

Expeditors





## Your supply chain: we check more than the links.

#### PRINCIPLES

Taking the longer, wider and deeper view of global logistics.

Creating and maintaining a culture of responsibility, innovation and initiative.

A problem is an opportunity. And opportunity is what we look for.





# Information as good as the people who use it.

#### PRINCIPLES

Information system solutions developed specifically for each customer.

Connectivity that reaches beyond the wired world to the working world.

Knowing the difference etween automated and automatic.





Just because we make it look easy doesn't mean it is.

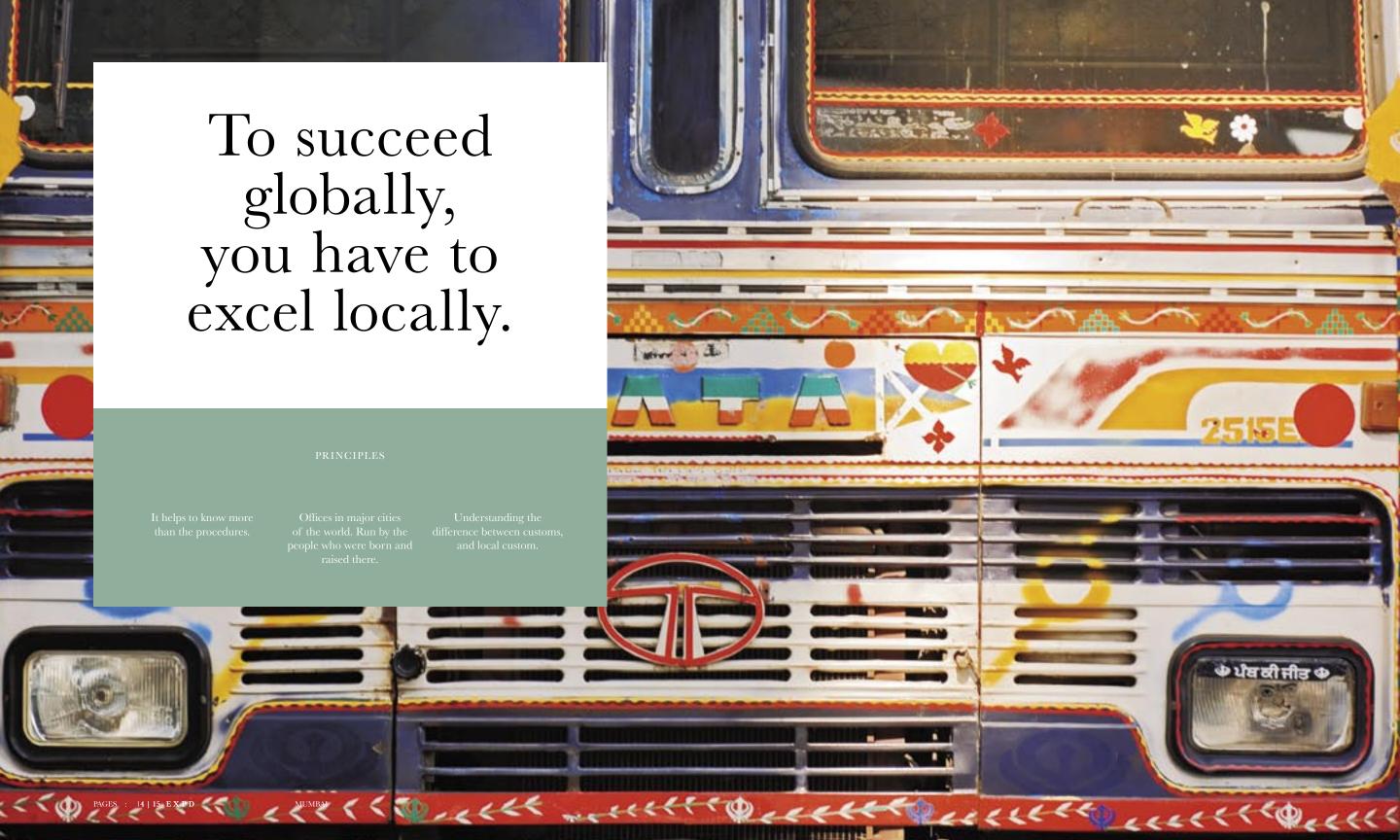
#### PRINCIPLES

is a service business.

It's not a question of big or small, every detai The knowledge base shapes the data base.



### First of all, our business is a service business. It might be easy to forget as we work in front of the screen, in the warehouse, and with customs agents and dispatchers in ports around the world. So, because the first line of contact isn't always the customer we remind ourselves every day that the customer is why we're here. It's not a question The knowledge base of big or small, shapes every detail matters the database Every profession runs on a thousand details While there are the predictable events and isthat allow the job to get done, smoothly. We sues that affect every shipment there are also pay attention to those details so that, as far as issues unique to each customer. By being agile our customers are concerned, they don't deenough to address them both, Expeditors contract, they don't get in the way, they just help tinues to add to our most crucial capability: us get every job done. Every time. the desire to get it right the first time. It's a process called learning, and we never stop. PAGES : 12 | 13 E X P D AMSTERDAM WAREHOUSE



#### It helps to know more than the procedures

Understanding the difference between customs

and local custom

We operate in a tightly regulated industry,

made even more complex by the way in which

regulations dramatically vary from country

to country. It's important to make decisions

based on first-hand experience, not just a book

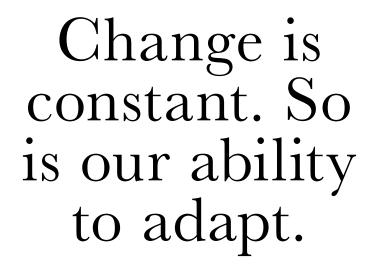
of regulations. So there's just no substitute for

being there, and being from there.

It makes a difference when you know the customs agents and the security personnel. It helps to know who has the midnight shift and where the documents get filed. Expeditors has a global culture because we're part of hundreds of local cultures.

#### Offices in major cities of the world. Run by the people who were born and raised there.

Our strategy of organic growth has proven itself time and time again. In 2006 we opened two full-service offices and six satellite offices. We did it as we always have, by developing the local connections and continuity that are essential in giving our customers a level of service that the cookie cutters cannot.



#### PRINCIPLES

Anticipating change is the best way to be ready for it.

You can't write a rule book that covers ever possibility. Know you can. No matter what

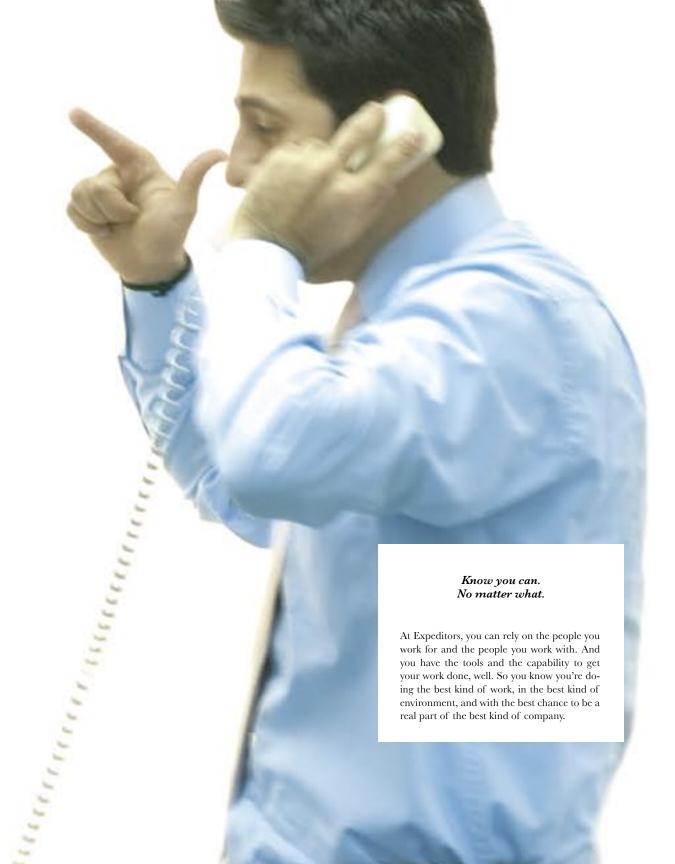
## Anticipating change is the best way to be ready for it.

Getting stuck on *shoulda, coulda, woulda* is the sure path to spectacular failure. But when you expect the unexpected to be like any other part of the job it becomes less and less likely that the unexpected can get in the way of doing the best possible job for our customers.



#### You can't write a rule book that covers every possibility.

It's far better to rely on fundamental principles that are broad enough and clear enough to encourage people to rely on their experience, make decisions that benefit our customers and continue to learn by doing rather than merely do by rote. Which is why Expeditors works. Because our people really can, and really do.



## To our shareholders

Another great year, with heartfelt gratitude to our employees, our customers, our vendors and our shareholders.

During 2006 we continued to see more consolidation in the industry, with, we believe, more to come—particularly in the airlines sector.

Being politically correct has never been a big concern for us at Expeditors, but having integrity has. It is one of the ten cultural values upon which our mission statement is predicated. (You can find these cultural values and our mission statement reproduced here.) Incidentally, we don't just believe these values, we live them daily in our interactions with each other and with our customers. We have never falsified results nor have we ever backdated options. We believe in cultural diversity and protecting our employees

We continued the year by opening two full-service and six new satellite offices and by adding to our technology. Toronto was our first office to go paperless and there will be more following suit. We continue to make sound investments in technology, which will be an increasingly important part of how we serve our clients and how we make our internal operations more efficient.

As we begin our 28<sup>TH</sup> year, we are faced with the retirement of some of our longertenured colleagues, most notably Manfred Amberger, who was our Senior Vice President for Continental Europe and Glenn Alger, our President and Chief Operating Officer. Manfred did an exemplary job and was succeeded by Henrik Hedensio, based in Frankfurt and Kurt Meister, based in Paris. Glenn, who shocked us all by recently announcing his plan to retire in 2007, is still with us.

The transition associated with Glenn's decision is ongoing at this time. Steadfast as always, Glenn will remain long enough to see us successfully through this process. On a personal note, my association with Glenn goes back to 1974, when he worked for me part-time while still in high school. He was one of our original founders and has been a great example of the values embodied in our mission statement. Coincidentally enough, Glenn was instru-

CULTURAL VALUES

Appearance
Attitude
Confidence
Curiosity
Excellence
Integrity
Pride
Resolute
Sense of Humor
Visionary

#### MISSION STATEMENT

To set the standard for excellence in global logistics through total commitment to quality in people and customer service, with superior financial results.

mental in developing, not only the values and the mission statement, but the internal communications for seeing that they were embraced and perpetuated by our employees. We're grateful for Glenn's contributions, and while we'll miss our daily associations, Glenn has left a mark on Expeditors that will transcend his retirement. His influence will be felt here long after he no longer shows up to work every day.

Fortunately, because of our long history of organic growth, we are deep in talent and can follow our history of promoting from within. While Manfred and Glenn will be greatly missed, just as trade never stops, neither does the mission of Expeditors. Part of that mission is the confidence in knowing that there are others who have been mentored and prepared for their opportunity to move Expeditors forward in a manner that is consistent with those who have gone before. Just like the teeth arrayed in a shark's jaw, as one tooth is lost, there's another, clean and razor sharp, ready to slide in to take its place. As the years continue, there will obviously be more retirements, and as long as we do it right there is no need for concern—and NO, I'm not alluding to my own retirement here. I plan on staying as long as it's still fun or until I feel I can no longer make a viable contribution—and, yes, it's still FUN!

Finally, one always has concerns but the only ones we have are out of our control, i.e. those created by meddling politicians using scare tactics to further their own agendas. In these situations, one just has to make sure that the associated fallout of all this meddling doesn't impact our ability to do a good job for our customers and to do right by our employees. We think we've successfully been able to do that. For all the effort it has required—and for the record, we are compliant—Sarbanes-Oxley (SOX), in and of itself, has done little to abate cheating, stealing and lying, as one cannot legislate honesty and integrity. SOX has just added to the confusion and complexity of operating in today's environment by spawning a plethora of consultants and junk mail. Nonetheless, SOX is the law and, as we said above, we comply... even when it hurts.

So, let's just have another great year and once again, thank you.

PETER J. ROSE

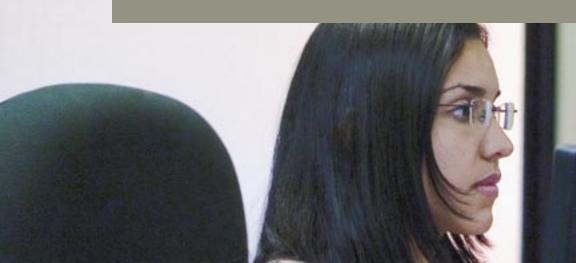
Chairman and Chief Executive Officer

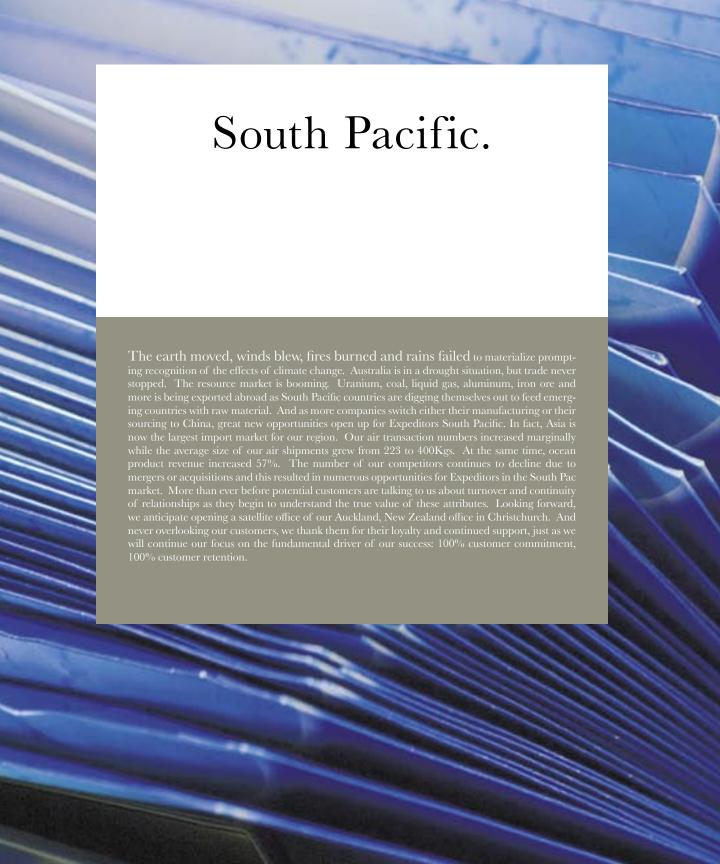
Alter S. Rose



## EMAIR.

Expeditors' Europe, Near/Middle East, Africa and Indian Subcontinent Region (EMAIR) realized many strategic goals during 2006. The most significant was our "Doubling the Numbers" goal — an initiative developed in 2003 and realized this year — which doubled EMAIR operating income in just 3 years. Other initiatives also contributed to an outstanding 2006: year-over-year productivity improvements of 26%; development and implementation of a seasoned and mature sales program throughout the region; execution of our Asia- and Intra-EMAIR initiatives designed to increase co-operation among air and ocean traffic resources between these areas; continued progress in realizing greater regional integration between our offices within the region and with those offices outside our region that together comprise the Expeditors network. All these initiatives were created in support of our continuous focus on improving Customer Service. The results speak for themselves: an EMAIR region which, in 2006, increased its year-over-year operating income by 67%. During 2007, our goal is to do more of the same, with a special focus on Vertical Sales, growing our market share and ensuring that more EMAIR-based global accounts are introduced to the high levels of service Expeditors is known for. Finally, a big thank you to the entire EMAIR team for their dedication, their execution and for a great 2006.







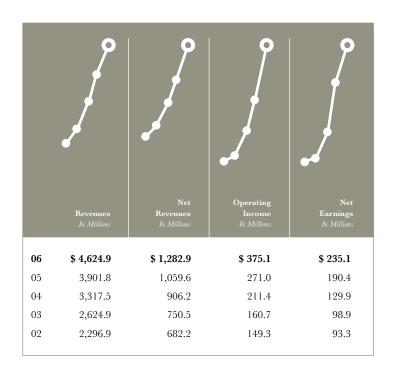
= FOB, FAS

## The Americas.

The Americas had another good year in 2006, increasing operating income by 60%. Our consistent message of superior customer service, organic growth and our focus on productivity helped us reach this performance goal. We continue to focus on our people, providing the best tools and training which will help them further enhance our customer service. In 2007, we will continue to invest in new service offerings and product enhancements as we continue to reinforce our business model, practicing what we preach in our expansion plans, our vendor relationships, our commitment to our staff and, as always, to our customers.

-CA-Transportista

-AS-Franco al Costado del Buque





## Contents Consolidated Balance Sheets PAGES : 30 | 31 E X P D HONG KONG OFFICE

#### Financial Highlights

In thousands except share data

	2006	2005	2004	2003	2002
Revenues	\$ 4,625,966	3,901,781	3,317,499	2,624,941	2,296,903
Net earnings	235,094	190,436	129,949	98,970	93,276
Diluted earnings per share	1.06	.86	.59	.46	.44
Basic earnings per share	1.10	.89	.61	.47	.45
Dividends declared					
and paid per share	.22	.15	.11	.08	.06
Working capital	632,691	589,460	521,544	383,614	250,920
Total assets	1,822,338	1,566,044	1,364,053	1,044,078	879,948
Shareholders' equity	1,069,935	926,382	821,144	662,259	529,577
Diluted weighted average					
shares outstanding	222,223	220,230	220,117	216,228	213,417
Basic weighted average					
shares outstanding	213,455	213,555	212,768	209,467	207,786

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

Certain amounts for the years 2002 through 2005 have been restated as required by the modified retrospective method in connection with the implementation of Statement of Financial Accounting Standard 123R (SFAS 123R). See Note 5D to the consolidated financial statements for further discussion of the impact of the adoption of SFAS 123R.

#### Consolidated Balance Sheets

In thousands except share data

December 31,	2006	2005
Current Assets:		
Cash and cash equivalents	\$ 511,358	463,894
Short-term investments	578	123
Accounts receivable, less allowance for doubtful accounts		
of \$13,454 in 2006 and \$12,777 in 2005	811,486	709,331
Deferred Federal and state income taxes	7,490	7,208
Other	10,925	21,405
Total current assets	1,341,837	1,201,961
Property and Equipment:		
Land	178,299	129,719
Buildings and leasehold improvements	283,846	186,949
Furniture, fixtures, equipment and purchased software	158,673	144,718
Construction in progress	5,054	20,922
Vehicles	3,679	3,783
	629,551	486,091
Less accumulated depreciation and amortization	178,695	152,304
Property and equipment, net	450,856	333,787
Goodwill, net	7,927	7,774
Other intangibles, net	7,584	8,997
Other assets, net	14,134	13,525
	\$ 1,822,388	1,566,044

December 31,	 2006	2005
Current Liabilities:		
Accounts payable	\$ 544,028	479,546
Accrued expenses, primarily salaries and related costs	122,081	103,674
Federal, state, and foreign income taxes	 43,036	29,281
Total current liabilities	 709,145	612,501
Deferred Federal and state income taxes	26,743	13,278
Minority interest	16,515	13,883
Shareholders' Equity:		
Preferred stock, par value \$.01 per share		
Authorized 2,000,000 shares; none issued	_	_
Common stock, par value \$.01 per share		
Authorized 320,000,000 shares;		
issued and outstanding 213,080,466 shares at December 31, 2006		
and 213,227,042 shares at December 31, 2005	2,131	2,132
Additional paid-in capital	119,582	180,905
Retained earnings	934,058	745,984
Accumulated other comprehensive income	 14,164	(2,639
Total shareholders' equity	1,069,935	926,382
Commitments and contingencies		
	\$ 1,822,338	1,566,044

 $See\ accompanying\ notes\ to\ consolidated\ financial\ statements.$ 

Certain 2005 amounts have been restated as required by the modified retrospective method in connection with the implementation of Statement of Financial Accounting Standard 123R (SFAS 123R) and other amounts have been reclassified to conform to the 2006 presentation.

All share and per share amounts have been adjusted for the 2-for-1 stock split effective June 2006.

#### Consolidated Statements of Earnings

In thousands except share data

Years ended December 31,	 2006	2005	2004
Revenues:			
Airfreight	\$ 2,229,545	1,827,009	1,553,881
Ocean freight and ocean services	1,553,048	1,374,197	1,178,975
Customs brokerage and other services	 843,373	700,575	584,643
Total revenues	4,625,966	3,901,781	3,317,499
Operating Expenses:			
Airfreight consolidation	1,758,907	1,435,236	1,204,932
Ocean freight consolidation	1,230,468	1,113,936	968,008
Customs brokerage and other services	353,652	293,000	238,322
Salaries and related costs	701,824	596,804	513,814
Rent and occupancy costs	53,606	54,425	51,620
Depreciation and amortization	35,448	30,888	26,703
Selling and promotion	35,050	29,892	28,248
Other	 81,895	76,547	74,428
Total operating expenses	4,250,850	3,630,728	3,106,075
Operating income	 375,116	271,053	211,424

Years ended December 31,		2006	2005	2004
Other Income (Expense):				
Interest income		18,020	11,415	5,667
Interest expense		(198)	(313)	(42)
Other, net		2,726	4,542	2,910
Other income, net		20,548	15,644	8,535
Earnings before income taxes and minority interest		395,664	286,697	219,959
Income tax expense		160,661	89,365	84,971
Net earnings before minority interest		235,003	197,332	134,988
Minority interest		91	(6,896)	(5,039)
Net earnings	\$	235,094	190,436	129,949
Diluted earnings per share	\$	1.06	.86	.59
Basic earnings per share	\$	1.10	.89	.61
Dividends declared and paid per common share	\$	0.22	0.15	0.11
Weighted average diluted shares outstanding	_2:	22,223,312	220,230,176	220,116,684
Weighted average basic shares outstanding	2	13,454,579	213,555,102	212,768,302

 $See\ accompanying\ notes\ to\ consolidated\ financial\ statements.$ 

Certain 2005 and 2004 amounts have been restated as required by the modified retrospective method in connection with the implementation of SFAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

 ${\it All share and per share amounts have been adjusted for the 2-for-1 stock split effective {\it June~2006}.}$ 

## Consolidated Statements of Shareholders' Equity and Comprehensive Income

In thousands except share data, Years ended December 31, 2006, 2005 and 2004

					Accumulated		
	Commo	n stock	Additional paid-in	Retained		other comprehensive	
	Shares	Par Value	capital	earnings	income (loss)	Total	
P. 1	010 110 000	© 0.101	100 405	500.010	1.740	660.050	
Balance at December 31, 2003	210,112,908	\$ 2,101	136,405	522,010	1,743	662,259	
Exercise of stock options	3,573,772	36	17,109	_	_	17,145	
Issuance of shares under stock purchase plan	826,292	8	11,830	_	_	11,838	
Shares repurchased under provisions of stock repurchase plans	(1,225,066)	(12)	(29,228)	_	_	(29,240)	
Stock compensation expense		_	29,621	_	_	29,621	
Tax benefits from employee stock plans	_	_	12,997	_	_	12.997	
Comprehensive income				100.040		100.040	
Net earnings	_	_	_	129,949		129,949	
Unrealized gains on securities, net of tax of \$104	_		_		37	37	
Foreign currency translation adjustments, net of tax of \$5,568	_				9,906	9.906	
Total comprehensive income	_			(00.000)	<u> </u>	139,892	
Dividends paid (\$.11 per share)		— — — — — — — — — — — — — — — — — — —		(23,368)	11.000	(23,368)	
Balance at December 31, 2004	213,287,906	\$ 2,133	178,734	628,591	11,686	821,144	
Exercise of stock options	3,612,592	36	27,118	_		27,154	
Issuance of shares under stock purchase plan	699,968	7	14,049	_	_	14,056	
Shares repurchased under provisions of stock repurchase plans	(4,373,424)	(44)	(85,820)	(40,988)	_	(126,852)	
Stock compensation expense	_	_	33,457	_	_	33,457	
Tax benefits from employee stock plans	_	_	13,367	_	_	13,367	
Comprehensive income							
Net earnings	_	_	_	190,436	_	190,436	
Unrealized losses on securities, net of tax of \$117	_	_	_	_	(117)	(117)	
Foreign currency translation adjustments, net of tax of \$7,650	_	_	_	<u> </u>	(14,208)	(14,208)	
Total comprehensive income	_	_	_	_	_	176,111	
Dividends paid (\$.15 per share)	_	_	_	(32,055)	_	(32,055)	
Balance at December 31, 2005	213,227,042	\$ 2,132	180,905	745,984	(2,639)	926,382	
Exercise of stock options	3,053,425	31	32,268	_		32,299	
Issuance of shares under stock purchase plan	730,814	7	17,008	_	_	17.015	
Shares repurchased under provisions of stock repurchase plans	(3,930,815)	(39)	(175,744)		_	(175,783)	
Stock compensation expense	_	_	41,739	_	_	41,739	
Tax benefits from employee stock plans	_	_	23,406		_	23,406	
Comprehensive income							
Net earnings	_		_	235,094	_	235,094	
Unrealized gains on securities, net of tax of \$0	_	_	_	_	61	61	
Foreign currency translation adjustments, net of tax of \$9,015	_	_	_	_	16,742	16,742	
Total comprehensive income			—			251,897	
Dividends paid (\$.22 per share)	_			(47,020)		(47,020)	
Balance at December 31, 2006	213,080,466	\$ 2,131	119,582	934,058	14,164	1,069,935	

See accompanying notes to consolidated financial statements.

Certain 2005 and 2004 amounts have been restated as required by the modified retrospective method in connection with the implementation of SFAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

All share and per share amounts have been adjusted for the 2-for-1 stock split effective June 2006.

Accumulated

## Consolidated Statements of Cash Flows In thousands

Years ended December 31,	2006	2005	2004
Operating Activities:			
Net earnings	\$ 235,094	190,436	129,949
Adjustments to reconcile net earnings to net cash			
provided by operating activities:			
Provision for losses on accounts receivable	1,197	1,313	2,355
Deferred income tax expense (benefit)	4,172	(3,700)	22,529
Excess tax benefits from employee stock plans	(23,406)	(13,367)	(12,997
Stock compensation expense	41,739	33,457	29,621
Depreciation and amortization	35,448	30,888	26,703
Gain on sale of property and equipment	(182)	(897)	(19
Amortization of other intangible assets	1,369	1,422	1,275
Impairment write down of other assets	_	_	2,000
Minority interest in earnings of consolidated entities	(91)	6,896	5,039
Changes in operating assets and liabilities:	,		
Increase in accounts receivable	(96,414)	(95,015)	(150,213
Increase in accounts payable and	, ,	,	
accrued expenses	85,012	94,826	104,022
Increase in taxes payable, net	48,392	20,580	19,882
Other	957	237	452
Net cash provided by operating activities	333,287	267,076	180,598

Years ended December 31,	2006	2005	2004
Investing Activities:			
Increase in short-term investments	(419)	(12)	(23)
Purchase of property and equipment	(141,225)	(90,781)	(66,244)
Proceeds from sale of property and equipment	397	1,428	565
Other	(1,260)	(1,402)	722
Net cash used in investing activities	(142,507)	(90,767)	(64,980)
Financing Activities:			
Proceeds (repayments) of short-term debt, net	_	(2,057)	1,863
Proceeds from issuance of common stock	49,314	41,210	28,983
Repurchases of common stock	(175,783)	$(126,\!852)$	(29,240)
Excess tax benefits from employee stock plans	23,406	13,367	12,997
Net distributions to minority interests	(10,024)	(436)	(284)
Dividends paid	(47,020)	(32,055)	(23,368)
Net cash used in financing activities	(160,107)	(106,823)	(9,049)
Effect of exchange rate changes on cash	16,791	(14,575)	6,582
Increase in cash and cash equivalents	47,464	54,911	113,151
Cash and cash equivalents at beginning of year	463,894	408,983	295,832
Cash and cash equivalents at end of year	\$ 511,358	463,894	408,983
Interest and Taxes Paid:			
Interest	194	253	41
Income taxes	\$ 103,715	62,176	43,946

See accompanying notes to consolidated financial statements.

Certain 2005 and 2004 amounts have been restated as required by the modified retrospective method in connection with the implementation of SFAS 123R and other amounts have been reclassified to conform to the 2006 presentation.

#### Notes to Consolidated Financial Statements

#### 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, 2006 and 2005.

#### 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, 2006 and 2005. For the years ended December 31, 2006 and 2005, 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:

	2006	2005
Other intangibles	\$ 19,689	19,724
Less accumulated amortization	(12,105)	(10,727)
	\$ 7,584	8,997
Aggregate amortization expense for the year ended December 31	\$ 1,369	1,422

Estimated annual amortization expense will approximate \$1,300 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 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) 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

Prior to January 1, 2006, the Company applied 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 had been recognized for its fixed stock option or employee stock purchase rights plans.

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 123 (Revised 2004), "Share-Based Payment" (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. The Company has 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 years ended December 31, 2006, 2005 and 2004 have been increased to include compensation expense for the fair value of stock options and stock purchase rights on a straight line basis over the period they become vested. See Note 5D for further discussion of the impact of the adoption of SFAS 123R on the consolidated balance sheets, the consolidated results of operations, diluted earnings per share and consolidated statements of cash flows.

#### 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 2006, 2005, and 2004 was insignificant. Net foreign currency losses realized in 2006 were \$321. Net foreign currency gains realized in 2005 and 2004 were \$862 and \$86, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2006 and 2005.

#### 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,	2006	2005
(in thousands)		
Foreign currency translation adjustments	\$ 13,765	(2,977)
Unrealized gain on securities	399	338
	\$ 14,164	(2,639)

#### 1. 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 2006 presentation.

#### o. Recent Accounting Pronouncements

In June 2006, the FASB ratified the EITF Issue 06-3, "How 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. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company is required to and plans to adopt EITF 06-3 in the first quarter of 2007. The Company presents revenues net of sales and value-added taxes in its consolidated statement of earnings and does not anticipate changing its policy as a result of the adoption of EITF 06-3.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109", (FIN 48). 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is required to and plans to adopt the provisions of FIN 48 beginning in the first quarter of 2007. The Company does not expect the adoption of FIN 48 to have a material impact on the Company's consolidated financial condition or results of operations.

On September 13, 2006, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 108 (SAB 108), "Considering the Effects of Prior Year Misstatements when Qualifying Misstatements in Current Year Financial Statements," which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. The Company is required to and has adopted SAB 108 for its fiscal year ending December 31, 2006. The adoption of SAB 108 had no impact on the Company's financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). 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. The Company is currently assessing the impact of the adoption of SFAS 157.

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 is currently assessing the impact of the adoption of SFAS 159.

#### Note 2.

Other Assets

The Company regularly evaluates the recoverability of certain other assets. During 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 2006 or 2005.

#### Note 3.

Credit Arrangements

The Company has a \$50,000 United States bank line of credit extending through July 1, 2007. Borrowings under the line bear interest at LIBOR + .75% (6.07% at December 31, 2006) and are unsecured. As of December 31, 2006, 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 \$19,516 and \$12,850 at December 31, 2006 and 2005, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2006, the Company had no amounts outstanding under these lines and was contingently liable for approximately \$62,608 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, 2006, 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 (benefit) for 2006, 2005, and 2004 includes the following components:

	Federal	State	Foreign	Total
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
2004				
Current	\$ 13,741	2,168	46,533	62,442
Deferred	21,253	1,276	_	22,529
-	\$ 34,994	3,444	46,533	84,971

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:

	2006	2005	2004
Computed "expected" tax expense	\$ 138,482	100,344	76,986
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	7,694	3,888	2,238
Nondeductible stock compensation expense, net	10,426	7,346	6,995
IRC 965 tax benefit for repatriated foreign earnings	2,328	(21,680)	_
Other, net	1,731	(533)	(1,248)
	\$ 160,661	89,365	84,971

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:

	2006	2005	2004
United States	\$ 117,725	72,339	37,527
Foreign	277,939	214,358	182,432
	\$ 395,664	286,697	219,959

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, 2006 and 2005 are as follows:

Years ended December 31,	2006	2005
Deferred Tax Assets:		
Accrued third party charges, deductible for taxes upon		
economic performance (i.e. actual payment)	\$ 3,661	2,714
Provision for doubtful accounts receivable	2,348	2,724
Excess of financial statement over tax depreciation	4,474	4,828
Foreign currency translation adjustment		1,603
Retained liability for cargo claims	806	1,472
Capital loss	1,140	1,257
Deductible stock compensation expense, net	12,720	12,661
Total gross deferred tax assets	25,149	27,259
Deferred Tax Liabilities:		
Unremitted foreign earnings, net of related foreign tax credits	(36,322)	(32,174)
Foreign currency translation adjustment	(7,413)	
Other	(667)	(1,155)
Total gross deferred tax liabilities	<b>\$</b> (44,402)	(33,329)
Net deferred tax liabilities	\$ (19,253)	(6,070)
Current deferred tax assets	\$ (7,490)	(7,208)
Noncurrent deferred tax liabilities	\$ (26,743)	(13,278)

## Note 5.

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, 2006, the Company had repurchased and retired 15,407,473 shares of common stock at an average price of \$13.24 per share over the period from 1994 through 2006.

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, 2006, the Company had repurchased and retired 9,752,196 shares of common stock at an average price of \$26.43 per share over the period from 2001 through 2006.

#### b. Stock Option Plans

At December 31, 2006, the Company has two stock option plans (the "1985 Plan" and the "2006 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 3, 2006, the shareholders approved the Company's 2006 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 2006 Plan. The 1997 Option Plan was cancelled upon the approval of the 2005 Plan. The 1985 Plan provides for non-qualified grants. The 2006 Plan provides for qualified and non-qualified grants. Under the 1985, 2005 and 2006 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. Grants under the 2006 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2006 Plan after April 30, 2007.

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.

			Unoptioned share	S		Outstanding	shares
	1985 Plan	1997 Plan	2005 Plan	2006 Plan	Directors'	Number of shares	Weighted average price per share
Balance at							
December $31,2003$	6,912	2,603,900			512,000	25,190,960	\$ 10.53
Options granted		(2,140,950)			(128,000)	2,268,950	\$ 21.02
Options exercised	_	_			_	(3,573,772)	\$ 4.80
Options forfeited		489,350				(489,350)	\$ 15.32
Balance at							
December $31,2004$	6,912	952,300			384,000	23,396,788	\$ 12.32
Options authorized			1,809,100		_		\$ —
Options transferred	_	(1,190,900)	1,190,900		_		\$ —
Options granted	_		(2,903,250)		(128,000)	3,031,250	\$ 24.51
Options exercised	_	_				(3,612,592)	\$ 7.52
Options forfeited		234,800	53,500			(545,000)	\$ 17.26
Options cancelled		3,800				(3,800)	\$ 12.78
Balance at							
December 31, 2005	6,912		150,250		256,000	22,266,646	\$ 14.64
Options authorized				3,000,000			_
Options granted	_			(2,984,610)	(128,000)	3,112,610	\$ 44.21
Options exercised	_	_				(3,053,425)	\$ 10.60
Options forfeited	_			64,300	_	(415,300)	\$ 23.55
Options cancelled	_			· —	_	(18,350)	\$ 12.15
Options not granted			(150,250)				\$
Balance at							
December 31, 2006	6,912			79,690	128,000	21,892,181	\$ 19.23

#### 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. The Company's 2002 Plan provides for 4,305,452 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 the preceding August 1. At December 31, 2006, an aggregate of 3,127,578 shares had been issued under the 2002 Plan and \$11,399 had been withheld in connection with the plan year ending July 31, 2007.

#### d. Adoption of SFAS 123R

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 has restated all prior periods to recognize the required stock compensation expense.

In applying the modified retrospective method, the Company has recorded compensation expense as previously stated in the Company's pro forma SFAS 123 disclosures in the footnotes to its prior period financial statements. The fair value of options used to determine this compensation expense was originally determined using the Black-Scholes model and no changes have been made to the compensation expense as originally stated in the pro forma disclosures. The original measurements and assumptions previously disclosed in the footnotes to the Company's financial statement included in its annual Form 10-K filings and, in more recent years, in its Form 10-Q filings, also have not been changed. In the process of recording the associated deferred tax assets related to this compensation expense, as required by SFAS 123R, the Company made its computations on a "grant by grant" basis. As a result of this exercise, the Company determined that recording deferred tax assets based on the disclosed pro forma amounts would have been incorrect under the provisions of SFAS No. 109, "Accounting for Income Taxes". Accordingly, in restating the results of prior years, management has elected to record adjustments to income tax expense and to properly record deferred tax assets.

Prior to the adoption of SFAS 123R, in the statement of cash flows, the tax benefits received by the Company from the exercise of certain employee stock options were added back to net earnings in determining net cash provided by operating activities. SFAS 123R requires a different presentation for that portion of the tax benefit received upon option exercise which exceeds the tax benefit that would have been recorded based on the estimated fair value of the options previously recognized as compensation expense. Accordingly, the Company has reclassified this excess tax benefit from cash provided by operating activities to cash provided by financing activities in the statement of cash flows.

The following tables summarize the adjustments to certain line items in the Company's consolidated financial statements as a result of adopting SFAS 123R for all periods presented. Certain prior year amounts have been reclassified to conform to the 2006 presentation. Third party outsourced labor costs were reclassified in the consolidated statement of earnings as a result of the growth in the Company's distribution services business. Net distributions to minority interests of immaterial amounts were reclassified to net cash used in financing activities.

Restated line items in the consolidated balance sheet:

	December 31, 2005				
	As previously reported	SFAS No. 123R Adjustments	Reclassifications	As restated	
Deferred Federal and state income taxes	\$ 25,939	\$ (12,661)	_	\$ 13,278	
Shareholders' equity:					
Additional paid-in capital	18,663	162,242		180,905	
Retained earnings	895,565	(149,581)		745,984	

## Restated line items in the consolidated statement of earnings:

Basic earnings per share

		O							
	Year ended December 31, 2005								
	As previously reported			SFAS No. 123R Adjustments		Reclassifications		As restated	
Salaries and related costs	\$	557,730	\$	33,457	\$	5,617	\$	596,804	
Other operating expenses		197,369		_		(5,617)		191,752	
Total operating expenses		3,597,271		33,457				3,630,728	
Operating income		304,510		(33,457)		_		271,053	
Earnings before income taxes and									
minority interest		320,154		(33,457)		_		286,697	
Income tax expense		94,624		(5,259)		_		89,365	
Net earnings before minority interest		225,530		(28,198)		_		197,332	
Net earnings		218,634		(28,198)		_		190,436	
Diluted earnings per share	\$	.98	\$	(.12)			\$	.86	
Basic earnings per share	\$	1.03	\$	(.14)			\$	.89	
			,	Year ended Dec	ember 3	1, 2004			
		As previously reported		S No. 123R Adjustments	Recl	assifications		As restated	
Salaries and related costs	\$	479,364	\$	29,621	\$	4,829	\$	513,814	
Other operating expenses		185,828		· —		(4,829)		180,999	
Total operating expenses	,	3,076,454		29,621				3,106,075	
Operating income		241,045		(29,621)				211,424	
Earnings before income taxes and									
minority interest		249,580		(29,621)		_		219,959	
Income tax expense		88,415		(3,444)				84,971	
Net earnings before minority interest		161,165		(26,177)		_		134,988	
Net earnings		156,126		(26,177)		_		129,949	
Diluted earnings per share	\$	.71	\$	(.12)			\$	.59	
D 1		- 4		(10)					

\$

\$

.74

(.13)

\$

.61

Restated line items in the consolidated statement of cash flows:

	Year ended December 31, 2005							
-		As previously reported		S No. 123R Adjustments	Reclas	sifications		As restated
Net earnings	\$	218,634	\$	(28,198)	\$	_	\$	190,436
Deferred income tax (benefit) expense		(4,779)		1,079		_		(3,700)
Excess tax benefits from employee stock plans				(13,367)				(13,367)
Tax benefits from employee stock plans		19,705		(19,705)		_		_
Stock compensation expense		_		33,457		_		33,457
Minority interest in earnings of								
consolidated entities		6,001		_		895		6,896
Increase in accounts payable and								
accrued expenses		103,639		_		(8,813)		94,826
Increase in taxes payable, net		_		13,367		7,213		20,580
Other		(1,363)		_		1,600		237
Net cash provided by operating activities		279,548		(13,367)		895		267,076
Excess tax benefits from employee stock plans				13,367		_		13,367
Net distributions to minority interests				_		(436)		(436)
Net cash used in financing activities		(119,754)		13,367		(436)		(106,823)
Effect of exchange rate changes on cash	\$	(14,116)	\$	_	\$	(459)	\$	(14,575)

	Year ended December 31, 2004				
	As previously reported	SFAS No. 123R Adjustments	Reclassifications	As restated	
Net earnings	\$ 156,126	\$ (26,177)	\$ —	\$ 129,949	
Deferred income tax expense	19,511	3,018	_	22,529	
Excess tax benefits from employee stock plans		(12,997)		(12,997)	
Tax benefits from employee stock plans	19,459	(19,459)		_	
Stock compensation expense	_	29,621	_	29,621	
Minority interest in earnings of					
consolidated entities	4,103	_	936	5,039	
Increase in accounts payable and					
accrued expenses	113,904	_	(9,882)	104,022	
Increase in taxes payable, net	, —	12,997	6,885	19,882	
Other	(2,545)	_	2,997	452	
Net cash provided by operating activities	192,659	(12,997)	936	180,598	
Excess tax benefits from employee stock plans	_	12,997	_	12,997	
Net distributions to minority interests		, —	(284)	(284)	
Net cash used in financing activities	(21,762)	12,997	(284)	(9,049)	
Effect of exchange rate changes on cash	\$ 7,234	\$ —	\$ (652)	\$ 6,582	

The following tables summarize information about fixed-price stock options for the year ended December 31, 2006:

	Number of shares	Weighted average exercise price per share	Weighted average remaining contractural life	Aggregate intrinsic value (in thousands)
Outstanding at December 31, 2005	22,266,646	\$ 14.64		
Options granted	3,112,610	44.21		
Options exercised	(3,053,425)	10.60		
Options forfeited	(415,300)	23.55		
Options cancelled	(18,350)	12.15		
Outstanding at December 31, 2006	21,892,181	\$ 19.23	5.81 years	\$ 476,987
Exercisable at December 31, 2006	11,518,446	\$ 11.71	3.99 years	\$ 331,821

		Unvested Options				
	Number of shares	Weighted average fair value per share				
Balance at December 31, 2005	11,368,450	\$	9.57			
Options granted	3,112,610		22.69			
Options vested	(3,692,025)		7.75			
Options forfeited	(415,300)		11.91			
Balance at December 31, 2006	10,373,735	\$	14.06			

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, 2006, 2005 and 2004:

For the years ended December 31,	2006	2005	2004
Dividend yield	.51%	.56%	.54%
Volatility	44 - 43%	44 - 49%	46%
Risk-free interest rates	4.69 - 5.11%	3.64 - 4.14%	2.1 - 4.7%
Expected life (years) - stock option plans	7.14 - 8.89	6.67 - 9.36	6.6 - 9.2
Expected life (years) – stock purchase rights plans	1	1	1
Weighted average fair value of stock options granted			
during the period	\$ 22.69	\$ 12.69	\$ 10.65
Weighted average fair value of stock purchase rights			
granted during the period	\$ 13.27	\$ 7.17	\$ 6.17

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, 2006, 2005 and 2004 was approximately \$111 million, \$76 million and \$65 million, respectively. The estimated fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was approximately \$29 million, \$28 million and \$23 million, respectively.

As of December 31, 2006, the total unrecognized compensation cost related to unvested stock options is \$103 million and the weighted average period over which that cost is expected to be recognized is 1.91 years.

Total stock compensation expense and the total related tax benefit recognized for the years ended December 31, 2006, 2005 and 2004 are as follows:

For the years ended December 31,	2006	2005	2004
Stock compensation expense	\$ 41,739	\$ 33,457	\$ 29,621
Recognized tax benefit, net	\$ 2,725	\$ 5,259	\$ 3,444

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.

#### e. 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 2006, 2005 and 2004.

	Net	Weighted	Earnings
2006	earnings	average shares	per share
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	<u>\$ 190,436</u>	220,230,176	\$ .86
2004			
Basic earnings per share	\$ 129,949	212,768,302	\$ .61
Effect of dilutive potential common shares	´—	7,348,382	_
Diluted earnings per share	\$ 129,949	220,116,684	\$ .59

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,	2006	2005	2004
Shares	132,510	500	128,000

## 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 2015. Total rent expense for 2006, 2005 and 2004 was \$28,324, \$34,488 and \$33,197, respectively. At December 31, 2006, future minimum annual lease payments under all leases are as follows:

2007	\$ 37,133
2008	26,550
2009	12,035
2010	5,517
2011	2,422
Thereafter	2,418

\$ 86,075

#### 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, 2006 of \$293,019, will be fulfilled during 2007 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 2006, 2005, and 2004, the Company's contributions under the plans were \$5,814, \$5,183, and \$4,383, 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 effect on the Company's operations or financial position.

Note 9.
Business Segment Information

Financial information regarding the Company's 2006, 2005, and 2004 operations by geographic area are as follows:

	United States Oth	er North America	Asia	Europe	Australasia	Latin America	Middle East	Eliminations	Consolidated
2006									
Revenues from unaffiliated customers	\$ 932,165	120,381	2,616,098	618,999	54,948	67,463	215,912	_	4,625,966
Transfers between geographic areas	\$ 109,552	7,956	16,228	32,595	6,383	8,368	11,293	(192,375)	_
Total revenues	\$ 1,041,717	128,337	2,632,326	651,594	61,331	75,831	227,205	(192,375)	4,625,966
Net revenues	\$ 525,039	61,531	359,613	216,110	32,894	32,931	54,821	_	1,282,939
Operating income	\$ 102,041	15,433	178,265	48,366	8,887	7,519	14,605	_	375,116
Identifiable assets at year end	\$ 906,256	62,584	360,904	363,332	26,055	33,273	67,794	2,140	1,822,338
Capital expenditures	\$ 121,005	820	10,030	6,086	446	1,205	1,633	_	141,225
Depreciation and amortization	\$ 18,533	1,339	5,108	6,739	785	1,548	1,396	_	35,448
Equity	\$ 1,215,298	26,160	249,017	117,738	14,844	16,133	31,570	(600,825)	1,069,935
2005									
Revenues from unaffiliated customers	\$ 762,835	98,369	2,224,313	534,897	48,234	58,976	174,157	_	3,901,781
Transfers between geographic areas	\$ 87,778	5,588	13,280	24,923	5,920	7,416	8,406	(153,311)	, , , <u> </u>
Total revenues	\$ 850,613	103,957	2,237,593	559,820	54,154	66,392	182,563	(153,311)	3,901,781
Net revenues	\$ 432,530	50,823	296,925	179,238	30,135	26,772	43,186		1,059,609
Operating income	\$ 61,245	11,273	147,130	30,179	7,956	5,698	7,572	_	271,053
Identifiable assets at year end	\$ 805,273	51,312	322,391	294,555	21,681	26,639	47,009	(2,816)	1,566,044
Capital expenditures	\$ 78,668	882	3,374	4,534	1,084	1,290	949	_	90,781
Depreciation and amortization	\$ 15,077	1,484	4,759	6,107	830	1,198	1,433	_	30,888
Equity	\$ 1,021,761	17,329	205,027	75,146	11,108	10,679	22,030	(436,698)	926,382
2004									
Revenues from unaffiliated customers	\$ 628,093	77,696	1,880,135	492,651	44,042	52,347	142,535	_	3,317,499
Transfers between geographic areas	\$ 69,695	4,288	11,096	18,921	5,262	6,188	6,373	(121,823)	_
Total revenues	\$ 697,788	81,984	1,891,231	511,572	49,304	58,535	148,908	(121,823)	3,317,499
Net revenues	\$ 362,961	42,954	252,189	164,132	25,583	21,274	37,144	_	906,237
Operating income	\$ 43,093	9,872	115,716	26,330	5,742	3,742	6,929		211,424
Identifiable assets at year end	\$ 642,930	47,594	279,840	304,701	22,361	21,711	40,667	4,249	1,364,053
Capital expenditures	\$ 34,856	2,150	11,153	13,445	845	1,744	2,051		66,244
Depreciation and amortization	\$ 13,539	1,211	4,044	5,099	665	770	1,375		26,703
Equity	\$ 893,108	19,448	203,743	88,398	12,824	6,306	17,982	(420,665)	821,144

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

.58

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.

	2006	2005	2004
Total revenues:			
Hong Kong	15%	15%	16%
People's Republic of China	21%	21%	18%
Net revenues:			
Hong Kong	*	*	10%
People's Republic of China	*	12%	10%

<sup>\*</sup> Represents less than 10% in the period presented.

Note 10.
Quarterly Results (Unaudited)

	1ST	2ND	3RD	4TH
2006				
Revenues	\$ 1,024,592	1,129,324	1,229,723	1,242,327
Net revenues	296,197	313,570	339,338	333,834
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
2005				
Revenues	\$ 825,164	927,999	1,046,442	1,102,176
Net revenues	230,683	250,660	281,925	296,341
Net earnings	31,047	36,698	48,404	74,287
Diluted earnings per share	.14	.17	.22	.34
Basic earnings per share	.15	.17	.23	.35

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.

Certain amounts for 2005 have been restated as required by the modified retrospective method in connection with the implementation of SFAS 123R. In preparing the second quarter 2005 SFAS 123R restatements during the second quarter of 2006, an insignificant difference of \$177 was noted which should have been included for the first quarter of 2005. The insignificant amount was included in the year-to-date 2005 restated amounts reported in the second quarter of 2006. The first quarter 2005 results presented in the above schedule are the corrected restated amounts and are not the amounts originally reported in the Form 10-Q filed for the first quarter 2006.

The fourth quarter 2005 results include a \$21,680 tax benefit (\$.10 per share increase in net earnings) as a result of a one time election under IRC 965.

## Management Report on Internal Control Over Financial Reporting

The management of Expeditors International of Washington, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as required by the Sarbanes-Oxley Act of 2002 and as defined in Exchange Act Rule 13a-15(f). The Company's system of internal control over financial reporting is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the reliability of our financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

A system of internal control can provide only reasonable, not absolute assurance, that the objectives of the control system are met. Our management, including our chief executive officer and chief financial officer, conducted an assessment of the design and operating effectiveness of our internal control over financial reporting based on the framework in "Internal Control — Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment, our management has concluded that, as of December 31, 2006, our internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, which is included herein at page 63.

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Expeditors International of Washington, Inc.:

We have audited the accompanying consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the Company changed its accounting policy for share-based payments to employees as required by Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment", effective as of January 1, 2006. The Company elected to use the modified retrospective transition method, which provides that the financial statements of prior periods are adjusted to reflect the fair value method of expensing share-based compensation for all awards granted on or after January 1, 1995.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Expeditors International of Washington, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 1, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

KPMG LIP

Seattle, Washington March 1, 2007

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders Expeditors International of Washington, Inc.:

We have audited management's assessment, included in the accompanying Management Report on Internal Control Over Financial Reporting appearing at page 61, that Expeditors International of Washington, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Expeditors International of Washington, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by COSO. Also, in our opinion, Expeditors International of Washington, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of earnings, shareholders' equity and comprehensive income, and cash flows for each of the years in the three-year period ended December 31, 2006 and our report dated March 1, 2007 expressed an unqualified opinion on those consolidated financial statements.



Seattle, Washington March 1, 2007

# Management's Discussion and Analysis of Financial Condition and Results of Operations

#### **Executive Summary**

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

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

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

The Company is managed along four geographic areas of responsibility: The Americas; Asia; Europe, Africa, Near/Middle East and Indian Subcontinent (EMAIR); and Australasia. Each area is divided into sub-regions which are composed of operating units with individual profit and loss responsibility. The Company's business involves shipments between operating units and typically touches more than one geographic area. The nature of the international logistics business necessitates a high degree of communication and cooperation among operating units. Because of this inter-relationship between operating units, it is very difficult to look at one geographic area and draw meaningful conclusions as to its contribution to the Company's overall success on a stand-alone basis.

The Company's operating units share revenue using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents. The Company's strategy closely links compensation with operating unit profitability. Individual success likely involves cooperation with other operating units.

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

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

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

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

A significant portion of the Company's revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company's revenues are, to a large degree, impacted by factors out of the Company's control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company's stock.

As further discussed under liquidity and capital resources, total capital expenditures in 2007 are expected to exceed \$106 million.

In terms of the opportunities, challenges and risks that management focused on in 2006, the Company operates in 60 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global culture which demands:

- Total dedication, first and foremost, to providing superior customer service;
- Aggressive marketing of all of the Company's service offerings;
- Ongoing development of key employees and management personnel via formal and informal means;
- Creation of unlimited advancement opportunities for employees dedicated to hard work, personal growth and continuous improvement;
- Individual commitment to the identification and mentoring of successors for every key position so
  that when inevitable change is required, a qualified and well-trained internal candidate is ready to
  step forward; and
- Continuous identification, design and implementation of system solutions, both technological and
  otherwise, to meet and exceed the needs of our customers while simultaneously delivering tools to
  make our employees more efficient and more effective.

The Company has reinforced these values with a compensation system that rewards employees for profitably managing the things they can control. There is no limit to how much a key manager can be compensated for success. The Company believes in a "real world" environment in every operating unit where individuals are not sheltered from the profit implications of their decisions. At the same time, the Company insists on continued focus on such things as accounts receivable collection, cash flow management and credit soundness in an attempt to insulate managers from the sort of catastrophic errors that might end a career.

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

#### **Critical Accounting Estimates**

A summary of the Company's significant accounting policies can be found in Note 1 to the consolidated financial statements in this Annual Report.

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

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

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

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

As described in Note 1 to the consolidated financial statements in this report, effective January 1, 2006, the Company adopted 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 plans.

This expense is recorded ratably over the option vesting periods. The Company elected to utilize the modified retrospective method of adoption and has restated all prior periods to recognize the required stock compensation expense in accordance with the requirements of SFAS 123R.

Determining the appropriate option pricing model to use to estimate stock compensation expense requires judgment. Any option pricing model requires assumptions that are subjective and these assumptions also require judgment. Examples include assumptions about long-term stock price volatility, employee exercise patterns, pre-vesting option forfeitures, post-vesting option terminations, and the interest rates and dividend yields.

The Company has historically used the Black-Scholes model for estimating the fair value of stock options in providing pro forma fair value disclosures pursuant to SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). After a review of alternatives, and considering the guidance outlined in Securities and Exchange Commission Staff Accounting Bulletin No. 107 (SAB 107), the Company has decided to continue to use this model for estimating the fair value of stock options granted subsequent to the adoption of SFAS 123R.

In reviewing the propriety of measurements and assumptions used historically to calculate compensation expense for disclosure purposes, management considered the guidance contained in SAB 107, even though all the Company's stock options had previously been granted under SFAS 123, as opposed to SFAS 123R, for which SAB 107 was expressly written. The Company began granting options under SFAS 123R in the second quarter of 2006. Refer to Note 5D in the consolidated financial statements for the assumptions used for grants issued during the years ended December 31, 2006, 2005 and 2004. The assumptions used by the Company for estimating the fair value of options granted under SFAS 123R were developed on a basis consistent with assumptions used for valuing previous grants.

Management believes that these assumptions are appropriate, based upon the requirements of SFAS 123, SFAS 123R, the guidance included in SAB 107 and the company's historical and currently expected future experience. Looking to future events, management has been strongly influenced by historical patterns which may not be valid predictors of future developments and any future deviation may be material.

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

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

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

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

#### **Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (EITF) Issue 06-3, "How 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. EITF 06-3 is effective for interim and annual reporting periods beginning after December 15, 2006. The Company is required to and plans to adopt EITF 06-3 in the first quarter of 2007. The Company presents revenues net of sales and value-added taxes in its consolidated statement of earnings and does not anticipate changing its policy as a result of the adoption of EITF 06-3.

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109", (FIN 48). 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. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is required to and plans to adopt the provisions of FIN 48 beginning in the first quarter of 2007. The Company does not expect the adoption of FIN 48 to have a material impact on the Company's consolidated financial condition or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" (SFAS 157). 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. The Company is currently assessing the impact of the adoption of SFAS 157.

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 is currently assessing the impact of the adoption of SFAS 159.

#### **Results of Operations**

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for 2006, 2005, and 2004, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

	2006		2005		2004	
	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
Net revenues:						
Airfreight	\$ 470,638	37%	\$ 391,773	37%	\$ 348,949	39%
Ocean freight and						
ocean services	322,580	25	260,261	25	210,967	23
Customs brokerage and						
other services	489,721	38	407,575	38	346,321	38
Net revenues	1,282,939	100	1,059,609	100	906,237	100
Overhead expenses:						
Salaries and related costs	701,824	55	596,804	56	513,814	57
Other	205,999	16	191,752	18	180,999	20
Total overhead expenses	907,823	71	788,556	74	694,813	77
Operating income	375,116	29	271,053	26	211,424	23
Other income, net	20,548	2	15,644	1	8,535	1
Earnings before income taxes						
and minority interest	395,664	31	286,697	27	219,959	24
Income tax expense	160,661	13	89,365	8	84,971	9
Net earnings before						
minority interest	235,003	18	197,332	19	134,988	15
Minority interest	91		(6,896)	(1)	(5,039)	(1)
Net earnings	\$ 235,094	18%	\$ 190,436	18%	\$ 129,949	14%

#### 2006 compared with 2005

Airfreight net revenues in 2006 increased 20% compared with 2005 primarily because of an increase in airfreight volumes. Global airfreight tonnages in 2006 increased 18% compared with 2005. Airfreight yields remained relatively constant at 21% for 2006 as compared to 2005. The Company's North American export airfreight net revenues increased 19% in 2006 compared to 2005, primarily the result of increased market share attributable to focused sales activity. Airfreight net revenues from Asia and from Europe increased 22% and 18%, respectively, for 2006 compared with 2005. These changes are the result of market pricing and tonnage increases of 19% from Asia and 16% from Europe. Management attributes these tonnage increases to effective sales efforts.

Ocean freight volumes, measured in terms of forty-foot container equivalents (FEUs), increased 20% over 2005 while ocean freight and ocean services net revenues increased 24% during the same period. Ocean freight yields increased 2% to 21% in 2006 as compared to 2005.

The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. The Company's North American ocean freight net revenues increased 28% in 2006 compared to 2005. Ocean freight net revenues from Asia increased 24% and from Europe increased 12% for 2006 compared with 2005. The global increases in ocean freight net revenue are primarily a result of market share expansion.

Customs brokerage and other services net revenues increased 20% in 2006 as compared with 2005. Management believes this increase is attributable to increased market share as a result of the Company's reputation for providing high quality service and increased opportunities within the customs brokerage market. These opportunities arise as customers seek out customs brokers with sophisticated computerized capabilities. In addition, the Company's customs brokerage offerings have benefited from increased emphasis on regulatory compliance.

Salaries and related costs increased 18% in 2006 compared to 2005 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. As previously noted, the Company adopted SFAS 123R using the modified retrospective application method and has restated all periods presented to include compensation expense for all unvested stock options and share awards beginning with the first period restated. Accordingly, salaries and related costs for the years ended December 31, 2006 and 2005 have been increased to include compensation expense for the fair value of unvested stock options.

The decline in salaries and related costs as a percentage of net revenue for 2006 as compared with the same period for 2005, can be attributed to leveraging increased business volumes with improved productivity and increasing overall efficiency through technological advances. The effect of including stock-based compensation expense in salaries and related costs for 2006 and 2005 are as follows:

	Years ended D	ecember 31,
In thousands	2006	2005
Salaries and related costs	<b>\$ 701,824</b>	\$ 596,804
As a % of net revenue	54.7%	56.3%
Stock compensation expense	\$ 41,739	\$ 33,457
As a % of salaries and related costs	5.9%	5.6%
As a % of net revenue	3.3%	3.2%

Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for 2006 are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 7% in 2006 as compared with 2005 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other overhead expenses as a percentage of net revenues decreased 2% in 2006 as compared with 2005. Management believes that this was significant as it reflects the successful achievement of ongoing cost containment objectives at the branch level.

Other income, net, increased 31% in 2006 as compared with 2005. Due to higher interest rates on higher average cash balances and short-term investments during 2006, interest income increased by \$7 million for the year ended December 31, 2006.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2006 of 40.6% increased when compared with the 31.2% rate in 2005. The lower tax rate in 2005 is primarily the result of the Company adopting a plan under Internal Revenue Code (IRC) 965, which was added by the American Jobs Creation Act. 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. Additionally, income tax expense in 2005 has been restated to include the tax benefit related to stock-based compensation expense recorded as a result of applying the requirements of SFAS 123R under the modified retrospective method. Although a tax benefit related to stock-based compensation expense is recorded for non-qualified stock options at the time the related compensation expense is recognized, the tax benefit received for disqualifying dispositions of incentive stock

options cannot be anticipated. The higher consolidated effective income tax rate for 2006 as compared to 2005 is partially the result of a smaller tax benefit received for disqualifying dispositions of incentive stock options during 2006 than was realized 2005.

#### 2005 compared with 2004

Airfreight net revenues in 2005 increased 12% compared with 2004 primarily because of an increase in airfreight volumes. Global airfreight tonnages in 2005 increased 9% compared with 2004. The 1% decrease in airfreight yields in 2005 was primarily a result of air carrier fuel surcharges which the Company typically passes on without a profit element. The Company's North American export airfreight net revenues increased 13% in 2005 compared to 2004, primarily the result of increased market share attributable to focused sales activity. Airfreight net revenues from Asia and from Europe increased 15% and 8%, respectively, for 2005 compared with 2004. These increases are the result of market price increases, partially offset by yield declines of less than 1%, and increased tonnage of 13% from Asia and 2% from Europe, primarily as a result of increased sales success.

Ocean freight volumes, measured in terms of forty-foot container equivalents (FEUs), increased 18% over 2004 while ocean freight and ocean services net revenues increased 23% during the same period. The increase in net revenue can be attributed to cyclical market conditions and trade lane imbalances.

The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. The Company's North American ocean freight net revenues increased 22% in 2005 compared to 2004. Ocean freight net revenues from Asia increased 31% and from Europe decreased 1% for 2005 compared with 2004. The increase in North American and Asian ocean freight net revenue are primarily a result of greater market share. The decrease experienced in Europe is primarily due to decreased export volumes which can be attributable to the relative value of European currencies throughout the year.

Customs brokerage and other services net revenues increased 18% in 2005 as compared with 2004. This is a result of the Company's reputation for providing high quality service and increased opportunities within the customs brokerage market. These opportunities arise as customers seek out customs brokers with sophisticated computerized capabilities. In addition, the Company's customs brokerage offerings have benefited from increased emphasis on regulatory compliance.

Salaries and related costs increased 16% in 2005 compared to 2004 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. As previously noted, the Company adopted SFAS 123R using the modified retrospective application method and has restated all periods presented to include compensation expense for all unvested stock options and share awards beginning with the first period restated. Accordingly, salaries and related costs for the years ended December 31, 2005 and 2004 have been increased to include compensation expense for the fair value of unvested stock options.

The decline in salaries and related costs as a percentage of net revenue for 2005 as compared with the same period for 2004, can be attributed to leveraging increased business volumes with improved productivity and increasing overall efficiency through technological advances. The effect of including stock-based compensation expense in salaries and related costs for 2005 and 2004 are as follows:

	Years ended	December 31,	
In thousands	2005	2004	
Salaries and related costs	\$ 596,804	\$ 513,814	
As a % of net revenue	56.3%	56.7%	
Stock compensation expense	\$ 33,457	\$ 29,621	
As a % of salaries and related costs	5.6%	5.8%	
As a % of net revenue	3.2%	3.3%	

Historically, the relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for 2005 are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 6% in 2005 as compared with 2004 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other overhead expenses as a percentage of net revenues decreased 2% in 2005 as compared with 2004. Management believes that this was significant as it reflects the successful achievement of ongoing cost containment objectives at the branch level.

Other income, net, increased 83% in 2005 as compared with 2004. Due to higher interest rates on higher average cash balances and short-term investments during 2005, interest income increased by \$6 million for the year ended December 31, 2005.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2005 of 31.2% decreased when compared with the 38.6% rate in 2004. The lower tax rate in 2005 is primarily the result of the Company adopting a plan under Internal Revenue Code (IRC) 965, which was added by the American Jobs Creation Act. 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.

#### **Currency and Other Risk Factors**

International air/ocean freight forwarding and customs brokerage are intensively competitive and are expected to remain so for the foreseeable future. There are a large number of entities competing in the international logistics industry; however, the Company's primary competition is confined to a relatively small number of companies within this group. While there is currently a marked trend within the industry toward consolidation into large firms with multinational offices and agency networks, regional and local broker/forwarders remain a competitive force.

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

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

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is

the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2006, 2005 and 2004 was insignificant. Net foreign currency losses realized in 2006 were \$321. Net foreign currency gains realized in 2005 and 2004 were \$862 and \$86, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2006 and 2005.

#### Sources of Growth

During 2006, the Company opened 2 full-service offices (•) and 6 satellite offices (+), as follows:

ASIA	EUROPE	NORTH AMERICA	MIDDLE EAST
Shantou, PRC+ Xi'an, PRC•	Graz, Austria+	Reynosa, Mexico• Querétaro, Mexico+	Islamabad, Pakistan+
		Omaha, Nebraska+	
		Calexico, California+	

Xi'an, People's Republic of China (PRC) converted from a satellite office to a full-service office during 2006.

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

Internal Growth – Management believes that a comparison of "same store" growth is critical in the evaluation of the quality and extent of the Company's internally generated growth. This "same store" analysis isolates the financial contributions from offices that have been included in the Company's operating results for at least one full year. The table below presents "same store" comparisons on a year-over-year basis for the years ended December 31, 2006, 2005 and 2004.

Same store comparisons for the years ended December 31,

	2006	2005	2004
Net revenues	21%	16%	20%
Operating income	38%	28%	31%

#### Liquidity and Capital Resources

The Company's principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the year ended December 31, 2006 was \$333 million, as compared with \$267 million for 2005. This \$66 million increase is principally due to increased net earnings. The increase in taxes payable, net of prepaid taxes, is the result of higher tax liabilities on higher earnings and lower relative amounts of estimated tax payments.

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

As a customs broker, the Company makes significant 5-10 business day cash advances for certain of its customers' obligations such as the payment of duties to the Customs and Border Protection of the Department of Homeland Security. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a "pass through" and are not recorded as a component of revenue and expense. The billings of such

advances to customers are accounted for as a direct increase in accounts receivable to the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these "pass through" billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2006 was \$143 million, as compared with \$91 million during the same period of 2005. The largest use of cash in investing activities is cash paid for capital expenditures. As a non-asset based provider of integrated logistics services, the Company does not own any physical means of transportation (i.e., airplanes, ships, trucks, etc.). However, the Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. For the year ended December 31, 2006, the Company made capital expenditures of \$141 million as compared with \$91 million for the same period in 2005. Capital expenditures in 2006 included \$67 million for the acquisition of real estate and office/warehouse facilities in Miami, Florida. In addition, the Company had real estate development expenditures of \$22 million related to projects in Seattle, Washington and Houston, Texas. Other capital expenditures in 2006 and 2005 related primarily to investments in technology, office furniture and equipment and leasehold improvements. The Company currently expects to spend approximately \$43 million for normal capital expenditures in 2007. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2007 are currently estimated to be \$106 million. This includes normal capital expenditures as noted above, plus additional real estate acquisitions and development. The Company expects to finance capital expenditures in 2007 with cash.

Cash used in financing activities for the year ended December 31, 2006 was \$160 million as compared with \$107 million for the same period in 2005. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. In 2006, the Company continued its policy of repurchasing stock to prevent growth in issued and outstanding shares as a result of stock option exercises. The increase in cash used in financing activities for the year ended December 31, 2006 compared with the same period in 2005 is primarily the result of this policy. During 2006 and 2005 the net use of cash in financing activities included the payment of dividends of \$.22 per share and \$.15 per share, respectively.

At December 31, 2006, working capital was \$633 million, including cash and short-term investments of \$512 million. The Company had no long-term debt at December 31, 2006.

The Company maintains international and domestic unsecured bank lines of credit. At December 31, 2006, the United States facility totaled \$50 million and the international bank lines of credit, excluding the U.K. bank facility, totaled \$18 million. In addition, the Company maintains a bank facility with its U.K. bank for \$14 million which is available for short-term borrowings and issuances of standby letters of credit. At December 31, 2006, the Company had no amounts outstanding on these lines of credit, but was contingently liable for \$63 million from 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, 2006, the Company's contractual obligations and other commitments are as follows:

		Payments Due by Period				
In thousands	Total	Less than1 year	1 - 3 years	3 - 5 years	After 5 years	
Contractual Obligations:						
Operating leases	\$ 86,075	\$ 37,133	\$ 38,585	\$ 7,939	\$ 2,418	
Unconditional purchase obligations	293,019	293,019				
Construction obligations	7,781	6,890	697	194		
Total contractual cash obligations	\$ 386,875	\$ 337,042	\$ 39,282	\$ 8,133	\$ 2,418	

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, 2006, will be fulfilled during 2007 in the Company's ordinary course of business.

In thousands		Amount of Commitment Expiration Per Period			
	Total amounts committed	Less than 1 year	1 - 3 years	3 - 5 years	After 5 years
Other Commitments:					
International lines of credit	\$ 19,516	\$ 19,516	\$ —	\$ —	\$ —
Standby letters of credit	62,608	58,712	3,397	415	84
Total commitments	\$ 82,124	\$ 78,228	\$ 3,397	\$ 415	\$ 84

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2006, the Company had repurchased and retired 15,407,473 shares of common stock at an average price of \$13.24 per share over the period from 1994 through 2006. During 2006, 1,105,773 shares were repurchased at an average price of \$44.20 per share.

The Company has a Discretionary Stock Repurchase Plan under which Management is allowed to repurchase 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, 2006, the Company had repurchased and retired 9,752,196 shares of common stock at an average price of \$26.43 per share over the period from 2001 through 2006. During 2006, 2,825,042 shares were repurchased at an average price of \$44.92. These discretionary repurchases were made to keep the number of issued and outstanding shares from growing as a result of stock option exercises.

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

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At December 31, 2006, cash and cash equivalent balances of \$345 million were held by the Company's non-United States subsidiaries, of which \$46 million was held in banks in the United States.

#### Impact of Inflation

To date, the Company's business has not been adversely affected by inflation. Direct carrier rate increases could occur over the short- to medium-term period. Due to the high degree of competition in the market place, these rate increases can lead to an erosion in the Company's margins. As the Company is not required to purchase or maintain extensive property and equipment and has not otherwise incurred substantial interest rate-sensitive indebtedness, the Company currently has limited direct exposure to increased costs resulting from increases in interest rates.

### **Off-Balance Sheet Arrangements**

As of December 31, 2006, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

#### Quantitative And Qualitative Disclosures About Market Risk

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

#### Foreign Exchange Risk

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

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. dollar, the Company's reporting currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. dollar, throughout the year ended December 31, 2006, would have had the effect of raising operating income approximately \$22 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately \$18 million. This analysis does not take into account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and depress imports into the United States over some relevant period of time, but the exact effect of this change cannot be quantified without making speculative assumptions.

As of December 31, 2006, the Company had approximately \$2 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company's ability to move money freely. Any such hedging activity throughout the year ended December 31, 2006, was insignificant. The Company had no foreign currency derivatives outstanding at December 31, 2006 and 2005. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

#### Interest Rate Risk

At December 31, 2006, the Company had cash and cash equivalents and short-term investments of \$512 million, of which \$1 million was invested at various short-term market interest rates. There were no short-term borrowings at December 31, 2006. A hypothetical change in the interest rate of 10% would not have a significant impact on the Company's earnings.

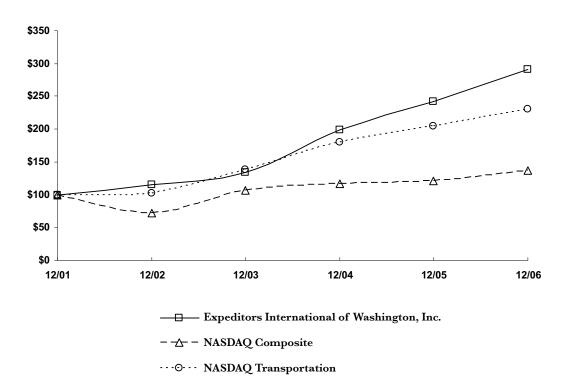
In management's opinion, there has been no material change in the Company's market risk exposure between 2005 and 2006.

#### Stock Price Performance Graph

The following graph shows a five-year comparison of cumulative returns for the Company's Common Stock, the NASDAQ Global Market and NASDAQ Trucking and Transportation Stock Index. The total cumulative return on investment (change in month-end stock price plus reinvested dividends) for each of the periods for the Company, the NASDAQ Global Market and the NASDAQ Trucking and Transportation Index is based on the stock price or index at December 31, 2001.

#### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Expeditors International of Washington, The NASDAQ Composite Index And The NASDAQ Transportation Index



<sup>\* \$100</sup> invested on 12/31/01 in stock or index-including reinvestment of dividends. Fiscal year ending December 31.

#### Directors and Executive Officers

Directors

Peter J. Rose Chairman of the Board and Chief Executive Officer, Director

James L. K. Wang President – Asia, Director

R. Jordan Gates Executive Vice President – Chief Financial Officer, Director

James J. Casey Director

Dan P. Kourkoumelis Director

Michael J. Malone Director

John W. Meisenbach Director, President, MCM Financial, A Financial Services Company Executive Officers

Glenn M. Alger President and Chief Operating Officer

Rommel C. Saber President – Europe, Africa, Near/Middle East and Indian Sub-continent

Robert L. Villanueva President – The Americas

Sandy K. Y. Liu Chief Operating Officer – Asia

Timothy C. Barber Executive Vice President -Global Sales

Rosanne Esposito Executive Vice President – Global Customs

Eugene K. Alger Senior Vice President -North America Jean Claude Carcaillet Senior Vice President – Australasia

Philip M. Coughlin Senior Vice President – North America

Roger A. Idiart Senior Vice President – Air Cargo

Charles J. Lynch Senior Vice President – Corporate Controller

Jeffrey S. Musser Senior Vice President and Chief Information Officer

Daniel R. Wall Senior Vice President – Ocean Services

Amy J. Tangeman Vice President – General Counsel and Secretary

## Product and Service Manager

## Geographic Managers

Global and Product Services

Bret C. Backman

Vice President -

Research and Development

Richard P. Ballantyne

Vice President -

Global Distribution Services

Samuel R. Bokor

Vice President -

Training and

Personnel Development

Rebecca A. Cates

Vice President -

Treasurer

Steve Grimmer

Vice President -

Account Management

Scott M. Kelly

Vice President -

Global Ocean Services

Carol Kijac

Vice President -

Americas,

Sales and Marketing,

Erin M. Thomasson

Vice President -

Insurance

Deanna L. Wilson

Vice President -

Global Business Processes

Asia

Andrew Goh

Senior Vice President -

South Asia

T. H. Chiu

Managing Director -

Central and Northern China

Alan Lo

Managing Director -

Hong Kong

Derby Lam

Managing Director -

South China

Chorina Khoo

Managing Director -

Singapore

Wilson Yang

Managing Director -

Taiwan

Danny Lee

Managing Director -

Thailand

Simon Jung

Managing Director -

Korea

Michael Leong

General Manager -

Penang, Malaysia

Shehan Mohamed

General Manager -

Sri Lanka

Simon Liu

General Manager –

Vietnam

Nixen Tanex

General Manager -

Indonesia

Tom Tan

General Manager -

Cambodia

Ping Hao

General Manager –

Beijing

Dave Takano

General Manager -

Tokyo, Japan

Syed Ershad Ahmed

Managing Director -

Bangladesh

Aristotle Aniceto

General Manager

Philippines

## Geographic Managers

North America

Paul L. Arthur Regional Vice President – U.S.

Joseph P. Coogan Regional Vice President – U.S.

Karl C. Francisco Regional Vice President – U.S.

J. Ross Hurst Regional Vice President – Canada

Brian Lilly Regional Vice President – U.S.

William A. Romberger III Regional Vice President – U.S.

Richard H. Rostan Regional Vice President – U.S.

Troy Ryley Country Manager – Mexico

Jose A Ubeda Regional Vice President – U.S. Europe and Africa

James M. Anderson Regional Vice President – Ireland, U.K., South Africa, Madagascar and Mauritius

Henrik Hedensio Regional Vice President – North Europe

Kurt Meister Regional Vice President – South Europe

Magdolna Acs Managing Director – Hungary

Barry L. Baron Managing Director – United Kingdom

Kees Wagenaar Managing Director – Benelux Paolo Domante Managing Director – Italy and Switzerland

Rene Grabmuller Managing Director – Czech Republic

Gilles Kergoat Managing Director – Madagascar

Rainer Kirschner Managing Director – Germany

Richard P. Mallabone Managing Director – South Africa

Christophe C. Richard Managing Director – France

## Additional Geographic Managers

Near/Middle East And Indian Sub-continent

Tony Helayel Regional Vice President – East Mediterranean and North Africa

David Macpherson Regional Vice President – Gulf States, Pakistan, India and Nepal

Samir Ghaoui Managing Director – Levant

Afsar Mahmood Managing Director – Pakistan

K. Murali Managing Director – India

Suleyman Ture Managing Director – Turkey Latin America

Bruce Krebs Regional Vice President – Brazil and Mexico

Guillermo Ayerbe Regional Vice President – Central America, Caribbean and South Cone Regions

Carlos Novoa Regional Director – Latin America, Andean Countries

Jose Antonio Bedoya Country Manager – Peru

Giannina Odio Country Manager – Costa Rica

Transfer Agent and Registrar, Dividend Disbursing Agent

Offices and Agents

Common Stock

Computershare Trust Company, N.A. 250 Royall Street

Canton, MA 02021

Shareholder Services (877) 498-8861

Hearing Impaired / TDD (800) 952-9245

Website

http://www.computershare.com

Independent Registered Public Accounting Firm

KPMG LLP 801 Second Avenue Suite 900 Seattle, WA 98104

Corporate Headquarters

**Expeditors International** of Washington, Inc. 1015 Third Avenue 12th Floor Seattle, WA 98104

Information is available on the World Wide Web at http://www.expeditors.com Major cities of the world

Annual Meeting

The annual meeting of shareholders is Wednesday, May 2, 2007, at 2:00 pm at:

Expeditors' Corporate Headquarters 1015 Third Avenue Seattle, Washington

Form 10-K

The Company files an Annual Report with the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this report without charge by writing:

R. Jordan Gates, Executive Vice President -Chief Financial Officer **Expeditors International** of Washington, Inc. 1015 Third Avenue 12th Floor Seattle, WA 98104

Stock Price and Shareholder Data

The following table sets forth the high and low sale prices in the over-the-counter market for the Company's Common Stock as reported by The NASDAQ Global Market under the symbol EXPD.

2006		
Quarter	High	Low
First	\$ 43.640	32.825
Second	56.810	42.310
Third	58.320	37.360
Fourth	48.990	39.790
2005		
Quarter	High	Low
Quarter First	<i>High</i> \$ 28.875	Low $26.255$
$\sim$	9	22000
First	\$ 28.875	26.255

There were 5,784 shareholders of record as of December 31, 2006. Management estimates that there were 130,886 beneficial shareholders as of March 9, 2007.

In 2006 and 2005, the Board of Directors declared a semi-annual dividend of \$.11 per and \$.075 per share, respectively, which was paid as follows:

2006	15 June 15 December
2005	15 June 15 December

About our Annual Report

Photographed on location in our Amsterdam, Beirut, Hong Kong and Mumbai facilities; all office personnel portrayed in this annual report are employees of Expeditors International of Washington, Inc.



