

Notes to Consolidated Financial Statements

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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, 2004 and 2003.

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.

Effective January 1, 2002, the Company ceased to amortize goodwill. Goodwill is recorded net of accumulated amortization of \$765 at December 31, 2004 and 2003. For the years ended December 31, 2004 and 2003, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

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

Balances as of December 31 are as follows:

	2004	2003
Other intangibles	\$ 20,284	19,290
Less accumulated amortization	(9,445)	(8,127)
	\$ 10,839	11,163
Aggregate amortization expense for the year ended December 31	\$ 1,275	1,424

Estimated annual amortization expense will approximate \$1,450 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 other services. These are the revenue categories presented in the financial statements.

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

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

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

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

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

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

Typically, the fees for each of these services are quoted as separate components, however, customers on occasion will request an all-inclusive rate for a set of services known in the industry as “door-to-door service.” This means that the customer is billed a single rate for all services from pickup at origin to delivery at destination. In these instances, the revenue for origin and destination services, as well as revenue that will be characterized as freight charges, is allocated to branches as set by preexisting Company policy perhaps supplemented by customer specific negotiations between the offices involved. Each of the Company’s branches are 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 Statement of Financial Accounting Standards (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:

	2004	2003	2002
Net earnings - as reported	\$ 156,126	121,952	112,529
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(27,134)	(23,552)	(19,567)
Net earnings - pro forma	\$ 128,992	98,400	92,962
Basic earnings per share — as reported	\$ 1.47	1.16	1.08
Basic earnings per share — pro forma	\$ 1.21	.94	.89
Diluted earnings per share — as reported	\$ 1.41	1.12	1.03
Diluted earnings per share — pro forma	\$ 1.17	.91	.87

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

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123R), which replaces SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS No. 123) and supercedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005. The Company is evaluating the requirements of SFAS No. 123R and expects the adoption of SFAS No. 123R will have a material impact on the consolidated results of operations, earnings per share and consolidated statement of cash flows. See Note 10. for further discussion of SFAS No. 123R.

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 2004, 2003, and 2002 was insignificant. Net foreign currency gains realized during 2004, 2003 and 2002 were \$86, \$588 and \$70, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2004 and 2003.

k. Comprehensive Income

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

Accumulated other comprehensive income consists of the following:

Years ended December 31, (in thousands)	2004	2003
Foreign currency translation adjustments	\$ 11,231	1,325
Unrealized gain on securities	455	418
	\$ 11,686	1,743

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 2004 presentation.

o. New Accounting Pronouncements

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 adopted the remaining provisions of FIN 46R in the first quarter of 2004. The adoption of the remaining provisions of FIN 46R did not 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, 2004, 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 \$8,000 as of December 31, 2004. Effective January 1, 2005, the Company established a new wholly owned subsidiary in Taiwan and ceased active operations within the variable interest entity.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), “Share-Based Payment” (SFAS No. 123R), which replaces SFAS No. 123, “Accounting for Stock-Based Compensation” (SFAS No. 123) and supercedes APB Opinion No. 25, “Accounting for Stock Issued to Employees.” SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense (based on the amount in the Company’s pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company is required to adopt SFAS No. 123R in the third quarter of 2005, beginning July 1, 2005. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The transition alternatives include prospective and retrospective adoption methods. Under the retrospective methods, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. The prospective method requires that compensation expense be recorded for all unvested stock options and share awards as of the beginning of the first quarter of adoption of SFAS No. 123R, while the retrospective methods would record compensation expense for all unvested stock options and share awards beginning with the first period restated. The company is evaluating the requirements of SFAS No. 123R and expects the adoption of SFAS No. 123R will have a material impact on the consolidated results of operations, earnings per share and consolidated statement of cash flows. The Company has not determined the method of adoption or the effect of adopting SFAS No. 123R.

In December 2004, the FASB issued FASB Staff Position (FSP) No. 109-2, “Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004”, which provides guidance under SFAS No. 109, “Accounting for Income Taxes,” with respect to recording the potential impact of the repatriation provisions of the American Jobs Creation Act of 2004 (the Jobs Act) on enterprises’ income tax expense and deferred tax liability. The Jobs Act was enacted on October 22, 2004. The Jobs Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. FSP No. 109-2 states that an enterprise is allowed time beyond the financial reporting period of enactment to evaluate the effect of the Jobs Act on its plan for reinvestment or repatriation of foreign earnings for purposes of applying SFAS No. 109. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret certain provisions in the Act. As such, the Company is not yet in a position to determine to what extent the Company will repatriate foreign earnings that have not yet been remitted to the U.S. and, as provided for in FSP No. 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act. The Company will complete its evaluation and quantification in 2005. Since the Company has provided U.S. taxes on all unremitted foreign earnings, the repatriation of foreign earnings in accordance with the repatriations provisions of the Jobs Act would result in a reduction of the Company’s tax expense and deferred tax liability.

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Other Assets

During the second quarter of 2004, the Company evaluated the recoverability of certain other assets and determined that an impairment had occurred. Accordingly, a \$2,000 loss was recorded as an operating expense in 2004. No impairment loss occurred in 2003.

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Credit Arrangements

The Company has a \$50,000 United States bank line of credit extending through July 1, 2005. Borrowings under the line bear interest at LIBOR + .75% (3.15% at December 31, 2004) and are unsecured. As of December 31, 2004, the entire \$50,000 was available and 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 \$13,545 and \$14,866 at December 31, 2004 and 2003, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2004 and 2003, the Company was liable for \$2,250 and \$217, respectively, of borrowings under these lines, and at December 31, 2004 was contingently liable for approximately \$82,644 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.

At December 31, 2004, 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.

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Income Taxes

Income tax expense for 2004, 2003, and 2002 includes the following components:

	Federal	State	Foreign	Total
2004				
Current	\$ 2,232	680	46,533	49,445
Deferred	36,096	2,874	—	38,970
	\$ 38,328	3,554	46,533	88,415
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

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:

	2004	2003	2002
Computed "expected" tax expense	\$ 87,353	68,475	62,724
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2,310	2,593	2,810
Decrease in valuation allowance for deferred tax assets	—	—	(1)
Other, net	(1,248)	74	(72)
	\$ 88,415	71,142	65,461

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

	2004	2003	2002
United States	\$ 67,148	63,832	46,054
Foreign	182,432	131,810	133,156
	\$ 249,580	195,642	179,210

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, 2004 and 2003 are as follows:

Years ended December 31,	2004	2003
<i>Deferred Tax Assets:</i>		
Accrued third party charges, deductible for taxes upon economic performance (i.e. actual payment)	\$ 2,502	3,021
Provision for doubtful accounts receivable	2,655	2,539
Excess of financial statement over tax depreciation	4,310	4,464
Other	1,171	1,322
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Total gross deferred tax assets	10,638	11,346
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<i>Deferred Tax Liabilities:</i>		
Unremitted foreign earnings, net of related foreign tax credits	(35,370)	(15,902)
Foreign currency translation adjustment	(6,047)	(480)
Other	(451)	(339)
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Total gross deferred tax liabilities	\$ (41,868)	(16,721)
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Net deferred tax liabilities	\$ (31,230)	(5,375)
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Current deferred tax liabilities (assets)	\$ 6,369	(3,593)
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Noncurrent deferred tax liabilities	\$ (24,861)	(8,968)
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In the fourth quarter of 2003, the Company recorded additional tax expense of \$9,500 in order to provide full U.S. taxation on approximately \$41,900 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 \$8,000 of certain taxes which the Company had previously expected to pay. Upon analysis of the state tax implications of the Company's pattern of remitting foreign earnings, the Company determined that these taxes were not owed.

In October 2004, the President signed the Jobs Act into law. The Jobs Act creates a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85% dividends received deduction for certain dividends from controlled foreign corporations. The deduction is subject to a number of limitations and uncertainty remains as to how to interpret certain provisions in the Act. As such, the Company is not yet in a position to determine to what extent the Company will repatriate foreign earnings that have not yet been remitted to the U.S. As provided for in FSP No. 109-2, the Company has not adjusted its tax expense or deferred tax liability to reflect the repatriation provisions of the Jobs Act. The Company will complete its evaluation and quantification in 2005.

5

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, 2004, the Company had repurchased and retired 6,427,715 shares of common stock at an average price of \$17.72 per share over the period from 1994 through 2004.

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, 2004, 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, 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	—	225,850	—	(225,850)	\$ 21.32
Balance at December 31, 2002	3,456	2,899,950	320,000	11,899,116	\$ 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	1,301,950	256,000	12,595,480	\$ 21.05
Options granted	—	(1,069,825)	(64,000)	1,133,825	\$ 42.02
Options exercised	—	—	—	(1,786,886)	\$ 9.59
Options canceled	—	244,675	—	(244,675)	\$ 30.65
Balance at December 31, 2004	3,456	476,800	192,000	11,697,744	\$ 24.64

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:

	2004	2003	2002
Dividend yield	.54%	.47%	.41%
Volatility	46%	48%	49%
Risk-free interest rates	2.1 – 4.7%	1.1 – 3.6%	2.0 – 5.2%
Expected life (years) — stock option plans	6.6 – 9.2	6.8 – 9.2	4.9 – 8.4
Expected life (years) — stock purchase rights plan	1	1	1
Weighted average fair value of stock options granted during the year	\$ 21.30	18.64	13.45
Weighted average fair value of stock purchase rights	\$ 12.34	8.93	7.88

The following table summarizes information about fixed-price stock options outstanding at December 31, 2004:

Range of exercise price	Number outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$ 2.82 – 14.63	2,012,901	2.4 years	\$ 7.55	2,012,901	\$ 7.55
\$ 16.04 – 18.95	2,361,293	4.9 years	\$ 17.59	1,983,267	\$ 17.34
\$ 20.69 – 24.86	1,904,375	6.3 years	\$ 24.72	896,450	\$ 24.56
\$ 26.85 – 28.95	2,440,350	7.3 years	\$ 28.59	66,600	\$ 28.89
\$ 31.93 – 46.88	2,978,825	8.6 years	\$ 38.47	192,500	\$ 37.90
\$ 2.82 – 46.88	11,697,744	6.1 years	\$ 24.64	5,151,718	\$ 15.69

The number of stock options exercisable at December 31, 2003 and 2002, were respectively, 5,044,030, at a weighted average price of \$10.97 per share, and 4,338,466, at a weighted average exercise price of \$8.40 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 2004, 2003 and 2002.

	Net earnings	Weighted average shares	Earnings per share
2004			
Basic earnings per share	\$ 156,126	106,384,151	\$ 1.47
Effect of dilutive potential common shares	—	4,433,848	—
Diluted earnings per share	\$ 156,126	110,817,999	\$ 1.41
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

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

Years ended December 31,	2004	2003	2002
Shares	64,000	1,797,750	76,600

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, 2004, an aggregate of 848,398 shares had been issued under the 2002 Plan, and \$7,343 had been withheld in connection with the plan year ending July 31, 2005.

6

Fair Value of Financial Instruments

The Company's financial instruments, other than cash, consist primarily of cash equivalents, short-term investments, accounts receivable, 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.

7

Commitments

a. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2014. Total rent expense for 2004, 2003 and 2002 was \$33,197, \$31,206 and \$28,147, respectively.

At December 31, 2004, future minimum annual lease payments under all leases are as follows:

2005	\$ 35,955
2006	25,610
2007	22,255
2008	16,410
2009	7,005
Thereafter	8,343
	<hr/>
	\$ 115,578

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, 2004 of \$195,496, will be fulfilled during 2005 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 2004, 2003, and 2002, the Company's contributions under the plans were \$4,383, \$3,977, and \$3,292, respectively.

8

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.

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Business Segment Information

Financial information regarding the Company's 2004, 2003, and 2002 operations by geographic area are as follows:

	United States	Other North America
2004		
Revenues from unaffiliated customers	\$ 628,093	77,696
Transfers between geographic areas	69,695	4,288
Total revenues	\$ 697,788	81,984
Net revenues	\$ 362,961	42,954
Operating income	\$ 63,589	10,828
Identifiable assets at year end	\$ 642,930	47,594
Capital expenditures	\$ 34,856	2,150
Depreciation and amortization	\$ 13,539	1,211
Equity	\$ 873,767	20,035
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	\$ 537,679	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

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
1,880,135	492,651	44,042	52,347	142,535	—	3,317,499
11,096	18,921	5,262	6,188	6,373	(121,823)	—
1,891,231	511,572	49,304	58,535	148,908	(121,823)	3,317,499
252,189	164,132	25,583	21,274	37,144	—	906,237
118,395	29,026	6,242	4,298	8,667	—	241,045
279,840	304,701	22,361	21,711	40,667	4,249	1,364,053
11,153	13,445	845	1,744	2,051	—	66,244
4,044	5,099	665	770	1,375	—	26,703
205,387	90,053	13,131	6,647	19,049	(420,665)	807,404
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	4,227	1,044,078
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

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.

	2004	2003	2002
<i>Total revenues:</i>			
Hong Kong	16%	16%	17%
People's Republic of China	18%	16%	—*
<i>Net revenues:</i>			
Hong Kong	10%	10%	11%
People's Republic of China	10%	—*	—*
<i>Total identifiable assets:</i>			
United Kingdom	—*	10%	12%

* Represents less than 10% in the period presented.

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Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2004				
Revenues	\$ 686,850	798,666	897,188	934,795
Net revenues	202,496	222,223	240,358	241,160
Net earnings	31,844	37,612	43,107	43,563
Basic earnings per share	.30	.36	.41	.41
Diluted earnings per share	.29	.34	.39	.39
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

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 (\$9,500) 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 (\$8,000) which the Company has analyzed and determined will not ultimately be paid out.