

Note 1.

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 stated in U.S. dollars, the Company’s functional currency. 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, 2005 and 2004.

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, 2005 and 2004. For the years ended December 31, 2005 and 2004, 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:

| | 2005 | 2004 |
|---|----------------|--------------|
| Other intangibles | \$ 19,724 | 20,284 |
| Less accumulated amortization | (10,727) | (9,445) |
| | <hr/> \$ 8,997 | <hr/> 10,839 |
| Aggregate amortization expense for the year ended December 31 | <hr/> \$ 1,422 | <hr/> 1,275 |

Estimated annual amortization expense will approximate \$1,400 during each of the next five years.

f. Revenues and Revenue Recognition

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

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

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:

| | 2005 | 2004 | 2003 |
|---|------------|----------|----------|
| Net earnings – as reported | \$ 218,634 | 156,126 | 121,952 |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (31,496) | (27,134) | (23,552) |
| Net earnings – pro forma | \$ 187,138 | 128,992 | 98,400 |
| Basic earnings per share – as reported | \$ 2.05 | 1.47 | 1.16 |
| Basic earnings per share – pro forma | \$ 1.75 | 1.21 | .94 |
| Diluted earnings per share – as reported | \$ 1.96 | 1.41 | 1.12 |
| Diluted earnings per share – pro forma | \$ 1.70 | 1.17 | .91 |

See Note 5b. 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. The Company adopted SFAS No. 123R as of January 1, 2006. The adoption of SFAS No. 123R will have a material impact on the consolidated balance sheet, the consolidated results of operations, earnings per share and consolidated statement of cash flows. See Note 1n 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 weighted average 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 2005, 2004, and 2003 was insignificant. Net foreign currency gains realized during 2005, 2004 and 2003 were \$862, \$86 and \$588, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2005 and 2004.

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) | 2005 | 2004 |
|--|-------------------|---------------|
| Foreign currency translation adjustments | \$ (2,977) | 11,231 |
| Unrealized gain on securities | 338 | 455 |
| | <u>\$ (2,639)</u> | <u>11,686</u> |

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. *Recent Accounting Pronouncements*

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 of the registrant's first fiscal year beginning on or 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 has adopted SFAS No. 123R as of January 1, 2006. 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 Company will continue to use the Black-Scholes model for valuing option expense and will amortize the compensation expense using the straight-line prorated method. The Company has elected to use the modified retrospective method of transitioning to SFAS No. 123R. Under the modified retrospective method, beginning with the report on form 10-Q for the first quarter of 2006, the Company will restate all periods presented. The adoption of SFAS No. 123R will have a material impact on the consolidated balance sheet, the consolidated results of operations, earnings per share and consolidated statement of cash flows.

Note 2.

Other Assets

The Company regularly evaluates the recoverability of certain other assets. During the second quarter of 2004, the Company determined that an impairment had occurred and accordingly, a \$2,000 loss was recorded as an operating expense. No impairment occurred in 2005 or 2003.

Note 3.

Credit Arrangments

The Company has a \$50,000 United States bank line of credit extending through July 1, 2006. Borrowings under the line bear interest at LIBOR + .75% (5.14% at December 31, 2005) and are unsecured. As of December 31, 2005, 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 \$12,850 and \$13,545 at December 31, 2005 and 2004, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2005, the Company had no amounts outstanding under these lines and was contingently liable for approximately \$55,639 under outstanding standby letters of credit and guarantees related to these lines of credit and other obligations. At December 31, 2004, the Company had \$2,250 of borrowings under these credit lines.

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, 2005, 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.

Note 4.

Income Taxes

Income tax expense for 2005, 2004, and 2003 includes the following components:

| | Federal | State | Foreign | Total |
|----------|------------------|--------------|---------------|---------------|
| 2005 | | | | |
| Current | \$ 14,213 | 5,047 | 60,438 | 79,698 |
| Deferred | 12,615 | 2,311 | — | 14,926 |
| | <u>\$ 26,828</u> | <u>7,358</u> | <u>60,438</u> | <u>94,624</u> |
| 2004 | | | | |
| Current | \$ 2,232 | 680 | 46,533 | 49,445 |
| Deferred | 36,096 | 2,874 | — | 38,970 |
| | <u>\$ 38,328</u> | <u>3,554</u> | <u>46,533</u> | <u>88,415</u> |
| 2003 | | | | |
| Current | \$ 24,403 | 3,543 | 39,384 | 67,330 |
| Deferred | 3,365 | 447 | — | 3,812 |
| | <u>\$ 27,768</u> | <u>3,990</u> | <u>39,384</u> | <u>71,142</u> |

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

| | 2005 | 2004 | 2003 |
|---|------------------|---------------|---------------|
| Computed "expected" tax expense | \$ 112,054 | 87,353 | 68,475 |
| Increase (reduction) in income taxes resulting from: | | | |
| State income taxes, net of Federal income tax benefit | 4,783 | 2,310 | 2,593 |
| IRC 965 tax benefit for repatriated foreign earnings | (21,680) | — | — |
| Other, net | (533) | (1,248) | 74 |
| | <u>\$ 94,624</u> | <u>88,415</u> | <u>71,142</u> |

In accordance with IRC 965, the Company recorded a one-time tax benefit of \$22 million in the fourth quarter of 2005. In order to qualify for this credit, the Company adopted a plan which requires qualified capital expenditures of approximately \$105 million over the next two to three years.

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.

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

| | 2005 | 2004 | 2003 |
|---------------|-------------------|----------------|----------------|
| United States | \$ 105,796 | 67,148 | 63,832 |
| Foreign | 214,358 | 182,432 | 131,810 |
| | <u>\$ 320,154</u> | <u>249,580</u> | <u>195,642</u> |

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, 2005 and 2004 are as follows:

| Years ended December 31, | 2005 | 2004 |
|---|--------------------|-----------------|
| <i>Deferred Tax Assets:</i> | | |
| Accrued third party charges, deductible for taxes upon economic performance (i.e. actual payment) | \$ 2,714 | 2,502 |
| Provision for doubtful accounts receivable | 2,724 | 2,655 |
| Excess of financial statement over tax depreciation | 4,828 | 4,310 |
| Foreign currency translation adjustment | 1,603 | — |
| Retained liability for cargo claims | 1,472 | 1,171 |
| Capital loss | 1,257 | — |
| Total gross deferred tax assets | <u>14,598</u> | <u>10,638</u> |
| <i>Deferred Tax Liabilities:</i> | | |
| Unremitted foreign earnings, net of related foreign tax credits | (32,174) | (35,370) |
| Foreign currency translation adjustment | — | (6,047) |
| Other | (1,155) | (451) |
| Total gross deferred tax liabilities | <u>\$ (33,329)</u> | <u>(41,868)</u> |
| Net deferred tax liabilities | <u>\$ (18,731)</u> | <u>(31,230)</u> |
| Current deferred tax liabilities (assets) | <u>\$ (7,208)</u> | <u>6,369</u> |
| Noncurrent deferred tax liabilities | <u>\$ (25,939)</u> | <u>(24,861)</u> |

Shareholders' Equity

a. *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, 2005, the Company had repurchased and retired 7,150,850 shares of common stock at an average price of \$21.68 per share over the period from 1994 through 2005.

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, 2005, the Company had repurchased and retired 3,463,577 shares of common stock at an average price of \$37.77 per share over the period from 2001 through 2005.

b. *Stock Option Plans*

At December 31, 2005, the Company has two stock option plans (the "1985 Plan" and the "2005 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. On May 4, 2005, the shareholders approved the Company's 2005 Plan, which made available a total of 1,500,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2005 Plan. This included 595,450 shares otherwise available to be granted under the 1997 Option Plan. This 1997 Option Plan was cancelled upon the approval of the 2005 Plan. The 1985 Plan provides for non-qualified grants. The 2005 Plan provides for qualified and non-qualified grants. Under the 1985 Plan and 2005 Plan, 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. Grants under the 2005 Plan are limited to not more than 50,000 shares per person. No additional shares can be granted under the 2005 Plan after April 30, 2006.

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 and disqualifying dispositions of incentive 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 | 2005 Plan | Directors' Plan | Number of shares | Weighted average price per share |
| 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 | — | (1,070,475) | — | (64,000) | 1,134,475 | \$ 42.02 |
| Options exercised | — | — | — | — | (1,786,886) | \$ 9.59 |
| Options canceled | — | 244,675 | — | — | (244,675) | \$ 30.65 |
| Balance at | | | | | | |
| December 31, 2004 | 3,456 | 476,150 | — | 192,000 | 11,698,394 | \$ 24.64 |
| Options authorized | — | — | 904,550 | — | — | \$ — |
| Options transferred | — | (595,450) | 595,450 | — | — | \$ — |
| Options granted | — | — | (1,451,625) | (64,000) | 1,515,625 | \$ 49.00 |
| Options exercised | — | — | — | — | (1,806,296) | \$ 15.03 |
| Options canceled | — | 119,300 | 26,750 | — | (276,100) | \$ 34.52 |
| Balance at | | | | | | |
| December 31, 2005 | 3,456 | 0 | 75,125 | 128,000 | 11,131,623 | \$ 29.27 |

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:

| | 2005 | 2004 | 2003 |
|--|--------------|------------|------------|
| Dividend yield | .56% | .54% | .47% |
| Volatility | 44 – 49% | 46% | 48% |
| Risk-free interest rates | 3.64 – 4.14% | 2.1 – 4.7% | 1.1 – 3.6% |
| Expected life (years) – stock option plans | 6.67 – 9.36 | 6.6 – 9.2 | 6.8 – 9.2 |
| Expected life (years) – stock purchase rights plan | 1 | 1 | 1 |
| Weighted average fair value of stock options granted during the year | \$ 25.38 | 21.30 | 18.64 |
| Weighted average fair value of stock purchase rights | \$ 14.33 | 12.34 | 8.93 |

The following table summarizes information about fixed-price stock options outstanding at December 31, 2005:

| Range of exercise price | Number outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number exercisable | Weighted average exercise price |
|-------------------------|--------------------|---|---------------------------------|--------------------|---------------------------------|
| \$ 3.65 – 16.04 | 2,142,395 | 2.5 years | \$ 12.10 | 2,142,395 | \$ 12.10 |
| \$ 16.05 – 26.85 | 2,584,884 | 4.9 years | \$ 22.52 | 2,101,734 | \$ 21.98 |
| \$ 28.58 – 34.88 | 2,206,044 | 6.3 years | \$ 28.90 | 1,076,519 | \$ 29.23 |
| \$ 36.59 – 41.73 | 2,645,425 | 7.7 years | \$ 38.53 | 0 | \$ 0 |
| \$ 46.88 – 56.78 | 1,552,875 | 9.3 years | \$ 48.92 | 128,000 | \$ 49.21 |
| \$ 3.65 – 56.78 | <u>11,131,623</u> | 6 years | \$ 29.27 | <u>5,448,648</u> | \$ 20.17 |

The number of stock options exercisable at December 31, 2004 and 2003, were respectively, 5,151,718, at a weighted average price of \$15.69 per share, and 5,044,030, at a weighted average price of \$10.97 per share.

c. *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 2005, 2004 and 2003.

| | Net earnings | Weighted average shares | Earnings per share |
|--|-----------------|-------------------------------|-----------------------|
| <i>2005</i> | | | |
| Basic earnings per share | \$ 218,634 | 106,777,551 | \$ 2.05 |
| Effect of dilutive potential common shares | — | 4,856,055 | — |
| Diluted earnings per share | \$ 218,634 | 111,633,606 | \$ 1.96 |
| <i>2004</i> | | | |
| 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 |
| <i>2003</i> | | | |
| 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 |

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, | 2005 | 2004 | 2003 |
|--------------------------|------|--------|-----------|
| Shares | 250 | 64,000 | 1,797,750 |

d. *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, 2005, an aggregate of 1,198,382 shares had been issued under the 2002 Plan, and \$8,458 had been withheld in connection with the plan year ending July 31, 2006.

Note 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.

Note 7.

Commitments

a. *Leases*

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2013. Total rent expense for 2005, 2004 and 2003 was \$34,488, \$33,197 and \$31,206, respectively. At December 31, 2005, future minimum annual lease payments under all leases are as follows:

| | |
|------------|-----------|
| 2006 | \$ 31,316 |
| 2007 | 24,124 |
| 2008 | 17,712 |
| 2009 | 7,700 |
| 2010 | 3,244 |
| Thereafter | 2,961 |
| | <hr/> |
| | \$ 87,057 |

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, 2005 of \$314,072, will be fulfilled during 2006 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 2005, 2004, and 2003, the Company's contributions under the plans were \$5,183, \$4,383, and \$3,977, respectively.

Note 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 operations or financial position.

Note 9.
Business Segment Information

Financial information regarding the Company's 2005, 2004, and 2003 operations by geographic area are as follows:

| | United States | Other North America |
|--------------------------------------|---------------|------------------------|
| 2005 | | |
| Revenues from unaffiliated customers | \$ 762,835 | 98,369 |
| Transfers between geographic areas | 87,778 | 5,588 |
| Total revenues | \$ 850,613 | 103,957 |
| Net revenues | \$ 432,530 | 50,823 |
| Operating income | \$ 88,347 | 12,330 |
| Identifiable assets at year end | \$ 805,273 | 51,312 |
| Capital expenditures | \$ 78,668 | 882 |
| Depreciation and amortization | \$ 15,077 | 1,484 |
| Equity | \$ 1,004,726 | 18,057 |
| 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 |

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

| Asia | Europe | Australasia | Latin America | Middle East | Eliminations | Consolidated |
|-----------|---------|-------------|---------------|-------------|--------------|--------------|
| 2,224,313 | 534,897 | 48,234 | 58,976 | 174,157 | — | 3,901,781 |
| 13,280 | 24,923 | 5,920 | 7,416 | 8,406 | (153,311) | — |
| 2,237,593 | 559,820 | 54,154 | 66,392 | 182,563 | (153,311) | 3,901,781 |
| 296,925 | 179,238 | 30,135 | 26,772 | 43,186 | — | 1,059,609 |
| 148,675 | 32,328 | 8,116 | 6,162 | 8,552 | — | 304,510 |
| 322,391 | 294,555 | 21,681 | 26,639 | 47,009 | (2,816) | 1,566,044 |
| 3,374 | 4,534 | 1,084 | 1,290 | 949 | — | 90,781 |
| 4,759 | 6,107 | 830 | 1,198 | 1,433 | — | 30,888 |
| 206,090 | 76,625 | 11,218 | 10,998 | 22,705 | (436,698) | 913,721 |
| 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 |

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.

| | 2005 | 2004 | 2003 |
|-----------------------------------|------|------|------|
| <i>Total revenues:</i> | | | |
| Hong Kong | 15% | 16% | 16% |
| People's Republic of China | 21% | 18% | 16% |
| <i>Net revenues:</i> | | | |
| Hong Kong | —* | 10% | 10% |
| People's Republic of China | 12% | 10% | —* |
| <i>Total identifiable assets:</i> | | | |
| United Kingdom | —* | —* | 10% |

* Represents less than 10% in the period presented.

Note 10.
Quarterly Results (Unaudited)

| | 1st | 2nd | 3rd | 4th |
|----------------------------|------------|---------|-----------|-----------|
| <i>2005</i> | | | | |
| Revenues | \$ 825,164 | 927,999 | 1,046,442 | 1,102,176 |
| Net revenues | 230,683 | 250,660 | 281,925 | 296,341 |
| Net earnings | 37,744 | 44,644 | 55,769 | 80,477 |
| Basic earnings per share | .35 | .42 | .52 | .75 |
| Diluted earnings per share | .34 | .40 | .50 | .72 |
| | | | | |
| <i>2004</i> | | | | |
| 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 |

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 2005 results include a \$21,680 tax benefit (\$.19 per share increase in net earnings) as a result of a one-time election under IRC 965.