

EXPEDITORS INTERNATIONAL OF WASHINGTON INC

Form 10-K

February 28, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 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

91-1069248

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification Number)

1015 Third Avenue, 12<sup>th</sup>Floor, Seattle, Washington

98104

(Address of principal executive offices)

(Zip Code)

(206) 674-3400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Stock, par value \$.01 per share

NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  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

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At June 30, 2011, the aggregate market value of the registrant's Common Stock held by non-affiliates of the registrant was approximately \$10,685,897,706.

At February 21, 2012, the number of shares outstanding of registrant's Common Stock was 212,077,956.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement for the Registrant's 2012 Annual Meeting of Shareholders to be held on May 2, 2012 are incorporated by reference into Part III of this Form 10-K.

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## Forward-Looking Statements

In accordance with the provisions of the Private Securities Litigation Reform Act of 1995, the Company is making readers aware that forward-looking statements, because they relate to future events, are by their very nature subject to many important risk factors which could cause actual results to differ materially from those contained in the forward-looking statements. For additional information about forward-looking statements and for an identification of risk factors and their potential significance, see “Safe Harbor for Forward-Looking Statements Under Private Securities Litigation Reform Act of 1995; Certain Cautionary Statements” immediately preceding Part II, Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report.

## PART I

### ITEM 1—BUSINESS

Expeditors International of Washington, Inc. is engaged in the business of providing global logistics services. The Company offers its customers a seamless international network supporting the movement and strategic positioning of goods. The Company’s services include the consolidation or forwarding of air and ocean freight. In each United States office, and in many overseas offices, the Company acts as a customs broker. The Company also provides additional services including distribution management, vendor consolidation, cargo insurance, purchase order management and customized logistics information. The Company does not compete for overnight courier or small parcel business and does not own aircraft or steamships.

Beginning in 1981, the Company’s primary business focus was on airfreight shipments from Asia to the United States and related customs brokerage and other services. In the mid-1980’s, the Company began to expand its service capabilities in export airfreight, ocean freight and distribution services. Today the Company offers a complete range of global logistics services to a diversified group of customers, both in terms of industry specialization and geographic location. As opportunities for profitable growth arise, the Company plans to create new offices. While the Company has historically expanded through organic growth, the Company has also been open to growth through acquisition of, or establishing joint ventures with, existing agents or others within the industry.

At January 31, 2012, the Company, including its majority-owned subsidiaries, operates full service offices (•) in the cities identified below. Full service offices have also been established in locations where the Company maintains unilateral control over assets and operations and where the existence of the parent-subsidiary relationship is maintained by means other than record ownership of voting stock (#). In other cities, the Company contracts with independent agents to provide required services and has established approximately 46 such relationships world-wide. Wholly-owned locations operating under the supervision and control of another full service office are identified as satellite offices (+). In each case, the opening date for the full service office or satellite office is set forth in parenthesis.

#### UNITED STATES AND OTHER NORTH AMERICA

UNITED STATES	• Dallas (5/92)	• Milwaukee (7/00)	• Calgary (9/04)
• Seattle (5/79)	• Columbus (6/92)	• Kansas City (8/00)	
• Chicago (7/81)	• Charlotte (7/92)	• Washington, D.C. (9/00)	MEXICO
• San Francisco (7/81)	• Newark (9/94)	• Nashville (10/01)	• Mexico City (6/95)
• New York (11/81)	• Philadelphia (3/95)	+ Huntsville (12/02)	• Nuevo Laredo (4/97)
• Los Angeles (5/82)	• Charleston (6/95)	• Austin (2/03)	• Guadalajara (9/97)
• Atlanta (8/83)	• Memphis (8/95)	• Orlando (8/03)	+ Veracruz (9/97)
• Boston (11/85)	• Salt Lake City (11/95)	• Tampa (9/03)	+ Manzanillo (1/99)
• Miami (3/86)	• Norfolk (9/96)	• New Orleans (9/04)	• Nogales (1/99)
• Minneapolis (7/86)	• Indianapolis (11/96)	+ Omaha (7/06)	• Ciudad Juarez (5/00)
• Denver (2/88)	+ Port Huron-Blue Water Bridge (12/96)	+ Calexico (6/06)	• Monterrey (1/05)
• Detroit (7/88)	• Buffalo (1/97)	+ Knoxville (5/07)	+ Reynosa (6/06)

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- Portland (7/88)
  - Cincinnati (8/89)
  - Cleveland (7/90)
  - Phoenix (7/91)
  - Louisville (10/91)
  - St. Louis (4/92)
  - Houston (4/92)
  - Baltimore (4/92)
  - El Paso (1/97)
  - Laredo (2/97)
  - Nogales (2/97)
  - San Diego (7/97)
  - + Rochester (10/97)
  - McAllen (4/98)
  - Pittsburgh (6/99)
  - Savannah (3/00)
  - Raleigh Durham (1/08)
  - Tulsa (1/09)
  - CANADA
    - Toronto (5/84)
    - Vancouver (9/95)
    - + Windsor (6/98)
    - Montreal (4/99)
  - + Querétaro (9/06)
  - + Lázaro Cárdenas (7/08)
  - PUERTO RICO
    - San Juan (5/95)
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LATIN AMERICA

ARGENTINA

- Buenos Aires (1/98)

BRAZIL

- Sao Paulo (9/95)
- Rio de Janeiro (9/95)
- Campinas (9/95)
- + Santos (10/97)

ASIA PACIFIC

AUSTRALIA

- Sydney (8/88)
- Melbourne (8/88)
- Brisbane (10/93)
- Perth (12/94)
- Adelaide (10/97)

BANGLADESH

- Dhaka (6/89)
- + Chittagong (8/93)

CAMBODIA

- Phnom Penh (4/00)

PEOPLE'S REPUBLIC OF CHINA

- Guangzhou (4/94)
- Beijing (7/94)
- Dalian (7/94)
- Shanghai (7/94)
- Shenzhen (7/94)
- Qingdao (7/94)
- Tianjin (7/94)
- Xi'an (7/94)
- Xiamen (7/94)
- Chengdu (9/00)
- Ningbo (7/01)

- Manaus (7/00)
- Porto Alegre (1/05)
- Curitiba (10/10)
- + Belo Horizonte (10/10)

CHILE

- Santiago (2/95)

- Suzhou (9/01)
- Zhongshan (9/01)
- Hangzhou (10/01)
- + Kunshan (12/01)
- Fuzhou (6/02)
- Yantai (11/02)
- + Shenyang (12/02)
- Wuhan (1/03)
- + Huizhou (12/03)
- + Zhuhai (12/03)
- + Foshan (1/04)
- Chongqing (7/04)
- Dongguan (2/05)
- Nanjing (3/05)

+ Macau (5/05)

- + Shantou (12/06)
- + Changzhou (10/07)

HONG KONG

- Kowloon (6/81)

INDONESIA

- Jakarta (12/90)
- Surabaya (2/92)
- + Batam (3/07)

COLOMBIA

- Bogota (12/98)
- + Cali (12/98)
- + Medellin (7/00)

COSTA RICA

- San Jose (10/03)

JAPAN

- Tokyo (1/01)
- Osaka (1/01)
- + Nagoya (8/03)

MALAYSIA

- Penang (11/87)
- Kuala Lumpur (6/90)
- Johor Bahru (11/94)

NEW ZEALAND

- Auckland (8/88)
- + Christchurch (10/07)

PHILIPPINES

- Manila (8/98)
- + Olongapo City (8/98)
- + Cebu City (9/99)

SINGAPORE

- Singapore (9/81)

SRI LANKA

- Colombo (3/95)

GUATEMALA

- Guatemala City (1/07)

PERU

- Lima (12/05)

SOUTH KOREA

- Seoul (10/94)
- Pusan (10/94)
- + Chonan (6/96)
- + Kwangju (6/96)
- + Masan (6/96)
- + Taegu (6/96)

TAIWAN

- Taipei (7/81)
- + Kaohsiung (9/81)
- + Taichung (9/81)
- + Hsin-Chu (9/89)

THAILAND

- Bangkok (9/94)
- + Laem Chabang (8/05)

VIETNAM

- Ho Chi Minh City (5/00)
- Hanoi (3/04)
- + Da Nang (9/05)

EUROPE AND AFRICA

AUSTRIA

- Vienna (11/95)

BELGIUM

- Brussels (7/90)
- + Antwerp(4/91)

THE CZECH  
REPUBLIC

- Prague (6/98)

FINLAND

- Helsinki (4/94)

FRANCE

- Paris (1/97)
- Mulhouse (1/97)
- Lyon (1/97)
- Lille (3/97)
- Bordeaux (7/00)

GERMANY

- Frankfurt (4/92)
- Munich (4/92)
- Dusseldorf (4/92)
- Stuttgart (4/92)

MIDDLE EAST AND INDIA

BAHRAIN

- Manama (1/08)

EGYPT

- Cairo (2/95)
- + Alexandria (2/95)

GREECE

- Athens (2/99)

INDIA

- New Delhi (7/96)
- Mumbai (Bombay) (1/97)
- Bangalore (6/97)
- Chennai (Madras) (6/97)
- + Jaipur (6/99)

- Hamburg (1/93)

- Nuremberg (1/01)
- + Hannover (1/05)
- + Bad Mergentheim (6/05)

HUNGARY

- Budapest (4/00)

IRELAND

- Dublin (3/97)
- Cork (3/97)
- Shannon (3/97)

ITALY

- Milan (4/93)
- Verona (4/93)
- Florence (3/98)
- + Turin (4/05)
- + Rome (1/10)

THE NETHERLANDS

- Amsterdam (6/94)
- Rotterdam (3/95)
- + Maastricht (9/07)

- + Cochin (4/01)

- + Hyderabad (9/01)

- + Tuticorin (11/03)

- + Ahmedabad (1/05)

- + Ludhiana (6/05)

- + Pune (10/06)

- + Kolkata (1/08)

- + Coimbatore (1/08)

- + Mundra (4/08)

JORDAN

- Amman (9/07)

KUWAIT

- # Kuwait City (7/97)

NORWAY

- Oslo (6/10)
- + Kristiansand (1/11)

POLAND

- Warsaw (2/05)
- + Krakow (8/07)

PORTUGAL

- Lisbon (10/91)
- Oporto (10/91)

ROMANIA

- Bucharest (9/08)

SPAIN

- Barcelona (1/94)
- Madrid (1/94)
- Alicante (4/96)

SWEDEN

- Stockholm (1/94)
- Goteborg (1/94)

LEBANON

- Beirut (8/99)

OMAN

- Muscat (4/09)

PAKISTAN

- Karachi (9/96)
- Lahore (9/96)
- + Sialkot (6/03)
- + Faisalabad (5/06)
- + Islamabad (10/06)

QATAR

- Doha (1/07)

SWITZERLAND

- Chiasso (2/01)
- Zurich (10/05)

UNITED KINGDOM

- London (4/86)
- Manchester (11/88)
- Birmingham (3/90)

- Glasgow (4/92)

- Bristol (3/97)

- East Midlands (1/99)

- + Hull (1/00)

- Belfast (9/01)

- Aberdeen (9/05)

SOUTH AFRICA

- Johannesburg (3/94)
- Durban (3/94)
- Capetown (1/97)

MADAGASCAR

- Antananarivo (11/01)

SAUDI ARABIA

- # Riyadh (7/92)

- # Jeddah (7/92)

- # Dammam (6/05)

TURKEY

- Ankara (1/99)

- Istanbul (1/99)

- Izmir (1/99)

- Mersin (1/99)

- + Adana (1/99)

UNITED ARAB  
EMIRATES

- Abu Dhabi (1/94)

- Dubai (10/98)

The Company was incorporated in the State of Washington in May 1979. Its executive offices are located at 1015 Third Avenue, 12<sup>th</sup>Floor, Seattle, Washington, and its telephone number is (206) 674-3400.

The Company's internet address is <http://www.expeditors.com>. The Company makes available free of charge through its internet website its annual

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report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

For information concerning the amount of revenues, net revenues, operating income, identifiable assets, capital expenditures, depreciation and amortization and equity attributable to the geographic areas in which the Company conducts its business, see Note 9 to the consolidated financial statements.

#### Airfreight Services

Airfreight services accounted for approximately 37, 38 and 35 percent of the Company's 2011, 2010 and 2009 consolidated revenues net of freight consolidation expenses ("net revenues"), respectively. When performing airfreight services, the Company typically acts either as a freight consolidator or as an agent for the airline which carries the shipment. When acting as a freight consolidator, the Company purchases cargo space from airlines on a volume basis and resells that space to its customers at lower rates than the customers could obtain directly from airlines. When moving shipments between points where the volume of business does not facilitate consolidation, the Company receives and forwards individual shipments as the agent of the airline which carries the shipment. Whether acting as a consolidator or agent, the Company offers its customers knowledge of optimum routing, familiarity with local business practices, knowledge of export and import documentation and procedures, the ability to arrange for ancillary services, and assistance with space availability in periods of peak demand.

In its airfreight forwarding operations, the Company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point. At the distribution point, the Company or its agent arranges for the consolidated lot to be broken down into its component shipments and for the transportation of the individual shipments to their final destinations.

The Company estimates its average airfreight consolidation weighs approximately 3,900 pounds and a typical consolidation includes merchandise from several shippers. Because shipment by air is relatively expensive compared with ocean transportation, air shipments are generally characterized by a high value-to-weight ratio, the need for rapid delivery, or both.

The Company typically delivers shipments from a Company warehouse at the origin to the airline after consolidating the freight into containers or onto pallets. Shipments normally arrive at the destination distribution point within forty-eight hours after such delivery. During peak shipment periods, cargo space available from the scheduled air carriers can be limited and backlogs of freight shipments may occur. When these conditions exist, the Company may charter aircraft to meet customer demand.

The Company consolidates individual shipments based on weight and volume characteristics in cost-effective combinations. Typically, as the weight or volume of a shipment increases, the cost per pound/kilo or cubic inch/centimeter charged by the Company decreases. The rates charged by airlines to forwarders and others also generally decrease as the weight or volume of the shipment increases. As a result, by aggregating shipments and presenting them to an airline as a single shipment, the Company is able to obtain a lower rate per pound/kilo or cubic inch/centimeter than that which it charges to its customers for the individual shipment, while generally offering the customer a lower rate than could be obtained from the airline for an unconsolidated shipment.

The Company's airfreight forwarding net revenues from a consolidated shipment include the differential between the rate charged to the Company by an airline and the rate which the Company charges to its customers, commissions paid to the Company by the airline carrying the freight and fees for ancillary services. Such ancillary services provided by the Company include preparation of shipping and customs documentation, packing, crating and insurance services, negotiation of letters of credit, and preparation of documentation to comply with local export laws. When the Company acts as an agent for an airline handling an unconsolidated shipment, its net revenues are primarily derived from commissions paid by the airline and fees for ancillary services paid by the customer.



The Company also performs breakbulk services which involve receiving and breaking down consolidated airfreight lots and arranging for distribution of the individual shipments. Breakbulk service revenues also include commissions from agents for airfreight shipments.

The Company does not own aircraft and does not plan to do so. Management believes that the ownership of aircraft would subject the Company to undue business risks, including large capital outlays, increased fixed operating expenses, problems of fully utilizing aircraft and competition with airlines. Because the Company relies on commercial airlines to transport its shipments, changes in carrier financial stability, policies and practices such as pricing, payment terms, scheduling, capacity and frequency of service may affect its business.

The commercial airline industry as a whole incurred substantial operating losses in 2009. While their operations in 2010 and 2011 improved over 2009 levels, many airlines remain highly leveraged with debt. Carriers continue to merge and consolidate operations and reduce available capacity to improve financial results. Some airlines have significantly reduced their reliance on cargo-only aircraft to service their airfreight customers. The reduction in capacity allows asset-based carriers to raise rates in the face of declining or stable demand. When fewer planes are flying, the Company has fewer shipping options from which to craft service offerings to meet customers' needs. The combination of reduced capacity, higher rates and more infrequent flights could challenge the Company's ability to maintain historical unitary profitability.

#### Ocean Freight and Ocean Services

Ocean freight services accounted for approximately 23, 23 and 24 percent of the Company's 2011, 2010 and 2009 consolidated net revenues, respectively. The Company operates Expeditors International Ocean ("EIO"), an Ocean Transportation Intermediary, sometimes referred to as a Non-Vessel Operating Common Carrier ("NVOCC") which specializes in ocean freight consolidation in most major trade lanes in the world. EIO also provides service, on a smaller scale, to and from any location where the Company has an office or agent. As an NVOCC, EIO contracts with ocean shipping lines to obtain transportation for a fixed number of containers between various points during a specified time period at an agreed rate. EIO handles full container loads for customers that do not have annual shipping volumes sufficient to negotiate comparable contracts directly with the ocean carriers. EIO also solicits Less-than Container Load ("LCL") freight to fill the containers and charges lower rates than those available directly from shipping lines. The Company's revenues as an ocean freight forwarder are also derived from commissions paid by the carrier and revenues from fees charged to customers for ancillary services which the Company may provide, such as preparing documentation, procuring insurance, arranging for packing and crating services, and providing consultation. The Company does not own vessels and generally does not physically handle the cargo.

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Ocean carriers incurred substantial operating losses in 2009 and 2011 and many are highly leveraged with debt. While the overall global volume in 2011 was comparable to 2010, many carriers took delivery of new ships in 2011 which created excess capacity. This excessive capacity caused most carriers to redeploy ships and modify sailing schedules to improve financial results. The potential combination of reduced sailing schedules and pricing volatility could impact the Company's ability to maintain historical unitary profitability.

Order Management provides services which manage origin consolidation, supplier performance, carrier allocation, carrier performance, container management, document management, destination management and PO/SKU visibility through a web based application. Customers have the ability to monitor and report against near real time status of purchase orders from the date of creation through final delivery. Item quantities, required ship dates, commodity descriptions, estimated vs. actual ex-factory dates, container utilization, supplier performance and document visibility are many of the managed functions that are visible and reportable via the web. Order Management is available for various modes of transportation including ocean, air, truck and rail. Order Management revenues are derived from services provided to the shipper as well as management fees associated with managing purchase order execution against customer specific rules. One basic function of Order Management involves the taking of cargo from many suppliers in a particular origin and "consolidating" these shipments into the fewest possible number of containers to maximize space utilization and minimize cost. Through origin consolidation, customers can reduce the number of containers shipped by putting more product in larger and fewer containers. Data integrity is an increasingly critical function of Order Management. Efficient data management is a by-product of our operational processes.

#### Customs Brokerage and Other Services

Customs brokerage and other services accounted for approximately 40, 39 and 41 percent of the Company's 2011, 2010 and 2009 consolidated net revenues, respectively. As a customs broker, the Company assists importers to clear shipments through customs by preparing required documentation, calculating and providing for payment of duties and other taxes on behalf of the importer, arranging for any required inspections by governmental agencies, and arranging for delivery. The Company also provides other value added services at destination such as warehousing and product distribution, inventory management and time definite transportation. None of these other services are currently individually significant to the Company's net revenues.

The Company provides customs clearance services in connection with many of the shipments it handles as a freight forwarder. However, substantial customs brokerage revenues are derived from customers that elect to use a competing forwarder. Conversely, shipments handled by the Company as a forwarder may be processed by another customs broker selected by the customer.

The Company also provides custom clearances for goods moving by rail and truck between the United States, Canada and/or Mexico. The commodities being cleared and the time sensitive nature of the border brokerage business require the Company to continue to make enhancements to its systems in order to provide competitive service.

The Company's wholly-owned subsidiary, Expeditors Tradewin, L.L.C., responds to customer driven requests for high-end customs consulting services. Fees for these non-transactional services are based upon hourly billing rates and bids for mutually agreed projects.

#### Marketing and Customers

The Company provides customer specific solutions and seeks to understand the needs of the customers from order inception through to order delivery. Although the domestic importer usually designates the logistics company and the services that will be required, the foreign shipper may also participate in this selection process. Therefore, the Company coordinates its marketing program to reach both domestic importers and their overseas suppliers. The Company's marketing efforts are focused on interacting with our customers' supply chain, including logistics, transportation, customs, compliance and purchasing departments of existing and potential customers. The district manager of each office is responsible for marketing, sales coordination, and implementation in the area in which he or she is located. All employees are responsible for customer service and retention.

The Company staffs its offices largely with managers and other key personnel who are citizens of the nations in which they operate and who have extensive experience in global logistics. Marketing and customer service staffs are responsible for marketing the Company's services directly to customers and prospects who may select or influence the selection of logistics service providers and for ensuring that customers receive timely and efficient service. The Company believes that its expertise in supplying solutions customized to the needs of its customers, its emphasis on coordinating its origin and destination customer service and marketing activities, and the incentives it gives to its managers have been important elements of its success.

The goods handled by the Company are generally a function of the products which dominate international trade between any particular origin and destination. Shipments of computer components, electronic goods, medical equipment, sporting goods, machine parts, aviation parts, industrial equipment and toys comprise a significant percentage of the Company's business. Typical import customers include retailers and distributors of consumer electronics, department store chains, clothing and shoe wholesalers, manufacturers and catalogue stores. Historically, no single customer has accounted for five percent or more of the Company's net revenues.

#### Competition

The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. There are a large number of companies competing in one or more segments of the industry, but the number of firms with a global network that offer a full complement of logistics services is more limited. Depending on the location of the shipper and the importer, the Company must compete against both the niche players and larger entities. Historically, the industry has experienced consolidations into larger firms striving for stronger and more complete multinational and multi-service networks. However, regional and local competitors still maintain a strong market presence in certain areas.

The primary competitive factors in the global logistics services 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 the prices of others in the industry. Larger customers utilize more sophisticated and efficient procedures for the management of their logistics supply chains by embracing strategies such as just-in-time inventory management. Accordingly, timely and accurate information integrated into customer service capabilities are a significant factor in attracting and retaining customers. This information integrated into customer service

capabilities includes customized Electronic Data Interchange (“EDI”), on-line freight tracing and tracking applications and customized on-line reporting. The customized EDI applications allow the transfer of key information between the customers’ systems and the Company’s systems. Freight tracing and tracking applications provide customers with near real time visibility to the location, transit time and estimated delivery time of inventory in transit.

Management believes that the ability to develop and deliver innovative solutions to meet customers’ increasingly sophisticated information requirements is a critical factor in the ongoing success of the Company. The Company devotes a significant amount of resources towards the maintenance and enhancement of systems that will meet these customer demands. Management believes that the Company’s existing systems are competitive with the systems currently in use by other logistics services companies with which it competes.

Unlike many of its competitors, who have tended to grow by merger and acquisition, the Company operates the same accounting and transportation computer software, running on a common hardware platform, in all of its full-service locations. Small and middle-tier competitors, in general, do not have the resources available to develop these customized systems. 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.” As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions.

The Company’s ability to attract, retain, and motivate highly qualified personnel with experience in global logistics services is an essential, if not the most important, element of its ability to compete in the industry. To this end, the Company has adopted incentive compensation programs which make percentages of an operating unit’s net revenues or profits available to managers for distribution among key personnel. The Company believes that these incentive compensation programs, combined with its experienced personnel and its ability to coordinate global marketing efforts, provide it with a distinct competitive advantage and account for historical growth that competitors have generally matched only through acquisition.

#### Currency and Other Risk Factors

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.

In addition, the Company’s ability to provide service to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines and governmental agencies. The Company considers its current working relationships with these entities to be satisfactory. However, changes in the financial stability and operating capabilities and capacity of asset-based carriers, space allotments available from carriers, governmental regulation or deregulation efforts, “modernization” of the regulations governing customs, and/or changes in governmental quota restrictions or trade accords could affect the Company’s business in unpredictable ways.

#### Seasonality

Historically, the Company’s operating results have been subject to seasonal trends 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 has been the result of, or 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 will continue in future periods.

#### Environmental

In the United States, the Company is subject to Federal, state and local provisions regulating the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many other

jurisdictions in which the Company operates. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and the Company cannot predict what impact future environmental regulations may have on its business. The Company does not anticipate making any material capital expenditures for environmental control purposes during 2012.

#### Employees

At January 31, 2012, the Company employed approximately 13,590 people, 4,620 in the United States and 800 in the balance of North America, 640 in Latin America, 4,030 in Asia Pacific, 2,280 in Europe and Africa, and 1,220 in the Middle East and India. Approximately 1,720 of the Company's employees are engaged principally in sales and marketing and customer service, 7,960 in operations and 3,910 in technology, finance and administration. The Company is not a party to any collective bargaining agreement and considers its relations with its employees to be satisfactory.

In order to retain the services of highly qualified, experienced, and motivated employees, the Company places considerable emphasis on its non-equity incentive compensation programs and stock option plans.

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## Executive Officers of the Registrant

The following table sets forth the names, ages, and positions of current executive officers of the Company.

Name	Age	Position
Peter J. Rose	68	Chairman and Chief Executive Officer and director
James L.K. Wang	64	President-Asia Pacific and director
R. Jordan Gates	56	President and Chief Operating Officer and director
Rommel C. Saber	54	President-Europe, Africa, Near/Middle East and Indian Subcontinent
Robert L. Villanueva	59	President-The Americas
Timothy C. Barber	52	President-Global Sales and Marketing
Rosanne Esposito	60	Executive Vice President-Global Customs
Eugene K. Alger	51	Executive Vice President-North America
Philip M. Coughlin	51	Executive Vice President-North America
Jeffrey S. Musser	46	Executive Vice President and Chief Information Officer
Charles J. Lynch	51	Senior Vice President-Corporate Controller
Daniel R. Wall	43	Senior Vice President-Ocean Services
Jose A. Ubeda	45	Senior Vice President-Air Cargo
Amy J. Tangeman	43	Senior Vice President-General Counsel and Secretary
Bradley S. Powell	51	Senior Vice President and Chief Financial Officer

Peter J. Rose has served as a director and Vice President of the Company since July 1981. Mr. Rose was elected a Senior Vice President of the Company in May 1986, Executive Vice President in May 1987, President and Chief Executive Officer in October 1988, and Chairman and Chief Executive Officer in May 1991.

James L.K. Wang has served as a director and the Managing Director of Expeditors International Taiwan Ltd., the Company's former exclusive Taiwan agent, since September 1981. In 1991, Mr. Wang's employment agreement was assigned to E.I. Freight (Taiwan), Ltd., the Company's exclusive Taiwan agent through 2004. Mr. Wang's contract is now assigned to ECI Taiwan Co. Ltd., a wholly-owned subsidiary of the Company. In October 1988, Mr. Wang became a director of the Company and its Director-Far East, and Executive Vice President in January 1996. In May 2000, Mr. Wang was elected President-Asia Pacific.

R. Jordan Gates joined the Company as its Controller-Europe in February 1991. Mr. Gates was elected Chief Financial Officer and Treasurer of the Company in August 1994 and Senior Vice President-Chief Financial Officer and Treasurer in January 1998. In May 2000, Mr. Gates was elected Executive Vice President-Chief Financial Officer and Treasurer. Mr. Gates was also elected as a director in May 2000. On January 1, 2008, Mr. Gates assumed the role of President and Chief Operating Officer.

Rommel C. Saber joined the Company as Director-Near/Middle East in February 1990 and was elected Senior Vice President-Sales and Marketing in January 1993. Mr. Saber was elected Senior Vice President-Air Export in September 1993. In July 1997, Mr. Saber was elected Senior Vice President Near/Middle East and Indian Subcontinent and Executive Vice President-Europe, Africa and Near/Middle East in August 2000. In February 2006, Mr. Saber was elected President-Europe, Africa, Near/Middle East and Indian Subcontinent.

Robert L. Villanueva joined the Company as Regional Vice President Northwest U.S. Region in April 1994. In September 1999, he was elected Executive Vice President-The Americas and President-The Americas in May 2004.

Timothy C. Barber joined the Company in May 1986. Mr. Barber was promoted to District Manager of the Seattle office in January 1987 and Regional Vice President in January 1993. Mr. Barber was elected Vice President-Sales and Marketing in September 1993 and Senior Vice President-Sales and Marketing in January 1998. In September 1999, Mr. Barber was elected Executive Vice President-Global Sales. On January 1, 2008, Mr. Barber assumed the role of President-Global Sales and Marketing.

Rosanne Esposito joined the Company as its Director-U.S. Import Services in January 1996. Ms. Esposito was promoted to Vice President in May 1997 and Senior Vice President-Global Customs in May 2001. In May 2004, Ms. Esposito was promoted to Executive Vice President-Global Customs.

Eugene K. Alger joined the Company in October 1982. Mr. Alger was promoted to District Manager of the Los Angeles office in May 1983. He was elected Regional Vice President-Southwestern U.S. and Mexico Region in

January 1992, and Senior Vice President of North America in September 1999. In March, 2008, he was promoted to Executive Vice President-North America.

Philip M. Coughlin joined the Company in October 1985. In August 1986, Mr. Coughlin was promoted to District Manager. Mr. Coughlin was elected Regional Manager for New England and Canada in January 1991, Regional Vice President-Northeastern U.S. and Northern Border in January 1992, and Senior Vice President of North America in September 1999. In March 2008, he was promoted to Executive Vice President-North America.

Jeffrey S. Musser joined the Company in February 1983. Mr. Musser was promoted to District Manager in October 1989 and Regional Vice President in September 1999. Mr. Musser was elected Senior Vice President-Chief Information Officer in January 2005. In May 2009, Mr. Musser was promoted to Executive Vice President and Chief Information Officer.

Charles J. Lynch joined the Company in September 1984. Mr. Lynch was promoted to Assistant Controller in July 1985 and Controller-Domestic Operations in January 1989. Mr. Lynch was elected Corporate Controller in January 1991 and Vice President-Corporate Controller in

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January 1998. In May 2002, Mr. Lynch was elected Senior Vice President-Corporate Controller.

Daniel R. Wall joined the Company in March 1987. Mr. Wall was promoted to District Manager in May 1992 and Global Director-Account Management in March 2002. Mr. Wall was elected Vice President-ECMS in January 2004 and Senior Vice President-Ocean Services in September 2004.

Jose A. Ubeda joined the Company in May 1984. Mr. Ubeda was promoted to District Manager in February 1993 and to Regional Vice President-Northwest U.S. Region in May 2000. In April 2010, Mr. Ubeda was elected Senior Vice President-Air Cargo.

Amy J. Tangeman joined the Company in January 1997. Ms. Tangeman was promoted to Assistant General Counsel in November 2001. Ms. Tangeman was elected Vice-President-General Counsel and Secretary in October 2006 and elected Senior Vice President in February 2012.

Bradley S. Powell joined the Company as Chief Financial Officer in October 2008 and elected Senior Vice President and Chief Financial Officer in February 2012. Prior to joining the Company, Mr. Powell served as President and Chief Financial Officer of Eden Bioscience Corporation, a publicly-traded biotechnology company, from December 2006 to September 2008 and as Vice President and Chief Financial Officer from July 1998 to December 2006.

#### Regulation and Security

With respect to the Company's activities in the air transportation industry in the United States, it is subject to regulation by the Transportation Security Administration ("TSA") of the Department of Homeland Security as an indirect air carrier. All United States indirect air carriers are required to maintain prescribed security procedures and are subject to periodic audits by TSA. The Company's overseas offices and agents are licensed as airfreight forwarders in their respective countries of operation. The Company is licensed in each of its offices, or in the case of its newer offices, has made application for a license as an airfreight forwarder by the International Air Transport Association ("IATA"). IATA is a voluntary association of airlines and air transport related entities which prescribes certain operating procedures for airfreight forwarders acting as agents for its members. The majority of the Company's airfreight forwarding business is conducted with airlines which are IATA members.

The Company is licensed as an Ocean Transportation Intermediary ("OTI") (sometimes referred to as NVOCC-Non-Vessel Operating Common Carrier) by the Federal Maritime Commission ("FMC"). The FMC has established certain qualifications for shipping agents, including certain surety bonding requirements. The FMC is also responsible for the economic regulation of OTI/NVOCC activity originating or terminating in the United States. To comply with these economic regulations, vessel operators and NVOCCs, such as EIO, are required to file tariffs electronically which establish the rates to be charged for the movement of specified commodities into and out of the United States. The FMC has the power to enforce these regulations by assessing penalties.

The Company is licensed as a customs broker by Customs and Border Protection ("CBP") of the Department of Homeland Security nationally and in each U.S. customs district in which it does business. All United States customs brokers are required to maintain prescribed records and are subject to periodic audits by CBP. In other jurisdictions in which the Company performs clearance services, the Company is licensed by the appropriate governmental authority (where such license is required to perform these services). The Company participates in various governmental supply chain security programs, such as the Customs-Trade Partnership Against Terrorism ("C-TPAT") in the United States and additional security initiatives, such as Authorized Economic Operator ("AEO"), as they continue to be enacted by different governments.

The Company does not believe that current United States and foreign governmental regulations impose significant economic restraint upon its business operations. In general, the Company conducts its business activities in each country through a wholly or majority-owned subsidiary corporation that is organized and existing under the laws of that country. However, the regulations of foreign governments can impose barriers to the Company's ability to provide the full range of its business activities in a wholly or majority United States-owned subsidiary. For example, foreign ownership of a customs brokerage business is prohibited in some jurisdictions and less frequently the ownership of the licenses required for freight forwarding and/or freight consolidation is restricted to local entities. When the Company encounters this sort of governmental restriction, it works to establish a legal structure that meets the requirements of the local regulations while also giving the Company the substantive operating and economic advantages that would be available in the absence of such regulation. This can be accomplished by creating a joint venture or exclusive agency



relationship with a qualified local entity that holds the required license.

The war on terror and governments' overriding concern for the safety of passengers and citizens who import and/or export goods into and out of their respective countries has resulted in a proliferation of cargo security regulations over the past several years. While these cargo regulations have already created a marked difference in the security arrangements required to move shipments around the globe, regulations are expected to become more stringent in the future. As governments look for ways to minimize the exposure of their citizens to potential terror related incidents, the Company and its competitors in the transportation business may be required to incorporate security procedures within their scope of services to a far greater degree than has been required in the past. The Company feels that increased security requirements may involve further investments in technology and more sophisticated screening procedures being applied to potential customers, vendors and employees. The Company's position is that any increased cost of compliance with security regulations will be passed through to those who are beneficiaries of the Company's services.

#### Cargo Liability

When acting as an airfreight consolidator, the Company assumes a carrier's liability for lost or damaged shipments. This legal liability is typically limited by contract to the lower of the transaction value or the released value (17 Special Drawing Rights per kilo unless the customer declares a higher value and pays a surcharge), except in the absence of an appropriate airway bill or if the loss or damage is caused by willful misconduct. The airline which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. When acting solely as the agent of the airline or shipper, the Company does not assume any contractual liability for loss or damage to shipments tendered to the airline. In certain circumstances, the Company will assume additional limited liability.

When acting as an ocean freight consolidator, the Company assumes a carrier's liability for lost or damaged shipments. This liability is typically limited by contract to the lower of the transaction value or the released value (\$500 per package or customary freight unit unless the customer declares a higher value and pays a surcharge). The steamship line which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. In its ocean freight forwarding and customs clearance operations, the Company does not assume cargo liability. In certain circumstances, the Company will assume additional limited liability.

When providing warehouse and distribution services, the Company limits its legal liability by contract and tariff to an amount generally equal to the lower of fair value or \$0.50 per pound with a maximum of \$50 per “lot” — which is defined as the smallest unit that the warehouse is required to track. In certain circumstances, the Company will assume additional limited liability.

The Company maintains cargo legal liability insurance covering claims for losses attributable to missing or damaged shipments for which it is legally liable. The Company also maintains insurance coverage for the property of others which is stored in Company warehouse facilities. This insurance coverage is provided by a Vermont U.S. based insurance entity wholly-owned by the Company. The coverage is fronted and reinsured by a global insurance company. The total risk retained by the Company in 2011 was approximately \$5 million. In addition, the Company is licensed as an insurance broker through its subsidiary, Expeditors Cargo Insurance Brokers, Inc. and places insurance coverage for other customers.

## ITEM 1A – RISK FACTORS

### RISK FACTORS

### DISCUSSION AND POTENTIAL SIGNIFICANCE

#### International Trade

The Company primarily provides services to customers engaged in international commerce. Everything that affects international trade has the potential to expand or contract the Company’s primary market and impact its operating results. For example, international trade is influenced by:

- currency exchange rate and currency control regulations;
- interest rate fluctuations;
- changes in governmental policies, such as taxation, quota restrictions, other forms of trade barriers and/or restrictions and trade accords;
- changes in and application of international and domestic customs, trade and security regulations;
- wars, strikes, civil unrest, acts of terrorism, and other conflicts;
- natural disasters and pandemics;
- changes in consumer attitudes regarding goods made in countries other than their own;
- changes in availability of credit;
- changes in the price and readily available quantities of oil and other petroleum-related products; and
- increased global concerns regarding environmental sustainability.

#### Third Party Suppliers

The Company is a non-asset based provider of global logistics services. As a result, the Company depends on a variety of asset-based third party suppliers. The quality and profitability of the Company’s services depend upon effective selection, management and discipline of third party suppliers. While operating results improved in 2010 over 2009, many of the Company’s third party suppliers have incurred significant operating

losses in 2011 and are highly leveraged with debt. Changes in the financial stability, operating capabilities and capacity of asset-based carriers and space allotment made available to the Company by asset-based carriers could affect the Company in unpredictable ways, including volatility of pricing, and challenge the Company's ability to maintain historical unitary profitability.

The Company is not aware of any accurate means of forecasting short-term customer requirements. However, long-term customer satisfaction depends upon the Company's ability to meet these unpredictable short-term customer requirements. Personnel costs, the Company's single largest variable expense, are always less flexible in the very near term as the Company must staff to meet uncertain demand. As a result, short-term operating results could be disproportionately affected.

#### Predictability of Results

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.

The majority of the Company's revenues and operating income comes from operations conducted outside the United States. To maintain a global service network, the Company may be required to operate in hostile locations and in dangerous situations.

#### Foreign Operations

In addition, the Company operates in parts of the world where common business practices could constitute violations of the anti-corruption laws, rules, regulations and decrees of the United States, including the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and of all other countries in which the Company conducts business; as well as trade control laws, or laws, regulations and Executive Orders imposing embargoes and sanctions; and anti-boycott laws and regulations. Compliance with these laws, rules, regulations and decrees is dependent on the Company's employees, subcontractors, agents, third party brokers and customers, whose individual actions could violate these laws, rules, regulations and decrees. Failure to comply could result in substantial penalties and additional expenses, damages to the Company's reputation and restrictions on its ability to conduct business.

RISK FACTORS

DISCUSSION AND POTENTIAL SIGNIFICANCE

The Company is a service business. The quality of this service is directly related to the quality of the Company's employees. Identifying, training and retaining key employees is essential to continued growth and future profitability. Continued loyalty to the Company will not be assured by contract.

Key Personnel

The Company believes that its compensation programs, which have been in place since the Company became a publicly traded entity, are one of the unique characteristics responsible for differentiating its performance from that of many of its competitors. Significant changes to its compensation programs could affect the Company's performance.

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 systems technologies, including those acquired from and maintained by third parties. Any significant disruptions to these systems due to failures, attacks or other security breaches would have a material negative effect on the Company's results and could include loss of revenue, significant remediation costs, an increase in costs to protect the Company's systems and technology and damage to its reputation.

Growth

To date, the Company has relied primarily upon organic growth and has tended to avoid growth through acquisition. Future results will depend upon the Company's ability to continue to grow internally or to demonstrate the ability to successfully identify and integrate non-dilutive acquisitions.

The Company is affected by ever increasing regulations from a number of sources. The current business environment tends to stress the avoidance of risk through regulation and oversight, the effect of which is likely to be unforeseen costs and potentially unforeseen consequences.

Regulatory Environment

In reaction to the global war on terror, governments around the world are continuously enacting or updating security regulations. These regulations are multi-layered, increasingly technical in nature and characterized by a lack of harmonization of substantive requirements amongst various governmental authorities. Furthermore, the implementation of these regulations, including deadlines and substantive requirements, is driven by political urgencies rather than the industries' realistic ability to comply. Failure to consistently and timely comply with these regulations, or the failure, breach or compromise of the Company's security procedures or those of its subcontractors or agents, may result in increased operating costs, damage to the Company's reputation, restrictions on operations and/or fines and penalties.

Competition

The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. There are a large number of companies competing in one or more segments of the industry, but the number of firms with a global network that offer a full complement of logistics services is more limited. Depending on the location of the shipper and the importer, the Company must compete against both the

niche players and larger entities.

Taxes

The Company is subject to many taxes in the United States and foreign jurisdictions. In many of these jurisdictions, the tax laws are very complex and are open to different interpretations and application. Tax authorities frequently implement new taxes and change their tax rates and rules, including interpretations of those rules. The Company is regularly under audit by tax authorities. Although the Company believes its tax estimates are reasonable, the final determination of tax audits could be materially different from the Company's tax provisions and accruals and negatively impact its financial results.

Litigation/Investigations

As a multinational corporation, the Company is subject to formal or informal investigations or litigation from governmental authorities or others in the countries in which it does business. Included among these investigations, the Company is currently subject to, and is cooperating fully with, an investigation by the U.S. Department of Justice (DOJ) of air cargo freight forwarders. In addition, the Company and its Hong Kong subsidiary received a Statement of Objections from the European Commission (EC) relating to an ongoing investigation of freight forwarders. These investigations and other periodic investigations will require further management time and could cause the Company to incur substantial additional legal and related costs, which may include fines and/or penalties that could have a material impact on the Company's results of operations and operating cash flows.

The Company may also become subject to other civil litigation arising from such investigations or litigations, including but not limited to shareholder class action lawsuits and derivative claims made on behalf of the plaintiffs.

Economic Conditions

The global economy and capital and credit markets continue to experience uncertainty and volatility. Unfavorable changes in economic conditions may result in lower freight volumes and adversely affect the Company's revenues and operating results, as experienced in 2009. These conditions may adversely affect certain of the Company's customers and third party suppliers. Were that to occur, the Company's revenues and net earnings could also be adversely affected. Should customers' ability to pay deteriorate, additional bad debts may be incurred.

These unfavorable conditions can create situations where rate increases charged by carriers and other suppliers are implemented with little or no advanced notice. The Company often times cannot pass these rate increases on to its customers in the same time frame, if at all. As a result, the Company's yields and margins can be negatively impacted.

Catastrophic Events

A disruption or failure of the Company's systems or operations in the event of a major earthquake, weather event, cyber-attack, terrorist attack, strike, civil unrest, pandemic or other catastrophic event could cause delays in providing services or performing other mission-critical functions. The Company's corporate headquarters, and certain other critical business operations are in the Seattle, Washington area, which is near major earthquake faults. A catastrophic event that results in the destruction or disruption of any of the Company's critical business or information technology systems could harm the Company's ability to conduct normal business operations and its operating results.

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ITEM 1B — UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 — PROPERTIES

The Company owns the following properties:

Location	Nature of Property
United States:	
Seattle, Washington	Office buildings
SeaTac, Washington	Office building
Humble, Texas	Office and warehouse
Inwood, New York	Office and warehouse
Edison, New Jersey	Office and warehouse
Brisbane, California	Office and warehouse
Hawthorne, California	Office and warehouse
Bensenville, Illinois	Office and warehouse
Miami, Florida	Office and warehouse
Spokane, Washington	Office building
Asia:	
Kowloon, Hong Kong	Offices
Taipei, Taiwan	Offices
Seoul, Korea	Office and warehouse
Shanghai, China	Office building
Beijing, China	Office and warehouse
Europe:	
Brussels, Belgium	Office and warehouse
Dublin, Ireland	Office and warehouse
Cork, Ireland	Office and warehouse
London, England	Office and warehouse
Latin America:	
Alajuela, Costa Rica	Office building

Middle East:

Cairo, Egypt

Office and warehouse

The Company leases and maintains 68 additional offices and satellite locations in the United States and 342 leased locations throughout the world, each located close to an airport, ocean port, or on an important border crossing. The majority of these facilities contain warehouse facilities. Lease terms are either on a month-to-month basis or terminate at various times through 2021. See Note 7 to the Company's consolidated financial statements for lease commitments. As an office matures, the Company will investigate the possibility of building or buying suitable facilities. The Company believes that current leases can be extended and that suitable alternative facilities are available in the vicinity of each present facility should extensions be unavailable at the conclusion of current leases.

ITEM 3 — 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. As part of this process, the Company has met with and continues to co-operate with the DOJ. The Company may 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 results of operations and operating cash flows for any particular quarter or year. At this time the Company is unable to estimate the range of reasonably possible fines and/or penalties, if any, that might result from this investigation.

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

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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 against these allegations. On August 13, 2009, the Company filed a motion to dismiss the amended complaint for failure to state a claim. Plaintiffs filed their opposition to the Company's motion on January 30, 2010. On January 4, 2011, the Magistrate Judge issued a Report and Recommendation to dismiss the claims against the Company and others, but allowed the plaintiffs' the opportunity to further amend the complaint. The Report and Recommendation is now pending before the Court for resolution. On February 28, 2012, the Company entered into an agreement, which is subject to preliminary approval by the Court, notice to the putative class and final approval, with the plaintiffs individually and on behalf of a class of direct purchasers of freight forwarding services, to resolve this lawsuit. The Company has not made, and continues to make no admission of liability by entering into this agreement. The agreement, if approved by the Court, will dismiss all allegations that the Company violated the Sherman Act. Under the terms of the agreement, the Company will be dismissed from this lawsuit. In exchange for being dismissed from this lawsuit, the Company has agreed to assign to the plaintiffs 70% of the proceeds (Air Cargo proceeds) it may receive as one of the members of a separate class action litigation brought against many of the largest international air cargo carriers. The agreement provides for no other sources of consideration from the Company. Based on the terms of the agreement, and the Company's previously publicly-expressed intent not to profit and thereby effectively distribute any Air Cargo proceeds it may receive, management does not expect there to be any material impact on the Company's consolidated financial statements. Management believes that the amounts assigned to the plaintiffs and the class it seeks to represent, which includes the Company's customers, net of attorneys' fees and other administrative costs allowed by the Court, will be allocated by the Court to members of this class action lawsuit in an equitable manner consistent with their participation in the international airfreight markets over the relevant time periods.

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. On October 25, 2011, the Company and its Hong Kong subsidiary received a standard letter from the EC regarding its ongoing investigation of freight forwarders. The letter (i) invited comment on the EC's January 20, 2011 request for information and (ii) indicated potential revenue data it may take into account for the calculation of any fine it may impose. The Company replied to the letter. On February 24, 2012, the Company received notice from the EC that it plans to hold additional meetings, known as State of Play meetings, related to its on-going investigation of freight forwarders on or about March 15, 2012. The Company expects to participate in the meeting to continue its vigorous defense against the allegations. The Company expects to incur ongoing attorneys' fees and other defense costs during the course of this ongoing proceeding. Administrative fines, if the EC concludes that the Company has engaged in anti-competitive behavior, could have a material impact on the Company's results of operations and operating cash flows for any particular quarter or year. The Company continues to vigorously defend itself against the allegations, and at this time, the Company has no way of predicting the ultimate outcome of this proceeding. Further, the Company is unable to estimate the range of a reasonably possible fine, if any, that might

result from this proceeding.

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. Based on recent changes in Brazilian anti-competition laws that reduce the maximum amount of fines that can be assessed, and further investigation of this matter, management believes that such fines, if any, will not have a material impact on the Company's results of operations and operating cash flows for any particular quarter or year.

No amounts have been accrued for any of the contingencies described above. Legal and associated costs incurred by the Company on the above matters were not significant for the years ended December 31, 2011, 2010 and 2009, respectively. 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 results of operations and operating cash flows for the particular quarter or year 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 4 — MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## ITEM 5 — MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock trades on The NASDAQ Global Select Market. The following table sets forth the high and low sale prices for the Company's common stock as reported by The NASDAQ Global Select Market under the symbol EXPD.

Quarter	Common Stock		Quarter	Common Stock	
	High	Low		High	Low
2011			2010		
First	\$56.19	\$45.91	First	\$38.93	\$32.36
Second	\$55.30	\$46.53	Second	\$42.39	\$34.46
Third	\$53.22	\$39.28	Third	\$47.58	\$33.65
Fourth	\$47.73	\$38.25	Fourth	\$57.15	\$45.23

There were 1,184 shareholders of record as of February 21, 2012. This figure does not include a substantially greater number of beneficial holders of the Company's common stock, whose shares are held of record by banks, brokers and other financial institutions.

The Board of Directors declared semi-annual dividends during the two most recent fiscal years paid as follows:

June 15, 2011	\$ .25
December 15, 2011	\$ .25
June 15, 2010	\$ .20
December 15, 2010	\$ .20

## ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
October 1-31, 2011	—	\$—	—	28,920,950
November 1-30, 2011	44,416	\$43.77	44,416	28,882,121
December 1-31, 2011	37,860	\$41.07	37,860	28,883,236
Total	82,276	\$42.53	82,276	28,883,236

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 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 fourth quarter of 2011, 41,738 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 fourth quarter of 2011, 40,538 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 and the exercise of employee stock purchase rights.

The graph below compares the cumulative 5-year total return of holders of the Company's common stock with the cumulative total returns of Standard and Poor's 500 Index, the NASDAQ Composite index and the NASDAQ Transportation index. The graph assumes that the value of the investment in the Company's common stock and in each of the indexes (including reinvestment of dividends) was \$100 on 12/31/2006 and tracks it through 12/31/2011.

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	12/06	12/07	12/08	12/09	12/10	12/11
Expeditors International of Washington, Inc.	100.00	111.03	83.35	88.13	139.64	105.90
Standard and Poor's 500 Index	100.00	105.49	66.46	84.05	96.71	98.75
NASDAQ Composite	100.00	110.26	65.65	95.19	112.10	110.81
NASDAQ Transportation	100.00	105.13	78.60	80.38	103.33	88.11

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

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## ITEM 6 — SELECTED FINANCIAL DATA

## Financial Highlights

In thousands except per share data

	2011	2010	2009	2008	2007
Revenues	\$6,150,498	5,967,573	4,092,283	5,633,878	5,235,171
Net revenues	1,896,477	1,692,786	1,382,786	1,603,261	1,452,961
Net earnings attributable to shareholders	385,679	344,172	240,217	301,014	269,154
Diluted earnings attributable to shareholders per share	1.79	1.59	1.11	1.37	1.21
Basic earnings attributable to shareholders per share	1.82	1.62	1.13	1.41	1.26
Dividends declared and paid per common share	.50	.40	.38	.32	.28
Working capital	1,490,738	1,278,377	1,079,444	903,010	764,944
Total assets	2,866,827	2,679,179	2,323,722	2,100,839	2,068,605
Shareholders' equity	2,003,638	1,740,906	1,553,007	1,366,418	1,226,571
Weighted average diluted shares outstanding	215,033,580	216,446,656	216,533,240	219,170,003	221,799,868
Weighted average basic shares outstanding	212,117,511	212,283,966	212,112,744	212,755,946	213,314,761

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

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by the Company with the Securities and Exchange Commission. The words or phrases “will likely result”, “are expected to”, “will continue”, “is anticipated”, “estimate”, “project” or similar expressions are intended to identify “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are qualified in their entirety by reference to and are accompanied by the discussion in Item 1A of certain important factors that could cause actual results to differ materially from such forward-looking statements.

The risks included in Item 1A are not exhaustive. Furthermore, reference is also made to other sections of this report which include additional factors which could adversely impact the Company’s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all of such risk factors, nor can it assess the impact of all of such risk factors on the Company’s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of actual results.

Shareholders should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company’s policy to disclose to such analysts any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of such statement or report. Furthermore, the Company has a policy against issuing financial forecasts or projections or confirming the accuracy of forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

## ITEM 7 — MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

## Executive Summary

Expeditors International of Washington, Inc. is engaged in the business of global logistics management, including international freight forwarding and consolidation, for both air and ocean freight. The Company acts as a customs

broker in all domestic offices, and in many of its international offices. The Company also provides additional services for its customers including value-added distribution, purchase order management, vendor consolidation and other logistics solutions. The Company does not compete for overnight courier or small parcel business. The Company does not own or operate aircraft or steamships.

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and 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 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 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. Primarily as a result of the global economic downturn in 2009, the Company's air and ocean freight volumes were at exceptionally low levels in 2009 as compared with 2010 and 2011. Consistent with slowing global economic conditions and concerns over higher fuel costs, rising costs in general, political unrest and volatile currency exchange rates, the Company's pricing and terms continue to be pressured by customers and service providers. Further, the lower underlying flow of goods both in the global economy and throughout the Company's network continued into January 2012.

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.

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The Company is managed along three geographic areas of responsibility: Americas; Asia Pacific; and Europe, Africa, Near/Middle East and Indian Subcontinent (EMAIR). Each area is divided into sub-regions which are composed of operating units with individual profit and loss responsibility. The Company's business involves shipments between operating units and typically touches more than one geographic area. The nature of the international logistics business necessitates a high degree of communication and cooperation among operating units. Because of this inter-relationship between operating units, it is very difficult to look at one geographic area and draw meaningful conclusions as to its contribution to the Company's overall success on a stand-alone basis.

The Company's operating units share revenue using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents. The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis. The Company's strategy closely links compensation with operating unit profitability. Individual success likely involves cooperation with other operating units.

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

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

The Company's ability to provide services to its customers is highly dependent on good working relationships with a variety of entities including airlines, ocean steamship lines, and governmental agencies. The significance of maintaining acceptable working relationships with governmental agencies and asset-based carriers involved in global trade has gained increased importance as a result of ongoing concern over terrorism. As each carrier labors to comply with additional 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.

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

• Total dedication, first and foremost, to providing superior customer service;

• Aggressive marketing of all of the Company's service offerings;

• Ongoing development of key employees and management personnel via formal and informal means;

• Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth and continuous improvement;

• Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and

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

#### Critical Accounting Estimates

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

Management believes that the nature of the Company's business is such that there are few complex challenges in accounting for operations. While judgments and estimates are a necessary component of any system of accounting, the Company's use of estimates is limited primarily to the following areas:

- accounts receivable valuation;
- 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 or range of reasonably possible loss. Changes in these factors could have a material impact on the Company's financial position, results of operations and operating cash flows for any particular quarter or year.

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

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and 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 Company's expected volatility assumptions are based on the historical volatility of the Company's stock over a period of time commensurate to the expected life. The expected life assumption is primarily based on historical employee exercise patterns and employee post-vesting termination behavior. The risk-free interest rate for the expected term of the option is based on the corresponding yield curve in effect at the time of grant for U.S. Treasury bonds having the same term as the expected life of the option, i.e. a ten year bond rate is used for valuing an option with a ten year expected life. The expected dividend yield is based on the Company's historical experience. The forfeiture assumption used to calculate compensation expense is primarily based on historical pre-vesting employee forfeiture patterns.

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

#### Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-No. 05 "Presentation of

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Comprehensive Income”, which amends Accounting Standards Codification (ASC) 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, as amended by ASU 2011-No. 12, 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 consolidated statements of equity and comprehensive income.

#### 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 2011, 2010, and 2009 expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

In thousands	2011		2010		2009		
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	
Net revenues:							
Airfreight services	\$700,352	37	%\$640,230	38	%\$489,475	35	%
Ocean freight and ocean services	435,425	23	385,523	23	324,223	24	
Customs brokerage and other services	760,700	40	667,033	39	569,088	41	
Net revenues	1,896,477	100	1,692,786	100	1,382,786	100	
Overhead expenses:							
Salaries and related costs	993,358	52	894,132	53	774,214	56	
Other	284,792	15	251,424	15	223,571	16	
Total overhead expenses	1,278,150	67	1,145,556	68	997,785	72	
Operating income	618,327	33	547,230	32	385,001	28	
Other income, net	19,701	1	16,838	1	17,871	1	
Earnings before income taxes	638,028	34	564,068	33	402,872	29	
Income tax expense	251,785	13	219,863	13	162,475	12	
Net earnings	386,243	21	344,205	20	240,397	17	
Less net earnings attributable to the noncontrolling interest	564	—	33	—	180	—	
Net earnings attributable to shareholders	\$385,679	21	%\$344,172	20	%\$240,217	17	%

#### 2011 compared with 2010

Airfreight services net revenues in 2011 increased 9% as compared with 2010. The increase in global airfreight services net revenues was primarily due to a 12% increase in net revenue per kilo, while airfreight tonnage remained constant. North America, Asia Pacific and Europe airfreight services net revenues increased 10%, 8% and 12%, respectively, in 2011 as compared with 2010, while airfreight export tonnage increased 5% and 4% in North America and Europe, respectively, and decreased 3% in Asia Pacific. Net revenue per kilo was higher as the Company benefited from intermittent buying opportunities created from excess carrier capacity, primarily in Asia. After the first quarter of 2011, the Company experienced a decline in quarterly airfreight volumes as compared to 2010 and the customary peak season surge in the fourth quarter did not materialize.

Ocean freight and ocean services net revenues increased 13% in 2011 as compared with 2010. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 13%, 13% and 16%, respectively, in 2011 as compared with 2010.

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 in 2011 and 2010, respectively.

Ocean freight consolidation net revenue increased 12% in 2011 as compared with 2010, primarily due to a 10% increase in net revenue per container. Similar to airfreight, the increase in net revenue per container resulted from excess carrier capacity in 2011 leading to the creation of positive buying opportunities, primarily in Asia. Volume, as measured in terms of forty-foot container equivalent units (FEUs), increased 2% in 2011 as compared with 2010.

Direct ocean freight forwarding and order management, which are primarily fee-based, increased 13% and 16%, respectively, in 2011, as compared with 2010, due to an increase in volume.

Customs brokerage and other services net revenues increased 14% in 2011 as compared with 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 11% in 2011, as compared with 2010, primarily as a result of (i) an increase in the number of employees, (ii) an overall increase in average base salaries and related taxes and benefits and (iii) larger bonuses earned from achieving higher operating income.

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The effects of including stock-based compensation expense in salaries and related costs for 2011 and 2010 are as follows:

In thousands	Years ended December 31,		
	2011	2010	
Salaries and related costs	\$993,358	\$894,132	
As a % of net revenue	52.4	% 52.8	%
Stock compensation expense	\$44,278	\$43,743	
As a % of salaries and related costs	4.5	% 4.9	%
As a % of net revenue	2.3	% 2.6	%

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 in 2011 were up 13% as compared with 2010, primarily as a result of a 13% 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 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 13% in 2011, as compared with 2010, primarily as a result of increased facilities costs, higher business taxes, systems maintenance and consulting expenses, travel and other expenses related to increased activity. Legal and related expenses increased slightly in 2011, as compared with 2010, primarily attributable to responding to matters disclosed in Note 8 to the consolidated financial statements in this report. The Company will continue to incur legal costs related to the anti-competition allegations as described in Note 8 herein until these legal proceedings are concluded. If the governmental regulatory agencies conclude that the Company has engaged in anti-competitive behavior, fines and/or penalties could have a material impact on the Company's results of operations and operating cash flows for any particular quarter or year. Further, the Company periodically conducts 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 constant for 2011, as compared with 2010.

Other income, net, increased 17% in 2011, as compared with 2010. Interest income increased \$3 million due to higher average cash and cash equivalents balances during 2011, as compared with 2010.

The Company pays income taxes in the United States and other jurisdictions, as well as other non-income based taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2011 was 39.5% as compared to 38.9% for 2010. The higher consolidated effective income tax rate for 2011, as compared with 2010, is primarily the result of higher State tax rates and a lower tax benefit received for disqualifying dispositions of incentive stock options for 2011, as compared with 2010. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax

benefit received for disqualifying dispositions of incentive stock options cannot be anticipated.

2010 compared with 2009

Airfreight services net revenues in 2010 increased 31% as compared with 2009. The increase in global airfreight services net revenues was primarily due to a 35% increase in airfreight tonnage, which was partially offset by a slight decrease in net revenue per kilo. North America, Asia Pacific and Europe airfreight services net revenues increased 34%, 39% and 15%, respectively, in 2010 as compared with 2009, while airfreight export tonnage increased 47%, 32% and 28%, respectively. The increase in airfreight tonnage is primarily due to improvements in the global economy which began in the fourth quarter of 2009.

Ocean freight and ocean services net revenues increased 19% in 2010 as compared with 2009. North America, Asia Pacific and Europe ocean freight net revenues increased approximately 17%, 23% and 13%, respectively, in 2010 as compared with 2009.

The majority of the Company's ocean freight net revenue is derived from ocean freight consolidation which represented 51% and 52% of ocean freight net revenue in 2010 and 2009, respectively.

Ocean freight consolidation net revenue increased 16% in 2010 as compared with 2009, primarily due to a 20% increase in volume as measured in terms of FEUs, partially offset by a 3% decrease in net revenue per container. Direct ocean freight forwarding and order management, which are primarily fee-based, increased 15% and 34%, respectively, in 2010, as compared with 2009, due to an increase in volume.

The increase in ocean volumes is primarily due to an improvement in the global economy which began in the fourth quarter of 2009. Net revenue per container in 2010 was lower than in 2009 due to favorable spot market buying opportunities in the first half of 2009 that were not available in 2010.

Customs brokerage and other services net revenues increased 17% in 2010 as compared with 2009, primarily as a result of increases in international air and ocean and domestic time definite freight volumes. Customers continue to seek out customs brokers with sophisticated computerized capabilities critical to an overall logistics management program, including rapid responses to changes in the regulatory and security environment.

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Salaries and related costs increased 15% in 2010, as compared with 2009, primarily as a result of larger bonuses earned from achieving higher operating income before bonuses, an increase in the number of employees, and higher stock compensation expense.

The effects of including stock-based compensation expense in salaries and related costs for 2010 and 2009 are as follows:

In thousands	Years ended December 31,			
	2010	2009		
Salaries and related costs	\$894,132	\$774,214		
As a % of net revenue	52.8	% 56.0		%
Stock compensation expense	\$43,743	\$39,135		
As a % of salaries and related costs	4.9	% 5.1		%
As a % of net revenue	2.6	% 2.8		%

Excluding stock compensation expense, salaries and related costs as a percentage of net revenue decreased 292 basis points for 2010, as compared with 2009. This decrease can be attributed to productivity gains that resulted from more efficient staff utilization. Stock compensation expense increased 12% in 2010, as compared with 2009, primarily a result of a \$4 million “true up” credit recognized in 2009 for the difference between the higher actual pre-vesting forfeiture experience and the pre-vesting forfeiture assumptions used to calculate stock option expense. The net impact on salaries and related costs was \$3 million after consideration of the effect on bonuses.

Bonuses to field and corporate management in 2010 were up 35% as compared with 2009 primarily as a result of a 42% 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.

Other overhead expenses increased 12% in 2010, as compared with 2009, primarily as a result of higher business taxes, travel and other expenses related to increased activity. Legal and related expenses increased slightly in 2010, as compared with 2009, primarily attributable to preparing the Company's responses to a Statement of Objections issued by the European Commission as described further in Note 8 to the consolidated financial statements in this report.

Other overhead expenses as a percentage of net revenues decreased slightly for 2010, as compared with 2009.

Other income, net, decreased 6% in 2010, as compared with 2009. Interest income decreased \$3 million due to lower average interest rates during 2010, as compared with 2009.

The Company pays income taxes in the United States and other jurisdictions, as well as other non-income based taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2010 was 38.9% as compared to 40.3% for 2009. The lower consolidated effective income tax rate for 2010, as compared with 2009, is primarily the result of a higher tax benefit received for disqualifying dispositions of incentive stock options for 2010, as compared with 2009. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock options cannot be anticipated.

#### Currency and Other Risk Factors

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 mitigate short-term exchange losses. Any such hedging activity during 2011, 2010 and 2009 was insignificant. The Company had no foreign currency derivatives outstanding at December 31, 2011 and 2010. Net foreign currency gains in 2011, 2010 and 2009 were \$2 million, \$2 million and \$1 million, respectively.



International air and 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 brokers and forwarders remain a competitive force.

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

#### Geographic Coverage

At December 31, 2011, the Company operates in 185 full service offices and 64 satellite offices on six continents. During 2011, the Company opened two full-service offices: 1) Chengdu, People's Republic of China (formerly a satellite of Chongqing, People's Republic of China) and 2) Pusan, Korea (formerly a satellite office of Seoul, Korea). The Company opened one satellite office in Kristiansand, Norway (satellite of Oslo, Norway) and closed three satellite offices: 1) Malmoe, Sweden; 2) Tiruppur, India and (3) Detroit-Ambassador Bridge, United States.

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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.

#### 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 year ended December 31, 2011 was \$457 million, as compared with \$396 million for 2010. This \$61 million increase is primarily due to an increase in net earnings and changes in working capital accounts. At December 31, 2011, working capital was \$1,491 million, including cash, cash equivalents and short-term investments of \$1,295 million. The Company had no long-term debt at December 31, 2011. 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.

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

As a customs broker, the Company makes significant cash advances for a select group of its 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 and expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable from the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these "pass through" billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2011 was \$80 million, as compared with \$42 million for 2010. The largest use of cash in investing activities is cash paid for capital expenditures. The Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, leasehold improvements, equipment, and office furniture. For the year ended December 31, 2011, the Company made capital expenditures of \$78 million as compared with \$42 million for 2010. This includes normal capital expenditures as noted above and \$36 million for real estate development primarily for office and warehouse facilities in London, United Kingdom and in Beijing, China. Total anticipated capital expenditures in 2012 are currently estimated to be \$100 million. This includes normal capital expenditures as noted above, plus additional real estate development.

Cash used in financing activities for the year ended December 31, 2011 was \$157 million as compared with \$209 million in 2010. The Company uses the proceeds from stock option exercises to repurchase the Company's common stock on the open market. In 2011, the Company continued its policy of repurchasing stock to limit growth in issued and outstanding shares as a result of stock option exercises. The decrease in cash used in financing activities for the year ended December 31, 2011, as compared with the same period in 2010, is primarily due to fewer stock option exercises. During 2011 and 2010, the Company paid dividends of \$.50 per share and \$.40 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 disruption 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 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 December 31, 2011, the international bank lines of credit totaled \$15 million. At December 31, 2011, the Company had no amounts outstanding on these lines of credit, but was contingently liable for \$104 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company is required to perform.

In thousands	Total amounts committed	Amount of commitment expiration per period			
		Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Standby letters of credit and guarantees	\$103,813	\$97,661	\$3,744	\$352	\$2,056

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At December 31, 2011, the Company's contractual obligations are as follows: