One

Summary of Significant Accounting Policies

A. Basis of Presentation

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

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

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

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

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

B. Cash Equivalents

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

C. Short-term Investments

Short-term investments are designated as available-for-sale and cost approximates market at December 31, 2003 and 2002.

D. Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates.

E. Long-Lived Assets, Depreciation and Amortization

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

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

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

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, purchased goodwill and intangible assets with indefinite useful lives will no longer be amortized but will be subject to annual impairment tests in accordance with the provisions of the statements. The Company applied the new rules on accounting for goodwill and intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of SFAS No. 142 did not have a material affect on the Company's consolidated financial statements. Goodwill amortization expense was $161 for the year ended December 31, 2001. The Company performed the required initial impairment test of goodwill as of January 1, 2002 and determined there was no impact on the Company's consolidated financial condition or results of operations.

Effective January 1, 2002, the Company ceased to amortize goodwill. Goodwill is recorded net of accumulated amortization of $765 at December 31, 2003 and 2002. For the years ended December 31, 2003 and 2002, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Intangible assets with estimable useful lives are amortized over their respective useful lives, and reviewed for impairment in accordance with SFAS No. 144. The Company adopted the provisions of SFAS No. 144 beginning in the first quarter of 2002. Adoption of SFAS No. 144 had no impact on the Company's consolidated financial condition or results of operations.

Other intangible assets consist principally of payments made to purchase customer lists of former agents in countries where the Company established its own presence by opening its own offices. Other intangible assets are amortized over their estimated useful lives for periods up to 15 years.

Balances as of December 31 are as follows:

	2003	2002
Identifiable intangible assets	$ 19,290	15,764
Less accumulated amortization	(8,127)	(6,044)
	$ 11,163	9,720
Aggregate amortization expense for the year ended December 31	$ 1,424	950

Estimated annual amortization expense will approximate $1,290 during each of the next five years.

F. Revenues and Revenue Recognition

The Company derives its revenues from three principal sources: airfreight, ocean freight and customs brokerage and import 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.

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

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

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

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

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

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

G. Income Taxes

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

H. Net Earnings per Common Share

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

I. Stock Option Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option and its employee stock purchase rights plans. Accordingly, no compensation cost has been recognized for its fixed stock option or employee stock purchase rights plans. Had compensation cost for the Company's three stock based compensation and employee stock purchase rights plans been determined consistent with SFAS No. 123, the Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

	2003	2002	2001
Net earnings – as reported	$ 121,952	112,529	97,243
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(23,552)	(19,567)	(14,309)
Net earnings – pro forma	$ 98,400	92,962	82,934
Basic earnings per share – as reported	$ 1.16	1.08	.93
Basic earnings per share – pro forma	$ .94	.89	.80
Diluted earnings per share – as reported	$ 1.12	1.03	.89
Diluted earnings per share – pro forma	$ .91	.87	.78

See Note 5C. for information on the assumptions used to estimate the fair value of option grants.

J. Foreign Currency

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

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2003, 2002 and 2001 was insignificant. Net foreign currency gains realized during 2003 and 2002 were $588 and $70, respectively. Net foreign currency losses realized during 2001 were $366. The Company had no foreign currency derivatives outstanding at December 31, 2003 and 2002.

K. 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.

Accumulated other comprehensive income (loss) consists of the following:

In thousands Years ended December 31,	2003	2002
Foreign currency translation adjustments	$ 1,325	(10,967)
Unrealized gain on securities	418	–
	$ 1,743	(10,967)

L. Segment Reporting

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

M. Use of Estimates

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

N. Reclassification

Certain prior year amounts have been reclassified to conform with the 2003 presentation.

O. New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and/or normal use of the asset. The Company adopted the provisions of SFAS No. 143 beginning in the first quarter of 2003. Adoption of SFAS No. 143 had no material impact on the Company's consolidated financial condition or results of operations.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company adopted the provisions of SFAS No. 146 beginning in the first quarter of 2003. Adoption of SFAS No. 146 had no material impact on the Company's consolidated financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The provisions of FIN 45 require the Company to value and record the liability for any indirect or direct guarantees of the indebtedness of others entered into after December 31, 2002. The Company adopted the recognition and measurement provisions of FIN 45 beginning in the first quarter of 2003. As of December 31, 2003, the Company had no material obligations under guarantees that fall within the scope of FIN 45.

In November 2002, the EITF reached a consensus on Issue No. 00-21 (EITF 00-21), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 addresses certain aspects of the accounting by a vendor for arrangements under which the vendor will perform multiple revenue generating activities. EITF 00-21 became effective for periods beginning after June 15, 2003. The Company's adoption of the provisions of EITF 00-21 beginning in the third quarter of 2003 had no impact on the Company's consolidated financial position or results of operations.

In December 2003, the FASB issued revised Interpretation No. 46, "Consolidation of Variable Interest Entities (Revised), an Interpretation of ARB No. 51," (FIN 46R). FIN 46R addresses the consolidation by business enterprises of variable interest entities as defined in FIN 46R. The provisions of FIN 46R are generally effective for public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company adopted only the disclosure provisions of FIN 46R in the fourth quarter of 2003 and will adopt the remaining provisions of FIN 46R in the first quarter of 2004. The Company does not expect adoption of the remaining provisions of FIN 46R to have a material impact on the Company's consolidated financial condition or results of operations.

The Company has determined that certain entities with which it is involved are variable interest entities which will require consolidation by the Company in accordance with FIN 46R, in the first quarter of 2004. Since these entities are already consolidated by the Company, their consolidation under FIN 46R is not expected to have a material impact on the Company's consolidated financial condition or results of operations.

The Company's variable interest entities are primarily comprised of its exclusive agent in Taiwan, which conducts the Company's logistics business in that area. As of and for the year ended December 31, 2003, the aggregate total revenues, net revenues and total identifiable assets of the Company's variable interest entities were less than 10% of the Company's respective consolidated amounts. The Company's maximum exposure to loss as a result of its involvement with its variable interest entities is estimated at $4,000 as of December 31, 2003.

Two

Other Assets

Other assets at December 31, 2002 included $31,250 paid into escrow in anticipation of purchasing an office and warehouse facility near the San Francisco, California International Airport. This transaction closed on January 7, 2003.

During the fourth quarter of 2002, the Company evaluated the recoverability of certain other assets and determined that an impairment had occurred. Accordingly, a $3,502 loss was recorded as an operating expense in 2002. No impairment loss occurred in 2003.

Three

Credit Arrangements

The Company has a $50,000 United States bank line of credit extending through July 1, 2004. Borrowings under the line bear interest at LIBOR + .75% (1.87% at December 31, 2003) and are unsecured. As of December 31, 2003, the Company had no borrowings under this line.

The majority of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit totaling $14,866 and $10,284 at December 31, 2003 and 2002, respectively, bear interest at rates up to 3% over the foreign banks' equivalent prime rates. At December 31, 2003 and 2002, the Company was liable for $217 and $1,319, respectively, of borrowings under these lines, and at December 31, 2003 was contingently liable for approximately $50,348 under outstanding standby letters of credit and guarantees related to these lines of credit and other obligations.

The 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.

In addition, at December 31, 2003 the Company had $21,429 in credit facilities with United Kingdom banks (U.K. facilities), secured by corporate guarantees. The Company was contingently liable under the U.K. facilities at December 31, 2003 for $1,518 used to secure customs bonds issued to foreign governments.

At December 31, 2003, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities, including maintenance of certain minimum asset, working capital and equity balances and ratios.

Four

Income Taxes

Income tax expense for 2003, 2002 and 2001 includes the following components:

	Federal	State	Foreign	Total
2003				
Current	$ 24,403	3,543	39,384	67,330
Deferred	3,365	447	–	3,812
	$ 27,768	3,990	39,384	71,142
2002				
Current	$ 18,937	3,120	38,133	60,190
Deferred	4,067	1,204	–	5,271
	$ 23,004	4,324	38,133	65,461
2001				
Current	$ 9,921	2,806	26,084	38,811
Deferred	16,511	1,729	–	18,240
	$ 26,432	4,535	26,084	57,051

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

	2003	2002	2001
Computed "expected" tax expense	$ 68,475	62,724	54,080
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2,593	2,810	2,948
Decrease in valuation allowance for deferred tax assets	–	(1)	(7)
Other, net	74	(72)	30
	$ 71,142	65,461	57,051

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

	2003	2002	2001
United States	$ 63,832	46,054	46,684
Foreign	131,810	133,156	107,830
	$ 195,642	179,210	154,514

The tax effects of temporary differences, tax credits and operating loss carryforwards that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows:

Years ended December 31,	2003	2002
Deferred Tax Assets:		
Accrued intercompany and third party charges, deductible for taxes upon economic performance (i.e. actual payment)	$ 1,178	3,149
Foreign currency translation adjustment	–	6,139
Provision for doubtful accounts receivable	2,321	2,262
Excess of financial statement over tax depreciation	4,621	4,266
Other	996	1,151
Total gross deferred tax assets	9,116	16,967
Deferred Tax Liabilities:		
Unremitted foreign earnings, net of related foreign tax credits	(13,738)	(7,082)
Foreign currency translation adjustment	(480)	–
Other	(273)	(8,555)
Total gross deferred tax liabilities	$ (14,491)	(15,637)
Net deferred tax assets (liabilities)	$ (5,375)	1,330
Plus current deferred tax liabilities	$ 9,964	9,678
Noncurrent deferred tax assets	$ 4,589	11,008

In the fourth quarter of 2003, the Company recorded additional tax expense of $9.5 million in order to provide full U.S. taxation on approximately $41.9 million of foreign earnings accumulated through December 31, 1992, for which U.S. income taxes had not previously been provided. Income taxes had not previously been provided on these earnings as a result of the Company's previous intent to reinvest such earnings indefinitely or to distribute them in a manner in which no significant additional taxes would be incurred. The Company's decision to provide U.S. taxes on all unremitted foreign earnings was made based upon the desire to be able to deploy capital globally without concern for the impact of associated U.S. tax obligations that might be incurred as a result of the repatriation of those earnings. Also, during the fourth quarter of 2003, the Company eliminated $8 million of certain taxes which the Company had previously expected to pay. Upon recent analysis of the state tax implications of the Company's pattern of remitting foreign earnings, the Company has determined that these taxes are not owed.

Five

Shareholders' Equity

A. Dividends

On May 8, 2002, the Board of Directors declared a 2-for-1 stock split, effected in the form of a stock dividend of one share of common stock for every share outstanding, and increased the authorized common stock to 320,000,000 shares. The stock dividend was distributed on June 24, 2002 to shareholders of record on June 10, 2002. All share and per share information, except par value per share, has been adjusted for all years to reflect the stock split.

B. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 10,000,000 shares of the Company's common stock in the open market with the proceeds received from the exercise of Employee and Director Stock Options. As of December 31,

2003, the Company had repurchased and retired 5,815,182 shares of common stock at an average price of $14.57 per share over the period from 1994 through 2003.

In September 2001, the Board of Directors approved a Discretionary Stock Repurchase Plan to repurchase and retire 2,000,000 shares of common stock. As of October 11, 2001, all 2,000,000 shares had been repurchased and retired under the plan at an average price of $22.56 per share. In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2003, no further shares had been repurchased under the amended discretionary plan.

C. Stock Option Plans

The Company has two stock option plans (the "1985 Plan" and the "1997 Plan") for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. The 1985 Plan provides for non-qualified grants at exercise prices equal to or greater than the market value on the date of grant. Outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. The 1997 Plan provides for qualified and non-qualified grants of options to purchase shares, limited to not more than 200,000 shares per person per year. Grants less than or equal to 40,000 shares in any fiscal year, are granted at or above common stock prices on the date of grant. Any 1997 Plan grants in excess of the initial 40,000 shares granted per person per year ("Excess Grants") require an exercise price of not less than 120% of the common stock price on the date of grant. Excess Grants under the 1997 Plan vest completely in 3 years, and expire no later than 5 years, from the date of grant.

The Company also has a stock option plan ("Directors' Plan") under which non-employee directors elected at each annual meeting are granted non-qualified options to purchase 16,000 shares of common stock at prices equal to the market value on the date of grant on the first business day of the month following the meeting.

Upon the exercise of non-qualified stock options, the Company derives a tax deduction measured by the excess of the market value over the option price at the date of exercise. The related tax benefit is credited to additional paid-in capital.

Details regarding the plans are as follows:

	Unoptioned Shares			Outstanding Options	
	1985 Plan	1997 Plan	Directors' Plan	Number of shares	Weighted average price per share
Balance at December 31, 2000	323,456	1,978,750	48,000	11,143,750	$ 9.15
Options authorized	–	5,000,000	400,000	–	$ –
Options granted	(220,000)	(2,060,800)	(64,000)	2,344,800	$ 25.05
Options exercised	–	–	–	(2,548,826)	$ 3.18
Options canceled	–	271,200	–	(271,200)	$ 16.64
Balance at December 31, 2001	103,456	5,189,150	384,000	10,668,524	$ 13.89
Options granted	(100,000)	(2,515,050)	(64,000)	2,679,050	$ 28.61
Options exercised	–	–	–	(1,222,608)	$ 6.71
Options canceled	–	224,850	–	(224,850)	$ 21.32
Balance at December 31, 2002	3,456	2,898,950	320,000	11,900,116	$ 17.80
Options granted	–	(1,846,500)	(64,000)	1,910,500	$ 36.53
Options exercised	–	–	–	(965,636)	$ 9.95
Options canceled	–	248,500	–	(248,500)	$ 27.30
Balance at December 31, 2003	3,456	1,300,950	256,000	12,596,480	$ 21.05

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

	2003	2002	2001
Dividend yield	.47%	.41%	.38%
Volatility	48%	49%	51%
Risk-free interest rates	1.1 – 3.6%	2.0 – 5.2%	3.6 – 5.4%
Expected life (years) – stock option plans	6.8 – 9.2	4.9 – 8.4	5.2 – 8.5
Expected life (years) – stock purchase rights plan	1	1	1
Weighted average fair value of stock options granted during the year	$ 18.64	13.45	12.68
Weighted average fair value of stock purchase rights	$ 8.93	7.88	8.79

The following table summarizes information about fixed-price stock options outstanding at December 31, 2003:

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 2.13 – 9.75	2,108,500	2 years	$ 3.88	2,108,500	$ 3.88
$ 10.00 – 16.05	2,425,980	4.9 years	$ 13.88	2,013,830	$ 13.44
$ 18.95 – 24.86	3,591,800	6.9 years	$ 22.41	727,950	$ 19.11
$ 26.85 – 28.95	2,531,850	8.3 years	$ 28.59	65,500	$ 28.91
$ 31.93 – 36.59	1,938,350	9.3 years	$ 36.36	128,250	$ 33.41
$ 2.13 – 36.59	12,596,480	6.4 years	$ 21.05	5,044,030	$ 10.97

The number of stock options exercisable at December 31, 2002 and 2001, were respectively, 4,338,466, at a weighted average exercise price of $8.40 per share, and 3,983,924, at a weighted average exercise price of $5.78 per share.

D. Basic and Diluted Earnings Per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share in 2003, 2002 and 2001.

	Net Earnings	Weighted Average Shares	Earnings Per Share
2003			
Basic earnings per share	$ 121,952	104,733,442	$ 1.16
Effect of dilutive potential common shares	–	4,268,101	–
Diluted earnings per share	$ 121,952	109,001,543	$ 1.12
2002			
Basic earnings per share	$ 112,529	103,892,827	$ 1.08
Effect of dilutive potential common shares	–	4,988,542	–
Diluted earnings per share	$ 112,529	108,881,369	$ 1.03
2001			
Basic earnings per share	$ 97,243	104,159,504	$ .93
Effect of dilutive potential common shares	–	5,581,836	–
Diluted earnings per share	$ 97,243	109,741,340	$ .89

For the years ended December 31, 2003, 2002 and 2001, options to purchase 1,797,750 shares, 76,600 shares and 66,400 shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock for the period of $35.54, $29.58 and $26.76, respectively, were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

E. Stock Purchase Plan

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan ("2002 Plan"), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan ("1988 Plan") on July 31, 2002. The Company's 2002 Plan provides for 2,152,726 shares of the Company's common stock, including 152,726 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 2003, an aggregate of 435,252 shares, had been issued under the 2002 Plan, and $6,006 had been withheld in connection with the plan year ending July 31, 2004.

Six

Fair Value of Financial Instruments

The Company's financial instruments, other than cash, consist primarily of cash equivalents, short-term investments, accounts receivable, securities, short-term debt, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying amounts based upon market interest rates or their short-term nature.

Seven

Commitments

A. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2013. Total rent expense for 2003, 2002 and 2001 was $31,206, $28,147 and $24,323, respectively. At December 31, 2003, future minimum annual lease payments under all leases are as follows:

2004	$ 33,580
2005	20,126
2006	13,314
2007	10,865
2008	7,747
Thereafter	7,218
	$ 92,850

B. Unconditional Purchase Obligations

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2003 of $94,360, will be fulfilled during 2004 in the Company's ordinary course of business.

C. Employee Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2003, 2002, and 2001, the Company's contributions under the plans were $3,977, $3,292, and $2,937, respectively.

Eight

Contingencies

The Company is ordinarily involved in claims and lawsuits which arise in the normal course of business, none of which currently, in management's opinion, will have a significant affect on the Company's financial condition.

Nine

Business Segment Information

Financial information regarding the Company's 2003, 2002, and 2001 operations by geographic area are as follows:

	United States	Other North America
2003		
Revenues from unaffiliated customers	$ 519,488	65,843
Transfers between geographic areas	41,714	2,352
Total revenues	$ 561,202	68,195
Net revenues	$ 309,980	35,912
Operating income	$ 55,623	8,364
Identifiable assets at year end	$ 538,675	32,478
Capital expenditures	$ 9,322	1,017
Depreciation and amortization	$ 12,879	1,248
Equity	$ 682,585	12,931
2002		
Revenues from unaffiliated customers	$ 469,928	60,629
Transfers between geographic areas	30,032	2,066
Total revenues	$ 499,960	62,695
Net revenues	$ 279,639	32,311
Operating income	$ 40,981	7,967
Identifiable assets at year end	$ 450,259	25,598
Capital expenditures	$ 14,005	1,056
Depreciation and amortization	$ 12,406	1,349
Equity	$ 535,590	9,774
2001		
Revenues from unaffiliated customers	$ 478,263	47,609
Transfers between geographic areas	22,222	1,479
Total revenues	$ 500,485	49,088
Net revenues	$ 252,601	26,029
Operating income (loss)	$ 41,224	4,604
Identifiable assets at year end	$ 404,392	19,731
Capital expenditures	$ 12,202	1,463
Depreciation and amortization	$ 13,322	1,332
Equity	$ 415,229	4,737

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

Far East	Europe	Australia / New Zealand	Latin America	Middle East	Eliminations	Consolidated
1,446,760	406,186	32,077	37,495	117,092	–	2,624,941
7,147	11,715	3,876	4,288	3,576	(74,668)	–
1,453,907	417,901	35,953	41,783	120,668	(74,668)	2,624,941
203,969	137,117	18,985	14,801	29,746	–	750,510
87,313	22,512	3,988	2,073	6,889	–	186,762
162,991	239,068	17,793	20,492	29,350	–	1,040,847
3,510	3,371	324	1,899	1,302	–	20,745
3,146	4,892	667	608	952	–	24,392
120,714	63,619	11,945	3,521	14,049	(263,863)	645,501
1,294,107	314,582	23,534	29,475	104,648	–	2,296,903
6,090	9,398	4,041	3,568	2,824	(58,019)	–
1,300,197	323,980	27,575	33,043	107,472	(58,019)	2,296,903
204,299	112,136	15,103	12,246	26,479	–	682,213
90,917	18,215	3,521	2,015	7,393	–	171,009
144,877	210,849	14,553	8,540	25,272	–	879,948
2,917	60,701	1,057	208	1,483	–	81,427
2,796	4,079	571	553	971	–	22,725
112,199	41,604	10,049	1,231	9,958	(196,593)	523,812
958,698	272,460	17,688	27,096	81,256	–	1,883,070
5,747	9,672	3,406	3,167	2,920	(48,613)	–
964,445	282,132	21,094	30,263	84,176	(48,613)	1,883,070
174,259	106,824	11,465	11,293	24,065	–	606,536
70,546	19,793	2,555	(53)	7,348	–	146,017
112,627	118,170	11,101	8,698	20,412	(6,694)	688,437
2,717	17,009	654	1,102	2,235	–	37,382
3,381	3,290	527	689	1,003	–	23,544
96,664	31,031	8,369	294	7,971	(149,672)	414,623

No single country outside the United States represented more than 10% of the Company's total revenue, net revenue or total identifiable assets in any period presented except as noted in the table below.

	2003	2002	2001
Total Revenues:			
Hong Kong	16%	17%	13%
Taiwan	–*	–*	11%
People's Republic of China	16%	–*	–*
Net Revenues:			
Hong Kong	10%	11%	–*
Total Identifiable Assets:			
United Kingdom	10%	12%	–*

* Represents less than 10% in the period presented.

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Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2003				
Revenues	$ 556,346	625,713	711,469	731,413
Net revenues	170,026	178,261	196,849	205,374
Net earnings	25,119	27,910	32,558	36,365
Basic earnings per share	.24	.27	.31	.35
Diluted earnings per share	.23	.26	.30	.33
2002				
Revenues	$ 449,540	535,756	620,394	691,213
Net revenues	146,706	156,144	177,761	201,602
Net earnings	22,230	23,684	30,619	35,996
Basic earnings per share	.22	.23	.29	.35
Diluted earnings per share	.20	.22	.28	.33

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

The fourth quarter 2003 results include a $.03 per share increase in operating income as a result of the elimination of accruals for inter-company differences made unnecessary by enhancements in the Company's inter-company automated clearinghouse technology implemented in the beginning of the fourth quarter of 2003. In addition, the results also include a net $.02 per share increase in additional tax expense ($9.5 million) as a result of the Company's decision to provide full U.S. taxation on all unremitted foreign earnings and to eliminate certain tax expense ($8.0 million) which the Company has analyzed and determined will not ultimately be paid out.