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 reporting 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, 2007 and 2006.

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. The Company has recorded accounts receivable allowances in the amounts of $14,830, $13,454 and $12,777 as of December 31, 2007, 2006 and 2005, respectively. Additions and write-offs have not been significant in any of these years.

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, 2007 and 2006. For the years ended December 31, 2007 and 2006, 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:

	2007	2006
Other intangibles	$ 21,585	19,689
Less accumulated amortization	(13,753)	(12,105)
	$ 7,832	7,584
Aggregate amortization expense for the year ended December 31	$ 1,483	1,369

Estimated annual amortization expense during each of the next five years is as follows:

2008	$ 1,553
2009	1,459
2010	1,424
2011	1,358
2012	929

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 separate 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) Issue 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 and stock purchase rights. 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 accounts for share-based compensation in accordance with Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (SFAS 123R). This accounting standard requires the recognition of compensation expense based on an estimate of the fair value of options granted to employees and directors under the Company's stock option and employee stock purchase rights plans. This expense is recorded on a straight-line basis over the option vesting periods.

Effective January 1, 2006, the Company adopted SFAS 123R using the modified retrospective transition method. Under the modified retrospective method, prior periods may be restated either as of the beginning of the year of adoption or for all periods presented. Upon adoption, the Company elected to restate all periods presented to include compensation expense for all unvested stock options and share awards. Accordingly, salaries and related costs for the year ended December 31, 2005 have been increased to include compensation expense for the fair value of stock options and stock purchase rights recognized on a straight line basis over the period they become vested.

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 2007, 2006, and 2005 was insignificant. Net foreign currency gains realized in 2007 were $1,300. Net foreign currency losses realized in 2006 were $321. Net foreign currency gains realized in 2005 were $862. The Company had no foreign currency derivatives outstanding at December 31, 2007 and 2006.

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 available-for-sale securities, net of related income tax effects.

Accumulated other comprehensive income consists of the following:

Years ended December 31, (in thousands)		2007	2006
Foreign currency translation adjustments	$	30,971	13,921
Unrealized gain on available-for-sale securities		—	399
	$	30,971	14,320

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. Reclassifications

Certain prior year amounts have been reclassified to conform with the 2007 presentation. A minor reclassification was recorded between Accumulated Other Comprehensive Income and Minority Interest.

o. Recent Accounting Pronouncements

Effective January 1, 2007, the Company adopted EITF Issue 06-3, "How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement," (EITF 06-3). The scope of EITF 06-3 includes any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction between a seller and a customer, including but not limited to sales and value-added taxes. In EITF 06-3 a consensus was reached that entities may adopt a policy of presenting these taxes in the income statement on either a gross or net basis. If these taxes are significant, an entity should disclose its policy of presenting taxes and the amount of taxes if reflected on a gross basis in the income statement. The Company presents revenues net of sales and value-added taxes in its consolidated statements of earnings and did not change its policy as a result of the adoption of EITF 06-3. The adoption of EITF 06-3 had no impact on the Company's consolidated financial condition or results of operations.

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

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). Under the provisions of SFAS 159, companies may choose to account for eligible financial instruments, warranties and insurance contracts at fair value on a contract-by-contract basis. Changes in fair value will be recognized in earnings each reporting period. SFAS 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is required to and plans to adopt the provisions of SFAS 159 beginning in the first quarter of 2008. The Company does not expect the adoption of SFAS 159 to have a material impact on the Company's consolidated financial condition or results of operations.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51" (SFAS 160). SFAS 160 changes the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 160 modifies the accounting for changes in a parent's ownership interest and the valuation of retained noncontrolling equity investments when a subsidiary is deconsolidated. SFAS 160 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is required to and plans to adopt the provisions of SFAS 160 beginning in the first quarter of 2009. While the Company is still assessing the impact of the adoption of SFAS 160, it had minority interest of $17,208 and $16,275 as of December 31, 2007 and December 31, 2006, respectively, that it expects will be reclassified to equity under the provisions of SFAS 160.

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

Note 2. Credit Arrangements

The Company has a $50,000 United States bank line of credit extending through July 1, 2008. Borrowings under the line bear interest at LIBOR + .75% (5.35% at December 31, 2007) and are unsecured. As of December 31, 2007, 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 $19,067 and $19,516 at December 31, 2007 and 2006, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2007, the Company had no amounts outstanding under these lines and was contingently liable for approximately $74,498 under outstanding standby letters of credit and guarantees.

The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

At December 31, 2007, 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 3. Income Taxes

Income tax expense (benefit) for 2007, 2006, and 2005 includes the following components:

	Federal	State	Foreign	Total
2007				
Current	$ 65,799	9,825	85,200	160,824
Deferred	18,274	717	—	18,991
	$ 84,073	10,542	85,200	179,815
2006				
Current	$ 68,176	9,760	78,553	156,489
Deferred	2,096	2,076	—	4,172
	$ 70,272	11,836	78,553	160,661
2005				
Current	$ 25,776	6,851	60,438	93,065
Deferred	(2,830)	(870)	—	(3,700)
	$ 22,946	5,981	60,438	89,365

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:

	2007	2006	2005
Computed “expected” tax expense	$ 157,386	138,482	100,344
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	6,852	7,694	3,888
Nondeductible stock compensation expense, net	11,856	10,426	7,346
IRC 965 tax benefit for repatriated foreign earnings	—	2,328	(21,680)
Other, net	3,721	1,731	(533)
	$ 179,815	160,661	89,365

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 required qualified capital expenditures of approximately $105 million. The Company completed the required capital expenditures during 2006.

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

	2007	2006	2005
United States	$ 117,447	117,725	72,339
Foreign	332,226	277,939	214,358
	$ 449,673	395,664	286,697

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, 2007 and 2006 are as follows:

Years ended December 31,		2007	2006
DEFERRED TAX ASSETS:			
Accrued third party charges, deductible for taxes upon economic performance (i.e. actual payment)	$	4,567	3,661
Provision for doubtful accounts receivable		2,313	2,348
Excess of financial statement over tax depreciation		5,900	4,474
Retained liability for cargo claims		783	806
Capital loss		844	1,140
Deductible stock compensation expense, net		11,639	12,720
Total gross deferred tax assets		26,046	25,149
DEFERRED TAX LIABILITIES:			
Unremitted foreign earnings, net of related foreign tax credits		(56,167)	(36,322)
Foreign currency translation adjustment		(16,677)	(7,497)
Other		(457)	(667)
Total gross deferred tax liabilities	$	(73,301)	(44,486)
Net deferred tax liabilities	$	(47,255)	(19,337)
Current deferred tax assets	$	(8,278)	(7,490)
Noncurrent deferred tax liabilities	$	(55,533)	(26,827)

On January 1, 2007, the Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" (FIN 48), supplemented by FASB Financial Staff Position FIN 48-1, "Definition of Settlement in FASB Interpretation No. 48," issued May 2, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in the Company's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes" (SFAS 109). The interpretation establishes guidelines for recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. The adoption of FIN 48 had no material impact on the Company's consolidated financial condition or results of operations.

Based on management's review of the Company's tax positions the Company had no significant unrecognized tax benefits as of December 31, 2007 and January 1, 2007.

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

The Company recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses. The Company has not changed its policy as a result of adopting FIN 48.

Amounts accrued for the payment of interest and penalties were insignificant at the date of adoption of FIN 48. Any interest and penalties expensed in relation to the underpayment of income taxes were insignificant for the years ended December 31, 2007 and 2006.

Note 4. Shareholders' Equity

a. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 20,000,000 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, 2007, the Company had repurchased and retired 16,906,236 shares of common stock at an average price of $15.94 per share over the period from 1994 through 2007.

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 200,000,000 shares of common stock. As of December 31, 2007, the Company had repurchased and retired 12,948,579 shares of common stock at an average price of $30.87 per share over the period from 2001 through 2007.

b. Stock Option Plans

At December 31, 2007, the Company has two stock option plans (the "1985 Plan" and the "2007 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 2, 2007, the shareholders approved the Company's 2007 Plan, which made available a total of 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2007 Plan. The 1985 Plan provides for non-qualified grants. The 2007 Plan provides for qualified and non-qualified grants. Grants under the 2007 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2007 Plan after April 30, 2008. Under the 1985, 1997, 2005, 2006 and 2007 Plans, 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 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 32,000 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. On May 3, 2006, the Directors' Plan was amended by shareholder vote to require a one year vesting period. Previously, options granted under the Directors' Plan vested immediately.

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 disqualifying disposition. The portion of the benefit from the deduction which equals the estimated fair value of the options (previously recognized as compensation expense) is recorded as a credit to the deferred tax asset for non-qualified stock options and is recorded as a credit to current tax expense for any disqualified dispositions of incentive stock options. All of the tax benefit received upon option exercise for the tax deduction in excess of the estimated fair value of the options is credited to additional paid-in capital.

Details regarding the plans are as follows:

	Unoptioned shares					
	1985 Plan	1997 Plan	2005 Plan	2006 Plan	2007 Plan	Directors' Plan
Balance at December 31, 2004	6,912	952,300	—	—	—	384,000
Options authorized	—	—	1,809,100	—	—	—
Options transferred	—	(1,190,900)	1,190,900	—	—	—
Options granted	—	—	(2,903,250)	—	—	(128,000)
Options forfeited	—	234,800	53,500	—	—	—
Options cancelled	—	3,800	—	—	—	—
Balance at December 31, 2005	6,912	—	150,250	—	—	256,000
Options authorized	—	—	—	3,000,000	—	—
Options granted	—	—	—	(2,984,610)	—	(128,000)
Options forfeited	—	—	—	64,300	—	—
Options not granted	—	—	(150,250)	—	—	—
Balance at December 31, 2006	6,912	—	—	79,690	—	128,000
Options authorized	—	—	—	—	3,000,000	—
Options granted	—	—	—	—	(1,803,260)	(128,000)
Options forfeited	—	—	—	—	—	—
Options not granted	—	—	—	(79,690)	—	—
Balance at December 31, 2007	6,912	—	—	—	1,196,740	—

c. 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. In May 2007, the shareholders approved an amendment to the 2002 Plan to increase by 5,000,000 the number of shares of the Company's common stock available for purchase under the 2002 Plan. The Company's amended 2002 Plan provides for 9,305,452 shares of the Company's common stock, including 305,452 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, 2007, an aggregate of 3,760,126 shares had been issued under the 2002 Plan and $12,292 had been withheld in connection with the plan year ending July 31, 2008.

d. Stock Option Activity

The following tables summarize information about fixed-price stock options for the year ended December 31, 2007:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractural life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2006	21,896,181	$ 19.23		
Options granted	1,931,260	43.02		
Options exercised	(3,978,908)	10.85		
Options forfeited	(559,350)	30.13		
Options cancelled	(14,375)	16.86		
Outstanding at December 31, 2007	19,274,808	$ 23.03	5.65 years	$ 418,179
Exercisable at December 31, 2007	10,500,357	$ 14.29	3.85 years	$ 320,014

	Unvested Options	
	Number of shares	Weighted average fair value per share
Balance at December 31, 2006	10,307,991	$ 13.98
Options granted	1,931,260	18.49
Options vested	(2,905,450)	9.48
Options forfeited	(559,350)	14.93
Balance at December 31, 2007	8,774,451	$ 16.40

e. Share-Based Compensation Expense

As described in Note 1, effective January 1, 2006, the Company adopted SFAS 123R, requiring the recording of compensation expense based on an estimate of the fair value of options awarded under its fixed stock option or employee stock purchase rights plans. The Company elected to utilize the modified retrospective method of transitioning to SFAS 123R and at the date of adoption the Company restated all prior periods to recognize the required stock compensation expense.

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 issued during the years ended December 31, 2007, 2006 and 2005:

For the years ended December 31,	2007	2006	2005
Dividend yield	.65%	.51%	.56%
Volatility	31 – 41%	40 - 43%	44 – 49%
Risk-free interest rates	4.69 – 4.96%	4.69 – 5.11%	3.64 – 4.14%
Expected life (years) – stock option plans	6.15 – 8.70	7.14 – 8.89	6.67 – 9.36
Expected life (years) – stock purchase rights plans	1	1	1
Weighted average fair value of stock options granted during the period	$ 18.49	$ 22.69	$ 12.69
Weighted average fair value of stock purchase rights granted during the period	$ 12.81	$ 13.27	$ 7.17

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

The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 was approximately $138 million, $111 million and $76 million, respectively. The estimated fair value of shares vested during the years ended December 31, 2007, 2006 and 2005 was approximately $28 million, $29 million and $28 million, respectively.

As of December 31, 2007, the total unrecognized compensation cost related to unvested stock options and stock purchase rights is $96 million and the weighted average period over which that cost is expected to be recognized is 1.76 years.

Total stock compensation expense and the total related tax benefit recognized for the years ended December 31, 2007, 2006 and 2005 are as follows:

For the years ended December 31,	2007	2006	2005
Stock compensation expense	$ 44,917	$ 41,739	$ 33,457
Recognized tax benefit	$ 1,714	$ 1,982	$ 3,792

Shares issued as a result of stock option exercises and employee stock plan purchases are issued as new shares outstanding by the Company's transfer agent.

f. 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 2007, 2006 and 2005.

	Net earnings	Weighted average shares	Earnings per share
2007			
Basic earnings per share	$ 269,154	213,314,761	$ 1.26
Effect of dilutive potential common shares	—	8,485,107	—
Diluted earnings per share	$ 269,154	221,799,868	$ 1.21
2006			
Basic earnings per share	$ 235,094	213,454,579	$ 1.10
Effect of dilutive potential common shares	—	8,768,733	—
Diluted earnings per share	$ 235,094	222,223,312	$ 1.06
2005			
Basic earnings per share	$ 190,436	213,555,102	$ .89
Effect of dilutive potential common shares	—	6,675,074	—
Diluted earnings per share	$ 190,436	220,230,176	$ .86

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,	2007	2006	2005
Shares	4,760,520	132,510	500

Note 5. 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 6. Commitments

a. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2019. Total rent expense for 2007, 2006 and 2005 was $48,200, $44,496 and $39,378, respectively. At December 31, 2007, future minimum annual lease payments under all leases are as follows:

2008	$	37,382
2009		20,002
2010		10,827
2011		4,885
2012		2,608
Thereafter		2,685
	$	78,389

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, 2007 of $263,273, will be fulfilled during 2008 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 2007, 2006, and 2005, the Company's contributions under the plans were $6,790, $5,814, and $5,183, respectively.

Note 7. Contingencies

On October 10, 2007, the U. S. Department of Justice (DOJ) issued a subpoena ordering the Company to produce certain information and records relating to an investigation of alleged anti-competitive behavior amongst air cargo freight forwarders. The Company has retained the services of a law firm to assist in complying with the DOJ's subpoena. They are also assisting management in conducting a very rigorous self-review. As part of this process, the Company has met with and continues to co-operate with the DOJ. As of December 31, 2007, the Company had incurred approximately $3.7 million of legal and associated costs. The Company expects to incur additional costs during the course of this on-going investigation, which could include fines and/or penalties if the DOJ concludes that the Company has engaged in anti-competitive behavior.

On January 3, 2008, the Company was named as a defendant, with seven other of the largest European and North American-based global logistics providers, in a Federal antitrust class action lawsuit filed in New York. The complaint, which purports to be brought on behalf of a class of customers (and has not yet been certified), alleges that the defendants engaged in various forms of anti-competitive practices. The Company believes that these allegations are without merit and intends to vigorously defend itself.

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

Note 8. Business Segment Information

Financial information regarding the Company's 2007, 2006, and 2005 operations by geographic area are as follows:

	United States	Other North America
2007		
Revenues from unaffiliated customers	$ 1,069,734	134,436
Transfers between geographic areas	105,263	9,030
Total revenues	$ 1,174,997	143,466
Net revenues	$ 586,938	65,534
Operating income	$ 120,311	15,893
Identifiable assets at year end	$ 939,203	72,150
Capital expenditures	$ 25,437	1,899
Depreciation and amortization	$ 21,204	1,321
Equity	$ 1,371,296	32,309
2006		
Revenues from unaffiliated customers	$ 940,186	120,381
Transfers between geographic areas	109,552	7,956
Total revenues	$ 1,049,738	128,337
Net revenues	$ 533,060	61,531
Operating income	$ 102,041	15,433
Identifiable assets at year end	$ 906,256	62,584
Capital expenditures	$ 121,005	820
Depreciation and amortization	$ 18,533	1,339
Equity	$ 1,215,454	26,160
2005		
Revenues from unaffiliated customers	$ 764,848	98,369
Transfers between geographic areas	87,778	5,588
Total revenues	$ 852,626	103,957
Net revenues	$ 434,543	50,823
Operating income	$ 61,245	11,273
Identifiable assets at year end	$ 805,273	51,312
Capital expenditures	$ 78,668	882
Depreciation and amortization	$ 15,077	1,484
Equity	$ 1,021,761	17,329

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
2,959,873	684,661	71,091	79,314	236,062	—	5,235,171
18,234	36,563	7,854	11,640	13,883	(202,467)	—
2,978,107	721,224	78,945	90,954	249,945	(202,467)	5,235,171
402,613	245,761	42,044	42,920	67,151	—	1,452,961
197,017	50,762	11,913	9,958	17,546	—	423,400
422,038	443,758	34,174	46,492	100,934	10,316	2,069,065
41,773	7,879	1,420	1,259	3,119	—	82,786
4,917	7,759	922	1,523	1,657	—	39,303
306,115	156,349	19,410	25,341	48,477	(732,726)	1,226,571
2,616,098	618,999	54,948	67,463	215,912	—	4,633,987
16,228	32,595	6,383	8,368	11,293	(192,375)	—
2,632,326	651,594	61,331	75,831	227,205	(192,375)	4,633,987
359,613	216,110	32,894	32,931	54,821	—	1,290,960
178,265	48,366	8,887	7,519	14,605	—	375,116
360,904	363,332	26,055	33,273	67,794	2,140	1,822,338
8,269	6,086	446	1,205	1,633	—	139,464
5,108	6,739	785	1,548	1,396	—	35,448
249,017	117,738	14,844	16,133	31,570	(600,825)	1,070,091
2,224,313	534,897	48,234	58,976	174,157	—	3,903,794
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)	3,903,794
296,925	179,238	30,135	26,772	43,186	—	1,061,622
147,130	30,179	7,956	5,698	7,572	—	271,053
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
205,027	75,146	11,108	10,679	22,030	(436,698)	926,382

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.

	2007	2006	2005
TOTAL REVENUES:			
Hong Kong	14%	15%	15%
People's Republic of China	24%	21%	21%
NET REVENUES:			
Hong Kong	—*	—*	—*
People's Republic of China	—*	—*	12%

* Represents less than 10% in the period presented.

Note 9. Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2007				
Revenues	$ 1,118,946	1,258,618	1,411,025	1,446,582
Net revenues	334,136	354,574	384,810	379,441
Net earnings	59,288	65,489	74,320	70,057
Diluted earnings per share	.27	.30	.34	.32
Basic earnings per share	.28	.31	.35	.33
2006				
Revenues	$ 1,026,537	1,131,441	1,231,660	1,244,348
Net revenues	298,142	315,687	341,275	335,855
Net earnings	52,352	56,329	63,803	62,610
Diluted earnings per share	.24	.25	.29	.28
Basic earnings per share	.25	.26	.30	.29

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.

All share and per share information have been adjusted to reflect a 2-for-1 stock split effected in June 2006.