increased 17% for the three-month period ended June 30, 2011, as compared with the same period for 2010. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 14%, 20% and 22%, respectively, for the second quarter of 2011 as compared with the same period in 2010. Ocean freight consolidation net revenue increased 15% for the second quarter of 2011, as compared with the same period in 2010 due to a 15% increase in net revenue per container. Volume, as measured in terms of forty-foot container equivalent units (FEUs), remained constant during the three months ended June 30, 2011, as compared with the same period in 2010.

Ocean freight and ocean services net revenues increased 21% for the six-month period ended June 30, 2011, as compared with the same period for 2010. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 20%, 21% and 25%, respectively, for the first half of 2011 as compared with the same period in 2010. Ocean freight consolidation net revenue increased 23%, for the six-month period ended June 30, 2011 as compared with the same period in 2010, due to a 19% increase in net revenue per container and a 3% increase in volume as measured in FEUs. Management believes the overall growth rate in volume achieved in the first quarter of 2011 was not sustained in the second quarter of 2011 due to consumer uncertainties over the present economic environment. Similar to airfreight, the increase in revenue per container resulted from a slower global economy in the second quarter of 2011, leading to the creation of limited spot market buying opportunities, primarily in Asia. Direct ocean freight forwarding and order management, which are primarily fee-based, increased 17% and 24%, respectively, for the three and six-month periods ended June 30, 2011 as compared with the same period in 2010, primarily due to an increase in volume.

Customs brokerage and other services net revenues increased 16% and 17%, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods for 2010, primarily as a result of growth in market share and an increase in domestic time definite freight volumes. Customers continue to seek out customs brokers with sophisticated computerized capabilities critical to an overall logistics management program, including rapid responses to changes in the regulatory and security environment.

Salaries and related costs increased 13% and 16%, respectively, during the three and six-month periods ended June 30, 2011, as compared with the same period in 2010, primarily as a result of larger bonuses earned from achieving higher operating income and an increase in the number of employees.

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

	Three months ended June 30,		Six months ended June 30,		
	2011	2010	2011	2010	
Salaries and related costs	\$249,114	\$221,105	\$486,929	\$420,953	
As a % of net revenue	52.7	% 52.8	% 52.6	% 53.9	%
Stock compensation expense	\$10,236	\$11,003	\$20,708	\$22,201	
As a % of salaries and related costs	4.1	% 5.0	% 4.3	% 5.3	%
As a % of net revenue	2.2	% 2.6	% 2.2	% 2.8	%

Excluding stock compensation expense, salaries and related costs as a percentage of net revenue increased 39 basis points and decreased 76 basis points, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods for 2010. The decrease can be attributed to productivity gains that resulted from more efficient staff 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 incentive compensation will occur in proportion to changes in Company profits, creating a direct alignment between corporate performance and shareholder interests. Bonuses to field and corporate management for the first half of 2011 were up 23% as compared with the same period for 2010, primarily as a result of a 25% increase in operating income. 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

16

be paid unless the relevant business unit is, from inception, cumulatively profitable. Any operating losses must have been offset in their entirety by operating profits before management is eligible for a bonus. Since the most significant portion of management compensation comes from the incentive bonus programs, the Company believes that this cumulative feature is a disincentive to excessive risk taking by its managers. Due to the nature of the Company's services, it has a short operating cycle. The outcome of any higher risk transactions, such as overriding established credit limits, would be known in a relatively short time frame. Management believes that when the potential and certain impact on the bonus is fully considered in light of this short operating cycle, the potential for short term gains that could be generated by engaging in risky business practices is sufficiently mitigated to discourage excessive and inappropriate risk taking. Management believes that both the stability and the long term growth in revenues, net revenues and net earnings are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 20% and 16%, respectively, for the three and six-month periods ended June 30, 2011, as compared with the same periods in 2010, primarily as a result of higher business taxes, travel and other expenses related to increased activity. Legal and related expenses during the first half of 2011 remained constant as compared to the same period in 2010. The Company will continue to incur legal costs related to the anti-competition allegations as described in Part II—Item 1 in this report on Form 10-Q entitled "Legal Proceedings", until these legal proceedings are concluded. 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. Further, the Company routinely incurs costs to conduct periodic reviews of the operations and procedures of its offices worldwide relating to compliance with applicable laws and regulations. Other overhead expenses as a percentage of net revenues remained fairly constant for the three and six-month periods ended June 30, 2011, as compared with the same periods in 2010.

Other income, net, decreased \$9 million for the three-month period ended June 30, 2011, largely attributed to lower foreign exchange gains in 2011 as compared to 2010. For the six months ended June 30, 2011 compared to the same period in 2010, the \$8 million decrease in other income, net is primarily due to foreign exchange gains in 2010 as compared to foreign exchange losses in 2011. These net foreign exchange gains in 2010 resulted primarily from holding U.S. dollars in Euro-based subsidiaries as the Euro weakened significantly against the dollar during the second quarter of 2010.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate decreased to approximately 38.8% and 39.1%, respectively, for the three and six-month periods ended June 30, 2011, as compared to 39.8% and 40.0%, respectively, for the three and six-month periods ended June 30, 2010, primarily due to lower stock compensation expense.

Currency and Other Risk Factors

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

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

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

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

regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during the three and six months ended June 30, 2011 and 2010 was insignificant. During the three and six months ended June 30, 2011, net foreign currency gains were approximately \$363 and net foreign currency losses were approximately \$330, respectively. For the same periods of 2010, the Company's net foreign currency gains were approximately \$5,602 and \$3,949, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2011 and December 31, 2010.

Geographic Coverage

During the second quarter of 2011, the Company opened one full service office in Chengdu, People's Republic of China (formerly a satellite of Chongqing).

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

Internal Growth - Management believes that a comparison of "same store" results is critical in the evaluation of the quality and extent of the Company's internally generated growth. The "same store" analysis isolates the financial contributions from offices that have been included in the Company's operating results for at least one full year. There were no significant differences between the "same store" analysis and the Company's results for the three and six months ended June 30, 2011 and 2010.

Liquidity and Capital Resources

The Company's principal source of liquidity is cash and cash equivalents and cash generated from operating activities. Net cash provided by operating activities for the three and six months ended June 30, 2011, was approximately \$78 million and \$256 million, respectively, as compared with \$21 million and \$148 million, respectively, for the same periods in 2010. The increases of \$57 million and \$108 million for the three and six-month periods ended June 30, 2011, respectively, are primarily due to higher net earnings and changes in working capital accounts. At June 30, 2011, working capital was \$1,392 million, including cash, cash equivalents and short-term investments of \$1,227 million. The Company had no long-term debt at June 30, 2011.

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

As a customs broker, the Company makes significant cash advances for a select group of credit-worthy customers. These cash advances are for customer obligations such as the payment of duties to customs authorities in various countries throughout the world. Cash advances are a "pass through" and are not recorded as a component of revenue or expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable 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 three and six months ended June 30, 2011, was \$18 million and \$40 million, respectively. The largest use of cash in investing activities is cash paid for capital expenditures. The Company does have need, on occasion, to purchase or construct buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. In the second quarter of 2011, the Company made capital expenditures of \$17 million, as compared with \$8 million for the same period in 2010. Capital expenditures in the second quarter of 2011 related primarily to investments in real estate, buildings and leasehold improvements, technology, and office furniture and equipment. Total capital expenditures in 2011 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 during the three and six months ended June 30, 2011, was \$81 million and \$90 million, as compared with \$81 million and \$83 million for each of the same periods in 2010. The Company uses the proceeds from stock option exercises to repurchase the Company's common stock on the open market. In the second quarter of 2011, the Company continued its policy of repurchasing stock to limit growth in issued and outstanding shares as a result of stock option

18

exercises. The decrease in cash used as a result of this policy during the second quarter of 2011, as compared with the same period in 2010, is primarily due to fewer shares repurchased combined with an increase in exercise proceeds attributable to higher option exercise prices. During the three months ended June 30, 2011 and 2010, the Company paid dividends of \$.25 per share and \$.20 per share, respectively.

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

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

The Company maintains international unsecured bank lines of credit. At June 30, 2011, the international bank lines of credit totaled \$20 million. At June 30, 2011, the Company had no amounts outstanding on these lines of credit, but was contingently liable for \$99 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

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

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At June 30, 2011, cash and cash equivalent balances of \$657 million were held by the Company's non-United States subsidiaries, of which \$66 million was held in banks in the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Risk

The Company conducts business in many different countries and currencies. The Company's business often results in revenue billings issued in a country and currency which differs from that where the expenses related to the service are incurred. In the ordinary course of business, the Company creates numerous intercompany transactions and may hold currencies that are not the local functional currency. This brings foreign exchange risk to the Company's earnings. Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company's functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the six months ended June 30, 2011, would have had the effect of raising operating income approximately \$21 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately \$17 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 June 30, 2011, the Company had approximately \$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 during the three and six months ended June 30, 2011 and 2010 was insignificant. During the three and six months ended June 30, 2011, net foreign currency gains were approximately \$363 and net foreign currency losses were approximately \$330, respectively. For the same periods of 2010, the Company's net foreign

currency gains were approximately \$5,602 and \$3,949, respectively. The Company had no foreign currency derivatives outstanding at June 30, 2011 and December 31, 2010. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At June 30, 2011, the Company had cash, cash equivalents and short-term investments of \$1,227 million of which \$696 million was invested at various short-term market interest rates. The Company had no short-term borrowings at June 30, 2011. A hypothetical change in the interest rate of 10 basis points would not have a significant impact on the Company's earnings. In management's opinion, there has been no material change in the Company's interest rate risk exposure in the second quarter of 2011.

Item 4. Controls and Procedures

Evaluation of Controls and Procedures

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

Changes in Internal Controls

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

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

On January 3, 2008, the Company was named as a defendant, with seven other European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in the United States District Court of the Eastern District of New York, Precision Associates, Inc. et al v. Panalpina World Transport, No. 08-CV0042. On

July 21, 2009, the plaintiffs filed an amended complaint adding a number of new third party defendants and various claims which they assert to violate the Sherman Act. The plaintiffs' amended complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), asserts claims that the defendants engaged in price fixing regarding eight discrete surcharges in violation of the Sherman Act. The allegations concerning the Company relate to two of these surcharges. The amended complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary

damages could be substantial. 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 anti-competitive behavior contrary to European Union rules on competition. Specific to the Company, the allegations in the SO are limited to the period from August 2005 to June 2006 and only concern airfreight trade lanes between South China/Hong Kong and the European Economic Area. The Company filed a response to the allegations in the SO on April 12, 2010 and participated in an oral hearing on July 6, 2010. At this time the Company has no way of predicting the ultimate outcome of this proceeding. The Company expects to incur ongoing attorneys' fees and other defense costs and, if there is an adverse judgment, monetary damages could be substantial. On January 20, 2011, the EC issued another request for information to the Company and its Hong Kong subsidiary requesting certain additional information in connection with its on-going investigation of freight forwarders. The Company replied to the request. The Company continues to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this ongoing proceeding, which could include administrative fines if the EC concludes that the Company has engaged in anti-competitive behavior and such fines could have a material impact on the Company's financial position, results of operations and operating cash flows. On August 17, 2010, the Company and its Brazilian subsidiary, Expeditors Internacional do Brasil Ltda received an Administrative Proceeding (AP) from the Brazilian Ministry of Justice (MOJ). The AP initiates a proceeding against the Company and one of its employees, alleging possible anti-competitive behavior. The Company intends to vigorously defend itself against the allegations. The Company expects to incur additional costs during the course of this proceeding, which could include administrative fines if the MOJ 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.

Legal and associated costs incurred by the Company on the above matters were not significant for the three and six-month periods ended June 30, 2011 and 2010, respectively. Since the beginning of the proceedings in 2007, the Company has incurred approximately \$16 million in legal and associated costs on the above matters. At this time the Company is unable to estimate the range of loss or damages, if any, that might result as an outcome of any of these proceedings. These government investigations and the related litigation matters are subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include substantial monetary damages and, in matters in which injunctive relief or other conduct remedies are sought, an injunction or other order relating to business conduct. Were unfavorable final outcomes to occur, the Company's business, financial position, results of operations, and operating cash flows could be materially harmed.

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

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the report on Form 10-K filed on February 28, 2011, except for the following:

RISK FACTOR	DISCUSSION AND POTENTIAL SIGNIFICANCE
Technology	Increasingly, the Company must compete based upon the flexibility and sophistication of the technologies utilized in performing its core businesses. Future results depend upon the Company's success in the cost effective development, maintenance and integration of secure communication and information system technologies, including those acquired from and maintained by third parties. Any significant disruptions to

these systems due to failures, attacks or other security breaches could negatively affect the Company's results.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
ISSUER PURCHASES OF EQUITY SECURITIES

21

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs
April 1-30, 2011	1,680	\$52.39	1,680	30,313,856
May 1-31, 2011	740,345	53.74	740,345	29,759,663
June 1-30, 2011	114,404	50.85	114,404	29,629,938
Total	856,429	\$53.35	856,429	29,629,938

In November 1993, the Company's Board of Directors authorized a Non-Discretionary Stock Repurchase Plan for the purpose of repurchasing the Company's common stock in the open market with the proceeds received from the exercise of stock options. On February 9, 2009, the Plan was further amended to increase the authorization to repurchase up to 40 million shares of the Company's common stock. This authorization has no expiration date. This plan was disclosed in the Company's report on Form 10-K filed March 31, 1995. In the second quarter of 2011, 312,701 shares of common stock were repurchased under the Non-Discretionary Stock Repurchase Plan.

In November 2001, under a Discretionary Stock Repurchase Plan, the Company's Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200 million shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increases. This authorization has no expiration date. This plan was announced on November 13, 2001. In the second quarter of 2011, 543,728 shares of common stock were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares resulting from stock option exercises.

Item 5. Other Information

(a) Not applicable.

(b) Not applicable.

Item 6. Exhibits

Exhibits required by Item 601 of Regulation S-K.

Exhibit Number	Description
10.57	The Company's 2011 Stock Option Plan. (Incorporated by reference to Appendix A of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on March 18, 2011.)
10.58	Form of Stock Option Agreement used in connection with options granted under the Company's 2011 Stock Option Plan. (Incorporated by reference to Appendix B of the Company's Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on March 18, 2011.)
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EXPEDITORS INTERNATIONAL OF WASHINGTON,
INC.

August 5, 2011

/s/ PETER J. ROSE
Peter J. Rose, Chairman and Chief Executive Officer

August 5, 2011

/s/ BRADLEY S. POWELL
Bradley S. Powell, Chief Financial Officer

24

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES
Form 10-Q Index and Exhibits
June 30, 2011

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
25	