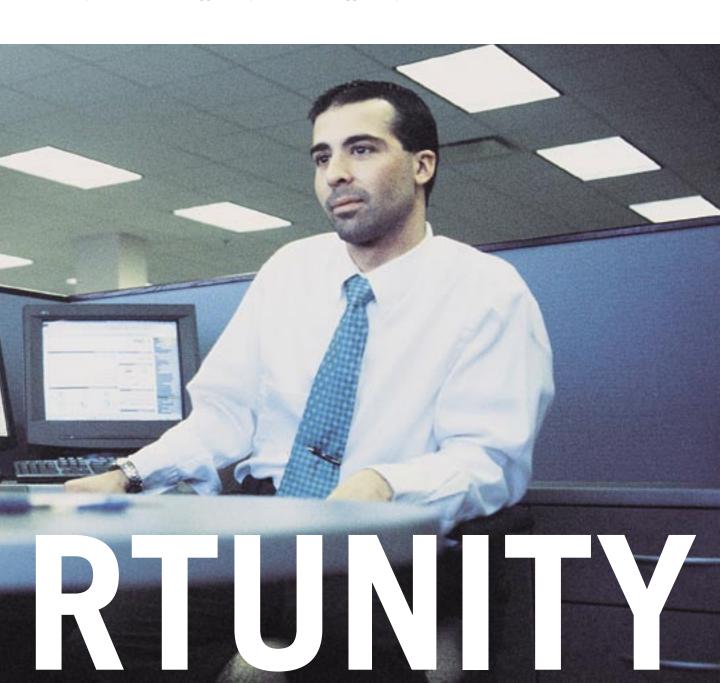


1979 : To become a unique force in the logisitics industry.



2004: And never stop refining our processes, our purpose and our company.

Business as usual will never be business at Expeditors. From day one – twenty-five years ago – we recognized that the logistics industry is an industry best run on relationships and on the attitudes and actions that help relationships thrive. Seems like an obvious thing, even a simple thing to say. And yet, it defines our business and our character to this day. In 1979 we began with fewer than 50 customers. Today, we serve more than 19,000 customers in 57 countries, guiding over five million shipments each year. All because the opportunity we saw was the opportunity to work harder for our customers.

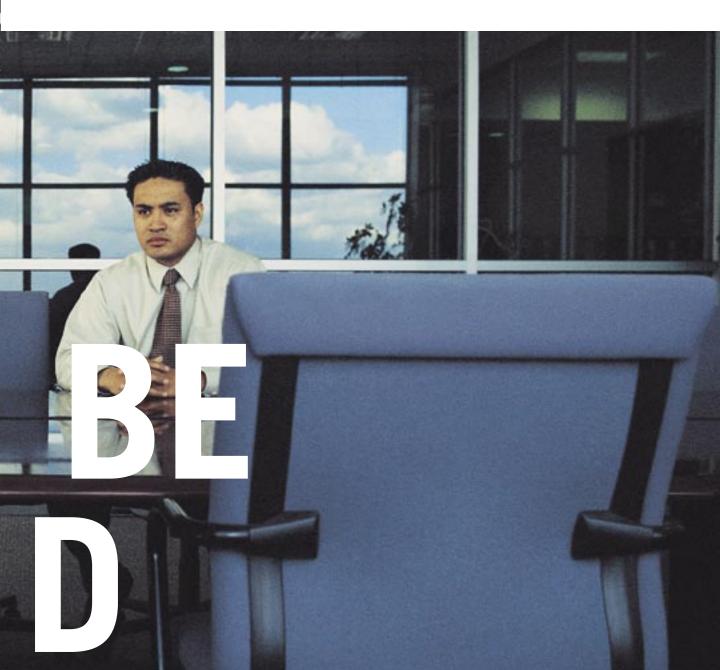


1979: To help customers in more ways.

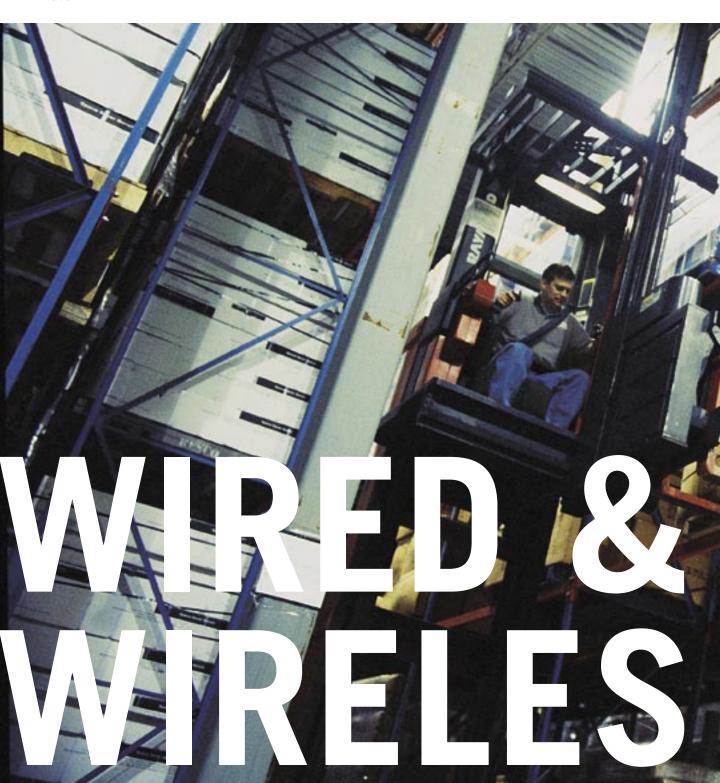


2004: A portfolio of more than 50 original products and services.

It's a basic human activity dating back thousands of years. And as integral as it is to our lives, it can be maddeningly complex. It is trade. And while navigating the world is one thing, navigating the customs and tax regulations of more than 57 countries is still another. So in addition to maintaining our focus on personal service, we continue to develop the tools, products and services that yield new advantages for our customers. The security of innovative cargo insurance programs. The flexibility of state-of-the-art warehouse facilities. The seamless supply chain integration of Tradeflow[®]. Each a part of the endless evolution of trade.



1979: To create a network that connects the world.



2004: With the addition of Tradeflow®, Expeditors adds new meaning to "we'll be in touch".

We've come to think of our whole company as a single network, made up of people, ideas, relationships, facilities and some pretty cool technology. It's technology that is capable of keeping every customer connected to every aspect of their goods, from source to assembly to distribution and delivery and every tariff along the way. It's a technology that isn't simply a passive instrument designed to present information. Tradeflow® not only lets customers see, it lets customers do. Now, the door to opportunity doesn't close with the container doors. It stays open, all the time, everywhere.



1979 : To run a big business like it was a small business.



How many times has a failing or struggling business talked about "getting back to core competencies"? There's a saying at Expeditors: No need to get back to core competencies if you never leave them in the first place. Which means if your business is built on respecting the customer, making their goals your own and staying in touch with what's true in what you do, you'll succeed. If it's built to enlarge the egos of a few guys at the top, you're in deep trouble. We had plenty of choices to make over the past twenty-five years. At Expeditors, we chose to start each day as if it was still our first.



1979 : To be more responsive. And more flexible.

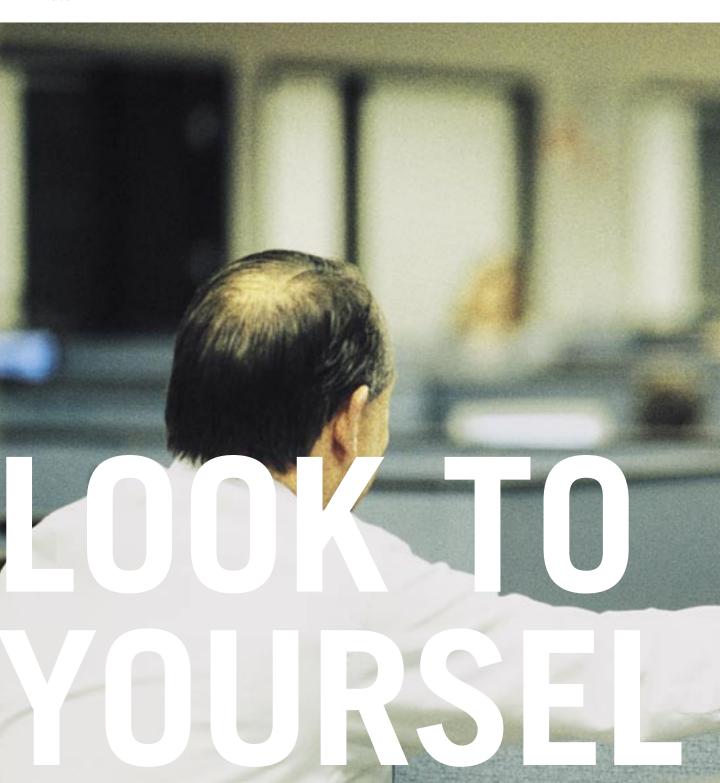


2004: Expeditors brings customization to an unaccustomed industry.

We fight complacency. We say, if it's fixed, break it. Formulas and off-the-shelf responses are fine, but they'll take you only so far. Performing above and beyond the standard requires something special. So, while international trade is heavily regulated, it's also an environment in which success demands both conformity and independence. If that seems to be a contradiction, welcome to our world. A world which demands that we never stop looking for new ideas, being receptive to original thinking and encouraging people to apply their experience to new situations. A world that hands out rewards for flexibility and initiative, daily.

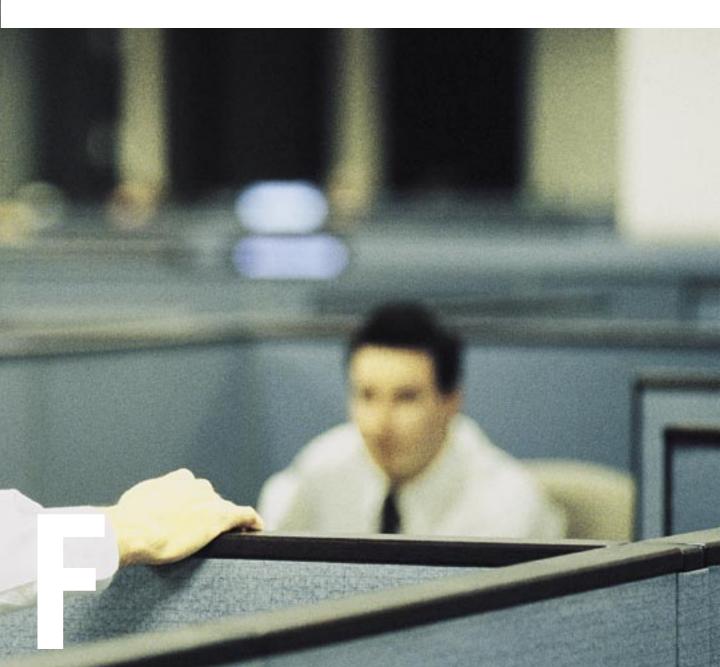


1979: To build our business from the inside.



2004: And never forget it.

The business magazines are full of stories about mergers, acquisitions and synergies. They're also full of stories about failed mergers, failed acquisitions and a surprising absence of synergies. Not to say that a carefully researched and executed merger or acquisition can't be successful. But our first choice has always been to grow organically. To build business, rather than go out and buy it. It means that we achieve extremely high levels of uniformity from one office to another while providing our people with real opportunities for advancement. In a quarter century, our strategy has worked 170 out of 170 times. That's 100 percent.





2004: And then, work even harder.

You know how it feels when you walk up to a register in a store and the clerk is on the phone? You get the gesture. You get the look. And both say the same thing: you're second. Maybe third. We like to keep that feeling in mind because we don't want to let our customers feel that way for any reason. Ever. So, treat your customer the way you expect to be treated, not someone in line or someone else on hold. Let them know they are the one that matters, every time you interact with them. After all, the interests of our customers and our employees are actually pretty well aligned.

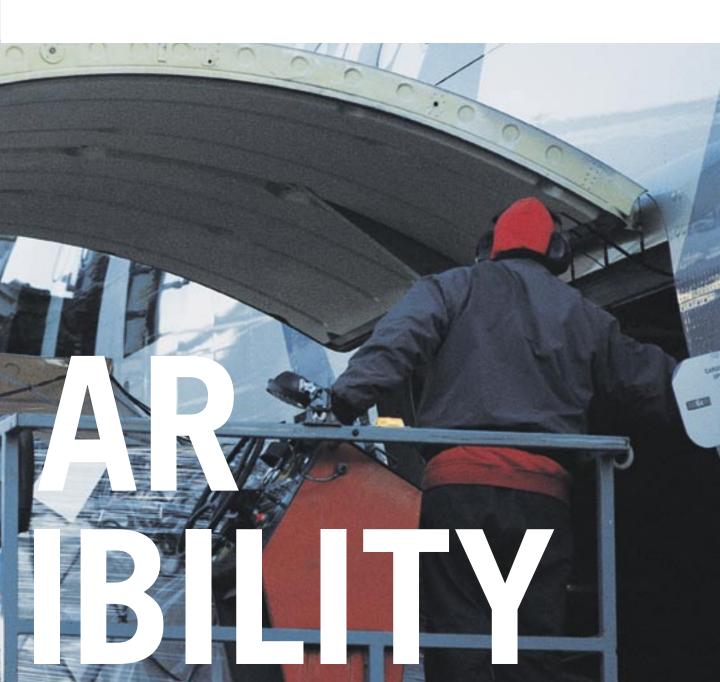


1979: To be the kind of company that never passes the buck.



2004: A name that stands for all the right things.

There aren't many gray areas in the logistics business. The right goods arrive at the right place at the right time, time after time, or they don't. Documents are complete, ready and filed, or they aren't. The right questions are asked or a detail gets overlooked. If there's a problem that can be anticipated, it needs to be addressed now, not tomorrow. And because the measures of our performance are so black and white, we know exactly how we're doing. It's like getting feedback from all over the world, every minute of the day. Which gives us the ideal tool for making continuous improvement an every day event.



1979 : Never underestimate the value of a good idea.



Ambition can be a funny thing. It can make to you think that there might be a shortcut to succeeding, or that the grass is greener just around the corner. But in fact, it can be more of a risk to undervalue or abandon your efforts in something you truly believe than simply sticking with it. When Expeditors was founded twenty-five years ago we had our share of doubters. And they moved on. But the people that stayed shared a few things in common, like a focus to build on what we all knew was the right way to do business. And just what that sort of business is truly worth. Since then, the rest has taken care of itself.

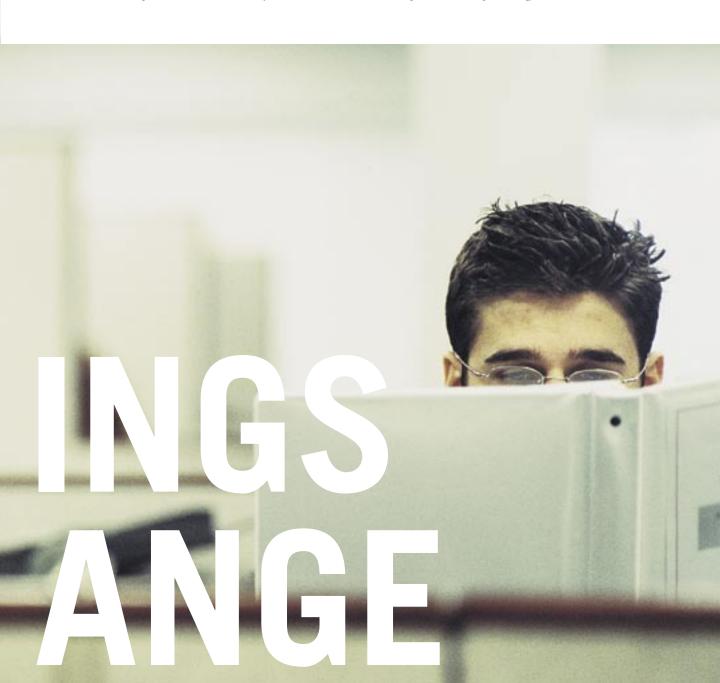


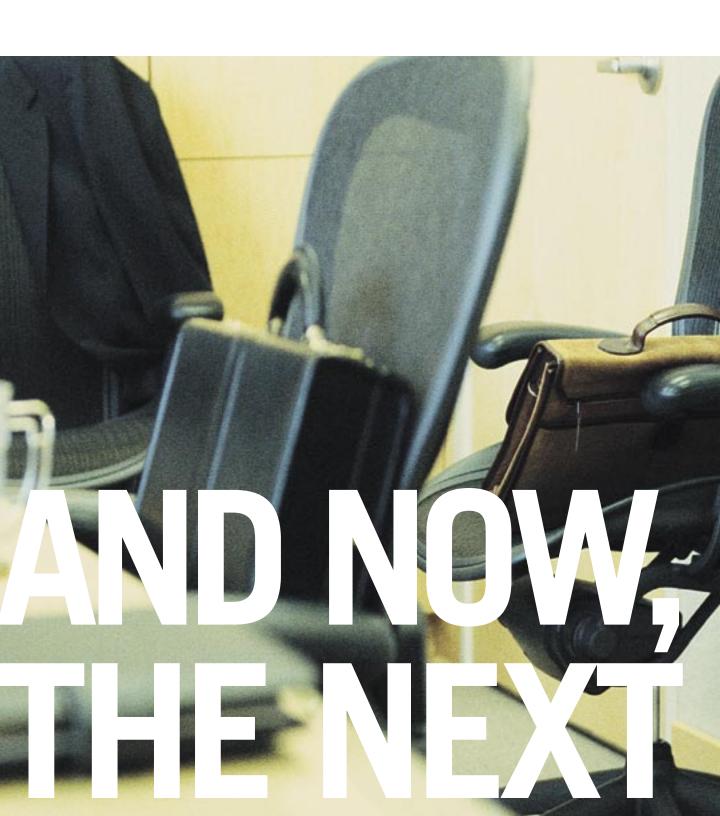
1979: To create a company that is committed to its investors, employees and customers.



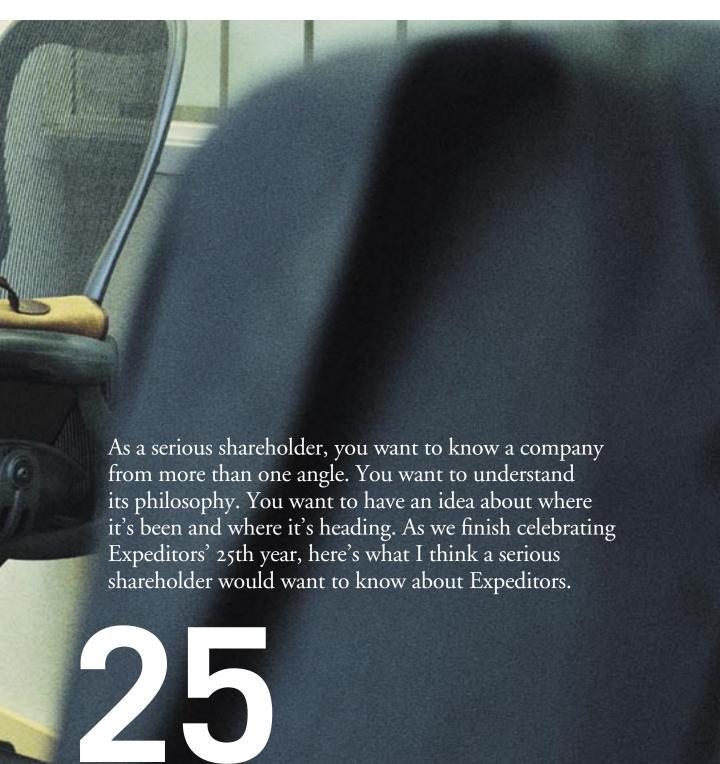
2004: To create a company that is committed to its investors, employees and customers.

When you care about what you do and how you do it, there's never a finish line. The day to confirm that each of your decisions and actions were always the best never arrives. After a quarter century, we have a single certainty: there will always be more to accomplish. There will always be another competitor, another chance to win. It's this very idea of constant flux, changing demands and new opportunities that attracted us to start this business in the first place. So, while it's great to look back and it's important to know where you came from, it's more important to keep looking ahead.





To our shareholders



We register as a single

office ocean forwarder in

Seattle. Washington as

Expeditors International

of Washington, Inc.

80

81

82

First Los Angeles

83

We expand our U.S. export market by hiring senior export executives to lead branch offices in the U.S. and key foreign markets.

WE ADD EXPORT CAPABILITIES TO CHICAGO, SEATTLE, NEW YORK, SAN FRANCISCO, AND LOS ANGELES OFFICES, AND OPEN OUR ATLANTA OFFICE. TOTAL OFFICES: 10.

Expeditors, a global logistics company, is founded with an initial focus on U.S. inbound freight from the Far East, primarily Taiwan, Singapore, and Hong Kong. Our combination of transportation services and customhouse brokerage quickly makes us one of the largest

U.S.-based air freight forwarder of goods from the Far East.

FIRST CHICAGO, SAN FRANCISCO AND NEW YORK OFFICES

We have a unique culture, very much incentive based but free of greed and avarice. We've grown organically for the most part. We stick to our core competencies and avoid anything that looks foolish, faddish or fake. And finally, we're not for sale.

The reason this letter is addressed only to serious shareholders—and you know who you are—is because we work hard to reward our shareholders. There have been investment companies who call and say "we owned your stock back in 1988, and we probably should have hung on to it." These are probably not serious shareholders. Hindsight is always 20/20, but we agree and we reply, "Yes, you should have."

Unfortunately, much of what potential shareholders hear about Expeditors comes from the financial analyst community and they measure progress in periods no longer than 90 days. As a serious shareholder, you know that the real things that build value in a company like Expeditors don't happen on a quarter-by-quarter timetable. You look for a commitment to customer service, employee mentoring, and worldwide cultural buy-in—things that just can't be benchmarked effectively on a quarterly basis. These are things that for 25 years have been manifest at Expeditors as we expanded around the globe.

And over the past 25 years we've had repeated opportunities to talk with some keen observers—folks who make a serious living following our industry. These individuals tend to be very astute. To give the serious investor a clear picture of Expeditors, here are some of the questions that they commonly ask along with our responses.

THE FAR EAST

Experiencing the West Coast port congestion and unpredictable market fluctuations, Asia managed well to continually grow in 2004. We met the challenge of air space capacity constraints and kept the freight moving for market growth, given the volatile global business environment. Ahead of us are the removal of textile quota and the keen competition in the Chinese logistics market. We are prepared to proactively respond to the challenge within the Asia network through our commitment to consistent customer service which drives us to focus on human resources development and training, with a view to expanding our business along with the current market. Our objectives and endeavours should contribute to a stronger 2005.

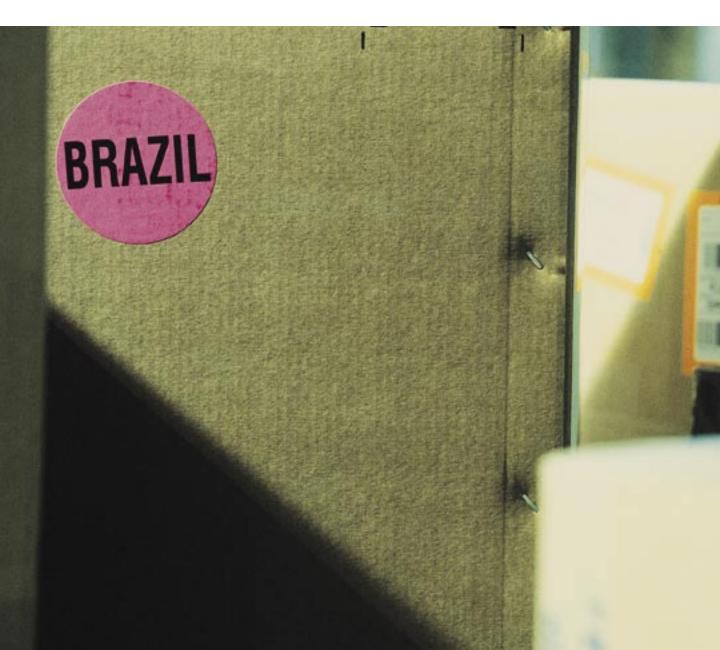


EUROPE / MIDDLE EAST / AFRICA / INDIAN SUBCONTINENT (EMAIR) Another interesting and positively challenging year for the EMAIR. However, with the dedication and hard work of our people, and with our customers' loyalty, we managed to achieve most of our high-set objectives, especially the financial growth. Training, transition, customer service, and customer retention were amongst our highly focused objectives. The EMAIR takes 2005 on with great optimism, keeping in mind that customer service and our people retention will be high on our list of priorities.



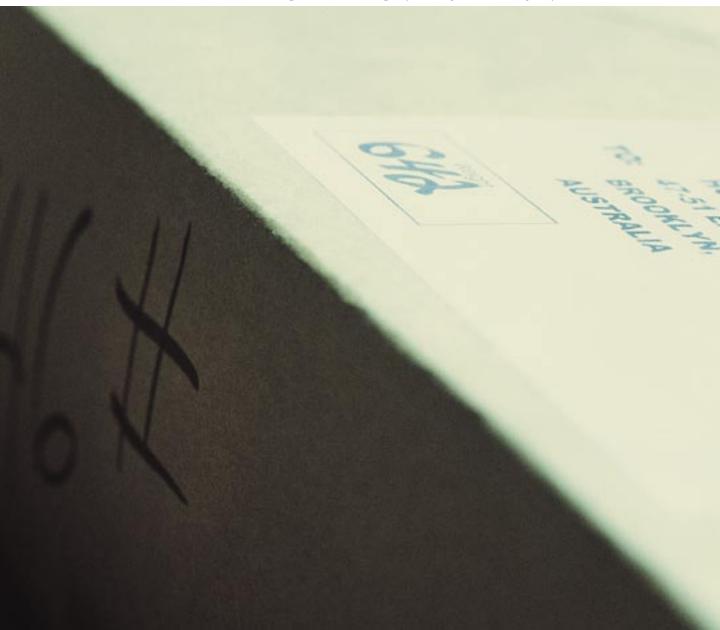
THE AMERICAS

During 2004, the Americas region continued to make strong advances in ongoing district sales and productivity initiatives. Business to and from Asia was strong and got stronger throughout the year. Our focus on customer service initiatives also paid off as we continued to expand our market share with new and existing customers. As we look forward to 2005, we are focusing on continuing to expand our sales program and delivering even better customer service. We are also committed to continued productivity improvements and the further evolution and roll-out of our North American Transportation product.



SOUTH PACIFIC

The strengthening of the New Zealand and Australian dollars against the greenback encouraged more imports into the South Pacific area and made it more expensive for our locally manufactured products to be sold overseas. Imports from Asia, particularly China, into the South Pacific soared, confirming that the Asia area is the fastest growing market for our region. Expeditors South Pacific Region registered another great year of growth. Our mining and oil exploration industry recorded outstanding performance and our ports started suffering congestion problems due to the high demand for inbound commodities and exports of raw materials. Our Brisbane office will be moving to new premises in 2005 and the Melbourne office will be expanding. 2005 shapes up like another year of increased imports from the U.S. as a result of the U.S./Australia Free Trade Agreement, and another great year for imports from Asia, especially China.



Expeditors becomes a public corporation with stock traded over the counter on NASDAQ (symbol: EXPD). During our first year as a public mon carrier (NVOCC) company, we report more than \$50 million in gross revenues and \$2.1 million in net earnings. We have 161 employees and 11 offices.

Our first move into the ocean business with the acquisition of Pac Bridge, a major non-vessel ocean comand expansion of lessthan container load (LCL) and full container ocean services.

We top \$100 million in gross revenues (\$108.774.000).

WE ENTER THE EUROPEAN MARKET BY ACQUIRING A SMALL EXPORT COMPANY AND OPENING OUR LONDON OFFICE.

We open our first office in Malaysia. Total offices worldwide: 16.

We substantially expand export volume through a series of planned expansion in the Far East, Europe, Australia, and the U.S.

PETER J. ROSE, ONE OF THE FOUNDERS, ASSUMES TITLE OF PRESIDENT AND CEO.

- How can you sustain your organic growth?
- We believe "buying" people accomplishes nothing. An acquisition in a service business such as ours accomplishes little else and this is why most acquisitions in our industry have failed.

On the other hand, by finding the kind of people who will "buy in" to our culture and our philosophy, and by training, mentoring and properly incentivizing them, experience shows that we can create an environment of expanding opportunity. That kind of an employee environment is what sustains our organic growth.

After a quarter century, our commitment to organic growth is ingrained in the people we have hired and mentored. They in turn perpetuate that same commitment by passing it on to those who come behind. By providing expanding opportunities for our employees, we allow them to accomplish great things so long as they accept the responsibility to provide superior customer service and to stay true to our culture and our values. We have no plans to modify the things that have made Expeditors unique. They have served us well for the last 25 years and will continue to do so as we move forward.

- What annual growth rate do you budget for?
- Historically our goal has always been 15% to 20% growth per year. We've typically accomplished this sort of growth and we still think it remains a reasonable target. But as James Wang, President-Asia and a founding partner, is fond of saying "Budget is budget, what really matters is how much money you make." The rest of us couldn't agree more.
- In some years, haven't you exceeded that amount?
- Yes, and we always take it as a gift. One mega-year should not, and does not, alter our focus or our egos.



Completed development of computerized air export program 90

Our Brussels office becomes our first in continental Europe. 91

Our net earnings top \$10 million (\$10,196,000).

WE FORMALIZE AN INTERNAL QUALITY PROGRAM BUILT ON A GOAL OF 100% CUSTOMER SATISFACTION 100% OF THE TIME.

92

Number of worldwide employees tops 1,000 (1,100).

WE OPEN FIVE OFFICES IN GERMANY AND OUR FIRST MIDDLE EAST OFFICE IN SAUDI ARABIA, BRINGING OUR NUMBER OF OFFICES WORLDWIDE TO 48. 93

We establish a new division called Expeditors' Cargo Management Systems (e.cms), an ocean consolidation program with an automated electronic data interface.

WE OPEN OUR FIRST OFFICE IN CHINA AND BEIJING GRANTS EXPEDI-TORS A RARE CLASS "A" LICENSE.

- Q. How many more offices can you open?
- A. Over the next three to five years we believe a realistic range for new offices to be between 50 and 100, globally.
- Q. What effect is Sarbanes-Oxley having on you?
- A. It is expensive, it is time consuming and as I said in my letter last year, a waste of our time. However, as you can see from this annual report, we did comply, just as we said we would.

By way of background, when we first started and Expeditors was a privately-held company, we recognized that corporate governance was important and we actually tried to do things correctly, even when nobody was looking. Our appreciation of the need to "do it right" only increased in 1984 when we went public and our corporate governance activities became open to scrutiny.

With a history of trying to focus on doing things correctly, we didn't think we would have a lot to change to satisfy Sarbanes. Or Oxley, for that matter. As it turned out we didn't. That being said, the exercise that all public companies must go through to establish that things are being done correctly is truly mind-boggling and, as was probably intended, a life-altering process.

- Q. What effect will the required expensing of options have on your company?
- A. The same as on every other company. The important thing to remember is that no matter what they make us do to the financial statements, the cash still rolls in at the same pace.
- Q. What are you doing with the cash?
- A. This is always a good question—because it means we have some.



Number of employees doubles in two years to 2,000.

WE OPEN DISTRIBUTION CENTERS IN SEATTLE, CHICAGO, LOS ANGELES, MIAMI, NEWARK, LONDON, ROTTERDAM, BRUSSELS, HONG KONG, TAIPEI, AND SINGAPORE.

TOTAL WORLDWIDE OFFICES: 75.

95

First year with more than \$500 million in gross revenues (\$584,691,000).

WE ENTER LATIN
AMERICA AND EXPAND
IN THE MIDDLE EAST.

LAUNCHED CARGO INSURANCE DIVISION.

96

A total of 27 offices are ISO 9002-certified as five more offices achieve the accreditation in Asia and Europe.

NUMBER OF EMPLOYEES TOPS 3,000 (3,250).

WE OPEN FIRST OFFICES
IN INDIA, PAKISTAN, AND
BANGLADESH. THE CLASS
"A" LICENSE WE HOLD
IN BEIJING IS EXTENDED
TO FOUR MORE MAJOR
CHINESE TRADING POINTS;
BRINGING OUR TOTAL OFFICES IN CHINA TO EIGHT.

97

We add more than 1,000 employees in one year, for a total of 4,500.

WE CONTINUE
NETWORKING OFFICES
ON THE NORTHERN AND
SOUTHERN BORDERS OF
THE UNITED STATES. THE
ARRANGEMENT OF OFFICES
ON BOTH SIDES OF THE
U.S.-MEXICO BORDER IS
UNIQUE AMONG CUSTOMS
BROKERS AND OFFERS
UNPRECEDENTED
EFFICIENCY AND SPEED
IN PROCESSING
CUSTOMS ENTRIES.

98

Gross revenues top \$1 billion for the first time (\$1,189,044,000). Number of employees tops 5,000 (5,300).

Since we are non-asset based, we won't be buying transportation assets like trucks, ships or airplanes. But we are buying facilities in selected markets that can ensure future growth. Some recent purchases include locations in San Francisco, London and Los Angeles and we are currently reviewing opportunities in New York and Shanghai, just to name a few.

The money is also used to pay dividends, repurchase Expeditors stock, buy existing agents (what we term "organic acquisitions") and for the technology required to fuel ongoing expansion. We will not be spending money for fancy advertising.

- Q. As predicted, your European operations have improved immensely over the past two years. To what do you attribute this change?
- A. Credit goes to Rommel Saber, our Executive Vice President for the region, and his people. Rommel has done a great job by putting the focus on Expeditors' unique culture and a vastly improved sales effort.
- Q. Does Expeditors have a "poison pill" to avoid a hostile takeover?
- A. What hostile takeover? We would be about as easy for an outsider to digest as a porcupine.
- Q. Peter, when will you retire?
- A. I won't. But I will know when to pass on the reins, and I have several excellent candidates in mind.



We celebrate our 20th year continuing our reputation as a full-service global logistics provider. Number of employees grows to more than 6,000 (6,480) in over 149 worldwide offices and 12 international service centers.

SERVICES INCLUDE AIR
AND OCEAN FREIGHT
FORWARDING, VENDOR
CONSOLIDATION, NVOCC,
CUSTOMS CLEARANCE,
MARINE INSURANCE,
DISTRIBUTION, AND
OTHER VALUE ADDED
GLOBAL LOGISTICS
SERVICES

00

Number of employees tops 7,000 (7,611).

OPENED OFFICES IN PHNOM PENH AND SAIGON.

1

Ranked third by
Fortune for America's
Most Admired companies in the Freight
Delivery industry.

NAMED TO FORBES LIST OF AMERICA'S TOP 400 COMPANIES. 02

First year with more than \$2 billion in gross revenues (\$2,296,903,000). First year with more than \$100 million in net earnings (\$112,529,000). Number of employees tops 8,000.

NAMED TO THE NASDAQ 100.

03

Our first year with more than \$1 billion in assets (\$1.044.078.000).

Of course, over 25 years there have been some classically bad questions too. Questions like: what effect would Global Thermonuclear War have on your company; what would you do in the event of a global economic slowdown; and what if Boeing and Airbus stopped building planes? For the record, the answers are: who cares; we would probably slow down and just get bigger; and this would be a bigger problem for Boeing and Airbus than for us.

But questions of every caliber aside, what makes Expeditors work is our culture. It's magical. You can't see it, smell it or touch it. But you can feel it. It's ever present. It's a part of everything we do. And it is the reason we have the best employees, the best customers and some seriously wealthy shareholders.

We also have some new ideas. In 2004 we formed an R&D department that will keep us at the leading edge of technology. We also launched our North American Transport (N.A.T.) division. N.A.T. handles time-definite shipping to our customers and helps solidify pricing and service for freight moving to and from our gateway locations.

There were also office openings, full service and satellite, in 2004—Raleigh/Durham, North Carolina; New Orleans, Louisiana; Hanoi, Vietnam; Calgary, Alberta, Canada; and Wuhan, China.

While we are talking about the fact that we're not for sale and our reliance on organic growth, you might wonder what this does to protect our employees, our customers and our shareholders. In short, it creates a high level of confidence within Expeditors. Confidence that we won't be disrupting the lives of any of our stakeholders. It also means that we can avoid the struggle that many companies seem to face as they vow to get back to their core competencies.



A number of milestones mark our 25th year: first year with more than \$3 billion in gross revenues (\$3,317,499,000). Number of employees tops 9,000 (9,445). Net earnings of \$156,126,000. Total worldwide offices: 170.

\$1,000 INVESTED IN EXPEDITORS AT THE IPO PRICE OF \$9.00 A UNIT (SHARE AND A WARRANT) IS WORTH \$233,600 ON DECEMBER 31, 2004, (ASSUMING WARRANT EXERCISE) FOR A COMPOUND ANNUAL RATE OF RETURN OF 28%.

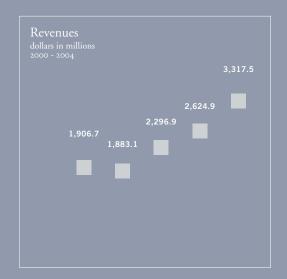
One last point. We don't pay vast amounts of cash to have somebody tell us what we already know. Just think of Sarbanes-Oxley, Y2K, ISO, Malcolm Baldridge, or any other self-perpetuating scam and know that we didn't get ensnared by any of the multitude of consultants given life by these things. We tend to put the money where it does the most good. By simply offering our people a secure future with better benefits than they can find at most companies, we have satisfied and dedicated employees. The sort of employees who create and maintain happy customers. And as all serious investors know, happy customers equal even happier shareholders.

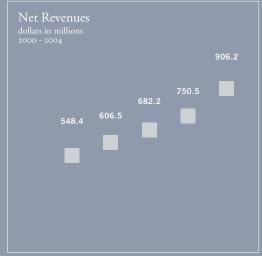
Thanks to all of you for another great year.

Seriously,

Peter J. Rose

Chairman and Chief Executive Officer









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Financial Highlights

In thousands except per share data	2004	2003	2002	2001	2000
Revenues	\$ 3,317,499	2,624,941	2,296,903	1,883,070	1,906,726
Net earnings	156,126	121,952	112,529	97,243	83,035
Basic earnings per share	1.47	1.16	1.08	.93	.81
Diluted earnings per share	1.41	1.12	1.03	.89	.76
Cash dividends paid per share	.22	.16	.12	.IO	.07
Working capital	521,544	383,614	250,920	238,287	223,423
Total assets	1,364,053	1,044,078	879,948	688,437	661,740
Shareholders' equity	807,404	645,501	523,812	414,623	361,784
Basic weighted average shares					
outstanding	106,384	104,733	103,893	104,160	102,305
Diluted weighted average shares					
outstanding	110,818	109,002	108,881	109,741	109,358

All share and per share information have been adjusted to reflect a 2-for-1 stock split effected in June, 2002.

Consolidated Balance Sheets

In thousands except share data December 31,	2004	2003
Current Assets:		
Cash and cash equivalents \$	408,983	295,832
Short-term investments	109	82
Accounts receivable, less allowance for doubtful accounts		
of \$12,842 in 2004 and \$11,978 in 2003	614,044	452,551
Deferred Federal and state income taxes	_	3,593
Other	22,724	17,941
Total current assets	1,045,860	769,999
Property and Equipment:		
Buildings and leasehold improvements	148,469	129,325
Furniture, fixtures, equipment and purchased software	154,400	138,154
Vehicles	3,875	4,281
	306,744	271,760
Less accumulated depreciation and amortization	150,766	140,066
	155,978	131,694
Land	131,401	110,008
Net property and equipment	287,379	241,702
Goodwill, net	7,774	7,774
Other intangibles, net	10,839	11,163
Other assets, net	12,201	13,440
*	1,364,053	1,044,078

In thousands except share data December 31,	2004	2003
Current Liabilities:		
Short-term debt	\$ 2,250	217
Accounts payable	410,251	301,122
Accrued expenses, primarily salaries and related costs	84,778	74,905
Deferred federal and state income taxes	6,369	
Federal, state, and foreign income taxes	20,668	10,141
Total current liabilities	524,316	386,385
Deferred Federal and state income taxes	24,861	8,968
Minority interest	7,472	3,224
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 106,643,953 shares at December 31, 2004 and		
105,056,454 shares at December 31, 2003	1,066	1,051
Additional paid-in capital	44,678	25,491
Retained earnings	749,974	617,216
Accumulated other comprehensive income	11,686	1,743
Total shareholders' equity	807,404	645,501
Commitments and contingencies		
	\$ 1,364,053	1,044,078

See accompanying notes to consolidated financial statements.

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

Consolidated Statements of Earnings

In thousands except share data Years ended December 31,	2004	2003	2002
Tears ended December 31,	2004	2009	2002
Revenues:			
Airfreight	\$ 1,553,881	1,213,167	1,206,057
Ocean freight and ocean services	1,178,975	954,541	728,174
Customs brokerage and other services	584,643	457,233	362,672
Total revenues	3,317,499	2,624,941	2,296,903
Operating Expenses:			
Airfreight consolidation	1,204,932	934,199	921,103
Ocean freight consolidation	968,008	763,425	564,060
Customs brokerage and other services	238,322	176,807	129,527
Salaries and related costs	479,364	398,475	359,769
Rent and occupancy costs	51,620	47,100	40,816
Depreciation and amortization	26,703	24,392	22,725
Selling and promotion	28,248	23,496	19,796
Other	79,257	70,285	68,098
Total operating expenses	3,076,454	2,438,179	2,125,894
Operating income	241,045	186,762	171,009

In thousands except share data Years ended December 31,	2004		2003	2002
Other Income (Expense):				
Interest income		5,667	4,522	6,299
Interest expense		(42)	(186)	(178)
Other, net		2,910	4,544	2,080
Other income, net		8,535	8,880	8,201
Earnings before income taxes and minority interest		249,580	195,642	179,210
Income tax expense		88,415	71,142	65,461
Net earnings before minority interest		161,165	124,500	113,749
Minority interest		(5,039)	(2,548)	(1,220)
Net earnings	\$	156,126	121,952	112,529
Basic earnings per share	\$	1.47	1.16	1.08
Diluted earnings per share	\$	1.41	1.12	1.03
Weighted average basic shares outstanding	1	06,384,151	104,733,442	103,892,827
Weighted average diluted shares outstanding	1	10,817,999	109,001,543	108,881,369

See accompanying notes to consolidated financial statements.

Note: All share and per share amounts have been adjusted to reflect a 2-for-1 stock split effected in June 2002.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

In thousands except share data Years ended December 31, 2004, 2003 and 2002

Balance at December 31, 2001

Exercise of stock options

Issuance of shares under stock purchase plan

Shares repurchased under provisions of stock repurchase plans

Tax benefits from employee stock plans

Comprehensive income

Net earnings

Foreign currency translation adjustments, net of deferred tax debit of \$1,627

Total comprehensive income

Dividends paid (\$.12 per share)

Balance at December 31, 2002

Exercise of stock options

Issuance of shares under stock purchase plan

Shares repurchased under provisions of stock repurchase plans

Tax benefits from employee stock plans

Comprehensive income

Net earnings

Unrealized gains on securities, net of deferred tax debit of \$225

Foreign currency translation adjustments, net of deferred tax debit of \$6,619

Total comprehensive income

Dividends paid (\$.16 per share)

Balance at December 31, 2003

Exercise of stock options

Issuance of shares under stock purchase plan

Shares repurchased under provisions of stock repurchase plans

Tax benefits from employee stock plans

Comprehensive income

Net earnings

Unrealized gains on securities, net of deferred tax debit of \$104

Foreign currency translation adjustments, net of deferred tax debit of \$5,568

Total comprehensive income

Dividends paid (\$.22 per share)

Balance at December 31, 2004

See accompanying notes to consolidated financial statements.

40. expd 25 years | shareholders' equity

		Additional		Accumulated other	
	on stock	paid-in	Retained .	comprehensive	75 1
Shares	Par value	capital	earnings	income (loss)	Total
103,223,708	\$ 1,032	15,588	411,992	(13,989)	414,623
1,222,608	12	8,187	_	_	8,199
358,940	4	8,557	_	_	8,561
(584,316)	(6)	(16,589)	_	_	(16,595)
_	_	5,958	_	_	5,958
_		_	112,529	_	112,529
_	_	<u> </u>	_	3,022	3,022
_	_	_	_	_	115,551
_	_	_	(12,485)	_	(12,485)
104,220,940	\$ 1,042	21,701	512,036	(10,967)	523,812
965,636	IO	9,599	_	_	9,609
435,252	4	10,411		_	10,415
(565,374)	(5)	(20,100)	_	_	(20,105)
_		3,880	_	_	3,880
_	_	_	121,952	_	121,952
_	_	_	_	418	418
_				12,292	12,292
_		<u>—</u>		_	134,662
_			(16,772)	_	(16,772)
105,056,454	\$ 1,051	25,491	617,216	1,743	645,501
1,786,886	17	17,128	_	_	17,145
413,146	4	11,834		_	11,838
(612,533)	(6)	(29,234)	_	_	(29,240)
_	_	19,459	_	_	19,459
_	_	_	156,126	_	156,126
_	_	_	_	37	37
_				9,906	9,906
<u> </u>	_	<u> </u>		<u> </u>	166,069
_		<u> </u>	(23,368)	_	(23,368)
106,643,953	\$ 1,066	44,678	749,974	11,686	807,404

Note: All share and per share amounts have been adjusted to reflect a 2-for-1 stock split effected in June 2002.

Consolidated Statements of Cash Flows

In thousands	2024		
Years ended December 31,	2004	2003	2002
Operating Activities:			
Net earnings	\$ 156,126	121,952	112,529
Adjustments to reconcile net earnings to			
net cash provided by operating activities:			
Provision for losses on accounts receivable	2,355	380	2,382
Depreciation and amortization	26,703	24,392	22,725
Deferred income tax expense (benefit)	19,511	(69)	(687)
Tax benefits from employee stock plans	19,459	3,880	5,958
Gain on sale of property and equipment	(19)	(186)	(1,696)
Amortization of cost in excess of net assets			
of acquired businesses and other intangible assets	1,275	1,424	950
Impairment write down of other assets	2,000	_	3,502
Changes in operating assets and liabilities:			
Increase in accounts receivable	(150,213)	(66,237)	(99,152)
Increase in minority interest	4,103	1,624	726
Increase in accounts payable,			
accrued expenses and taxes payable	113,904	34,473	70,363
Other	(2,545)	(7,298)	(1,107)
Net cash provided by operating activities	192,659	114,335	116,493

In thousands Years ended December 31,	2004	2003	2002
Investing Activities:			
Increase in short-term investments	(23)	(5)	(31)
Purchase of property and equipment	(66,244)	(20,745)	(81,427)
Proceeds from sale of property and equipment	565	415	4,151
Cash paid for note receivable secured by real estate	_	_	(4,262)
Cash held in escrow for real estate acquisition	_		(31,250)
Other	722	(5,562)	(333)
Net cash used in investing activities	(64,980)	(25,897)	(113,152)
Financing Activities:			
Borrowing (repayments) of short-term debt, net	1,863	(1,171)	(395)
Proceeds from issuance of common stock	28,983	20,024	16,760
Repurchases of common stock	(29,240)	(20,105)	(16,595)
Dividends paid	(23,368)	(16,772)	(12,485)
Net cash used in financing activities	(21,762)	(18,024)	(12,715)
Effect of exchange rate changes on cash	7,234	13,559	2,556
Increase (decrease) in cash and cash equivalents	113,151	83,973	(6,818)
Cash and cash equivalents at beginning of year	295,832	211,859	218,677
Cash and cash equivalents at end of year	\$ 408,983	295,832	211,859
Interest and Taxes Paid:			
Interest	\$ 41	166	176
Income taxes	43,946	78,820	37,III
	•	, ,	21.

Non-Cash Investing Activities:

A note receivable of \$14,470 was applied toward the purchase of land and a building in 2002. Cash held in escrow of \$30,954 at December 31, 2002 was applied toward the purchase of land and a building in January 2003.

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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. In addition, the consolidated financial statements also include the accounts of operating entities where the Company maintains a parent-subsidiary relationship through unilateral control over assets and operations together with responsibility for payment of all liabilities, notwithstanding a lack of technical majority ownership of the subsidiary common stock.

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

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

b. Cash Equivalents

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

c. Short-term Investments

Short-term investments are designated as available-for-sale and cost approximates market at December 31, 2004 and 2003.

d. Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates.

e. Long-Lived Assets, Depreciation and Amortization

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

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

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

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

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

Balances as of December 31 are as follows:

2004	2003
\$ 20,284	19,290
(9,445)	(8,127)
\$ 10,839	11,163
\$ 1,275	I,424
	\$ 20,284 (9,445) \$ 10,839

Estimated annual amortization expense will approximate \$1,450 during each of the next five years.

f. Revenues and Revenue Recognition

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

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

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

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

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

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

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

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

g. Income Taxes

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

h. Net Earnings per Common Share

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

i. Stock Option Plans

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations in accounting for its stock option and its employee stock purchase rights plans. Accordingly, no compensation cost has been recognized for its fixed stock option or employee stock purchase rights plans. Had compensation cost for the Company's three stock based compensation and employee stock purchase rights plans been determined consistent with Statement of Financial Accounting Standards (SFAS) No. 123, the Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

		2004	2003	2002
Net earnings - as reported	\$ 1	56,126	121,952	112,529
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(27,134)	(23,552)	(19,567)
Net earnings - pro forma	\$ 1	28,992	98,400	92,962
Basic earnings per share — as reported	\$	1.47	1.16	1.08
Basic earnings per share — pro forma	\$	1.21	.94	.89
Diluted earnings per share — as reported	\$	1.41	1.12	1.03
Diluted earnings per share — pro forma	\$	1.17	.91	.87

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

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123R), which replaces SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123) and supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period beginning after June 15, 2005. The Company is evaluating the requirements of SFAS No. 123R and expects the adoption of SFAS No. 123R will have a material impact on the consolidated results of operations, earnings per share and consolidated statement of cash flows. See Note 1O. for further discussion of SFAS No. 123R.

j. Foreign Currency

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

The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Such hedging activity during 2004, 2003, and 2002 was insignificant. Net foreign currency gains realized during 2004, 2003 and 2002 were \$86, \$588 and \$70, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2004 and 2003.

k. Comprehensive Income

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

Accumulated other comprehensive income consists of the following:

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

1. Segment Reporting

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

m. Use of Estimates

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

n. Reclassification

Certain prior year amounts have been reclassified to conform with the 2004 presentation.

o. New Accounting Pronouncements

In December 2003, the FASB issued revised Interpretation No. 46, "Consolidation of Variable Interest Entities (Revised), an Interpretation of ARB No. 51," (FIN 46R). FIN 46R addresses the consolidation by business enterprises of variable interest entities as defined in FIN 46R. The provisions of FIN 46R are generally effective for public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company adopted only the disclosure provisions of FIN 46R in the fourth quarter of 2003 and adopted the remaining provisions of FIN 46R in the first quarter of 2004. The adoption of the remaining provisions of FIN 46R did not have a material impact on the Company's consolidated financial condition or results of operations.

The Company's variable interest entities are primarily comprised of its exclusive agent in Taiwan, which conducts the Company's logistics business in that area. As of and for the year ended December 31, 2004, the aggregate total revenues, net revenues and total identifiable assets of the Company's variable interest entities were less than 10% of the Company's respective consolidated amounts. The Company's maximum exposure to loss as a result of its involvement with its variable interest entities is estimated at \$8,000 as of December 31, 2004. Effective January 1, 2005, the Company established a new wholly owned subsidiary in Taiwan and ceased active operations within the variable interest entity.

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

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

2

Other Assets

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

3

Credit Arrangements

The Company has a \$50,000 United States bank line of credit extending through July 1, 2005. Borrowings under the line bear interest at LIBOR + .75% (3.15% at December 31, 2004) and are unsecured. As of December 31, 2004, the entire \$50,000 was available and the Company had no borrowings under this line.

The majority of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit totaling \$13,545 and \$14,866 at December 31, 2004 and 2003, respectively, bear interest at rates up to 4% over the foreign banks' equivalent prime rates. At December 31, 2004 and 2003, the Company was liable for \$2,250 and \$217, respectively, of borrowings under these lines, and at December 31, 2004 was contingently liable for approximately \$82,644 under outstanding standby letters of credit and guarantees related to these lines of credit and other obligations.

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

At December 31, 2004, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities, including maintenance of certain minimum asset, working capital and equity balances and ratios.

4

Income Taxes

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

	Federal	State	Foreign	Total
2004				
Current	\$ 2,232	680	46,533	49,445
Deferred	36,096	2,874	_	38,970
	\$ 38,328	3,554	46,533	88,415
2003				
Current	\$ 24,403	3,543	39,384	67,330
Deferred	3,365	447	_	3,812
	\$ 27,768	3,990	39,384	71,142
2002				
Current	\$ 18,937	3,120	38,133	60,190
Deferred	4,067	1,204	_	5,271
	\$ 23,004	4,324	38,133	65,461

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

	2004	2003	2002
Computed "expected" tax expense Increase (reduction) in income taxes resulting from:	\$ 87,353	68,475	62,724
State income taxes, net of Federal income tax benefit	2,310	2,593	2,810
Decrease in valuation allowance for deferred tax assets		_	(1)
Other, net	(1,248)	74	(72)
	\$ 88,415	71,142	65,461
The components of earnings before income taxes and minority int	erest are as follo	ws:	
	2004	2003	2002
United States	\$ 67,148	63,832	46,054
Foreign	182,432	131,810	133,156
	\$ 249,580	195,642	179,210

The tax effects of temporary differences, tax credits and operating loss carryforwards that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 2004 and 2003 are as follows:

Years ended December 31,	2004	2003
Deferred Tax Assets:		
Accrued third party charges, deductible for taxes upon economic		
performance (i.e. actual payment)	\$ 2,502	3,021
Provision for doubtful accounts receivable	2,655	2,539
Excess of financial statement over tax depreciation	4,310	4,464
Other	1,171	I,322
Total gross deferred tax assets	10,638	11,346
Deferred Tax Liabilities:		
Unremitted foreign earnings, net of related foreign tax credits	(35,370)	(15,902)
Foreign currency translation adjustment	(6,047)	(480)
Other	(451)	(339)
Total gross deferred tax liabilities	\$ (41,868)	(16,721)
Net deferred tax liabilities	\$ (31,230)	(5,375)
Current deferred tax liabilities (assets)	\$ 6,369	(3,593)
Noncurrent deferred tax liabilities	\$ (24,861)	(8,968)

In the fourth quarter of 2003, the Company recorded additional tax expense of \$9,500 in order to provide full U.S. taxation on approximately \$41,900 of foreign earnings accumulated through December 31, 1992, for which U.S. income taxes had not previously been provided. Income taxes had not previously been provided on these earnings as a result of the Company's previous intent to reinvest such earnings indefinitely or to distribute them in a manner in which no significant additional taxes would be incurred. The Company's decision to provide U.S. taxes on all unremitted foreign earnings was made based upon the desire to be able to deploy capital globally without concern for the impact of associated U.S. tax obligations that might be incurred as a result of the repatriation of those earnings. Also, during the fourth quarter of 2003, the Company eliminated \$8,000 of certain taxes which the Company had previously expected to pay. Upon analysis of the state tax implications of the Company's pattern of remitting foreign earnings, the Company determined that these taxes were not owed.

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

5

Shareholders' Equity

a. Dividends

On May 8, 2002, the Board of Directors declared a 2-for-I stock split, effected in the form of a stock dividend of one share of common stock for every share outstanding, and increased the authorized common stock to 320,000,000 shares. The stock dividend was distributed on June 24, 2002 to shareholders of record on June 10, 2002. All share and per share information, except par value per share, has been adjusted for all years to reflect the stock split.

b. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 10,000,000 shares of the Company's common stock in the open market with the proceeds received from the exercise of Employee and Director Stock Options. As of December 31, 2004, the Company had repurchased and retired 6,427,715 shares of common stock at an average price of \$17.72 per share over the period from 1994 through 2004.

In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2004, no further shares had been repurchased under the amended discretionary plan.

c. Stock Option Plans

The Company has two stock option plans (the "1985 Plan" and the "1997 Plan") for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. The 1985 Plan provides for non-qualified grants at exercise prices equal to or greater than the market value on the date of grant. Outstanding options generally vest and

become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. The 1997 Plan provides for qualified and non-qualified grants of options to purchase shares, limited to not more than 200,000 shares per person per year. Grants less than or equal to 40,000 shares in any fiscal year, are granted at or above common stock prices on the date of grant. Any 1997 Plan grants in excess of the initial 40,000 shares granted per person per year ("Excess Grants") require an exercise price of not less than 120% of the common stock price on the date of grant. Excess Grants under the 1997 Plan vest completely in 3 years, and expire no later than 5 years, from the date of grant.

The Company also has a stock option plan ("Directors' Plan") under which non-employee directors elected at each annual meeting are granted non-qualified options to purchase 16,000 shares of common stock at prices equal to the market value on the date of grant on the first business day of the month following the meeting.

Upon the exercise of non-qualified stock options, the Company derives a tax deduction measured by the excess of the market value over the option price at the date of exercise. The related tax benefit is credited to additional paid-in capital.

Details regarding the plans are as follows:

		Unoptioned Shares			Outstanding Options	
	1985 Plan	1997 Plan	Directors' Plan	Number of shares	Weighted average price per share	
Balance at December 31, 2001	103,456	5,189,150	384,000	10,668,524	\$ 13.89	
Options granted	(100,000)	(2,515,050)	(64,000)	2,679,050	\$ 28.61	
Options exercised		_	_	(1,222,608)	\$ 6.71	
Options canceled	_	225,850	_	(225,850)	\$ 21.32	
Balance at December 31, 2002	3,456	2,899,950	320,000	11,899,116	\$ 17.80	
Options granted	_	(1,846,500)	(64,000)	1,910,500	\$ 36.53	
Options exercised	_	_	_	(965,636)	\$ 9.95	
Options canceled	_	248,500	_	(248,500)	\$ 27.30	
Balance at December 31, 2003	3,456	1,301,950	256,000	12,595,480	\$ 21.05	
Options granted	_	(1,069,825)	(64,000)	1,133,825	\$ 42.02	
Options exercised	_	_	_	(1,786,886)	\$ 9.59	
Options canceled	_	244,675	_	(244,675)	\$ 30.65	
Balance at December 31, 2004	3,456	476,800	192,000	11,697,744	\$ 24.64	

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants:

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

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

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

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

d. Basic and Diluted Earnings Per Share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share in 2004, 2003 and 2002.

	Net earnings	Weighted average shares	Earnings per share
2004 Basic earnings per share Effect of dilutive potential common shares	\$ 156,126 —	106,384,151 4,433,848	\$ 1.47 —
Diluted earnings per share	\$ 156,126	110,817,999	\$ 1.41
2003 Basic earnings per share Effect of dilutive potential common shares	\$ 121,952 —	104,733,442 4,268,101	\$ 1.16 —
Diluted earnings per share	\$ 121,952	109,001,543	\$ 1.12
2002 Basic earnings per share Effect of dilutive potential common shares	\$ 112,529 —	103,892,827 4,988,542	\$ 1.08
Diluted earnings per share	\$ 112,529	108,881,369	\$ 1.03
The following shares have been excluded from the computation effect would have been antidilutive:	on of diluted ear	nings per share	because the
Years ended December 31,	2004	2003	2002
Shares	64,000	1,797,750	76,600

e. Stock Purchase Plan

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan ("2002 Plan"), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan ("1988 Plan") on July 31, 2002. The Company's 2002 Plan provides for 2,152,726 shares of the Company's common stock, including 152,726 remaining shares transferred from the 1988 Plan, to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 2004, an aggregate of 848,398 shares had been issued under the 2002 Plan, and \$7,343 had been withheld in connection with the plan year ending July 31, 2005.



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.

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Commitments

a. Leases

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

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

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

b. Unconditional Purchase Obligations

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2004 of \$195,496, will be fulfilled during 2005 in the Company's ordinary course of business.

c. Employee Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2004, 2003, and 2002, the Company's contributions under the plans were \$4,383, \$3,977, and \$3,292, respectively.



Contingencies

The Company is ordinarily involved in claims and lawsuits which arise in the normal course of business, none of which currently, in management's opinion, will have a significant affect on the Company's financial condition.

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Business Segment Information

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

		Other North	
	United States	America	
2004			
Revenues from unaffiliated customers	\$ 628,093	77,696	
Transfers between geographic areas	69,695	4,288	
Total revenues	\$ 697,788	81,984	
Net revenues	\$ 362,961	42,954	
Operating income	\$ 63,589	10,828	
Identifiable assets at year end	\$ 642,930	47,594	
Capital expenditures	\$ 34,856	2,150	
Depreciation and amortization	\$ 13,539	1,211	
Equity	\$ 873,767	20,035	
2003			
Revenues from unaffiliated customers	\$ 519,488	65,843	
Transfers between geographic areas	41,714	2,352	
Total revenues	\$ 561,202	68,195	
Net revenues	\$ 309,980	35,912	
Operating income	\$ 55,623	8,364	
Identifiable assets at year end	\$ 537,679	32,478	
Capital expenditures	\$ 9,322	1,017	
Depreciation and amortization	\$ 12,879	1,248	
Equity	\$ 682,585	12,931	
2002			
Revenues from unaffiliated customers	\$469,928	60,629	
Transfers between geographic areas	30,032	2,066	
Total revenues	\$ 499,960	62,695	
Net revenues	\$ 279,639	32,311	
Operating income	\$ 40,981	7,967	
Identifiable assets at year end	\$ 450,259	25,598	
Capital expenditures	\$ 14,005	1,056	
Depreciation and amortization	\$ 12,406	1,349	
Equity	\$ 535,590	9,774	
1 7		2/// 1	

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

Consolidated	Eliminations	Middle East	Latin America	Australia/ New Zealand	Europe	Far East
3,317,499	— (121,823)	142,535 6,373	52,347 6,188	44,042 5,262	492,651 18,921	1,880,135 11,096
3,317,499	(121,823)	148,908	58,535	49,304	511,572	1,891,231
906,237 241,045		37,144 8,667	21,274 4,298	25,583 6,242	164,132 29,026	252,189 118,395
1,364,053	4,249	40,667	21,711	22,361	304,701	279,840
66,244	, <u> </u>	2,051	1,744	845	13,445	11,153
26,703	_	1,375	770	665	5,099	4,044
807,404	(420,665)	19,049	6,647	13,131	90,053	205,387
2,624,941	_	117,092	37,495	32,077	406,186	1,446,760
——————————————————————————————————————	(74,668)	3,576	4,288	3,876	11,715	7,147
2,624,941	(74,668)	120,668	41,783	35,953	417,901	1,453,907
750,510	_	29,746	14,801	18,985	137,117	203,969
186,762	_	6,889	2,073	3,988	22,512	87,313
1,044,078	4,227	29,350	20,492	17,793	239,068	162,991
20,745	_	1,302	1,899	324	3,371	3,510
24,392		952	608	667	4,892	3,146
645,501	(263,863)	14,049	3,521	11,945	63,619	120,714
2,296,903	_	104,648	29,475	23,534	314,582	1,294,107
	(58,019)	2,824	3,568	4,041	9,398	6,090
2,296,903	(58,019)	107,472	33,043	27,575	323,980	1,300,197
682,213	_	26,479	12,246	15,103	112,136	204,299
171,009	_	7,393	2,015	3,521	18,215	90,917
879,948	_	25,272	8,540	14,553	210,849	144,877
81,427	_	1,483	208	1,057	60,701	2,917
22,725	_	971	553	571	4,079	2,796
523,812	(196,593)	9,958	1,231	10,049	41,604	112,199

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

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

^{*} Represents less than 10% in the period presented.

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Quarterly Results (Unaudited)

	Ist	2nd	3rd	4th
2004				
Revenues	\$ 686,850	798,666	897,188	934,795
Net revenues	202,496	222,223	240,358	241,160
Net earnings	31,844	37,612	43,107	43,563
Basic earnings per share	.30	.36	.41	.41
Diluted earnings per share	.29	.34	.39	.39
2003				
Revenues	\$ 556,346	625,713	711,469	731,413
Net revenues	170,026	178,261	196,849	205,374
Net earnings	25,119	27,910	32,558	36,365
Basic earnings per share	.24	.27	.31	-35
Diluted earnings per share	.23	.26	.30	-33

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

The fourth quarter 2003 results include a \$.03 per share increase in operating income as a result of the elimination of accruals for inter-company differences made unnecessary by enhancements in the Company's inter-company automated clearinghouse technology implemented in the beginning of the fourth quarter of 2003. In addition, the results also include a net \$.02 per share increase in additional tax expense (\$9,500) as a result of the Company's decision to provide full U.S. taxation on all unremitted foreign earnings and to eliminate certain tax expense (\$8,000) which the Company has analyzed and determined will not ultimately be paid out.

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 preparation and fair presentation of published 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, 2004, our internal control over financial reporting was effective.

KPMG LLP, an independent registered public accounting firm, has issued an attestation report on management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2004, which is included herein on page 68.

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, 2004 and 2003, 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, 2004. 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, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2004, 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, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 14, 2005 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.



Seattle, Washington March 14, 2005

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, including in the accompanying *Management Report on Internal Control Over Financial Reporting* appearing herein on page 66, that Expeditors International of Washington, Inc. maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that Expeditors International of Washington, Inc. maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on criteria established in Internal Control—Integrated Framework issued by COSO. Also, in our opinion, Expeditors International of Washington, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 2004, and 2003, 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, 2004, and our report dated March 14, 2005 expressed an unqualified opinion on those consolidated financial statements.

KPMG LIP

Seattle, Washington March 14, 2005

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

Executive Summary

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

International trade is influenced by many factors, including economic and political conditions in the United States and abroad, currency exchange rates, and United States and foreign laws and policies relating to tariffs, trade restrictions, foreign investments 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 affects 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: airfreight, ocean freight and customs brokerage and other services and 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.

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, to the degree possible, 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 2005 are expected to exceed \$100 million.

In terms of the opportunities, challenges and risks that management focused on in 2004, the Company operates in 57 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 in 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 measurement issues or challenges in accounting for operations.

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

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

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

Recent Accounting Pronouncements

In December 2003, the Financial Accounting Standards Board (FASB) issued revised Interpretation No. 46, "Consolidation of Variable Interest Entities (Revised), an Interpretation of ARB No. 51," (FIN 46R). FIN 46R addresses the consolidation by business enterprises of variable interest entities as defined in FIN 46R. The provisions of FIN 46R are generally effective for public entities that have interests in variable interest entities or potential variable interest entities commonly referred to as special-purpose entities for periods ending after December 15, 2003. Application by public entities (other than small business issuers) for all other types of entities is required in financial statements for periods ending after March 15, 2004. The Company adopted only the disclosure provisions of FIN 46R in the fourth quarter of 2003 and adopted the remaining provisions of FIN 46R in the first quarter of 2004. The adoption of the remaining provisions of FIN 46R did not have a material impact on the Company's consolidated financial condition or results of operations.

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

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

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 2004, 2003, and 2002, 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.

	2	2004		2003		2002	
In thousands	Amount	Percent of net revenues	Amount	Percent of net revenues	Amount	Percent of net revenues	
Net Revenues:							
Airfreight	\$ 348,949	39%	\$ 278,968	37%	\$ 284,954	42%	
Ocean freight and							
ocean services	210,967	23	191,116	26	164,114	24	
Customs brokerage							
and other services	346,321	38	280,426	37	233,145	34	
Net revenues	906,237	100	750,510	100	682,213	100	
Operating Expenses:							
Salaries and related costs	479,364	53	398,475	53	359,769	53	
Other	185,828	20	165,273	22	151,435	22	
Total operating expenses	665,192	73	563,748	75	511,204	75	
Operating income	241,045	27	186,762	25	171,009	25	
Other income, net	8,535	1	8,880	I	8,201	I	
Earnings before income taxes							
and minority interest	249,580	28	195,642	26	179,210	26	
Income tax expense	88,415	10	71,142	IO	65,461	IO	
Net earnings before							
minority interest	161,165	18	124,500	16	113,749	16	
Minority interest	(5,039)	(1)	(2,548)	_	(1,220)	_	
Net earnings	\$ 156,126	17%	\$ 121,952	16%	\$ 112,529	16%	

2004 compared with 2003

Airfreight net revenues in 2004 increased 25% compared with 2003 primarily because of an increase in airfreight volumes. Global airfreight tonnages in 2004 increased 23% compared with 2003. The 1% decrease in airfreight yields in 2004 was primarily a result of air carriers increasing their rates such that the Company was unable to increase its corresponding rates to customers in a timely and effective manner. As with the second half of 2003, the Company elected to absorb these short-term decreases in the interest of maintaining long-term customer relationships. The Company's North American export airfreight net revenues increased 25% in 2004 compared to 2003. The increase is partly a recovery of the prior year decrease and partly the result of increased exports from the United States due to the weakening of the U.S. Dollar. Airfreight net revenues from the Far East and from Europe increased 37% and 23%, respectively, for 2004 compared with 2003. These increases are the result of market price increases, partially offset by yield declines of less than 1%, and increased tonnage of 26% from the Far East and 18% from Europe, primarily as a result of increased sales success.

Ocean freight volumes, measured in terms of forty-foot container equivalents (FEUs), increased 29% over 2003 while ocean freight and ocean services net revenues increased only 10% during the same period. The difference in these two growth rates is a result of a 200 basis point reduction in ocean freight yields.

The reduction in a yield is a function of two major factors:

- Revenue from Expeditors Cargo Management Systems (ECMS) in 2004 increased only 2% over 2003 because of rate pressures on vendor consolidation fees.
- A series of rate increases put forward by direct ocean freight carriers throughout 2004. Due to market
 conditions primarily related to capacity, these rate increases, because of magnitude and frequency, could
 not be passed on to customers in a timely manner.

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 8% in 2004 compared to 2003. Ocean freight net revenues from the Far East and from Europe increased 22% and 8%, respectively, for 2004 compared with 2003.

Customs brokerage and other services net revenues increased 23% in 2004 as compared with 2003. This is a result of the Company's growing reputation for providing high quality service and consolidation within the customs brokerage market 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 has benefited the Company's customs brokerage offerings.

Salaries and related costs increased 20% in 2004 compared to 2003 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. Salaries and related costs remained constant as a percentage of net revenues. 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 2004 are a result of the incentives inherent in the Company's compensation program.

This trend may not continue in 2005 and future years as a result of the adoption of SFAS 123R, which requires the expensing of the fair value of employee stock options, effective in the third quarter of 2005. Management expects salaries and related costs as a percentage of net revenues will be more volatile.

Other operating expenses increased 12% in 2004 as compared with 2003 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other operating expenses as a percentage of net revenues decreased in 2004 as compared with 2003. Management believes that this was significant as it reflects the successful achievement of ongoing cost containment objectives at the branch level. The ability to sustain these savings into future periods is contingent upon branch level management's ability to adhere to these objectives.

Other income, net, decreased 4% in 2004 as compared with 2003. Due to higher interest rates on higher average cash balances and short-term investments during 2004, interest income increased by \$1.1 million for the year ended December 31, 2004. Rental income, net of applicable depreciation, of \$2.6 million and \$3.4 million for the years ended December 31, 2004 and 2003, respectively, is included in other income. The rental income is derived from two of the Company's properties, one located near Heathrow airport in London, England and an office and warehouse facility near the San Francisco, California International Airport. As a result of the scheduled remodeling of the San Francisco, California office and warehouse facility, rental income from that property ceased at the end of the first quarter of 2004.

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 2004 of 35.4% decreased when compared with the 36.4% rate in 2003. The lower tax rate in 2004 is the result of the decreased state tax expense caused by an increase in the taxable income sourced outside the U.S. and certain accounting adjustments made in 2003 as described in the following section. If the Company adopts a plan under Internal Revenue Code (IRC) 965, which was added by the Jobs Act, the Company's 2005 tax rate will be lower than prior years. This lower tax rate will only affect 2005.

2003 compared with 2002

Airfreight net revenues in 2003 decreased 2% compared with 2002. Global airfreight tonnages in 2003 were comparable with those in 2002. The decrease in 2003 airfreight net revenues was a reflection of an overall decline in airfreight yields and an inability to increase 2003 airfreight tonnages beyond those levels experienced in 2002. Airfreight tonnages and yields in 2002 were an anomaly as the airfreight markets were swamped by cargo that would otherwise have moved by ocean, but did not due to the disruption caused by the labor disputes in the west coast ports of the United States. The 1% decrease in airfreight yields in 2003 was primarily a result of air carriers increasing their rates such that the Company was unable to increase its corresponding rates to customers in a timely and effective manner. The Company elected to absorb these short-term decreases in the interest of maintaining long-term customer relationships. The Company's North American export airfreight net revenues decreased 5% in 2003 compared to 2002. Airfreight net revenues from the Far East and from Europe decreased 11% and increased 26%, respectively, for 2003 compared with 2002.

Ocean freight volumes, measured in terms of forty-foot container equivalents (FEUs), increased 23% over 2002 while ocean freight and ocean services net revenues increased only 16% during the same period. The difference in these two growth rates is a result of a 252 basis point decline in ocean freight yields. In May 2003, ocean freight carriers implemented substantial rate increases. In order to gain market share and maintain its focus on long-term customer relationships, the Company chose not to immediately pass on the full rate increases. The resulting increase in ocean freight volumes more than offset the revenue foregone by not implementing the full rate increases.

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. ECMS continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues decreased 3% in 2003 compared to 2002. This decrease was a result of the Company handling more ocean shipments moving from North America to the Far East, a market which has lower profit per container, and, to a lesser extent, from North America to Europe, a market which has higher profit per container. Ocean freight net revenues from the Far East and from Europe increased 24%, respectively, for 2003 compared with 2002.

Customs brokerage and other services net revenues increased 20% in 2003 as compared with 2002 as a result of the Company's growing reputation for providing high quality service and consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program.

Salaries and related costs increased II% in 2003 compared to 2002 as a result of (I) the Company's increased, albeit limited, hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs remained constant as a percentage of net revenues.

Other operating expenses increased in 2003 as compared with 2002 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other operating expenses as a percentage of net revenues remained constant in 2003 as compared with 2002.

Other income, net, increased in 2003 as compared with 2002. Due to much lower interest rates on higher average cash balances and short-term investments during 2003, interest income decreased by \$1.8 million for the year ended December 31, 2003. Rental income, net of applicable depreciation, of \$3.4 million for the year ended December 31, 2003, is included in other income. The rental income is derived from two of the Company's properties, one located near Heathrow airport in London, England and an office and warehouse facility near the San Francisco, California International Airport. Other income in the year ended December 31, 2002 includes the \$1.5 million gain on the sale of the Company's former Dublin, Ireland facility.

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 2003 of 36.4% is comparable to the 36.5% rate in 2002. In the fourth quarter of 2003, the Company recorded additional tax expense of \$9.5 million in order to provide full U.S. taxation on approximately \$41.9 million of foreign earnings accumulated through December 31, 1992, for which U.S. income taxes had not previously been provided. Income taxes had not previously been provided on these earnings as a result of the Company's previous intent to reinvest such earnings indefinitely or to distribute them in a manner in which no significant additional taxes would be incurred. Also during the fourth quarter of 2003, the Company eliminated \$8 million of certain taxes which the Company had previously expected to pay. Upon analysis of the state tax implications of the Company's pattern of remitting foreign earnings, the Company has determined that these taxes were not owed.

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 service and believes that its prices are competitive with those of others in the industry. Customers have exhibited a trend towards more sophisticated and efficient procedures for the management of the logistics supply chain by embracing strategies such as just-in-time inventory management. The Company believes that this trend has resulted in customers using fewer service providers with

greater technological capacity and consistent global coverage. Accordingly, sophisticated computerized customer service capabilities and a stable worldwide network have become significant factors in attracting and retaining customers.

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

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. Dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2004, 2003 and 2002 was insignificant. Net foreign currency gains realized in 2004, 2003 and 2002 were \$86, \$588 and \$70, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2004 and 2003.

The Company has traditionally generated revenues from airfreight, ocean freight and customs brokerage and other services. In light of the customer-driven trend to provide customer rates on a door-to-door basis, management foresees the potential, in the medium- to long-term, for fees normally associated with customs house brokerage to be de-emphasized and included as a component of other services offered by the Company.

Sources of Growth

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.

Office Additions

The Company opened 2 start-up offices during 2004.

North America Far East

Calgary, Canada Hanoi, Vietnam

During 2004, the Company closed its offices in Curitiba and Belo Horizonte, Brazil; these two offices were converted to non-exclusive agents.

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, 2004, 2003 and 2002.

Same store comparisons for the years ended December 31,

	2004	2003	2002
Net revenues	20%	10%	12%
Operating income	29%	9%	16%

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, 2004 was approximately \$193 million, as compared with \$114 million for 2003. This \$79 million increase is principally due to increased net earnings, the tax benefit of non-qualified stock option exercises and deferred tax expense on unremitted foreign earnings. The increased accounts receivable is offset by increased accounts payable, accrued expenses and taxes payable. Increased accounts receivable is primarily due to higher billings in November and December 2004, compared to the same

periods in 2003 and slower collections on certain large technology accounts required to meet current market conditions. Increases in accounts payable and accrued expenses are a result of the Company's attempts to manage cash flows by matching the timing of cash outflows for payments to vendors with cash inflows from collections of customer billings.

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

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 Bureau of Customs and Border Protection. 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, 2004 was \$65 million, as compared with \$26 million during the same period of 2003. 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, 2004, the Company made capital expenditures of \$66 million as compared with \$21 million for the same period in 2003. Capital expenditures in 2004 included \$24 million for acquisitions of real estate and office/warehouse facilities in New York, California and Korea. Other capital expenditures in 2004 and 2003 related primarily to investments in technology, office furniture and equipment and leasehold improvements. Cash of \$31.3 million was paid into escrow during 2002 to acquire an office and warehouse facility near the San Francisco, California International Airport; the transaction closed on January 7, 2003. The Company currently expects to spend approximately \$30 million for normal capital expenditures in 2005. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2005 are expected to exceed \$100 million if the Company adopts a plan calling for capital expenditures to meet the investment requirements of IRC 965. The Company expects to finance capital expenditures in 2005, with cash.

Cash used in financing activities for the year ended December 31, 2004 was \$22 million as compared with \$18 million for the same period in 2003. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. The differences between proceeds from the issuance of common stock and the amounts paid to repurchase common stock for the years ended December 31, 2004 and 2003 represent a timing difference in the receipt of proceeds and the subsequent repurchase of outstanding shares. In November 2001, the Board of Directors voted to allow the repurchase under a discretionary plan of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. No repurchases were made under this plan in 2004 and 2003. During 2004 and 2003 the net use of cash in financing activities was primarily for the payment of dividends of \$.22 per share and \$.16 per share, respectively.

At December 31, 2004, working capital was \$522 million, including cash and short-term investments of \$409 million. The Company had no long-term debt at December 31, 2004. While the nature of its business does not require an extensive investment in property and equipment, the Company cannot eliminate the possibility that it could acquire an equity interest in property in certain geographic locations.

The Company maintains international and domestic unsecured bank lines of credit. At December 31, 2004, the U.S. facility totaled \$50 million and the international bank lines of credit totaled \$13.5 million. In addition, the Company maintains bank facilities with U.K. banks for \$23 million. At December 31, 2004, the Company was directly liable for \$2.3 million drawn on these lines of credit and was contingently liable for an additional \$82.7 million from standby letters of credit and guarantees related to these lines of credit and other obligations. The guarantees relate to obligations of the Company's foreign subsidiaries for credit extended in the ordinary course of business by direct carriers, primarily airlines, and for duty and tax deferrals available from governmental entities responsible for customs and value-added-tax (VAT) taxation. The total underlying amounts due and payable for transportation and governmental excises are properly recorded as obligations in the books of the respective foreign subsidiaries, and there would be no need to record additional expense in the unlikely event the parent company were to be required to perform.

At December 31, 2004, the Company's contractual obligations and other commitments are as follows:

			Payments Du	e by Period	
In thousands	Total	Less than 1 year	ı - 3 years	3 - 5 years	After 5 years
Contractual Obligations: Operating leases Unconditional purchase obligations	\$ 115,578 195,496	35,955 195,496	47,865 —	23,415	8,343
Total contractual cash obligations	\$ 311,074	231,451	47,865	23,415	8,343

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2004, will be fulfilled during 2005 in the Company's ordinary course of business.

		Amount of Commitment Expiration Per Period			
In thousands	Total amounts committed	Less than I year	ı - 3 years	3 - 5 years	After 5 years
Other Commitments:					
Lines of credit	\$ 11,625	11,187	246	192	_
Credit facility	23,033	22,959	13		61
Standby letters of credit	61,531	60,105	858	554	14
Total commitments	\$ 96,189	94,251	1,117	746	75

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2004, the Company had repurchased and retired 6,427,715 shares of common stock at an average price of \$17.72 per share over the period from 1994 through 2004. During 2004, 612,533 shares were repurchased at an average price of \$47.62 per share.

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, 2004, cash and cash equivalent balances of \$239.5 million were held by the Company's non-U.S. subsidiaries, of which \$43.9 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, 2004, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission (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 functional 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, 2004, would have had the effect of raising operating income approximately \$19 million. An average 10% strengthening of the U.S. Dollar, for the same period, would have the effect of reducing operating income approximately \$15 million.

The Company has approximately \$6 million of net unsettled intercompany transactions at any one point in time. 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, 2004, was insignificant. The Company had no foreign currency derivatives outstanding at December 31, 2004 and 2003. 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, 2004, the Company had cash and cash equivalents and short-term investments of \$409 million and short-term borrowings of \$2.3 million, all subject to variable short-term interest rates. A hypothetical change in the interest rate of 10% would have an insignificant impact on the Company's earnings.

In management's opinion, there has been no material change in the Company's market risk exposure between 2003 and 2004.

Directors and Executive Officers

Directors

Peter J. Rose

Chairman of the Board and Chief Executive Officer, Director

James L. K. Wang

President – Asia, Director

R. Jordan Gates

Executive Vice President – Chief Financial Officer and Treasurer, Director

James J. Casey

Director

Dan P. Kourkoumelis

Director

Michael J. Malone

Director

John W. Meisenbach

Director, President, MCM Financial, A Financial Services Company

Executive Officers

Glenn M. Alger

President and Chief Operating Officer

Robert L. Villanueva

President - The Americas

Sandy K. Y. Liu

Chief Operating Officer –

Timothy C. Barber

Executive Vice President – Global Sales

Rosanne Esposito

Executive Vice President – Global Customs Rommel C. Saber

Executive Vice President – Europe, Africa and Near/Middle East

Eugene K. Alger

Senior Vice President – North America

L. Manfred Amberger

Senior Vice President – Continental Europe

Jean Claude Carcaillet

Senior Vice President – Australasia

Philip M. Coughlin

Senior Vice President – North America

Product and Service Managers

Global Product and Services

Roger A. Idiart

Senior Vice President – Air Cargo

Jeffrey J. King

Senior Vice President – General Counsel and Secretary

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 and Cargo Management Services Bret C. Backman

Vice President – Research and Development

Deanna L. Wilson

Vice President – Global Business Processes

Richard P. Ballantyne

Vice President – Global Distribution Services

Allison J. McDonald

Vice President – Information Systems

Erin M. Thomasson

Vice President – Insurance Samuel R. Bokor

Vice President – Training and Personnel Development

Scott M. Kelly

Vice President – Global Ocean Services

Carol Kijac

Vice President – Sales and Marketing, North America

Geographic Managers

Far East

Andrew Goh

Senior Vice President -South Asia

Aristotle Aniceto

General Manager -Philippines

T. H. Chiu

General Manager -Central China and Shanghai

Derby Lam

General Manager -South China

Ping Hao

General Manager -Beijing

David Hsieh

Managing Director -China

Michael Wang

Managing Director -Taiwan

Mark Kato

Managing Director -Japan

Chorina Khoo

General Manager -Singapore

J. I. Kim

Managing Director -

Korea

Danny Lee

Managing Director -Thailand

Shehan Mohamed

General Manager -Sri Lanka

Michael Leung

General Manager -Penang, Malaysia

Lance Liou

General Manager – North China

Tom Tan

Branch Manager -Cambodia

E. J. Ong

Managing Director -

Malaysia

Tean Hau P'ng

General Manager -Vietnam

Syed Ershad Ahmed

Managing Director -Bangladesh

Nixen Tanex

General Manager -Indonesia

Additional Geographic Managers

North America

Paul L. Arthur

Regional Vice President – U.S.

Joseph P. Coogan

Regional Vice President – U.S.

Karl C. Francisco

Regional Vice President – U.S.

J. Ross Hurst

Managing Director – Canada

Bryan Lilly

Regional Vice President – U.S.

William A. Romberger III

Regional Vice President – U.S.

Richard H. Rostan

Regional Vice President – U.S.

Troy Ryley

Country Manager – Mexico

Jose A. Ubeda

Regional Vice President – U.S.

Europe and Africa

James M. Anderson

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

Henrik Hedensio

Regional Vice President – North Europe

Magdolna Acs

Managing Director – Hungary

Barry L. Baron

Managing Director – United Kingdom

Stephane P. Carlier

Managing Director – Belgium

Carlos A. J. da Conceicao

Managing Director – Portugal

Paolo Domante

Managing Director – Italy and Switzerland

Rene Grabmuller

Managing Director – Czech Republic

Gilles Kergoat

Managing Director – Madagascar

Rainer Kirschner

Managing Director – Germany

Richard P. Mallabone

Managing Director – South Africa

Christophe C. Richard

Managing Director – France

Additional Geographic Managers

Near / Middle East and Indian Sub-continent

Kurt Meister

Regional Vice President – Gulf States, Pakistan and India

Samir Ghaoui

Managing Director – Levant

Tony Helayel

Managing Director – Egypt and North Africa

David Macpherson

Managing Director – Dubai, UAE

Afsar Mahmood

Managing Director – Pakistan

K. Murali

Managing Director – India

Suleyman Ture

Managing Director – Turkey

Latin America

Bruce Krebs

Regional Vice President – Brazil and Managing Director – Mexico

Guillermo Ayerbe

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

Carlos Novoa

Regional Director – Latin America, Andean Countries

Giannina Odio

Country Manager – Costa Rica

Corporate Information

Transfer Agent and Registrar,
Dividend Disbursing Agent

EquiServe Trust Company, N.A.
P.O. Box 43023
Providence, RI
02940-3023
Shareholder Services
(877) 498-8861
Hearing Impaired / TDD
(800) 952-9245
Website
http://www.equiserve.com

Independent Registered Public Accounting Firm

KPMG LLP 801 Second Avenue Suite 900 Seattle, WA 98104

Corporate Headquarters

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

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

Offices and Agents

Major cities of the world

Annual Meeting

The annual meeting of shareholde	rs
is Wednesday, May 4, 2005,	
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. Share-holders may obtain a copy of this report without charge by writing:

Jeffrey J. King, Secretary 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 National Market System under the symbol EXPD.

Common Stock

Quarter	High	Low
2004		
First	\$ 41.00	35.70
Second	49.50	39.38
Third	53.34	45.15
Fourth	58.40	47.92
2003		
First	\$ 38.00	29.61
Second	37.81	30.75
Third	39.28	32.94
Fourth	40.83	34.25

There were 2,251 shareholders of record as of December 31, 2004. Management estimates that there were approximately 72,400 beneficial shareholders at that date.

In 2004 and 2003, the Board of Directors declared a semi-annual dividend of \$.11 per and \$.08 per share, respectively, which was paid as follows:

2004	15 June
	15 December
2003	17 June 15 December

All office personnel portrayed in this annual report are employees of Expeditors International of Washington, Inc.

