

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-Q
August 08, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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)

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Washington
(State or other jurisdiction of
incorporation or organization)

91-1069248
(IRS Employer Identification Number)

1015 Third Avenue, 12th Floor, Seattle, Washington
(Address of principal executive offices)

98104
(Zip Code)

(206) 674-3400

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

At August 4, 2008, the number of shares outstanding of the issuer's Common Stock was 213,054,998.

PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIESCondensed Consolidated Balance Sheets
(In thousands, except share data)

(Unaudited)

| | June 30, 2008 | December 31, 2007 |
|---|------------------|----------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 703,488 | \$ 574,599 |
| Short-term investments | 410 | 674 |
| Accounts receivable, less allowance for doubtful accounts of \$13,822 at June 30, 2008 and \$14,830 at December 31, 2007 | 982,725 | 933,519 |
| Deferred Federal and state income taxes | 7,885 | 8,278 |
| Other | 53,456 | 17,627 |
| Total current assets | 1,747,964 | 1,534,697 |
| Property and equipment, less accumulated depreciation and amortization of \$231,503 at June 30, 2008 and \$214,223 at December 31, 2007 | 505,263 | 497,892 |
| Goodwill, net | 7,927 | 7,927 |
| Other intangibles, net | 7,216 | 7,832 |
| Other assets, net | 21,334 | 20,717 |
| | \$ 2,289,704 | \$ 2,069,065 |
| Liabilities and Shareholders Equity | | |
| Current liabilities: | | |
| Accounts payable | 682,409 | 613,108 |
| Accrued expenses, primarily salaries and related costs | 158,427 | 129,669 |
| Federal, state and foreign income taxes | 31,343 | 26,976 |
| Total current liabilities | 872,179 | 769,753 |
| Deferred Federal and state income taxes | 76,923 | 55,533 |
| Minority interest | 18,050 | 17,208 |
| Shareholders equity: | | |
| Preferred stock, par value \$.01 per share | | |
| Authorized 2,000,000 shares; none issued | | |

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Common stock, par value \$.01 per share

Authorized 320,000,000 shares; issued and outstanding 212,995,326 shares at June 30, 2008,
and 212,996,776 shares at December 31, 2007

| | | |
|--|------------------|------------------|
| | 2,130 | 2,130 |
| Additional paid-in capital | 32,567 | 50,006 |
| Retained earnings | 1,247,023 | 1,143,464 |
| Accumulated other comprehensive income | 40,832 | 30,971 |
| Total shareholders' equity | 1,322,552 | 1,226,571 |
| Commitments and contingencies | | |
| | \$ 2,289,704 | \$ 2,069,065 |

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIESCondensed Consolidated Statements of Earnings
(In thousands, except share data)

(Unaudited)

| | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|--------------|
| | 2008 | 2007 | 2008 | 2007 |
| Revenues: | | | | |
| Airfreight | \$ 658,882 | \$ 564,471 | \$ 1,258,645 | \$ 1,081,676 |
| Ocean freight and ocean services | 516,473 | 450,431 | 963,265 | 825,633 |
| Customs brokerage and other services | 278,900 | 243,716 | 539,666 | 470,255 |
| Total revenues | 1,454,255 | 1,258,618 | 2,761,576 | 2,377,564 |
| Operating expenses: | | | | |
| Airfreight consolidation | 517,683 | 437,446 | 978,782 | 827,090 |
| Ocean freight consolidation | 419,767 | 364,917 | 780,207 | 663,808 |
| Customs brokerage and other services | 119,480 | 101,681 | 230,934 | 197,956 |
| Salaries and related costs | 215,535 | 197,393 | 421,350 | 380,154 |
| Rent and occupancy costs | 19,374 | 15,744 | 38,809 | 32,411 |
| Depreciation and amortization | 10,056 | 10,275 | 19,828 | 19,850 |
| Selling and promotion | 9,744 | 9,581 | 19,248 | 18,677 |
| Other | 29,645 | 19,843 | 53,883 | 41,355 |
| Total operating expenses | 1,341,284 | 1,156,880 | 2,543,041 | 2,181,301 |
| Operating income | 112,971 | 101,738 | 218,535 | 196,263 |
| Interest expense | (75) | 118 | (146) | 104 |
| Interest income | 4,915 | 5,531 | 9,879 | 10,750 |
| Other, net | (162) | 1,675 | 1,112 | 2,430 |
| Other income, net | 4,678 | 7,324 | 10,845 | 13,284 |
| Earnings before income taxes and minority interest | 117,649 | 109,062 | 229,380 | 209,547 |
| Income tax expense | 46,043 | 43,315 | 91,253 | 84,475 |
| Net earnings before minority interest | 71,606 | 65,747 | 138,127 | 125,072 |
| Minority interest | (357) | (258) | (406) | (295) |
| Net earnings | \$ 71,249 | \$ 65,489 | \$ 137,721 | \$ 124,777 |
| Diluted earnings per share | \$.32 | \$.30 | \$.62 | \$.56 |
| Basic earnings per share | \$.33 | \$.31 | \$.65 | \$.58 |

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| | | | | |
|--|-------------|-------------|-------------|-------------|
| Dividends declared and paid per common share | \$.16 | \$.14 | \$.16 | \$.14 |
| Weighted average diluted shares outstanding | 220,515,987 | 221,716,414 | 220,490,452 | 222,283,372 |
| Weighted average basic shares outstanding | 213,275,229 | 213,251,710 | 213,168,730 | 213,339,478 |

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(In thousands)

(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|------------------|------------------|------------------|
| | 2008 | June 30, 2007 | 2008 | June 30, 2007 |
| Operating activities: | | | | |
| Net earnings | \$ 71,249 | \$ 65,489 | \$ 137,721 | \$ 124,777 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | | |
| Provision for losses on accounts receivable | (396) | (869) | (573) | (355) |
| Deferred income tax expense | 7,647 | 6,772 | 16,473 | 12,240 |
| Excess tax benefits from stock plans | (7,889) | (5,291) | (9,395) | (21,623) |
| Stock compensation expense | 11,323 | 12,043 | 22,603 | 23,503 |
| Depreciation and amortization | 10,056 | 10,275 | 19,828 | 19,850 |
| Gain on sale of property and equipment | (30) | (79) | (605) | (202) |
| Minority interest in earnings of consolidated entities | 357 | 258 | 406 | 295 |
| Other | 515 | 354 | 932 | 688 |
| Changes in operating assets and liabilities: | | | | |
| Increase in accounts receivable | (91,778) | (70,962) | (32,024) | (13,261) |
| Decrease (increase) in other current assets | 622 | 173 | 677 | (504) |
| Increase in accounts payable and other current liabilities | 67,024 | 76,080 | 82,102 | 62,445 |
| Decrease in income taxes payable, net | (32,697) | (7,311) | (23,437) | (4,842) |
| Net cash provided by operating activities | 36,003 | 86,932 | 214,708 | 203,011 |
| Investing activities: | | | | |
| Decrease in short-term investments | 169 | 76 | 216 | 162 |
| Purchase of property and equipment | (14,316) | (12,904) | (24,526) | (26,342) |
| Proceeds from sale of property and equipment | 139 | 119 | 181 | 498 |
| Prepayment on long-term land lease | | (2,848) | | (2,848) |
| Deposit on building purchase | | (5,056) | | (5,056) |
| Other | (308) | (1,188) | 55 | (1,528) |
| Net cash used in investing activities | (14,316) | (21,801) | (24,074) | (35,114) |
| Financing activities: | | | | |
| Net distributions to minority interests | | (316) | (107) | (316) |
| (Repayments) borrowings of short-term debt, net | (810) | (17) | | 203 |
| Proceeds from issuance of common stock | 15,537 | 12,602 | 20,151 | 27,868 |
| Repurchases of common stock | (50,970) | (56,597) | (69,588) | (128,995) |
| Excess tax benefits from stock plans | 7,889 | 5,291 | 9,395 | 21,623 |
| Dividends paid | (34,163) | (29,902) | (34,163) | (29,902) |
| Net cash used in financing activities | (62,517) | (68,939) | (74,312) | (109,519) |

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| | | | | |
|--|------------|------------|------------|------------|
| Effect of exchange rate changes on cash | 3,352 | 2,034 | 12,567 | 5,306 |
| (Decrease) increase in cash and cash equivalents | (37,478) | (1,774) | 128,889 | 63,684 |
| Cash and cash equivalents at beginning of period | 740,966 | 576,816 | 574,599 | 511,358 |
| Cash and cash equivalents at end of period | \$ 703,488 | \$ 575,042 | \$ 703,488 | \$ 575,042 |
| Interest and taxes paid: | | | | |
| Interest | \$ 75 | \$ 127 | \$ 146 | \$ 138 |
| Income taxes | 67,613 | 41,279 | 91,885 | 74,312 |

See accompanying notes to condensed consolidated financial statements.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

The attached condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As a result, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted. The Company believes that the disclosures made are adequate to make the information presented not misleading. The condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, which are, in the opinion of management, necessary to a fair statement of the results for the interim periods presented. These condensed consolidated financial statements should be read in conjunction with the financial statements and related notes included in the Company's Form 10-K as filed with the Securities and Exchange Commission on or about February 29, 2008.

Note 2. Comprehensive Income

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

The components of total comprehensive income for interim periods are presented in the following table:

| (in thousands) | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|-----------|------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Net earnings | \$ 71,249 | \$ 65,489 | \$ 137,721 | \$ 124,777 |
| Foreign currency translation adjustments net of tax of \$(1,010) and \$(2,425) for the 3 months ended June 30, 2008 and 2007, and \$(5,310) and \$(3,315) for the 6 months ended June 30, 2008 and 2007. | 1,875 | 4,504 | 9,861 | 6,156 |
| Unrealized gain (loss) on securities net of tax of \$0 and \$(12) for the 3 months ended June 30, 2008 and 2007, and \$0 and \$1 for the 6 months ended June 30, 2008 and 2007. | | 18 | | (1) |
| Total comprehensive income | \$ 73,124 | \$ 70,011 | \$ 147,582 | \$ 130,932 |

Note 3. Business Segment Information

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

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Financial information regarding the Company's operations by geographic area for the three and six-months ended June 30, 2008 and 2007 are as follows:

| (in thousands) | UNITED STATES | OTHER NORTH AMERICA | ASIA | EUROPE | AUSTRAL-ASIA | LATIN AMERICA | MIDDLE EAST | ELIMI-NATIONS | CONSOLI-DATED |
|--|---------------|---------------------|-----------|---------|--------------|---------------|-------------|---------------|---------------|
| Three months ended June 30, 2008: | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 320,278 | 41,397 | 768,086 | 209,297 | 23,407 | 24,626 | 67,164 | | 1,454,255 |
| Transfers between geographic areas | 26,842 | 2,623 | 5,629 | 11,257 | 2,158 | 3,649 | 4,539 | (56,697) | |
| Total revenues | \$ 347,120 | 44,020 | 773,715 | 220,554 | 25,565 | 28,275 | 71,703 | (56,697) | 1,454,255 |
| Net revenues | \$ 153,846 | 18,009 | 104,688 | 72,286 | 13,125 | 14,159 | 21,212 | | 397,325 |
| Operating income | \$ 33,469 | 3,272 | 47,543 | 15,779 | 4,117 | 3,553 | 5,238 | | 112,971 |
| Identifiable assets at quarter end | \$ 1,004,374 | 75,321 | 501,944 | 485,926 | 41,521 | 60,909 | 111,532 | 8,177 | 2,289,704 |
| Capital expenditures | \$ 7,159 | 855 | 3,207 | 1,684 | 159 | 505 | 747 | | 14,316 |
| Depreciation and amortization | \$ 5,424 | 328 | 1,499 | 1,681 | 247 | 322 | 555 | | 10,056 |
| Equity | \$ 1,462,274 | 37,101 | 399,486 | 185,411 | 26,884 | 30,550 | 56,451 | (875,605) | 1,322,552 |
| Three months ended June 30, 2007: | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 260,796 | 32,765 | 710,104 | 162,100 | 17,057 | 19,377 | 56,419 | | 1,258,618 |
| Transfers between geographic areas | 25,856 | 1,989 | 4,470 | 8,172 | 1,853 | 3,078 | 3,340 | (48,758) | |
| Total revenues | \$ 286,652 | 34,754 | 714,574 | 170,272 | 18,910 | 22,455 | 59,759 | (48,758) | 1,258,618 |
| Net revenues | \$ 143,206 | 15,377 | 100,479 | 58,600 | 9,812 | 10,950 | 16,150 | | 354,574 |
| Operating income | \$ 31,459 | 2,941 | 46,587 | 11,951 | 2,658 | 2,354 | 3,788 | | 101,738 |
| Identifiable assets at quarter end | \$ 893,335 | 69,599 | 431,106 | 395,022 | 30,617 | 37,310 | 82,642 | (2,370) | 1,937,261 |
| Capital expenditures | \$ 7,843 | 688 | 1,188 | 2,141 | 198 | 267 | 579 | | 12,904 |
| Depreciation and amortization | \$ 5,304 | 331 | 1,222 | 2,393 | 225 | 417 | 383 | | 10,275 |
| Equity | \$ 1,256,503 | 32,692 | 326,036 | 134,925 | 20,114 | 19,571 | 39,555 | (714,363) | 1,115,033 |
| Six months ended June 30, 2008: | | | | | | | | | |
| Revenues from unaffiliated customers | \$ 618,224 | 76,466 | 1,447,936 | 394,861 | 43,246 | 46,486 | 134,357 | | 2,761,576 |
| Transfers between geographic areas | 50,923 | 4,696 | 10,740 | 21,759 | 4,292 | 6,956 | 8,536 | (107,902) | |
| Total revenues | \$ 669,147 | 81,162 | 1,458,676 | 416,620 | 47,538 | 53,442 | 142,893 | (107,902) | 2,761,576 |
| Net revenues | \$ 302,901 | 34,683 | 203,429 | 138,059 | 24,824 | 26,804 | 40,953 | | 771,653 |
| Operating income | \$ 66,013 | 6,399 | 93,573 | 28,220 | 7,589 | 6,819 | 9,922 | | 218,535 |

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| | | | | | | | | | | |
|------------------------------------|----|-----------|--------|---------|---------|--------|--------|---------|-----------|-----------|
| Identifiable assets at quarter end | \$ | 1,004,374 | 75,321 | 501,944 | 485,926 | 41,521 | 60,909 | 111,532 | 8,177 | 2,289,704 |
| Capital expenditures | \$ | 10,795 | 1,191 | 6,510 | 3,294 | 353 | 776 | 1,607 | | 24,526 |
| Depreciation and amortization | \$ | 10,770 | 640 | 2,753 | 3,449 | 496 | 637 | 1,083 | | 19,828 |
| Equity | \$ | 1,462,274 | 37,101 | 399,486 | 185,411 | 26,884 | 30,550 | 56,451 | (875,605) | 1,322,552 |

**Six months ended
June 30, 2007:**

| | | | | | | | | | | |
|--------------------------------------|----|-----------|--------|-----------|---------|--------|--------|---------|-----------|-----------|
| Revenues from unaffiliated customers | \$ | 506,521 | 60,851 | 1,312,135 | 318,479 | 31,840 | 38,748 | 108,990 | | 2,377,564 |
| Transfers between geographic areas | | 48,354 | 3,967 | 8,450 | 15,933 | 3,550 | 5,584 | 6,763 | (92,601) | |
| Total revenues | \$ | 554,875 | 64,818 | 1,320,585 | 334,412 | 35,390 | 44,332 | 115,753 | (92,601) | 2,377,564 |
| Net revenues | \$ | 278,673 | 30,077 | 193,632 | 114,627 | 18,739 | 20,745 | 32,217 | | 688,710 |
| Operating income | \$ | 59,522 | 5,670 | 91,471 | 22,102 | 5,062 | 4,406 | 8,030 | | 196,263 |
| Identifiable assets at quarter end | \$ | 893,335 | 69,599 | 431,106 | 395,022 | 30,617 | 37,310 | 82,642 | (2,370) | 1,937,261 |
| Capital expenditures | \$ | 16,548 | 1,012 | 2,521 | 3,526 | 892 | 762 | 1,081 | | 26,342 |
| Depreciation and amortization | \$ | 10,473 | 662 | 2,597 | 4,130 | 425 | 817 | 746 | | 19,850 |
| Equity | \$ | 1,256,503 | 32,692 | 326,036 | 134,925 | 20,114 | 19,571 | 39,555 | (714,363) | 1,115,033 |

Note 4. Basic and Diluted Earnings per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share for the three months and six months ended June 30, 2008 and 2007:

| (Amounts in thousands, except share and per share amounts) | Three months ended June 30, | | |
|---|-----------------------------|-------------------------------|-----------------------|
| | Net Earnings | Weighted Average Shares | Earnings Per Share |
| 2008 | | | |
| Basic earnings per share | \$ 71,249 | 213,275,229 | \$.33 |
| Effect of dilutive potential common shares | | 7,240,758 | |
| Diluted earnings per share | \$ 71,249 | 220,515,987 | \$.32 |
| 2007 | | | |
| Basic earnings per share | \$ 65,489 | 213,251,710 | \$.31 |
| Effect of dilutive potential common shares | | 8,464,704 | |
| Diluted earnings per share | \$ 65,489 | 221,716,414 | \$.30 |

| (Amounts in thousands, except share and per share amounts) | Six months ended June 30, | | |
|---|---------------------------|-------------------------------|-----------------------|
| | Net Earnings | Weighted Average Shares | Earnings Per Share |
| 2008 | | | |
| Basic earnings per share | \$ 137,721 | 213,168,730 | \$.65 |
| Effect of dilutive potential common shares | | 7,321,722 | |
| Diluted earnings per share | \$ 137,721 | 220,490,452 | \$.62 |
| 2007 | | | |
| Basic earnings per share | \$ 124,777 | 213,339,478 | \$.58 |
| Effect of dilutive potential common shares | | 8,943,894 | |
| Diluted earnings per share | \$ 124,777 | 222,283,372 | \$.56 |

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

| | Three months ended June 30, | | Six months ended June 30, | |
|--------|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Shares | 6,730,280 | 4,852,570 | 6,730,280 | 3,035,010 |

Note 5. Stock and Cash Dividends

On May 8, 2008, the Board of Directors declared a semi-annual cash dividend of \$.16 per share payable on June 16, 2008 to shareholders of record as of June 2, 2008. The dividend of \$34 million was paid on June 16, 2008.

On May 3, 2007, the Board of Directors declared a semi-annual cash dividend of \$.14 per share payable on June 15, 2007 to shareholders of record as of June 1, 2007. The dividend of \$30 million was paid on June 15, 2007.

Note 6. Shareholders' Equity

A. Share-Based Compensation Plans

The Company provides compensation benefits by granting stock options and employee stock purchase rights to its employees and restricted stock to its directors.

In May 2008, the shareholders approved the Company's 2008 Plan, which made available a total of 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2008 Plan. The Company's annual grant of option awards generally takes place during the second quarter of each fiscal year. For the six-month periods ended June 30, 2008 and 2007, 2,080,315 and 1,930,510 options were granted, respectively. The grant of employee stock purchase rights and the issuance of shares under the employee stock purchase plan are generally made in the third quarter of each fiscal year and none were issued in the three and six-month periods ended June 30, 2008 and 2007.

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

B. Share-Based Compensation Expense

The Company recognizes stock compensation expense on a straight-line basis over the period the stock awards become vested.

The Company recognizes compensation expense based on the estimated fair value of options awarded under its fixed stock option and employee stock purchase rights plans. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants issued during the six months ended June 30, 2008 and 2007.

| | Six months ended June 30, | | | |
|--|---------------------------|-------|------|-------|
| | 2008 | | 2007 | |
| Dividend yield | .72% | | .65% | |
| Volatility | 34 | 37% | 35 | 41% |
| Risk-free interest rates | 3.46% | | 4.69 | 4.75% |
| Expected life (years) - stock option plans | 6.50 | 7.99 | 6.54 | 8.70 |
| Weighted average fair value of stock options granted during the period | \$ | 17.85 | \$ | 18.49 |

The compensation expense for restricted stock awards is based on the fair market value of the Company's shares of common stock on the date of grant. On June 1, 2008, 25,488 restricted shares were granted with a fair value of \$47.08 per share.

Total stock compensation expense and the total related tax benefit recognized in the three and six-months ended June 30, 2008 and 2007 are as follows:

| | Three months ended June 30, | | Six months ended June 30, | |
|----------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| Stock compensation expense | \$ 11,323 | \$ 12,043 | \$ 22,603 | \$ 23,503 |
| Recognized tax benefit | \$ 228 | \$ 482 | \$ 591 | \$ 1,070 |

Note 7. Income Taxes

Based on management's review of the Company's tax positions the Company had no significant unrecognized tax benefits as of June 30, 2008 and December 31, 2007.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various state, local and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to 2004. In October 2007, the Internal Revenue Service initiated an audit of the Company's federal income tax return for the year 2005. With respect to state and local jurisdictions and countries outside of the United States, with limited exceptions, the Company and its subsidiaries are no longer subject to income tax audits for years prior to 2000. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. Although the outcome of tax audits is always uncertain, the Company believes that adequate amounts of tax, interest and penalties have been provided for any adjustments that may result from these open tax years.

The Company recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses. Any interest and penalties expensed in relation to the underpayment of income taxes were insignificant for the three and six months ended June 30, 2008 and 2007.

Note 8. Recent Accounting Pronouncements

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

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements* an amendment of ARB No. 51 (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 modifies the accounting for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is required to and plans to adopt the provisions of SFAS 160 beginning in the first quarter of 2009. While the Company is still assessing the impact of the adoption of SFAS 160, it had minority interest of \$18,050 as of June 30, 2008 and \$17,208 as of December 31, 2007, that it expects will be reclassified to equity under the provisions of SFAS 160.

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

Company is currently assessing the impact of the adoption of SFAS 141R. The impact will depend upon the acquisitions, if any, the Company consummates after the effective date.

Note 9. Contingencies

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. They are also assisting management in conducting a very rigorous self-review. As part of this process, the Company has met with and continues to co-operate with the DOJ. As of June 30, 2008, the Company had incurred approximately \$11 million of cumulative legal and associated costs. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows.

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

On May 16, 2008, a former employee filed a putative class action lawsuit against the Company in the United States District Court for the Northern District of California, Kingery v. Expeditors International of Washington, Inc., No. 08-02510. The lawsuit, in which a class has not been certified, purports to be brought on behalf of some group of current and former salaried management and supervisory employees plaintiff alleges were misclassified as exempt from overtime and meal/rest breaks under California and Federal law. The complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself.

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 and records relating to an ongoing investigation of freight forwarders. The Company intends to respond and co-operate with the EC investigation.

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 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Certain portions of this report on Form 10-Q including the section entitled "Currency and Other Risk Factors" and "Liquidity and Capital Resources" contain forward-looking statements which must be considered in connection with the discussion of the important factors that could cause actual results to differ materially from the forward-looking statements. In addition to risk factors identified elsewhere in this report, attention should be given to the factors identified and discussed in the report on Form 10-K filed on or about February 29, 2008.

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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.

As further discussed under liquidity and capital resources, total capital expenditures in 2008 are expected to exceed \$85 million.

In terms of the opportunities, challenges and risks that management is focused on in 2008, the Company operates in 61 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global culture which demands:

- Total dedication, first and foremost, to providing superior customer service;
- Aggressive marketing of all of the Company's service offerings;

- Ongoing development of key employees and management personnel via formal and informal means;
- Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth and continuous improvement;
- Individual commitment to the identification and mentoring of successors for every key position so that when inevitable change is required, a qualified and well-trained internal candidate is ready to step forward; and
- Continuous identification, design and implementation of system solutions, both technological and 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 has reinforced these values with a compensation system that rewards employees for profitably managing the things they can control. There is no limit to how much a key manager can be compensated for success. The Company believes in a real world environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

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

Critical Accounting Estimates

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

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

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

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

As described in Note 6 in the condensed consolidated financial statements in this quarterly report, the Company accounts for share-based compensation based on an estimate of the fair value of options granted to employees under the Company's stock option and employee stock purchase plans. This expense is recorded on a straight-line basis over the option vesting periods.

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

Refer to Note 6 in the condensed consolidated financial statements for the assumptions used for grants issued during the six months ended June 30, 2008 and 2007.

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

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

pre-vesting employee forfeiture patterns.

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

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

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

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for the three and six-month periods ended June 30, 2008 and 2007, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

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

| | Three months ended June 30, 2008 | | 2007 | | Six months ended June 30, 2008 | | 2007 | |
|--------------------------------------|-------------------------------------|-------------------------|------------|-------------------------|-----------------------------------|-------------------------|------------|-------------------------|
| | Amount | Percent of net revenues | Amount | Percent of net revenues | Amount | Percent of net revenues | Amount | Percent of net revenues |
| Net revenues: | | | | | | | | |
| Airfreight | \$ 141,199 | 36% | \$ 127,025 | 36% | \$ 279,863 | 36% | \$ 254,586 | 37% |
| Ocean freight and ocean services | 96,706 | 24 | 85,514 | 24 | 183,058 | 24 | 161,825 | 23 |
| Customs brokerage and other services | 159,420 | 40 | 142,035 | 40 | 308,732 | 40 | 272,299 | 40 |
| Net revenues | 397,325 | 100 | 354,574 | 100 | 771,653 | 100 | 688,710 | 100 |
| Overhead expenses: | | | | | | | | |
| Salaries and related costs | 215,535 | 54 | 197,393 | 56 | 421,350 | 55 | 380,154 | 55 |
| Other | 68,819 | 17 | 55,443 | 16 | 131,768 | 17 | 112,293 | 17 |

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| | | | | | | | | |
|--|-----------|-----|-----------|-----|------------|-----|------------|-----|
| Total overhead expenses | 284,354 | 71 | 252,836 | 72 | 553,118 | 72 | 492,447 | 72 |
| Operating income | 112,971 | 29 | 101,738 | 28 | 218,535 | 28 | 196,263 | 28 |
| Other income, net | 4,678 | 1 | 7,324 | 2 | 10,845 | 2 | 13,284 | 2 |
| Earnings before income taxes and minority interest | | | | | | | | |
| Interest | 117,649 | 30 | 109,062 | 30 | 229,380 | 30 | 209,547 | 30 |
| Income tax expense | 46,043 | 12 | 43,315 | 12 | 91,253 | 12 | 84,475 | 12 |
| Net earnings before minority interest | | | | | | | | |
| Minority interest | 71,606 | 18 | 65,747 | 18 | 138,127 | 18 | 125,072 | 18 |
| Minority interest | (357) | | (258) | | (406) | | (295) | |
| Net earnings | \$ 71,249 | 18% | \$ 65,489 | 18% | \$ 137,721 | 18% | \$ 124,777 | 18% |

Airfreight net revenues increased 11% and 10% for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods for 2007. The increase in airfreight net revenues for the three-month period was due to a 3% increase in airfreight tonnages handled by the Company during the second quarter of 2008. The increase in airfreight net revenues for the six-month period was due to a 6% increase in airfreight tonnage, as compared with the same period for 2007.

Airfreight net revenues from North America and Europe increased 23% and 25%, respectively, for the three-month period ended June 30, 2008. Airfreight net revenues from Asia decreased 5% for the three-month period ended June 30, 2008. The increases in North America and Europe were a result of tonnage increases of 13% and 16%, respectively, combined with a net revenue per kilo increase of 12%. Airfreight tonnages from Asia decreased 4%, however net revenue per kilo increased 3%, primarily as a result of a more favorable business mix, including a reduction in less profitable business. This trend enhanced the Company's ability to create more efficient and cost effective consolidations when analyzed on a unitary basis.

Airfreight net revenues from North America and Europe increased 16% and 22%, respectively, for the six-month period ended June 30, 2008. Airfreight net revenues from Asia decreased 3% for the six-month period ended June 30, 2008. The increases in North America and Europe were a result of tonnage increases of 14% and 9%, respectively, combined with a net revenue per kilo increase of 10%. Airfreight tonnages from Asia remained essentially flat while net revenue per kilo decreased 1%, primarily as a result of the same changes described for the three-month period.

Ocean freight and ocean services net revenues increased 13% for both the three and six-month periods ended June 30, 2008, as compared with the same periods in 2007. Ocean freight net revenues are comprised of three basic services: ocean freight consolidation, direct ocean forwarding and order management. The majority of the Company's ocean freight net revenue is derived from ocean freight consolidation which represented 60% and 59%, respectively, of ocean freight net revenue for the three and six month period ended June 30, 2008.

Ocean freight consolidation net revenue grew at a rate of 10% for the three month period ended June 30, 2008, as compared with the same period for 2007, while the other services, ocean forwarding and order management, which are primarily fee based, grew at rates of 16% and 19%, respectively, for the same period. For the six-month period ended June 30, 2008 as compared with the same period for 2007, ocean freight consolidation net revenue grew at a rate of 11%, while ocean forwarding and order management grew at rates of 15% and 18%, respectively.

Ocean freight consolidation volumes, measured in terms of forty-foot container equivalent units (FEUs), increased 3% and 5% for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods for 2007, while net revenue per container, on an aggregate basis, increased 7% and 6%, respectively, for the same periods. The dynamics of these increases in ocean net revenues is a combination of the Company's response to market demand with aggressive sales efforts and pricing strategies necessary to expand market share.

For the three-month period ended June 30, 2008, as compared with the same period for 2007, the Company's North American ocean freight net revenues increased 8% while ocean freight net revenues for Asia and Europe increased 16% and 25%, respectively. For the six-month period ended June 30, 2008, as compared with the same period for 2007, North American ocean freight net revenues increased 7%, while ocean freight net revenues for Asia and Europe increased 18% and 19%, respectively. The increases in European ocean freight net revenue during the three and six-month periods are primarily a result of increased imports driven by more focused sales coordination between the Company's Asian and European offices. These increases continued to be influenced by the relative strength of European currencies. The increases in Asian ocean freight net revenue are a result of increases in container counts primarily to Europe and other Asian ports. Increases in North American net revenues were also influenced by stronger exports than those experienced in prior years, primarily driven by a weak U.S. dollar.

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Customs brokerage and other services net revenues increased 12% and 13% for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods for 2007, as a result of the Company's focused marketing efforts and continued emphasis on providing high quality service. Consolidation within the customs brokerage market has also contributed to this increase as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program. In addition, increased focus on regulatory compliance continues to provide opportunities for the Company to expand its customs brokerage services.

Salaries and related costs increased 9% and 11% during the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods in 2007 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity, and (2) increased compensation levels.

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The effects of including stock-based compensation expense in salaries and related costs for the three and six months ended June 30, 2008 and 2007 are as follows:

| | For the three months ended June 30, | | For the six months ended June 30, | |
|--------------------------------------|--|------------|--------------------------------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| Salaries and related costs | \$ 215,535 | \$ 197,393 | \$ 421,350 | \$ 380,154 |
| As a % of net revenue | 54.2% | 55.7% | 54.6% | 55.2% |
| Stock compensation expense | \$ 11,323 | \$ 12,043 | \$ 22,603 | \$ 23,503 |
| As a % of salaries and related costs | 5.3% | 6.1% | 5.4% | 6.2% |
| As a % of net revenue | 2.8% | 3.4% | 2.9% | 3.4% |

Of the 142 and 60 basis point decrease in salaries and related costs as a percentage of net revenue for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods for 2007, 55 and 48 basis points, respectively, are the result of the decrease in stock compensation expense as a percentage of net revenue.

The remaining 95 and 12 basis point decrease in salaries and related costs as a percentage of net revenue for the three and six-month periods ended June 30, 2008, respectively, as compared to the same period for 2007, can be attributed to productivity increases which resulted from more efficient staffing utilization. Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for the three and six-month periods ended June 30, 2008 are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 24% and 17% for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods in 2007 as rent expense, communications expense, process improvement and training expenses, and other costs expanded to accommodate the Company's growing operations. The Company incurred legal and related expenses of \$5 million and \$7 million for the three and six month periods ended June 30, 2008, respectively, primarily attributable to the Department of Justice's (DOJ) ongoing investigation of air cargo freight forwarders and related legal proceedings as described further in Part II Item 1 on this report on Form 10-Q entitled "Legal Proceedings". The Company will continue to incur substantial legal costs, which could include fines and/or penalties, until these proceedings are concluded. If the DOJ concludes that the Company has engaged in anti-competitive behavior, such fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. Despite these record legal and related expenditures, other overhead expenses as a percentage of net revenues remained relatively constant for both the three and six-month periods ended June 30, 2008, as compared with the same periods in 2007.

Other income, net, decreased 36% and 18% for the three and six-month periods ended June 30, 2008, respectively, as compared with the same periods in 2007, primarily due to foreign exchange losses incurred in 2008. Due to lower interest rates during the three and six months ended June 30, 2008, as compared with the same periods for 2007, interest income decreased \$617 and \$871, respectively.

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The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate during the three-month period ended June 30, 2008, was 39.1% as compared to 39.7% for the same period in 2007. The Company's consolidated effective income tax rate for the six-month periods ended June 30, 2008 and 2007 was 39.8% and 40.3%, respectively. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock options cannot be anticipated. The lower consolidated effective income tax rate during the three and six-month periods ended June 30, 2008, as compared to the same periods in 2007, is partially the result of a larger tax benefit received for disqualifying dispositions of incentive stock options occurring during the second quarter of 2008 compared to 2007.

Currency and Other Risk Factors

International air/ocean freight forwarding and customs brokerage are intensely competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the

Company's primary competition is confined to a relatively small number of companies within this group. While there is currently a marked trend within the industry toward consolidation into large firms with multinational offices and agency networks, regional and local broker/forwarders remain a competitive force.

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

Developing these systems and a worldwide network has added a considerable indirect cost to the services provided to customers. Smaller and middle-tier competitors, in general, do not have the resources available to develop customized systems and a worldwide network. As a result, there is a significant amount of consolidation currently taking place in the industry. Management expects that this trend toward consolidation will continue for the short- to medium-term.

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during the three and six months ended June 30, 2008 and 2007 was insignificant. During the three and six months ended June 30, 2008, the Company had foreign exchange losses of approximately \$474 and \$1,018, respectively, on a net basis. For the same periods of 2007 the Company had foreign exchange gains of approximately \$1,407 and \$1,297, respectively, on a net basis. The Company had no foreign currency derivatives outstanding at June 30, 2008 and 2007.

Sources of Growth

During the second quarter of 2008, the Company opened one full service office (●) and one satellite office (+), as follows:

ASIA

●Suzhou, People's Republic of China

(formerly a satellite of Shanghai)

NEAR/MIDDLE EAST

+Mundra, India

(satellite of Bombay)

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

Internal Growth - Management believes that a comparison of same store growth is critical in the evaluation of the quality and extent of the Company's internally generated growth. This same store analysis isolates the financial contributions from offices that have been included in the Company's operating results for at least one full year. The table below presents same store comparisons for the three and six months ended June 30, 2008 (which is the measure of any increase from the same period of 2007) and for the three and six months ended June 30, 2007 (which measures growth over 2006).

| | For the three months ended June 30, | | For the six months ended June 30, | |
|------------------|-------------------------------------|------|-----------------------------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| Net revenue | 12% | 12% | 12% | 12% |
| Operating income | 11% | 15% | 11% | 13% |

Liquidity and Capital Resources

The Company's principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the three and six months ended June 30, 2008, was \$36 million and \$215 million, respectively, as compared with \$87

million and \$203 million for the same periods of 2007. The \$51 million decrease for the three months ended June 30, 2008, is primarily due to the timing of receipts and disbursements represented by accounts receivable and accounts payable balances and by a \$25 million decrease in income taxes payable, net. The decrease in income taxes payable, net is primarily due to a change in the regulations governing the calculation of U.S. Federal estimated tax payments, resulting in a higher payment in the second quarter of 2008, as compared with 2007. The \$12 million increase for the six months ended June 30, 2008, is principally due to increased net earnings offset by a decrease in taxes payable, net of prepaid taxes.

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

As a customs broker, the Company makes significant 5-10 business day cash advances for certain of its customers' obligations such as the payment of duties to the Customs and Border Protection of the Department of Homeland Security. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a pass through and are not recorded as a component of revenue or expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable to the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these pass through billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the three and six months ended June 30, 2008, was \$14 million and \$24 million, respectively, as compared with \$22 million and \$35 million during the same periods of 2007. The largest use of cash in investing activities is cash paid for capital expenditures. As a non-asset based provider of integrated logistics services, the Company does not own any physical means of transportation (i.e., airplanes, ships, trucks, etc.). However, the Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. In the second quarter of 2008, the Company made capital expenditures of \$14 million as compared with \$13 million for the same period in 2007. The Company currently expects to spend approximately \$71 million for normal capital expenditures in 2008. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2008 are estimated to be \$85 million. This includes normal capital expenditures as noted above, plus additional real estate acquisitions and development. The Company expects to finance capital expenditures in 2008 with cash.

Cash used in financing activities during the three and six months ended June 30, 2008 were \$63 million and \$74 million, respectively, as compared with \$69 million and \$110 million for each of the same periods in 2007. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. The Company follows a 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 during both the three and six-month periods ended June 30, 2008, as compared with the same periods in 2007, is primarily due to a lower aggregate cost to repurchase stock as a result of a lower average stock price during the period. The amounts paid for stock option repurchases during the six-month period were also significantly lower due to fewer aggregate shares exercised, as compared to the same period in 2007. During the three months ended June 30, 2008 and 2007, the net use of cash in financing activities included the payment of dividends of \$.16 per share and \$.14 per share, respectively.

At June 30, 2008, working capital was \$876 million, including cash and short-term investments of \$704 million. The Company had no long-term debt at June 30, 2008.

The Company maintains international and domestic unsecured bank lines of credit. At June 30, 2008, the United States facility totaled \$50 million and the international bank lines of credit totaled \$22 million. In addition, the Company maintains a bank facility with its U.K. bank for

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\$14 million which is available for issuances of standby letters of credit. At June 30, 2008 the Company had no amounts outstanding on these lines of credit but was contingently liable for \$86 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

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

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At June 30, 2008, cash and cash equivalent balances of \$522 million were held by the Company's non-United States subsidiaries, of which \$66 million was held in banks in the United States.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Exchange Risk

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

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company's functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the six months ended June 30, 2008, would have had the effect of raising operating income approximately \$18 million. An average 10% strengthening of the U.S. dollar, for the same period, would have had the effect of reducing operating income approximately \$15 million. This analysis does not take in to account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and decrease imports into the United States over some relevant period of time, but the exact effect of this change cannot be quantified without making speculative assumptions.

As of June 30, 2008, the Company had approximately \$4 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company's ability to move money freely. Any such hedging activity during the three and six months ended June 30, 2008, was insignificant. During the three and six months ended June 30, 2008, the Company had foreign exchange losses of approximately \$474 and \$1,018, respectively, on a net basis. For the same periods of 2007, respectively, the Company had foreign exchange gains of approximately \$1,407 and \$1,297, respectively, on a net basis. The Company had no foreign currency derivatives outstanding at June 30, 2008 and 2007. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At June 30, 2008, the Company had cash and cash equivalents and short-term investments of \$704 million, of which \$420 million was invested at various short-term market interest rates. The Company had no short-term borrowings at June 30, 2008. A hypothetical change in the interest rate of 10% would not have a significant impact on the Company's earnings.

In management's opinion, there has been no material change in the Company's market risk exposure in the second quarter of 2008.

Item 4. Controls and Procedures

Evaluation of Controls and Procedures

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

Changes in Internal Controls

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. They are also assisting management in conducting a very rigorous self-review. As part of this process, the Company has met with and continues to co-operate with the

DOJ. As of June 30, 2008, the Company had incurred approximately \$11 million of cumulative legal and associated costs. The Company expects to incur additional costs during the course of this ongoing investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows.

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

On May 16, 2008, a former employee filed a putative class action lawsuit against the Company in the United States District Court for the Northern District of California, Kingery v. Expeditors International of Washington, Inc., No. 08-02510. The lawsuit, in which a class has not been certified, purports to be brought on behalf of some group of current and former salaried management and supervisory employees plaintiff alleges were misclassified as exempt from overtime and meal/rest breaks under California and Federal law. The complaint seeks unspecified damages and injunctive relief. The Company believes that these allegations are without merit and intends to vigorously defend itself.

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 and records relating to an ongoing investigation of freight forwarders. The Company intends to respond and co-operate with the EC investigation.

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

Item 1A. Risk Factors

There have been no material changes in the Company's risk factors from those disclosed in the report on Form 10-K filed on or about February 29, 2008, except for noting that (i) any fines or penalties that could be levied by the DOJ in the event the DOJ concludes the Company has engaged in anti-competitive behavior could have a material impact on the Company's financial condition, results of operations and operating cash flows and (ii) the Company's UK subsidiary, Expeditors International (UK) Ltd., received a request for information from the EC.

| RISK FACTOR | DISCUSSION AND POTENTIAL SIGNIFICANCE |
|---------------------------|---|
| Litigation/Investigations | As a multinational corporation, the Company is subject to formal or informal investigations or litigation from governmental authorities in the countries in which it does business. 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. This investigation may require further management time and cause the Company to incur substantial additional legal and related costs, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior and such fines and/or penalties could have a material impact on the Company's financial condition, results of operations and operating cash flows. In addition, the Company's UK subsidiary has received a request for information from the European Commission |

relating to an ongoing investigation of freight forwarders. The response to the request may require substantial management time and cause the UK subsidiary to incur substantial legal and related costs. The Company may be subject to other civil litigation arising from these investigations, including but not limited to shareholder class action lawsuits and derivative claims made on behalf of the Company. In addition, the Company has been named as a defendant in a Federal anti-trust class action lawsuit filed in New York and will incur additional costs related to defending itself in these proceedings.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

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 |
|------------------|---|-------------------------------------|---|---|
| April 1-30, 2008 | 1,514 \$ | 47.38 | 1,514 | 16,276,584 |
| May 1-31, 2008 | 286,272 | 48.61 | 286,272 | 16,442,539 |
| June 1-30, 2008 | 799,978 | 46.23 | 799,978 | 15,647,100 |
| Total | 1,087,764 \$ | 46.86 | 1,087,764 | 15,647,100 |

In November 1993, the Company's Board of Directors authorized a Non-Discretionary Stock Repurchase Plan. This plan was amended in February 2001 to increase the authorization to repurchase up to 20 million shares of the Company's common stock. This authorization has no expiration date. This plan was disclosed in the Company's report on Form 10-K filed March 31, 1995. In the second quarter of 2008, 335,332 shares were repurchased under the Non-Discretionary Stock Repurchase Plan.

In November 2001, under a Discretionary Stock Repurchase Plan, the Company's Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200 million shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increases. This authorization has no expiration date. This plan was announced on November 13, 2001. In the second quarter of 2008, 752,432 shares were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares resulting from stock option exercises.

Item 4. Submission of Matters to a Vote of Security Holders

(a) The annual meeting of the Shareholders was held on May 7, 2008.

(b) The following directors were elected to the Board of Directors to serve a term of one year and until their successors are elected and qualified:

| | For | Withheld |
|-------------------|-------------|------------|
| P.J. Rose | 181,923,348 | 7,185,940 |
| J.L.K. Wang | 181,545,792 | 7,563,496 |
| R.J. Gates | 181,535,602 | 7,573,686 |
| J.J. Casey | 165,854,669 | 23,254,619 |
| D.P. Kourkoumelis | 181,999,127 | 7,110,161 |
| M.J. Malone | 184,968,705 | 4,140,583 |
| J.W. Meisenbach | 181,799,568 | 7,309,720 |
| M.A. Emmert | 184,913,537 | 4,195,751 |
| R.R. Wright | 184,940,568 | 4,168,720 |

| | For | Against | Abstain | Non-Vote |
|--|-------------|------------|-----------|------------|
| (c) Adoption of the 2008 Stock Option Plan | 155,104,029 | 12,708,442 | 2,031,475 | 19,265,342 |

| | For | Against | Abstain | Non-Vote |
|--|-------------|-----------|-----------|------------|
| (d) Adoption of the 2008 Directors Restricted Stock Plan | 161,505,080 | 6,241,119 | 2,097,747 | 19,265,342 |

| | For | Against | Abstain | Non-Vote |
|--|-------------|-----------|-----------|----------|
| (e) Adoption of the 2008 Executive Compensation Plan | 180,284,870 | 6,601,628 | 2,222,790 | |

| | For | Against | Abstain | Non-Vote |
|---|-------------|-----------|-----------|----------|
| (f) Ratification of KPMG LLP as the Company's Independent Auditor Selection | 182,054,288 | 5,641,152 | 1,413,848 | |

| | For | Against | Abstain | Non-Vote |
|---|------------|------------|-----------|------------|
| (g) Shareholder proposal to amend the Company's existing equal opportunity policy | 84,121,207 | 76,616,383 | 9,106,356 | 19,265,342 |

Item 5. Other Information

(a) Not applicable.

(b) **Not applicable.**

Item 6. Exhibits

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Exhibits required by Item 601 of Regulation S-K.

| Exhibit Number | Description |
|-----------------------|---|
| Exhibit 31.1 | Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32 | Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

SIGNATURES

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

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

August 8, 2008

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

August 8, 2008

/s/ R. JORDAN GATES
R. Jordan Gates, President and Chief Operating Officer
(Principal Financial and Accounting Officer)

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.
AND SUBSIDIARIES

Form 10-Q Index and Exhibits

June 30, 2008

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|-----------------------|---|
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