(Trust)

Where would you be without trust?

It's common sense to trust in your people and yourself. And it's also common sense to think that a bird in the hand is still worth quite a lot. Which are just two reasons that Expeditors will not risk what we are for the sake of pursuing the latest corporate trends. We will not base our policies on appeasing a misguided sense of political correctness. It's also why we will continue to grow organically, not by pursuing mergers that may be more about lining pockets than improving service. And when it comes to compensation and recognition, our employees know that they can trust their company to reward their contributions. At Expeditors we think it's wrong to forget about trust or to abandon common sense. After all, it's trust and common sense that have helped us accomplish what is in fact quite uncommon.


50

Trust your employees – they are your company

50 percent of our employees have at least three years of tenure.

And those with five or more years tenure account for 34 percent of our employees. All work on behalf of more than 7,000 customers in 247 offices located in 61 countries around the world. And they apply some very special abilities: To share an ideal; to work across borders and cultures; and to win trust for what they do. Our employees have security and stability from an employer unwilling to trade away their interests. An employer that provides comprehensive healthcare, plus the promise of recognition that leads to new opportunities throughout their careers.

28

Stay on the path that you've set

For 28 years we've built Expeditors to do one thing extremely well.

Expeditors is able to do many things successfully because we never forget that we're really doing just one thing: Logistics. As our industry grows in complexity – moving and changing as fast and sometimes faster than business itself – remaining at the forefront demands attention that's guided by practical experience and thorough understanding. That experience and understanding help us continuously improve our information technology as we continuously expand our service and product portfolio. All to enable us to continue doing that one thing better than anyone else.

70

Understand that some things are simply not for sale

70 percent of all freight industry mergers in the past 20 years have failed.

It's reached the point that customers say they simply will not do business with logistics companies that are going through mergers because the resulting culture clashes can compromise almost every aspect of service, putting a customer's productivity and profits at risk. To underscore the point, in the past 20 years there have been more than 20 major mergers in the logistics industry. And out of those, based on our observations which include such things as lost and disillusioned customers and disrupted employee lives, the failure rate has been at least 70 percent. Proving that compromising who you are and what you do for a fast buck is rarely if ever worth the risk.

100

Set the tone by being the best example

100 percent compliance with Expeditors expectations.

Double standards are counterproductive. Double standards are unfair. There's no practical or ethical reason that what we ask of our employees should not also be asked of our managers, at every level. Expeditors is built on trust. And so our method of disbursing options, our system of training, of motivation, of recognition and reward is designed to demand responsibility from each of us – extending from the warehouse to the board room – from Perth to Paris. So that every person on the Expeditors payroll doesn't just set the best example, they are the best example.


1

Earn the trust of our customers every day

7,000 customers are our number one priority.

We're happy to say – for the 28th year running – that the international logistics needs of our customers remain our top priorities. Expeditors continues to be shaped by their expectations. Meeting those expectations, day in and day out, is nothing short of an oath we live by. In an increasingly turbulent world, providing this unique level of consistency has done as much to set our Company apart as any of our services and products. Because it's also the way in which we deliver those services and products that proves, again and again, our customers come first.

To our shareholders

There are so many people to thank – employees, customers, suppliers and shareholders. Thank you for a great year, one without too many anomalies. And to be sure we never get distracted by events we can't control, we continue our focus on those things we can influence.

As mentioned last year, when it comes to experienced management we have a huge amount of bench strength. And so it was easy to pick Glenn Alger's replacement. Starting in 2008 Expeditors' new President and COO will be Jordan Gates, our former CFO. He was the logical choice, one welcomed by everyone in the Company. Jordan will still look after the CFO responsibilities until a suitable replacement is named. Also promoted was Tim Barber to President – Global Sales and Marketing. Because of Tim's leadership we have been able to garner and retain lots of good business.

Further, we have nominated two new individuals to serve on our Board of Directors. Mark Emmert, President of the University of Washington and Bob Wright, President and CEO of Matthew G. Norton Co.; a real estate investment firm, subject to shareholder approval, will join Expeditors' Board of Directors on the 7th of May, 2008. We are delighted with the addition of these two fine gentlemen and welcome their expertise, and look forward to their contribution.

We also lose two great Jim's. Jim Anderson, formerly our Regional Vice President for Ireland, the United Kingdom, South Africa, Mauritius and Madagascar, was with us for 20 of his 40-year career and will be sorely missed. Jim Koenig, based in San Francisco, retires after 25 years in sales and sales training. His career spanned more than 3 decades.

Both these men retire after long and distinguished careers – and we wish them both well. As we get older we will continue to lose talent of this caliber, but the young people coming up will be more than adequate replacements in large part due to the mentoring of Jim and Jim and their peers. Thank you each for all that you have done.

Every year has its surprises and the one big anomaly for 2007 concerns the Department of Justice (DOJ) investigation of airline collusion in price fixing fuel surcharges — collusion which allegedly expanded into integrators, forwarders, brokers and logistics companies.

Expeditors has been included in this investigation. Be assured that we're fully cooperating with the DOJ's requests and believe we have nothing to fear. Unfortunately, as one would expect, situations of this nature are very time consuming and congruently expensive. As the year progresses we will keep everyone informed of the status of this investigation and how it affects Expeditors.

Still, we had another great year overall and we look forward to the opportunities of 2008 with great zeal. Once again, thank you one and all.

Peter J. Rose

Peter J. Rose, Chairman and Chief Executive Officer

(Geographic Overview)

By being consistent throughout 2007, productivity improved another 5% over the 26% we realized in 2006. We achieved this with constant focus, measurement, assessment and refinement. We also improved our internal operational bottom line by 16% over the 48% increase recorded in 2006. During 2008 we'll continue to focus on Customer Service and Customer Retention at every level. We'll increase our Intra EMAIR business, and secure more market share by focusing more on EMAIR Fortune 500 companies. We'll also implement effective cost control measures throughout the region, measures that have proven successful in individual branches and countries. A sincere thank you and appreciation to our valued customers for their continuous support and confidence, and to the EMAIR Team, I simply say: Thank you – you are the best.

The Americas had another good year in 2007, primarily due to the dedication of our staff. As we focused on raising the bar in Experience, Customer Service, Compliance, Productivity, Security and Personnel, we saw big improvement in all areas. In 2008 our goal is to further enhance operational excellence in order to promote superior Customer Service, Financial Results and Employee Development. We're excited about the opportunities that lie before us as we challenge our staff to analyze and improve our current operational processes. As we look forward to systems development, continued operational process enhancement will be the one key to ensure we retain and expand our competitive advantages.

Despite the negative economic effects of ever increasing crude oil prices and the subprime rate issue, we achieved good results in 2007 by following our operating principles and focusing on productivity enhancement, cost control and customer service. In 2008 we'll continue to grow by expanding our customer base and implementing our customer retention program. The five sub-region arrangement in Asia aims to meet with the needs of growth and efficiency driven by a highly demanding business environment. In China, our 50th office opened, renewing our focus on strengthening satellite offices. Equally important is our win-win carrier strategy which emphasizes the benefits of partnership and our attention to 100% Customer Satisfaction, 100% of the time. And we never overlook our people – by making employee satisfaction a priority we guarantee the core of Expeditors' success.

2007 could be summarized in one word: Change. And with change comes opportunity. Expeditors South Pacific took advantage by increasing market share in Asia and North America and by developing Insurance, Projects, Domestic Trucking, Oil, Gas and Mining products. Lack of airfreight capacity proved to be a constant challenge that triggered the introduction of Expeditors time definite Express Services for large shipments. We concentrated our ongoing efforts on our Employee and Customer retention programmes – and we are fortunate to have a very loyal team and so experienced little staff turnover in 2007. That strong base will continue to promote the Expeditors culture and further improve our Employee and Customer retention programmes with a single goal in mind: Making Expeditors known as the best Customer Service Company in the industry.

(Financial Report)

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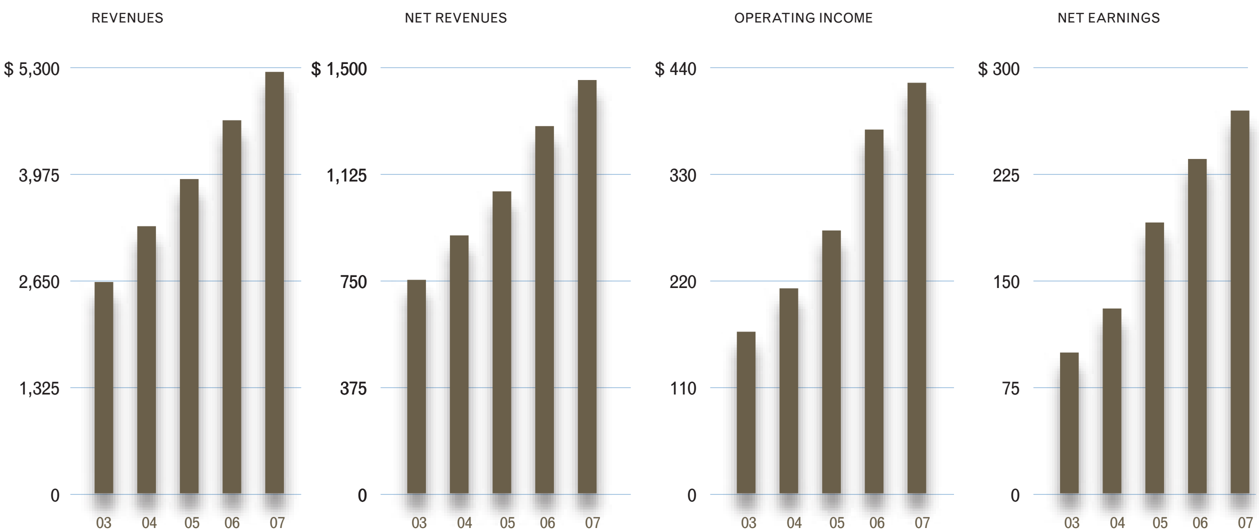
dollars in millions



Financial Highlights

In thousands except per share data

	2007	2006	2005	2004	2003
Revenues	$ 5,235,171	4,633,987	3,903,794	3,317,989	2,624,941
Net earnings	269,154	235,094	190,436	129,949	98,970
Diluted earnings per share	1.21	1.06	.86	.59	.46
Basic earnings per share	1.26	1.10	.89	.61	.47
Dividends declared and paid per share	.28	.22	.15	.11	.08
Working capital	764,944	632,691	589,460	521,544	383,614
Total assets	2,069,065	1,822,338	1,566,044	1,364,053	1,044,078
Shareholders' equity	1,226,571	1,070,091	926,382	821,144	662,259
Diluted weighted average shares outstanding	221,800	222,223	220,230	220,117	216,228
Basic weighted average shares outstanding	213,315	213,455	213,555	212,768	209,467

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 2003 through 2005 have been restated as required by the modified retrospective method in connection with the implementation in 2006 of Statement of Financial Accounting Standard No. 123R (Revised 2004), "Share-Based Payment" (SFAS 123R).

Consolidated Balance Sheets

In thousands except per share data

expd 07

December 31,	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 574,599	511,358
Short-term investments	674	578
Accounts receivable, less allowance for doubtful accounts of $14,830 in 2007 and $13,454 in 2006	933,519	811,486
Deferred Federal and state income taxes	8,278	7,490
Other	17,627	10,925
Total current assets	1,534,697	1,341,837
PROPERTY AND EQUIPMENT:		
Land	178,834	176,690
Buildings and leasehold improvements	337,095	283,846
Furniture, fixtures, equipment and purchased software	180,661	158,673
Construction in progress	11,072	5,054
Vehicles	4,453	3,679
	712,115	627,942
Less accumulated depreciation and amortization	214,223	178,695
Property and equipment, net	497,892	449,247
Goodwill, net	7,927	7,927
Other intangibles, net	7,832	7,584
Other assets, net	20,717	15,743
	$ 2,069,065	1,822,338

December 31,	2007	2006
CURRENT LIABILITIES:		
Accounts payable	$ 613,108	544,028
Accrued expenses, primarily salaries and related costs	129,669	122,081
Federal, state, and foreign income taxes	26,976	43,036
Total current liabilities	769,753	709,145
Deferred Federal and state income taxes	55,533	26,827
Minority interest	17,208	16,275
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 212,996,776 shares at December 31, 2007 and		
213,080,466 shares at December 31, 2006	2,130	2,131
Additional paid-in capital	50,006	119,582
Retained earnings	1,143,464	934,058
Accumulated other comprehensive income	30,971	14,320
Total shareholders' equity	1,226,571	1,070,091
Commitments and contingencies		
	$ 2,069,065	1,822,338

See accompanying notes to consolidated financial statements.
Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

Consolidated Statements of Earnings

In thousands except per share data

Years ended December 31,		2007	2006	2005
REVENUES:				
Airfreight	$	2,407,582	2,229,545	1,827,009
Ocean freight and ocean services		1,820,558	1,553,048	1,374,197
Customs brokerage and other services		1,007,031	851,394	702,588
Total revenues		5,235,171	4,633,987	3,903,794
OPERATING EXPENSES:				
Airfreight consolidation		1,879,434	1,758,907	1,435,236
Ocean freight consolidation		1,473,942	1,230,468	1,113,936
Customs brokerage and other services		428,834	353,652	293,000
Salaries and related costs		791,879	701,824	596,804
Rent and occupancy costs		67,676	61,627	56,438
Depreciation and amortization		39,303	35,448	30,888
Selling and promotion		38,735	35,050	29,892
Other		91,968	81,895	76,547
Total operating expenses		4,811,771	4,258,871	3,632,741
Operating income		423,400	375,116	271,053

Years ended December 31,	2007	2006	2005
OTHER INCOME (EXPENSE):			
Interest income	22,341	18,020	11,415
Interest expense	45	(198)	(313)
Other, net	3,887	2,726	4,542
Other income, net	26,273	20,548	15,644
Earnings before income taxes and minority interest	449,673	395,664	286,697
Income tax expense	179,815	160,661	89,365
Net earnings before minority interest	269,858	235,003	197,332
Minority interest	(704)	91	(6,896)
Net earnings	$ 269,154	235,094	190,436
Diluted earnings per share	$ 1.21	1.06	.86
Basic earnings per share	$ 1.26	1.10	.89
Dividends declared and paid per common share	$ 0.28	0.22	0.15
Weighted average diluted shares outstanding	221,799,868	222,223,312	220,230,176
Weighted average basic shares outstanding	213,314,761	213,454,579	213,555,102

See accompanying notes to consolidated financial statements.
Certain 2006 and 2005 amounts have been reclassified to conform to the 2007 presentation.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

In thousands except per share data. Years ended December 31, 2007, 2006 and 2005

	Common stock	
	Shares	Par Value
Balance at December 31, 2004	213,287,906	$ 2,133
Exercise of stock options	3,612,592	36
Issuance of shares under stock purchase plan	699,968	7
Shares repurchased under provisions of stock repurchase plans	(4,373,424)	(44)
Stock compensation expense	—	—
Tax benefits from stock plans	—	—
Comprehensive income		
Net earnings	—	—
Unrealized losses on securities, net of tax of $117	—	—
Foreign currency translation adjustments, net of tax of $7,650	—	—
Total comprehensive income	—	—
Dividends paid ($.15 per share)	—	—
Balance at December 31, 2005	213,227,042	$ 2,132
Exercise of stock options	3,053,425	31
Issuance of shares under stock purchase plan	730,814	7
Shares repurchased under provisions of stock repurchase plans	(3,930,815)	(39)
Stock compensation expense	—	—
Tax benefits from stock plans	—	—
Comprehensive income		
Net earnings	—	—
Unrealized gains on securities, net of tax of $0	—	—
Foreign currency translation adjustments, net of tax of $9,015	—	—
Total comprehensive income	—	—
Dividends paid ($.22 per share)	—	—
Balance at December 31, 2006	213,080,466	$ 2,131
Exercise of stock options	3,978,908	40
Issuance of shares under stock purchase plan	632,548	6
Shares repurchased under provisions of stock repurchase plans	(4,695,146)	(47)
Stock compensation expense	—	—
Tax benefits from stock plans	—	—
Comprehensive income		
Net earnings	—	—
Unrealized gains on securities, net of tax of $28	—	—
Reclassification adjustment for realized gain, net of tax $286	—	—
Foreign currency translation adjustments, net of tax of $9,264	—	—
Total comprehensive income	—	—
Dividends paid ($.28 per share)	—	—
Balance at December 31, 2007	212,996,776	$ 2,130

Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
178,734	628,591	11,686	821,144
27,118	—	—	27,154
14,049	—	—	14,056
(85,820)	(40,988)	—	(126,852)
33,457	—	—	33,457
13,367	—	—	13,367
—	190,436	—	190,436
—	—	(117)	(117)
—	—	(14,208)	(14,208)
—	—	—	176,111
—	(32,055)	—	(32,055)
180,905	745,984	(2,639)	926,382
32,268	—	—	32,299
17,008	—	—	17,015
(175,744)	—	—	(175,783)
41,739	—	—	41,739
23,406	—	—	23,406
—	235,094	—	235,094
—	—	61	61
—	—	16,898	16,898
—	—	—	252,053
—	(47,020)	—	(47,020)
119,582	934,058	14,320	1,070,091
43,138	—	—	43,178
21,801	—	—	21,807
(207,537)	—	—	(207,584)
44,917	—	—	44,917
28,105	—	—	28,105
—	269,154	—	269,154
—	—	44	44
—	—	(443)	(443)
—	—	17,050	17,050
—	—	—	285,805
—	(59,748)	—	(59,748)
50,006	1,143,464	30,971	1,226,571

See accompanying notes to consolidated financial statements.

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

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

Consolidated Statements of Cash Flows

In thousands

Years ended December 31,	2007	2006	2005
OPERATING ACTIVITIES:			
Net earnings	$ 269,154	235,094	190,436
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for losses on accounts receivable	940	1,197	1,313
Deferred income tax expense (benefit)	18,991	4,172	(3,700)
Excess tax benefits from stock plans	(28,105)	(23,406)	(13,367)
Stock compensation expense	44,917	41,739	33,457
Depreciation and amortization	39,303	35,448	30,888
Gain on sale of assets	(1,053)	(182)	(897)
Amortization of other intangible assets	1,483	1,369	1,422
Minority interest in earnings of consolidated entities	704	(91)	6,896
Changes in operating assets and liabilities:			
Increase in accounts receivable	(84,950)	(96,414)	(95,015)
Increase in accounts payable and accrued expenses	46,881	85,012	94,826
Increase in income taxes payable, net	4,673	48,392	20,580
Other	(353)	957	237
Net cash provided by operating activities	312,585	333,287	267,076

Years ended December 31,	2007	2006	2005
INVESTING ACTIVITIES:			
Increase in short-term investments	(10)	(419)	(12)
Purchase of property and equipment	(82,786)	(139,464)	(90,781)
Proceeds from sale of property and equipment	504	397	1,428
Prepayment on long-term land lease	(2,820)	(1,761)	—
Other	(2,859)	(1,260)	(1,402)
Net cash used in investing activities	(87,971)	(142,507)	(90,767)
FINANCING ACTIVITIES:			
Repayments of short-term debt, net	—	—	(2,057)
Net distributions to minority interests	(316)	(10,024)	(436)
Proceeds from issuance of common stock	64,985	49,314	41,210
Repurchases of common stock	(207,584)	(175,783)	(126,852)
Excess tax benefits from stock plans	28,105	23,406	13,367
Dividends paid	(59,748)	(47,020)	(32,055)
Net cash used in financing activities	(174,558)	(160,107)	(106,823)
Effect of exchange rate changes on cash	13,185	16,791	(14,575)
Increase in cash and cash equivalents	63,241	47,464	54,911
Cash and cash equivalents at beginning of year	511,358	463,894	408,983
Cash and cash equivalents at end of year	$ 574,599	511,358	463,894
INTEREST AND TAXES PAID:			
Interest	$ 83	194	253
Income taxes	146,353	103,715	62,176

See accompanying notes to consolidated financial statements.
Certain 2006 and 2005 amounts have been reclassified to conform to the 2007 presentation.

Note 1. Summary of Significant Accounting Policies

a. Basis of Presentation

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

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

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

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

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

b. Cash Equivalents

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

c. Short-term Investments

Short-term investments are designated as available-for-sale and cost approximates market at December 31, 2007 and 2006.

d. Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates. The Company has recorded accounts receivable allowances in the amounts of $14,830, $13,454 and $12,777 as of December 31, 2007, 2006 and 2005, respectively. Additions and write-offs have not been significant in any of these years.

e. Long-Lived Assets, Depreciation and Amortization

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

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

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

Effective January 1, 2002, the Company ceased to amortize goodwill. Goodwill is recorded net of accumulated amortization of $765 at December 31, 2007 and 2006. For the years ended December 31, 2007 and 2006, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

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

Balances as of December 31 are as follows:

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

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

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

f. Revenues and Revenue Recognition

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

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

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

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

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

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

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

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

g. Income Taxes

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

h. Net Earnings per Common Share

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

i. Stock Option Plans

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

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

j. Foreign Currency

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

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2007, 2006, and 2005 was insignificant. Net foreign currency gains realized in 2007 were $1,300. Net foreign currency losses realized in 2006 were $321. Net foreign currency gains realized in 2005 were $862. The Company had no foreign currency derivatives outstanding at December 31, 2007 and 2006.

k. Comprehensive Income

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

Accumulated other comprehensive income consists of the following:

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

l. Segment Reporting

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

m. Use of Estimates

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

n. Reclassifications

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

o. Recent Accounting Pronouncements

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

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

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

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

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

Note 2. Credit Arrangements

The Company has a $50,000 United States bank line of credit extending through July 1, 2008. Borrowings under the line bear interest at LIBOR + .75% (5.35% at December 31, 2007) and are unsecured. As of December 31, 2007, the entire $50,000 was available and the Company had no borrowings under this line.

The majority of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit totaling $19,067 and $19,516 at December 31, 2007 and 2006, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2007, the Company had no amounts outstanding under these lines and was contingently liable for approximately $74,498 under outstanding standby letters of credit and guarantees.

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

At December 31, 2007, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities, including maintenance of certain minimum asset, working capital and equity balances and ratios.

Note 3. Income Taxes

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

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

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

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

In accordance with IRC 965, the Company recorded a one-time tax benefit of $22 million in the fourth quarter of 2005. In order to qualify for this credit, the Company adopted a plan which required qualified capital expenditures of approximately $105 million. The Company completed the required capital expenditures during 2006.

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

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

The tax effects of temporary differences, tax credits and operating loss carryforwards that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2007 and 2006 are as follows:

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

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

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

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

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

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

Note 4. Shareholders' Equity

a. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 20,000,000 shares of the Company's common stock in the open market with the proceeds received from the exercise of Employee and Director Stock Options. As of December 31, 2007, the Company had repurchased and retired 16,906,236 shares of common stock at an average price of $15.94 per share over the period from 1994 through 2007.

In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 200,000,000 shares of common stock. As of December 31, 2007, the Company had repurchased and retired 12,948,579 shares of common stock at an average price of $30.87 per share over the period from 2001 through 2007.

b. Stock Option Plans

At December 31, 2007, the Company has two stock option plans (the "1985 Plan" and the "2007 Plan") for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. On May 2, 2007, the shareholders approved the Company's 2007 Plan, which made available a total of 3,000,000 shares of the Company's common stock for purchase upon exercise of options granted under the 2007 Plan. The 1985 Plan provides for non-qualified grants. The 2007 Plan provides for qualified and non-qualified grants. Grants under the 2007 Plan are limited to not more than 100,000 shares per person. No additional shares can be granted under the 2007 Plan after April 30, 2008. Under the 1985, 1997, 2005, 2006 and 2007 Plans, outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant.

The Company also has a stock option plan ("Directors' Plan") under which non-employee directors elected at each annual meeting are granted non-qualified options to purchase 32,000 shares of common stock at prices equal to the market value on the date of grant on the first business day of the month following the meeting. On May 3, 2006, the Directors' Plan was amended by shareholder vote to require a one year vesting period. Previously, options granted under the Directors' Plan vested immediately.

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

Details regarding the plans are as follows:

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

c. Stock Purchase Plan

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan ("2002 Plan"), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan ("1988 Plan") on July 31, 2002. In May 2007, the shareholders approved an amendment to the 2002 Plan to increase by 5,000,000 the number of shares of the Company's common stock available for purchase under the 2002 Plan. The Company's amended 2002 Plan provides for 9,305,452 shares of the Company's common stock, including 305,452 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 2007, an aggregate of 3,760,126 shares had been issued under the 2002 Plan and $12,292 had been withheld in connection with the plan year ending July 31, 2008.

d. Stock Option Activity

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

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

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

e. Share-Based Compensation Expense

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

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants issued during the years ended December 31, 2007, 2006 and 2005:

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

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

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

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

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

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

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

f. Basic and Diluted Earnings Per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share in 2007, 2006 and 2005.

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

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

Years ended December 31,	2007	2006	2005
Shares	4,760,520	132,510	500

Note 5. Fair Value of Financial Instruments

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

Note 6. Commitments

a. Leases

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

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

b. Unconditional Purchase Obligations

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2007 of $263,273, will be fulfilled during 2008 in the Company's ordinary course of business.

c. Employee Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2007, 2006, and 2005, the Company's contributions under the plans were $6,790, $5,814, and $5,183, respectively.

Note 7. Contingencies

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

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

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

Note 8. Business Segment Information

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

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

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

Asia	Europe	Australasia	Latin America	Middle East	Eliminations	Consolidated
2,959,873	684,661	71,091	79,314	236,062	—	5,235,171
18,234	36,563	7,854	11,640	13,883	(202,467)	—
2,978,107	721,224	78,945	90,954	249,945	(202,467)	5,235,171
402,613	245,761	42,044	42,920	67,151	—	1,452,961
197,017	50,762	11,913	9,958	17,546	—	423,400
422,038	443,758	34,174	46,492	100,934	10,316	2,069,065
41,773	7,879	1,420	1,259	3,119	—	82,786
4,917	7,759	922	1,523	1,657	—	39,303
306,115	156,349	19,410	25,341	48,477	(732,726)	1,226,571
2,616,098	618,999	54,948	67,463	215,912	—	4,633,987
16,228	32,595	6,383	8,368	11,293	(192,375)	—
2,632,326	651,594	61,331	75,831	227,205	(192,375)	4,633,987
359,613	216,110	32,894	32,931	54,821	—	1,290,960
178,265	48,366	8,887	7,519	14,605	—	375,116
360,904	363,332	26,055	33,273	67,794	2,140	1,822,338
8,269	6,086	446	1,205	1,633	—	139,464
5,108	6,739	785	1,548	1,396	—	35,448
249,017	117,738	14,844	16,133	31,570	(600,825)	1,070,091
2,224,313	534,897	48,234	58,976	174,157	—	3,903,794
13,280	24,923	5,920	7,416	8,406	(153,311)	—
2,237,593	559,820	54,154	66,392	182,563	(153,311)	3,903,794
296,925	179,238	30,135	26,772	43,186	—	1,061,622
147,130	30,179	7,956	5,698	7,572	—	271,053
322,391	294,555	21,681	26,639	47,009	(2,816)	1,566,044
3,374	4,534	1,084	1,290	949	—	90,781
4,759	6,107	830	1,198	1,433	—	30,888
205,027	75,146	11,108	10,679	22,030	(436,698)	926,382

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

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

* Represents less than 10% in the period presented.

Note 9. Quarterly Results (Unaudited)

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

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

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

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, 2007, our internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2007, which is included herein at page 55.

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, 2007 and 2006, 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, 2007. 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, 2007 and 2006, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

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, 2007, 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 February 29, 2008 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

KPMG LLP

Seattle, Washington
February 29, 2008

Report of Independent Registered Public Accounting Firm

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

We have audited Expeditors International of Washington, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control —Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Expeditors International of Washington, Inc.'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, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on 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, Expeditors International of Washington, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control— Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2007 and 2006, 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, 2007 and our report dated February 29, 2008 expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

Seattle, Washington
February 29, 2008

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 2008 are expected to exceed $85 million.

In terms of the opportunities, challenges and risks that management focused on in 2007, the Company operates in 61 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:

- 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;
- accrual of tax expense on an interim basis; and
- calculation of share-based compensation expense.

These estimates, other than the calculation of share-based compensation expense, are not highly uncertain and have not historically been subject to significant change. 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, other than the calculation of share-based compensation expense, would not produce materially different results than those reported.

As described in Note 1 to the consolidated financial statements in this report, the Company accounts for share-based compensation in accordance with 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 on a straight-line basis over the option vesting periods.

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 cancellations, and the future interest rates and dividend yields.

The Company uses the Black-Scholes model for estimating the fair value of stock options. Refer to Note 4e in the consolidated financial statements for the assumptions used for grants issued during the years ended December 31, 2007, 2006 and 2005. 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 123R, the guidance included in Securities and Exchange Commission Staff Accounting Bulletin No. 107 (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:

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

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

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

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

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 2007, 2006, and 2005, 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.

	2007		2006		2005	
In thousands	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues
NET REVENUES:						
Airfreight	$ 528,148	36%	$ 470,638	36%	$ 391,773	37%
Ocean freight and ocean services	346,616	24	322,580	25	260,261	25
Customs brokerage and other services	578,197	40	497,742	39	409,588	38
Net revenues	1,452,961	100	1,290,960	100	1,061,622	100
OVERHEAD EXPENSES:						
Salaries and related costs	791,879	55	701,824	54	596,804	56
Other	237,682	16	214,020	17	193,765	18
Total overhead expenses	1,029,561	71	915,844	71	790,569	74
Operating income	423,400	29	375,116	29	271,053	26
Other income, net	26,273	2	20,548	2	15,644	1
Earnings before income taxes and minority interest	449,673	31	395,664	31	286,697	27
Income tax expense	179,815	12	160,661	13	389,365	8
Net earnings before minority interest	269,858	19	235,003	18	197,332	19
Minority interest	(704)	—	91	—	(6,896)	(1)
Net earnings	$ 269,154	19%	$ 235,094	18%	$ 190,436	18%

2007 compared with 2006

Airfreight net revenues in 2007 increased 12% compared with 2006 primarily because of an increase in airfreight volumes. Global airfreight tonnages in 2007 increased 8% compared with 2006. Airfreight yields expended 83 basis points (a 4% increase) as compared with 2006. The Company's North American export airfreight net revenues increased 7% in 2007 compared to 2006, primarily the result of increased market share attributable to focused sales activity. Airfreight net revenues from Asia and from Europe increased 17% and 9%, respectively, for 2007 compared with 2006. These changes are the result of market pricing and tonnage increases of 9% from Asia and 3% from Europe. Management attributes these tonnage increases to effective sales efforts.

Ocean freight volumes, measured in terms of forty-foot container equivalent units (FEUs), increased 15% over 2006 while ocean freight and ocean services net revenues increased 7% during the same period. The difference between these two rates is a result of a year-over-year decrease in ocean freight yields of 173 basis points (an 8% decrease) which were partially offset by year-over-year increases in the Company's fee-based order management and ocean forwarding business. The primary reason for the decline in ocean freight yields was due to direct carrier cost increases that market conditions would not allow to be passed on in a timely manner.

The Company's North American ocean freight net revenues increased approximately 5% in 2007 compared to 2006. This was due to an increase in container traffic, primarily from Asia. Increases in ocean freight net revenues were primarily a result of increases in the order management and ocean forwarding business, which were an outcome of continued marketing efforts and customer service initiatives. Ocean freight net revenues for Asia and Europe increased 6% and 10%, respectively, in 2007 as compared to 2006. These increases were also a result of continued marketing efforts and customer service initiatives.

Customs brokerage and other services net revenues increased 16% in 2007 as compared with 2006. Consolidation within the customs brokerage market has also contributed to this increase as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program. In addition, increased emphasis on regulatory compliance continues to benefit the Company's customs brokerage offerings.

Salaries and related costs increased 13% in 2007 compared to 2006 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.

The effect of including stock-based compensation expense in salaries and related costs for 2007 and 2006 are as follows:

	Years ended December 31,	
In thousands	2007	2006
Salaries and related costs	$ 791,879	$ 701,824
As a % of net revenue	54.5%	54.4%
Stock compensation expense	$ 44,917	$ 41,739
As a % of salaries and related costs	5.7%	5.9%
As a % of net revenue	3.1%	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 2007 are a result of the incentives inherent in the Company's compensation program.

Other overhead expenses increased 11% in 2007 as compared with 2006 as rent expense, communications expense, process improvement and training expenses, and other costs expanded to accommodate the Company's growing operations. Other overhead expenses as a percentage of net revenues decreased 1% in 2007 as compared with 2006.

Other income, net, increased 28% in 2007 as compared with 2006. Due to higher interest rates on higher average cash balances and short-term investments during 2007, interest income increased by $4 million for the year ended December 31, 2007.

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 2007 was 40.0% as compared to 40.6% for 2006.

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 22% 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 year ended December 31, 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:

In thousands	Years ended December 31, 2006	2005
Salaries and related costs	$ 701,824	$ 596,804
As a % of net revenue	54.4%	56.2%
Stock compensation expense	$ 41,739	$ 33,457
As a % of salaries and related costs	5.9%	5.6%
As a % of net revenue	3.2%	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.

Other overhead expenses increased 10% 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 1% 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.

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

Sources of Growth

During 2007, the Company opened 7 full-service offices (*) and 5 satellite offices (+), as follows:

Asia	Europe	Latin America	North America	Near/Middle East	South Pacific
Batam, Indonesia+	Krakow, Poland+	Guatemala City, Guatemala*	Knoxville, Tennessee+	Abu Dhabi, United Arab Emirates*	Christchurch, New Zealand+
Chongqing, PRC*	Maastricht, The Netherlands+			Amman, Jordan*	
Hangzhou, PRC*				Doha, Qatar*	
Yantai, PRC*					

Chongqing, People's Republic of China (PRC) and Yantai, PRC converted from satellite offices to full-service offices during 2007.

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, 2007, 2006 and 2005.

Same store comparisons for the years ended December 31:

	2007	2006	2005
Net revenues	12%	21%	16%
Operating income	13%	38%	28%

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, 2007 was $313 million, as compared with $333 million for 2006. This $20 million decrease is principally due to an increase in accounts receivable which outpaced the increase in accounts payable and increased net earnings. Additionally, this decrease in net cash provided by operating activities was impacted by a smaller increase in taxes payable, net of prepaid taxes.

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 and continuing well into the fourth 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, 2007 was $88 million, as compared with $143 million during the same period of 2006. 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, 2007, the Company made capital expenditures of $83 million as compared with $139 million for the same period in 2006. Capital expenditures in 2007 included $35 million for the purchase of 48,300 square feet of office space in Kowloon, Hong Kong. Capital expenditures in 2006 included $67 million for the acquisition of real estate and office/warehouse facilities in Miami, Florida and real estate development expenditures of $22 million related to projects in Seattle, Washington and Houston, Texas. Other capital expenditures in 2007 and 2006 related primarily to investments in technology, office furniture and equipment and leasehold improvements. Total capital expenditures in 2008 are currently estimated to be $85 million. This includes normal capital expenditures as noted above, plus additional real estate acquisitions and development, although to a lesser extent than in the past few years. The Company expects to finance capital expenditures in 2008 with cash.

Cash used in financing activities for the year ended December 31, 2007 was $175 million as compared with $160 million for the same period in 2006. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. In 2007, 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, 2007 compared with the same period in 2006 is primarily the result of this policy. During 2007 and 2006 the net use of cash in financing activities included the payment of dividends of $.28 per share and $.22 per share, respectively.

At December 31, 2007, working capital was $765 million, including cash and short-term investments of $575 million. The Company had no long-term debt at December 31, 2007.

The Company maintains international and domestic unsecured bank lines of credit. At December 31, 2007, the United States facility totaled $50 million and the international bank lines of credit totaled $19 million. In addition, the Company maintains a bank facility with its U.K. bank for $14 million which is available for issuances of standby letters of credit. At December 31, 2007, the Company had no amounts outstanding on these lines of credit, but was contingently liable for $74 million from standby letters of credit and guarantees. The standby letters of credit and guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

At December 31, 2007, the Company's contractual obligations and other commitments are as follows:

		Payments Due by Period			
In thousands	Total	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
CONTRACTUAL OBLIGATIONS:					
Operating leases	$ 78,389	$ 37,382	$ 30,829	$ 7,493	$ 2,685
Unconditional purchase obligations	263,273	263,273	—	—	—
Construction obligations	17,578	15,366	2,212	—	—
Total contractual cash obligations	$ 359,240	$ 316,021	$ 33,041	$ 7,493	$ 2,685

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2007, will be fulfilled during 2008 in the Company's ordinary course of business.

		Amount of Commitment Expiration per Period			
In thousands	Total amounts committed	Less than 1 year	1 – 3 years	3 – 5 years	After 5 years
OTHER COMMITMENTS:					
International lines of credit	$ 19,067	$ 19,067	$ —	$ —	$ —
Standby letters of credit	74,498	69,409	4,814	182	93
Total commitments	$ 93,565	$ 88,476	$ 4,814	$ 182	$ 93

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2007, the Company had repurchased and retired 16,906,236 shares of common stock at an average price of $15.94 per share over the period from 1994 through 2007. During 2007, 1,498,763 shares were repurchased at an average price of $43.78 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, 2007, the Company had repurchased and retired 12,948,579 shares of common stock at an average price of $30.87 per share over the period from 2001 through 2007. During 2007, 3,196,383 shares were repurchased at an average price of $44.42. These discretionary repurchases were made to limit the growth in the number of issued and outstanding shares 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, 2007, cash and cash equivalent balances of $395 million were held by the Company's non-United States subsidiaries, of which $50 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, 2007, 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, 2007, would have had the effect of raising operating income approximately $36 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately $29 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, 2007, the Company had approximately $6 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, 2007, was insignificant. Net foreign currency gains realized in 2007 were $1,300. Net foreign currency losses realized in 2006 were $321. Net foreign currency gains realized in 2005 were $862. The Company had no foreign currency derivatives outstanding at December 31, 2007 and 2006. 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, 2007, the Company had cash and cash equivalents and short-term investments of $575 million, of which $1 million was invested at various short-term market interest rates. There were no short-term borrowings at December 31, 2007. A hypothetical change in the interest rate of 10% would not have a significant impact on the Company's earnings.

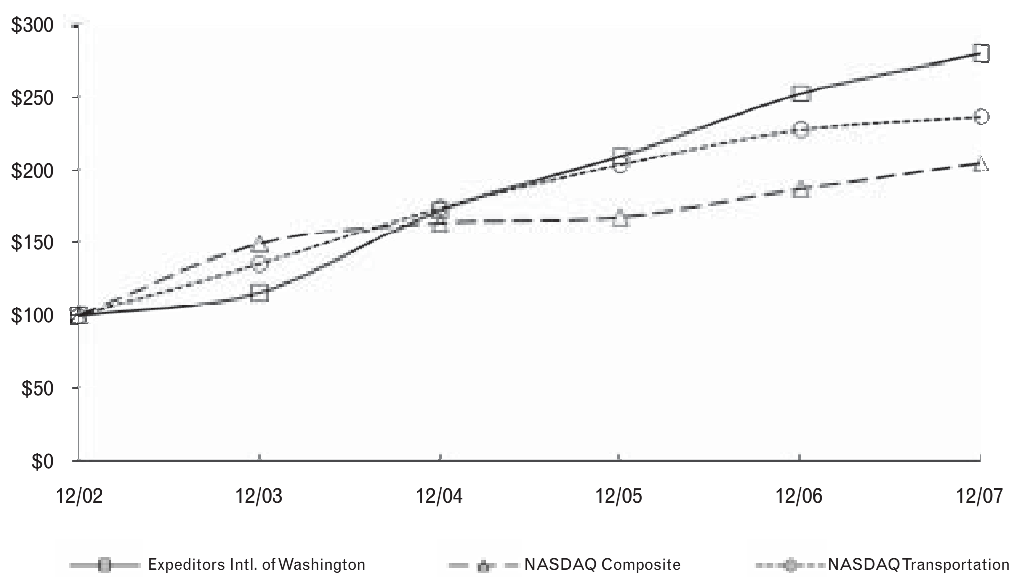
In management's opinion, there has been no material change in the Company's market risk exposure between 2006 and 2007.

Stock Price Performance Graph

The following graph compares the cumulative 5-year total return provided shareholders on Expeditors International of Washington's common stock relative to the cumulative total returns of the NASDAQ Composite index and the NASDAQ Transportation index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in our common stock and in each of the indexes on 12/31/2002 and its relative performance is tracked through 12/31/2007.

Comparison of 5 Year Cumulative Total Return*

Among Expeditors International of Washington, The NASDAQ Composite Index
and The NASAQ Transportation Index



*$100 Invested on 12/31/02 in stock or index – including reinvestment of dividends. Fiscal year ending December 31.

	12 / 02	12 / 03	12 / 04	12 / 05	12 / 06	12 / 07
Expeditors International of Washington	100.00	115.85	172.67	209.65	252.71	280.58
NASDAQ Composite	100.00	149.75	164.64	168.60	187.83	205.22
NASDAQ Transportation	100.00	135.68	174.47	203.95	228.16	236.80

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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
President and
Chief Operating 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

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
President –
Global Sales and Marketing

Rosanne Esposito
Executive Vice President –
Global Customs

Eugene K. Alger
Executive Vice President –
North America

Jean Claude Carcaillet
Senior Vice President –
Australasia

Philip M. Coughlin
Executive 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 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

Geographic Managers

Asia

Andrew Goh
Senior Vice President
and Regional Director –
South East Asia

Paul Arthur
Regional Director –
Indo China and Philippines

T. H. Chiu
Regional Director –
Japan, Korea and Northern China

David Hsieh
Regional Director –
Central China and Taiwan

Alan Lo
Regional Director –
South China, Hong Kong and Macao

Chorina Khoo
Managing Director –
Singapore

Danny Lee
Managing Director –
Thailand

Simon Jung
Managing Director –
Korea

Bruno Chang
Managing Director –
Taiwan

Syed Ershad Ahmed
Managing Director –
Bangladesh

Derby Lam
Managing Director –
South China

Ping Hao
General Manager –
Beijing

Mary Yao
General Manager –
Shanghai

Michael Leong
General Manager –
Penang

Shehan Mohamed
General Manager –
Sri Lanka

Simon Liu
General Manager –
Vietnam

Dave Takano
General Manager –
Tokyo

Aristotle Aniceto
General Manager –
Phillipines

Gary Chen
General Manager –
Jakarta

Tom Tan
General Manager –
Cambodia

Geographic Managers

North America

Brian Carrabes
Regional Vice President –
U.S.

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

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

Todd Hinkle
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.

Jose A. Ubeda
Regional Vice President –
U.S.

Europe and Africa

Henrik Hedensio
Regional Vice President –
North Europe

Kurt Meister
Regional Vice President –
South Europe

Magdolna Acs
Managing Director –
Hungary

Barry L. Baron
Regional Vice President –
United Kingdom, Ireland
and South Africa

Kees Wagenaar
Managing Director –
Benelux

Paolo Domante
Managing Director –
Italy and Switzerland

Rene Grabmuller
Managing Director –
Czech Republic

Rainer Kirschner
Managing Director –
Germany

Richard P. Mallabone
Managing Director –
South Africa

Christophe C. Richard
Managing Director –
France

Ingeborg Drueckler
Director –
European Agents

Billy Griffiths
Director –
African States

Geographic Managers (Continued)

Near/Middle East & 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 – Southern Border and Mexico

Guillermo Ayerbe
Regional Vice President – Latin America

Carlos Novoa
Regional Director – Latin America, Andean Countries

Jose Antonio Bedoya
Country Manager – Peru

Giannina Odio
Regional Director – Central America and Caribbean

Corporate Information

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Shareholder Services
(877) 498-8861

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Website
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Information is available on the World Wide Web at http://www.expeditors.com

Offices and Agents
Major cities of the world

Annual Meeting
The annual meeting of shareholders is Wednesday, May 7, 2008, 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,
President and
Chief Operating 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 Select Market under the symbol EXPD.

Common Stock

2007

Quarter	High	Low
First	$ 48.050	38.310
Second	48.700	40.510
Third	54.460	41.080
Fourth	53.480	42.440

2006

Quarter	High	Low
First	$ 43.640	32.825
Second	56.810	42.310
Third	58.320	37.360
Fourth	48.990	39.790

There were 6,731 shareholders of record as of February 7, 2008. Management estimates that there were 133,635 beneficial shareholders as of February 7, 2008.

In 2007 and 2006, the Board of Directors declared a semi-annual dividend of $.14 per and $.11 per share, respectively, which was paid as follows:

2007	15 June
	17 December
2006	15 June
	15 December