EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form 10-K
March 16, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number: 0-13468

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1069248**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1015 Third Avenue, 12th Floor, Seattle, Washington	**98104**
(Address of principal executive offices)	(Zip Code)

(206) 674-3400

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $.01 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ý Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No ý

At June 30, 2005, the aggregate market value of the registrant s Common Stock held by non-affiliates of the registrant was approximately $4,551,854,523.

At March 9, 2006 the number of shares outstanding of registrant s Common Stock was 106,830,520.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the Registrant s 2006 Annual Meeting of Shareholders to be held on May 3, 2006 are incorporated by reference into Part III of this Form 10-K.

Forward-Looking Statements

In accordance with the provisions of the Litigation Reform Act, the Company is making readers aware that forward-looking statements, because they relate to future events, are by their very nature subject to many important risk factors which could cause actual results to differ materially from those contained in the forward-looking statements. For an identification of risk factors and their potential significance, see Item 1A. For additional information about forward-looking statements, see Safe Harbor for Forward-Looking Statements Under Securities Litigation Reform Act of 1995; Certain Cautionary Statements immediately preceding Part II, Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations in this report.

PART I

ITEM 1 BUSINESS

Expeditors International of Washington, Inc. is engaged in the business of providing global logistics services. The Company offers its customers a seamless international network supporting the movement and strategic positioning of goods. The Company s services include the consolidation or forwarding of air and ocean freight. In each United States office, and in many overseas offices, the Company acts as a customs broker. The Company also provides additional services including distribution management, vendor consolidation, cargo insurance, purchase order management and customized logistics information. The Company does not compete for domestic freight, overnight courier or small parcel business and does not own aircraft or steamships.

The Company, including its majority-owned subsidiaries, operates full service offices ( ) in the cities identified below. Full service offices have also been established in locations where the Company maintains unilateral control over assets and operations and where the existence of the parent-subsidiary relationship is maintained by means other than record ownership of voting stock (#). In other cities, the Company contracts with independent agents to provide required services and has established approximately 110 such relationships world-wide. Locations where Company employees perform sales and customer service functions are identified below as international service centers (*). Wholly owned locations operating under the supervision and control of another full service office are identified as satellite offices (+). In each case, the opening date for the full service office, international service center or satellite office is set forth in parenthesis.

NORTH AMERICA

UNITED STATES

Seattle (5/79)
Chicago (7/81)
San Francisco (7/81)
New York (11/81)
Los Angeles (5/82)
Atlanta (8/83)
Boston (11/85)
Miami (3/86)
Dallas (5/92)
Columbus (6/92)
Charlotte (7/92)
Newark (9/94)
Philadelphia (3/95)
Charleston (6/95)
Memphis (8/95)
Salt Lake City (11/95)
+ Syracuse (4/96)
Pittsburgh (6/99)
Savannah (3/00)
+ Milwaukee (7/00)
Kansas City (8/00)
Washington, D.C. (9/00)
Nashville (10/01)
+ Huntsville (12/02)
Austin (2/03)
Orlando (8/03)

MEXICO

Mexico City (6/95)
Nuevo Laredo (4/97)
Guadalajara (9/97)
Nogales (1/99)
Ciudad Juarez (5/00)
Monterrey (1/05)

SOUTH AND CENTRAL AMERICA

Minneapolis (7/86)
Denver (2/88)
Detroit (7/88)
Portland (7/88)
Cincinnati (8/89)
Cleveland (7/90)
Phoenix (7/91)
Louisville (10/91)
St. Louis (4/92)
Houston (4/92)
Baltimore (4/92)

Norfolk (9/96)
Indianapolis (11/96)
+ Port Huron-Blue Water Bridge (12/96)
+ Detroit-Ambassador Bridge (12/96)
+ Lewiston-Queenston (12/96)
Buffalo-Peace Bridge (1/97)
El Paso (1/97)
Laredo (2/97)
Nogales (2/97)
San Diego (7/97)
+ Rochester (10/97)
McAllen (4/98)

Tampa (9/03)
+ New Orleans (9/04)

PUERTO RICO

San Juan (5/95)

CANADA

Toronto (5/84)
Vancouver (9/95)
+ Windsor (6/98)
Montreal (4/99)
Calgary (9/04)

ARGENTINA

Buenos Aires (1/98)

BRAZIL

Sao Paulo (9/95)
Rio de Janeiro (9/95)
Campinas (9/95)
+ Santos (10/97)
Manaus (7/00)
Porto Alegre (1/05)

CHILE
Santiago (2/95)
+ Concepcion (4/03)

COLOMBIA
Bogota (12/98)
+ Cali (12/98)
+ Medellin (7/00)

COSTA RICA
San Jose (10/03)

PERU
Lima (12/05)

VENEZUELA
Caracas (1/01)

ASIA

BANGLADESH
Dhaka (6/89)
+ Chittagong (8/93)

CAMBODIA
Phnom Penh (4/00)

CHINA
Guangzhou (4/94)
Beijing (7/94)
Dalian (7/94)
Shanghai (7/94)
Shenzhen (7/94)
Qingdao (7/94)
Tianjin (7/94)
+ Xi an (7/94)
Xiamen (7/94)
+ Chengdu (9/00)
Ningbo (7/01)
+ Suzhou (9/01)
+ Zhongshan (9/01)
+ Hangzhou (10/01)
+ Kunshan (12/01)
+ Fuzhou (6/02)
+ Yantai (11/02)
+ Shenyang (12/02)
+ Wuhan (1/03)
+ Huizhou (12/03)

JAPAN
Tokyo (1/01)
Osaka (1/01)

KOREA
+ Pusan (10/94)
Seoul (10/94)
+ Bupyung (6/96)
+ Chonan (6/96)
+ Kwangju (6/96)
+ Kumi (6/96)
+ Masan (6/96)
+ Taegu (6/96)

MALAYSIA
Penang (11/87)
Kuala Lumpur (6/90)
Johor Bahru (11/94)

MARIANA ISLANDS
Saipan (7/00)

PHILIPPINES
Manila (8/98)
+ Olongapo City (8/98)
+ Mandaue City (9/99)

SINGAPORE
Singapore (9/81)

TAIWAN
Taipei (9/81)
+ Kaohsiung (9/81)
+ Taichung (9/81)
+ Hsin-Chu (9/89)

THAILAND
Bangkok (9/94)
+ Laem Chabang (8/05)

VIETNAM
Ho Chi Minh City (5/00)
Hanoi (3/04)
+ Da Nang (9/05)

EUROPE

AUSTRIA

FRANCE
Paris (1/97)
Mulhouse (1/97)
Lyon (1/97)
Lille (3/97)
Bordeaux (7/00)

GERMANY
Frankfurt (4/92)
Munich (4/92)
Dusseldorf (4/92)
Stuttgart (4/92)
Hamburg (1/93)
Nuremberg (1/01)
+ Hannover (1/05)

HUNGARY
Budapest (4/00)

IRELAND
Dublin (3/97)
Cork (3/97)
Shannon (3/97)

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ITALY
Milan (4/93)
Verona (4/93)
Florence (3/98)
+ Turin (4/05)

THE NETHERLANDS
Amsterdam (6/94)
Rotterdam (3/95)

POLAND
Warsaw (2/05)

PORTUGAL
Lisbon (10/91)
Oporto (10/91)

SPAIN
Barcelona (1/94)
Madrid (1/94)
Alicante (4/96)

SWEDEN
Stockholm (1/94)

Glasgow (4/92)
Bristol (3/97)
East Midlands (1/99)
+ Hull (1/00)
Belfast (9/01)
Aberdeen (9/05)

AUSTRALASIA

AUSTRALIA
Sydney (8/88)
Melbourne (8/88)
Brisbane (10/93)
Perth (12/94)
Adelaide (10/97)

FIJI
* Nadi (7/96)
* Suva (5/97)

NEW ZEALAND
Auckland (8/88)

NEAR/MIDDLE EAST

EGYPT
Cairo (2/95)
+ Alexandria (2/95)

GREECE
Athens (2/99)
+ Thessaloniki (2/99)

INDIA
New Delhi (7/96)
Mumbai (Bombay) (1/97)
Bangalore (6/97)
Chennai (Madras) (6/97)
+ Hyderabad (9/01)
+ Tiruppur (3/05)

KUWAIT
Kuwait City (7/97)

LEBANON
Beirut (8/99)

PAKISTAN

+ Zhuhai (12/03)
+ Foshan (1/04)
+ Chongqing (7/04)
Dongguan (2/05)
Nanjing (3/05)
Macau (5/05)

HONG KONG
Kowloon (9/81)

INDONESIA
Jakarta (12/90)
Surabaya (2/92)

Vienna (11/95)

BELGIUM
Brussels (7/90)
+Antwerp (4/91)

THE CZECH REPUBLIC
Prague (6/98)

FINLAND
Helsinki (4/94)

Goteborg (1/94)
+ Malmoe (3/05)

SWITZERLAND
Chiasso (2/01)
Zurich (10/05)

UNITED KINGDOM
London (4/86)
Manchester (11/88)
Birmingham (3/90)

Karachi (9/96)
Lahore (9/96)
+ Sialkot (6/03)

SAUDI ARABIA
Riyadh (7/92)
Jeddah (7/92)

SRI LANKA
Colombo (3/95)

TURKEY
Ankara (1/99)
Istanbul (1/99)
Izmir (1/99)
Mersin (1/99)
+ Adana (1/99)

U.A.E.
* Abu Dhabi (1/94)
Dubai (10/98)

CYPRUS
* Nicosia (6/96)
* Larnaca (1/98)

<u>AFRICA</u>

SOUTH AFRICA
Johannesburg (3/94)
Durban (3/94)
Capetown (1/97)
+ Maseru (6/03)
+ Port Elizabeth (7/03)

MADAGASCAR
Antananarivo (11/01)

MAURITIUS
Port Louis (7/99)

The Company was incorporated in the State of Washington in May 1979. Its executive offices are located at 1015 Third Avenue, 12th Floor, Seattle, Washington, and its telephone number is (206) 674-3400.

The Company s internet address is http://www.expeditors.com. The Company makes available free of charge through its internet website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC).

For information concerning the amount of revenues, net revenues, operating income, identifiable assets, capital expenditures and depreciation and amortization attributable to the geographic areas in which the Company conducts its business, see Note 9 to the Consolidated Financial Statements.

Beginning in 1981, the Company s primary business focus was on airfreight shipments from Asia to the United States and related customs brokerage and other services. In the mid-1980 s, the Company began to expand its service capabilities in export airfreight, ocean freight and distribution services. Today the Company offers a complete range of global logistics services to a diversified group of customers, both in terms of industry specialization and geographic location. As opportunities for profitable growth arise, the Company plans to create new offices. While the Company has historically expanded through organic growth, the Company has also been open to growth through acquisition of, or establishing joint ventures with, existing agents or others within the industry.

Airfreight Services

Airfreight services accounted for approximately 37, 39, and 37 percent of the Company s 2005, 2004, and 2003 consolidated revenues net of freight consolidation expenses (net revenues), respectively. When performing airfreight services, the Company typically acts either as a freight consolidator or as an agent for the airline which carries the shipment. When acting as a freight consolidator, the Company purchases cargo space from airlines on a volume basis and resells that space to its customers at lower rates than the customers could obtain directly from airlines. When moving shipments between points where the volume of business does not facilitate consolidation, the Company receives and forwards individual shipments as the agent of the airline which carries the shipment. Whether acting as an agent or consolidator, the Company offers its customers knowledge of optimum routing, familiarity with local business practices, knowledge of export and import documentation and procedures, the ability to arrange for ancillary services, and assistance with space availability in periods of peak demand.

In its airfreight forwarding operations, the Company procures shipments from its customers, determines the routing, consolidates shipments bound for a particular airport distribution point, and selects the airline for transportation to the distribution point. At the distribution point, the Company or its agent arranges for the consolidated lot to be broken down into its component shipments and for the transportation of the individual shipments to their final destinations.

The Company estimates its average airfreight consolidation weighs approximately 3,500 to 4,500 pounds and a typical consolidation includes merchandise from several shippers. Because shipment by air is relatively expensive compared with ocean transportation, air shipments are generally characterized by a high value-to-weight ratio, the need for rapid delivery, or both.

The Company typically delivers shipments from a Company warehouse at the origin to the airline after consolidating the freight into containers or onto pallets. Shipments normally arrive at the destination distribution point within forty-eight hours after such delivery. During peak shipment periods, cargo space available from the scheduled air carriers can be limited and backlogs of freight shipments may occur. When these conditions exist, the Company may charter aircraft to meet customer demand.

The Company consolidates individual shipments based on weight and volume characteristics in cost-effective combinations. Typically, as the weight or volume of a shipment increases, the cost per pound/kilo or cubic inch/centimeter charged by the Company decreases. The rates charged by airlines to forwarders and others also generally decrease as the weight or volume of the shipment increases. As a result, by aggregating shipments and presenting them to an airline as a single shipment, the Company is able to obtain a lower rate per pound/kilo or cubic inch/centimeter than that which it charges to its customers for the individual shipment, while generally offering the customer a lower rate than could be obtained from the airline for an unconsolidated shipment.

The Company s net airfreight forwarding revenues from a consolidated shipment include the differential between the rate charged to the Company by an airline and the rate which the Company charges to its customers, commissions paid to the Company by the airline carrying the freight and fees for ancillary services. Such ancillary services provided by the Company include preparation of shipping and customs documentation, packing, crating and insurance services, negotiation of letters of credit, and preparation of documentation to comply with local export laws. When the Company acts as an agent for an airline handling an unconsolidated

shipment, its net revenues are primarily derived from commissions paid by the airline and fees for ancillary services paid by the customer.

The Company does not own aircraft and does not plan to do so. Management believes that the ownership of aircraft would subject the Company to undue business risks, including large capital outlays, increased fixed operating expenses, problems of fully utilizing aircraft and competition with airlines. Because the Company relies on commercial airlines to transport its shipments, changes in carrier policies and practices such as pricing, payment terms, scheduling, and frequency of service may affect its business.

The Company also performs breakbulk services which involve receiving and breaking down consolidated airfreight lots and arranging for distribution of the individual shipments. Breakbulk service revenues also include commissions from agents for airfreight shipments.

Customs Brokerage and Other Services

Customs brokerage and other services accounted for approximately 38, 38, and 37 percent of the Company s 2005, 2004, and 2003 consolidated net revenues, respectively. As a customs broker, the Company assists importers to clear shipments through customs by preparing required documentation, calculating and providing for payment of duties on behalf of the importer, arranging for any required inspections by governmental agencies, and arranging for delivery. The Company also provides other value added services at destination such as warehousing and product distribution, time definite transportation and inventory management. None of these other services are currently individually significant to the Company s net revenues.

The Company provides customs clearance services in connection with many of the shipments it handles as a freight forwarder. However, substantial customs brokerage revenues are derived from customers that elect to use a competing forwarder. Conversely, shipments handled by the Company as a forwarder may be processed by another customs broker selected by the customer.

The Company also provides custom clearances for goods moving by rail and truck between the United States, Canada and/or Mexico. The commodities being cleared and the time sensitive nature of the border brokerage business require the Company to continue to make enhancements to its systems in order to provide competitive service.

During 1996 the Company established a subsidiary, Expeditors Tradewin, L.L.C., to respond to customer driven requests for high-end customs consulting services. The demand for these services was stimulated by the changes made by Customs and Border Protection of the Department of Homeland Security in response to the 1993 Customs Modernization Act. Fees for these non-transactional services are based upon hourly billing rates and bids for mutually agreed procedures.

Ocean Freight and Ocean Services

Ocean freight services accounted for approximately 25, 23, and 26 percent of the Company s 2005, 2004, and 2003 consolidated net revenues, respectively. The Company s revenues as an ocean freight forwarder are derived from commissions paid by the carrier and revenues from fees charged to customers for ancillary services which the Company may provide, such as preparing documentation, procuring insurance, arranging for packing and crating services, and providing consultation. The Company operates Expeditors International Ocean (EIO), a Non-Vessel Operating Common Carrier (NVOCC) specializing in ocean freight consolidation from Asia to the United States. EIO also provides service, on a smaller scale, to and from any location where the Company has an office or agent. As an NVOCC, EIO contracts with ocean shipping lines to obtain transportation for a fixed number of containers between various points during a specified time period at an agreed rate. EIO solicits Less-than Container Load (LCL) freight to fill the containers and charges lower rates than those available directly from shipping lines. EIO also handles full container loads for customers that do not have annual shipping volumes sufficient to negotiate comparable contracts directly with the ocean carriers. The Company does not own vessels and generally does not physically handle the cargo.

Expeditors Cargo Management Systems (ECMS) supplies a sophisticated ocean consolidation service. The Company owns and maintains software that allows it to sell ECMS to large volume customers that have signed their own service contracts with the ocean carriers. As an ocean consolidator, ECMS may obtain LCL freight from several vendors and consolidate this cargo into full containers. The Company s revenues as an ocean consolidator are derived from handling LCL cargo at origin and from the fees paid by customers for access to data captured during the consolidation process.

Marketing and Customers

The Company provides flexible service and seeks to understand the needs of the customers from points of origin to ultimate destinations. Although the domestic importer usually designates the logistics company and the services that will be required, the foreign shipper may also participate in this selection process. Therefore, the Company coordinates its marketing program to reach both domestic importers and their overseas suppliers.

The Company s marketing efforts are focused primarily on the traffic, shipping and purchasing departments of existing and potential customers. The district manager of each office is responsible for marketing, sales coordination, and implementation in the area in which he or she is located. All employees are responsible for customer service and relations.

The Company staffs its offices largely with managers and other key personnel who are citizens of the nations in which they operate and who have extensive experience in global logistics. Marketing and customer service staffs are responsible for marketing the Company s services directly to local shippers and traffic managers who may select or influence the selection of the logistics vendor and for ensuring that customers receive timely and efficient service. The Company believes that its expertise in supplying solutions customized to the needs of its customers, its emphasis on coordinating its origin and destination customer service and marketing activities, and the incentives it gives to its managers have been important elements of its success.

The goods handled by the Company are generally a function of the products which dominate international trade between any particular origin and destination. Shipments of computer components, other electronic equipment, housewares, sporting goods, machine parts, and toys, comprise a significant percentage of the Company s business. Typical import customers include computer retailers and distributors of consumer electronics, department store chains, clothing and shoe wholesalers, manufacturers and catalogue stores. Historically, no single customer has accounted for five percent or more of the Company s revenues.

Competition

The global logistics services industry is intensely competitive and is expected to remain so for the foreseeable future. There are a large number of companies competing in one or more segments of the industry, but the number of firms with a global network that offer a full complement of logistics services is more limited. Depending on the location of the shipper and the importer, the Company must compete against both the niche players and larger entities. While there is currently a marked trend within the industry toward consolidation into larger firms striving for immediate multinational and multi-service networks, the regional and local competitors maintain a strong market presence.

Historically, the primary competitive factors in the global logistics services 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 the prices of others in the industry. Recently, larger customers have exhibited a trend toward more sophisticated and efficient procedures for the management of the logistics supply chain by embracing strategies such as just-in-time inventory management. This trend has made computerized customer service capabilities a significant factor in attracting and retaining customers. These computerized customer service capabilities include customized Electronic Data Interchange, (EDI), and on-line freight tracing and tracking applications. The customized EDI applications allow the transfer of key information between the customers systems and the Company s systems. Freight tracing and tracking applications allow customers to know the location, transit time and estimated delivery time of inventory in transit.

Management believes that the ability to develop and deliver innovative solutions to meet customers increasingly sophisticated information requirements is a critical factor in the ongoing success of the Company. Accordingly, the Company has devoted a significant amount of resources towards the maintenance and enhancement of systems that will meet these customer demands. Management believes that the Company s existing systems are competitive with the systems currently in use by other logistics services companies with which it competes.

Unlike many of its competitors, who have tended to grow by merger and acquisition, the Company operates the same accounting and transportation computer software, running on a common hardware platform, in all of its full-service locations. Small and middle-tier competitors, in general, do not have the resources available to develop these customized systems. 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. 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. As a result, the Company has pursued a strategy emphasizing organic growth supplemented by certain strategic acquisitions.

The Company s ability to attract, retain, and motivate highly qualified personnel with experience in global logistics services is an essential, if not the most important, element of its ability to compete in the industry. To this end, the Company has adopted incentive compensation programs which make percentages of branch revenues or profits available to managers for distribution among key personnel. The Company believes that these incentive compensation programs, combined with its experienced personnel and its ability to coordinate global marketing efforts, provide it with a distinct competitive advantage and account for historical growth that competitors have generally matched only through acquisition.

Currency and Other Risk Factors

The nature of the Company s worldwide operations necessitate 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. Many 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 these offices or agents.

In addition, the Company s ability to provide service to its customers is highly dependent on good working relationships with a variety of entities including airlines, steamship lines and governmental agencies. The Company considers its current working relationships with these entities to be good. However, changes in space allotments available from carriers, governmental deregulation efforts, modernization of the regulations governing customs clearance, and/or changes in governmental quota restrictions could affect the Company s business in unpredictable ways.

Seasonality

Historically, the Company s operating results have been subject to seasonal trends 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 has been the result of, or 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 will continue in future periods.

A significant portion of the Company s revenues are derived from customers in 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 shifting consumer demand for retail goods and 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.

Environmental

In the United States, the Company is subject to Federal, state and local provisions regulating the discharge of materials into the environment or otherwise for the protection of the environment. Similar laws apply in many other jurisdictions in which the Company operates. Although current operations have not been significantly affected by compliance with these environmental laws, governments are becoming increasingly sensitive to environmental issues, and the Company cannot predict what impact future environmental regulations may have on its business. The Company does not anticipate making any material capital expenditures for environmental control purposes during the remainder of the current or succeeding fiscal years.

Employees

At January 31, 2006, the Company employed approximately 10,600 people, 3,900 in the United States and 625 in the balance of North America, 525 in South America, 1,460 in Europe, 2,900 in Asia & Australasia, 900 in the Near/Middle East and 290 in Africa. Approximately 1,500 of the Company s employees are engaged principally in sales and marketing and customer service, 6,525 in operations and 2,575 in finance and administration. The Company is not a party to any collective bargaining agreement and considers its relations with its employees to be satisfactory.

In order to retain the services of highly qualified, experienced, and motivated employees, the Company places considerable emphasis on its incentive compensation programs and stock option plans.

Executive Officers of the Registrant

The following table sets forth the names, ages, and positions of current executive officers of the Company.

Name	Age	Position
Peter J. Rose	62	Chairman and Chief Executive Officer and director
James L.K. Wang	57	President-Asia and director
Glenn M. Alger	49	President and Chief Operating Officer
Rommel C. Saber	48	President-Europe, Africa, Near/Middle East and Indian Subcontinent
Robert L. Villanueva	53	President-The Americas
Sandy K.Y. Liu	58	Chief Operating Officer-Asia
R. Jordan Gates	50	Executive Vice President-Chief Financial Officer and director
Timothy C. Barber	46	Executive Vice President-Global Sales
Rosanne Esposito	54	Executive Vice President-Global Customs
Eugene K. Alger	45	Senior Vice President-North America
L. Manfred Amberger	57	Senior Vice President-Continental Europe
Jean Claude Carcaillet	60	Senior Vice President-Australasia
Philip M. Coughlin	45	Senior Vice President-North America
Roger A. Idiart	52	Senior Vice President-Air Cargo
Jeffrey J. King	51	Senior Vice President-General Counsel and Secretary
Charles J. Lynch	45	Senior Vice President-Corporate Controller
Jeffrey S. Musser	40	Senior Vice President and Chief Information Officer
Daniel R. Wall	37	Senior Vice President-Ocean Services

Peter J. Rose has served as a director and Vice President of the Company since July 1981. Mr. Rose was elected a Senior Vice President of the Company in May 1986, Executive Vice President in May 1987, President and Chief Executive Officer in October 1988, and Chairman and Chief Executive Officer in May 1991.

James L.K. Wang has served as a director and the Managing Director of Expeditors International Taiwan Ltd., the Company s former exclusive Taiwan agent, since September 1981. In 1991, Mr. Wang s employment agreement was assigned to E.I. Freight (Taiwan), Ltd., the Company's exclusive Taiwan agent through 2004. Mr. Wang's contract is now assigned to ECI Taiwan Co. Ltd., a wholly-owned subsidiary of the Company. In October 1988, Mr. Wang became a director of the Company and its Director-Far East, and Executive Vice President in January 1996. In May 2000, Mr. Wang was elected President-Asia.

Glenn M. Alger joined the Company in July 1981 as a District Manager. Mr. Alger was elected Vice President and Regional Manager in October 1988, Senior Vice President-U.S. Operations in January 1992, Senior Vice President and Director-North America in January 1993, and Executive Vice President and Director-North America in March 1997. In September 1999, Mr. Alger was elected President and Chief Operating Officer.

Rommel C. Saber joined the Company as Director-Near/Middle East in February 1990 and was elected Senior Vice President-Sales and Marketing in January 1993. Mr. Saber was elected Senior Vice President-Air Export in September 1993. In July 1997 he was elected Senior Vice President Near/Middle East and Indian Subcontinent and Executive Vice President-Europe, Africa and Near/Middle East in August 2000. In February 2006, Mr. Saber was elected President-Europe, Africa, Near/Middle East and Indian Subcontinent.

Robert L. Villanueva joined the Company as Regional Vice President Northwest U.S. Region in April 1994. In September 1999, he was elected Executive Vice President-The Americas and President-The Americas in May 2004.

Sandy K.Y. Liu became Chief Operating Officer-Asia of the Company in January 2001. From 1969 through 2000, Mr. Liu was employed in various positions by China Airlines. In November 1998, Mr. Liu was appointed President of China Airlines.

R. Jordan Gates joined the Company as its Controller-Europe in February 1991. Mr. Gates was elected Chief Financial Officer and Treasurer of the Company in August 1994 and Senior Vice President-Chief Financial Officer and Treasurer in January 1998. In May 2000, Mr. Gates was elected Executive Vice President-Chief Financial Officer and Treasurer. Mr. Gates was also elected as a director in May 2000.

Timothy C. Barber joined the Company in May 1986. Mr. Barber was promoted to District Manager of the Seattle office in January 1987 and Regional Vice President in January 1993. Mr. Barber was elected Vice President-Sales and Marketing in September 1993 and Senior Vice President-Sales and Marketing in January 1998. In September 1999, Mr. Barber was elected Executive Vice President-Global Sales.

Rosanne Esposito joined the Company as its Director-U.S. Import Services in January 1996. Ms. Esposito was promoted to Vice President in May 1997 and Senior Vice President-Global Customs in May 2001. In May 2004, Ms. Esposito was promoted to Executive Vice President-Global Customs.

Eugene K. Alger joined the Company in October 1982. Mr. Alger was promoted to District Manager and Regional Vice President of the Los Angeles office in May 1983. He was elected Regional Vice President-Southwestern U.S. and Mexico Region in January 1992, and Senior Vice President of North America in September 1999.

L. Manfred Amberger joined the Company as Managing Director of Germany in April 1992. Mr. Amberger was promoted to Regional Director-Europe in May 1996 and Vice President in January 1998. Mr. Amberger was elected Senior Vice President-Continental Europe in May 2000.

Jean Claude Carcaillet joined the Company as Managing Director-Australasia in August 1988. He was elected Senior Vice President-Australasia in September 1997.

Philip M. Coughlin joined the Company in October 1985. Mr. Coughlin was promoted to District Manager in August 1986. He was elected Regional Manager for New England and Canada in January 1991, Regional Vice President-Northeastern U.S. and Northern Border in January 1992, and Senior Vice President of North America in September 1999.

Roger A. Idiart joined the Company as its Manager of Gateway Operations in December 1995. Mr. Idiart was elected Vice President-Global Air Cargo in January 1998, and Senior Vice President-Air Cargo in May 2001.

Jeffrey J. King joined the Company in October 1990 as Director-Taxation and Legal Services and was elected Vice President-General Counsel in May 1992. In August 1994, Mr. King was elected Vice President-General Counsel and Secretary and Senior Vice President-General Counsel and Secretary in January 1998.

Charles J. Lynch joined the Company in September 1984. Mr. Lynch was promoted to Assistant Controller in July 1985 and Controller-Domestic Operations in January 1989. Mr. Lynch was elected Corporate Controller in January 1991 and Vice President-Corporate Controller in January 1998. In May 2002, Mr. Lynch was elected Senior Vice President-Corporate Controller.

Jeffrey S. Musser joined the Company in February 1983. Mr. Musser was promoted to District Manager in October 1989 and Regional Vice President in September 1999. Mr. Musser was elected Senior Vice President-Chief Information Officer in January 2005.

Daniel R. Wall joined the Company in March 1987. Mr. Wall was promoted to District Manager in May 1992 and Global Director-Account Management in March 2002. Mr. Wall was elected Vice President-ECMS in January 2004 and Senior Vice President-Ocean Services in September 2004.

Regulation

With respect to the Company s activities in the air transportation industry in the United States, it is subject to regulation by the Transportation Safety Administration of the Department of Homeland Security as an indirect air carrier. The Company s overseas offices and agents are licensed as airfreight forwarders in their respective countries of operation. The Company is licensed in each of its offices or in the case of its newer offices, has made application for a license, as an airfreight forwarder by the International Air Transport Association (IATA). IATA is a voluntary association of airlines which prescribes certain operating procedures for airfreight forwarders acting as agents for its members. The majority of the Company s airfreight forwarding business is conducted with airlines which are IATA members.

The Company is licensed as a customs broker by Customs and Border Protection (CBP) of the Department of Homeland Security in each U.S. customs district in which it does business. All United States customs brokers are required to maintain prescribed records and are subject to periodic audits by CBP. In other jurisdictions in which the Company performs clearance services, the Company is licensed by the appropriate governmental authority.

The Company is registered as an Ocean Transportation Intermediary by the Federal Maritime Commission (FMC). The FMC

has established certain qualifications for shipping agents, including certain surety bonding requirements. The FMC also is responsible for the economic regulation of NVOCC activity originating or terminating in the United States. To comply with these economic regulations, vessel operators and NVOCCs, such as EIO, are required to file tariffs electronically which establish the rates to be charged for the movement of specified commodities into and out of the United States. The FMC has the power to enforce these regulations by assessing penalties.

The Company does not believe that current United States and foreign governmental regulations impose significant economic restraint upon its business operations. In general, the Company conducts its business activities in each country through a majority-owned subsidiary corporation that is organized and existing under the laws of that country. However, the regulations of foreign governments can impose barriers to the Company s ability to provide the full range of its business activities in a wholly or majority United States-owned subsidiary. For example, foreign ownership of a customs brokerage business is prohibited in some jurisdictions and less frequently the ownership of the licenses required for freight forwarding and/or freight consolidation is restricted to local entities. When the Company encounters this sort of governmental restriction, it works to establish a legal structure that meets the requirements of the local regulations while also giving the Company the substantive operating and economic advantages that would be available in the absence of such regulation. This can be accomplished by creating a joint venture or exclusive agency relationship with a qualified local entity that holds the required license. In cases where the Company has unilateral control over the assets and operations of the local entity, notwithstanding the lack of technical majority ownership of common stock, the Company consolidates the accounts of the local entity. In such cases, consolidation is necessary to fairly present the financial position and results of operations of the Company because of the existence of the parent-subsidiary relationship by means other than record ownership of voting common stock.

Cargo Liability

When acting as an airfreight consolidator, the Company assumes a carrier s liability for lost or damaged shipments. This legal liability is typically limited by contract to the lower of the transaction value or the released value ($9.07 per pound unless the customer declares a higher value and pays a surcharge), except if the loss or damage is caused by willful misconduct or in the absence of an appropriate airway bill. The airline which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. When acting solely as the agent of the airline or shipper, the Company does not assume any contractual liability for loss or damage to shipments tendered to the airline.

When acting as an ocean freight consolidator, the Company assumes a carrier s liability for lost or damaged shipments. This liability is typically limited by contract to the lower of the transaction value or the released value ($500 per package or customary freight unit unless the customer declares a higher value and pays a surcharge). The steamship line which the Company utilizes to make the actual shipment is generally liable to the Company in the same manner and to the same extent. In its ocean freight forwarding and customs clearance operations, the Company does not assume cargo liability.

When providing warehouse and distribution services, the Company limits its legal liability by contract and tariff to an amount generally equal to the lower of fair value or fifty cents per pound with a maximum of fifty dollars per lot which is defined as the smallest unit that the warehouse is required to track. Upon payment of a surcharge for warehouse and distribution services, the Company will assume additional liability.

The Company maintains marine cargo insurance covering claims for losses attributable to missing or damaged shipments for which it is legally liable. The Company also maintains insurance coverage for the property of others which is stored in Company warehouse facilities. This insurance coverage is provided by a Vermont based insurance entity wholly owned by the Company. The coverage is fronted and reinsured by a global insurance company. The total risk retained by the Company in 2005 was approximately $3 million, although actual and estimated losses are expected to be less. This self-retention will increase to $4 million as of February 2006. In addition, the Company is licensed as an insurance broker through its subsidiary, Expeditors Cargo Insurance Brokers, Inc. and places stand alone insurance coverage for other customers.

ITEM 1A RISK FACTORS

RISK FACTORS	DISCUSSION AND POTENTIAL SIGNIFICANCE
International Trade	The Company primarily provides services to customers engaged in international commerce. Everything that affects international trade has the potential to expand or contract the Company s primary market. For example, international trade is influenced by: currency exchange rate and interest rate fluctuations; changes in governmental policies; changes in international and domestic customs regulations; wars, acts of terrorism, and other conflicts; natural disasters; changes in consumer attitudes regarding goods made in countries other than their own; and changes in the price and readily available quantities of oil and other petroleum-related products.
Third Party Vendors	The Company is a non-asset based supplier of global logistics services. As a result, the Company depends on a variety of asset-based third party vendors. The quality and profitability of the Company s services depend upon effective selection, management and discipline of third party vendors.
Predictability of Results	The Company is not aware of any accurate means of forecasting short-term customer requirements. However, long-term customer satisfaction depends upon the Company s ability to meet these unpredictable short-term customer requirements. Personnel costs, the Company s single largest variable expense, are always less flexible in the very near term as the Company must staff to meet uncertain demand. As a result, short-term operating results could be disproportionately affected.
Foreign Operations	The majority of the Company s revenues and operating income come from operations conducted outside the United States. To maintain a global service network, the Company may be required to operate in hostile locations and in dangerous situations.
Key Personnel	The Company is a service business. The quality of this service is directly related to the quality of the Company s employees. Identifying, training and retaining key employees is essential to continued growth and future profitability. Continued loyalty to the Company will not be assured by contract.
Technology	Increasingly, the Company must compete based upon the flexibility and sophistication of the technologies utilized in performing its core businesses. Future results depend upon the Company s success in the cost effective development and integration of communication and information systems technologies.
Growth	To date, the Company has relied primarily upon organic growth and has tended to avoid growth through acquisition. Future results will depend upon the Company s ability to continue to grow internally or to demonstrate the ability to successfully identify and integrate non-dilutive acquisitions.
Regulatory Environment	As a publicly traded corporation, the Company is affected by regulations from a number of sources. The current business environment tends to stress the avoidance of risk through regulation and oversight, the effect of which is likely to be unforeseen costs and potentially unforeseen consequences. In reaction to the global war on terror, governments around the world are continuously enacting or updating security regulations. The implementation of these regulations, including deadlines and substantive requirements, is driven by political urgencies rather than the industries realistic ability to comply. Failure to timely comply may result in increased operating costs, restrictions on operations and/or fines and penalties.

ITEM 1B UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2 PROPERTIES

The Company owns the following properties:

Location	Nature of Property
United States:	
Seattle, Washington	Office buildings
Near Seattle-Tacoma International Airport (in Washington)	Office building
Houston, Texas	Office and warehouse
Nassau County, New York	Office and warehouse
Middlesex County, New Jersey	Office and warehouse
Near San Francisco International Airport (in California)	Office and warehouse
Near Los Angeles International Airport (in California)	Office and warehouse
Near O Hare International Airport (in Illinois)	Office and warehouse
Asia:	
Tsim Sha Tsui East district of Kowloon, Hong Kong	Office
Taipei, Taiwan	Office
Seoul, Korea	Office
Europe:	
Brussels, Belgium	Office and warehouse
Dublin, Ireland	Office and warehouse
Cork, Ireland	Office and warehouse
Near Heathrow Airport (in London, England)	Acreage
Latin America:	
Alajuela, Costa Rica	Office building
Middle East:	
Cairo, Egypt	Office and warehouse

The Company leases and maintains 69 additional offices and satellite locations in the United States and 199 offices throughout the world, each located close to an airport, ocean port, or on an important border crossing. The majority of these facilities contain warehouse facilities. Lease terms are either on a month-to-month basis or terminate at various times through 2013. See Note 7 to the Company s Consolidated Financial Statements for lease commitments. As an office matures, the Company will investigate the possibility of building or buying suitable facilities. The Company believes that current leases can be extended and that suitable alternative facilities are available in the vicinity of each present facility should extensions be unavailable at the conclusion of current leases.

ITEM 3 LEGAL PROCEEDINGS

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 material affect on the Company s operations or financial position.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

ITEM 5 MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

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.

Quarter 2005		**Common Stock High**	**Low**	**Quarter 2004**		**Common Stock High**	**Low**
First	$	57.75	52.51	First	$	41.00	35.70
Second		54.31	47.17	Second		49.50	39.38
Third		57.00	49.47	Third		53.34	45.15
Fourth		72.74	53.75	Fourth		58.40	47.92

There were 2,008 shareholders of record as of March 10, 2006. Management estimates that there were approximately 95,770 beneficial shareholders at that date.

The Board of Directors declared semi-annual dividends during the two most recent fiscal years as follows:

June 15, 2005	$	.15
December 15, 2005	$	.15
June 15, 2004	$	.11
December 15, 2004	$	.11

ISSUER PURCHASES OF EQUITY SECURITIES

Period	**Total Number of Shares Purchased**		**Average Price Paid per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**	**Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs**
October 1-31, 2005	111,938	$	59.05	111,938	9,590,440
November 1-30, 2005	406,606		71.47	406,606	9,562,676
December 1-31, 2005	159,747		68.95	159,747	9,467,166
Total	678,291	$	68.83	678,291	9,467,166

In November 1993, the Company s Board of Directors authorized a Non-Discretionary Stock Repurchase Plan. This plan was amended in February 2001 to increase the authorization to repurchase up to 10 million shares of the Company s common stock. This authorization has no expiration date. This plan was disclosed in the Company s report on Form 10-K filed March 31, 1995. In the fourth quarter of 2005, 159,331 shares were repurchased under the Non-Discretionary Stock Repurchase Plan.

In November 2001, under a Discretionary Stock Repurchase Plan, the Company s Board of Directors authorized the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. The maximum number of shares available for repurchase under this plan will increase as the total number of outstanding shares increase. This authorization has no expiration date. This plan was announced on November 13, 2001. In the fourth quarter of 2005, 518,960 shares were repurchased under the Discretionary Stock Repurchase Plan. These discretionary repurchases were made to keep the number of issued and outstanding shares from growing as a result of stock option exercises.

ITEM 6 SELECTED FINANCIAL DATA

Financial Highlights

In thousands except per share data

		2005	2004	2003	2002	2001
Revenues	$	3,901,781	3,317,499	2,624,941	2,296,903	1,883,070
Net earnings		218,634	156,126	121,952	112,529	97,243
Basic earnings per share		2.05	1.47	1.16	1.08	.93
Diluted earnings per share		1.96	1.41	1.12	1.03	.89
Cash dividends paid per share		.30	.22	.16	.12	.10
Working capital		589,460	521,544	383,614	250,920	238,287
Total assets		1,566,044	1,364,053	1,044,078	879,948	688,437
Shareholders equity		913,721	807,404	645,501	523,812	414,623
Basic weighted average shares outstanding		106,778	106,384	104,733	103,893	104,160
Diluted weighted average shares outstanding		111,634	110,818	109,002	108,881	109,741

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

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER SECURITIES

LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by the Company with the Securities and Exchange Commission. The words or phrases will likely result , are expected to , will continue , is anticipated , estimate , project or similar expressions are intended to identify forward-looking state within the meaning of the Securities Litigation Reform Act. Such statements are qualified in their entirety by reference to and are accompanied by the discussion in Item 1A of certain important factors that could cause actual results to differ materially from such forward-looking statements.

The risks included in Item 1A are not exhaustive. Furthermore, reference is also made to other sections of this report which include additional factors which could adversely impact the Company s business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all of such risk factors, nor can it assess the impact of all of such risk factors on the Company s business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements cannot be relied upon as a guarantee of actual results.

Shareholders should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company s policy to disclose to such analysts any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of such statement or report. Furthermore, the Company has a policy against issuing financial forecasts or projections or confirming the accuracy of forecasts or projections issued by others. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

ITEM 7 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: 1) airfreight, 2) ocean freight, and 3) customs brokerage and other services. These are the revenue categories presented in the financial statements.

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

The Company s operating units share revenue according to arms-length industry conventions. The Company s strategy closely links compensation with operating unit profitability. Individual success likely involves cooperation with other operating units.

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

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

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

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

A significant portion of the Company s revenues are derived from customers in retail industries whose shipping patterns are tied closely to consumer demand, and from customers in industries whose shipping patterns are dependent upon just-in-time production schedules. Therefore, the timing of the Company s revenues are, to a large degree, impacted by factors out of the Company s control, such as a sudden change in consumer demand for retail goods and/or manufacturing production delays. Additionally, many customers ship a significant portion of their goods at or near the end of a quarter, and therefore, the Company may not learn of a shortfall in

revenues until late in a quarter. To the extent that a shortfall in revenues or earnings was not expected by securities analysts, any such shortfall from levels predicted by securities analysts could have an immediate and adverse effect on the trading price of the Company s stock.

As further discussed under liquidity and capital resources, total capital expenditures in 2006 are expected to exceed $165 million.

In terms of the opportunities, challenges and risks that management focused on in 2005, the Company operates in 58 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

10-K.

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 2004, the FASB issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS No. 123R), which replaces SFAS No. 123, Accounting for Stock-Based Compensation (SFAS No. 123) and supercedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123R requires all share-based payments to employees, including grants of employee stock options and employee stock purchase plans, to be recognized in the financial statements based on their fair values, beginning with the first interim or annual period of the registrant's first fiscal year beginning on or after June 15, 2005, with early adoption encouraged. In addition, SFAS No. 123R will cause unrecognized expense (based on the amount in the Company s pro forma footnote disclosure) related to options vesting after the date of initial adoption to be recognized as a charge to results of operations over the remaining vesting period. The Company has adopted SFAS No. 123R as of January 1, 2006. Under SFAS No. 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at the date of adoption. The Company will continue to use the Black-Scholes model for valuing option expense and will amortize the compensation expense using the straight-line prorated method. The Company has elected to use the modified retrospective method of transitioning to SFAS No. 123R. Under the modified retrospective method, beginning with the report on form 10-Q for the first quarter of 2006, the Company will restate all periods presented. The adoption of SFAS No. 123R will have a material impact on the consolidated balance sheet, the consolidated results of operations, earnings per share and consolidated statement of cash flows.

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 2005, 2004, and 2003, 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.

	2005		2004		2003	
In thousands	**Amount**	**Percent of net revenues**	**Amount**	**Percent of net revenues**	**Amount**	**Percent of net revenues**
Net revenues:						
Airfreight	$ 391,773	37%	$ 348,949	39%	$ 278,968	37%
Ocean freight and ocean services	260,261	25	210,967	23	191,116	26
Customs brokerage and other services	407,575	38	346,321	38	280,426	37
Net revenues	1,059,609	100	906,237	100	750,510	100
Operating expenses:						
Salaries and related costs	557,730	53	479,364	53	398,475	53
Other	197,369	18	185,828	20	165,273	22
Total operating expenses	755,099	71	665,192	73	563,748	75
Operating income	304,510	29	241,045	27	186,762	25
Other income, net	15,644	1	8,535	1	8,880	1
Earnings before income taxes and minority interest	320,154	30	249,580	28	195,642	26
Income tax expense	94,624	9	88,415	10	71,142	10
Net earnings before minority interest	225,530	21	161,165	18	124,500	16
Minority interest	(6,896)		(5,039)	(1)	(2,548)	
Net earnings	$ 218,634	21%	$ 156,126	17%	$ 121,952	16%

2005 compared with 2004

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

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

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

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

Salaries and related costs increased 16% in 2005 compared to 2004 as a result of (1) the Company s increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. 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 2005 are a result of the incentives inherent in the Company s compensation program.

This trend may not continue in 2006 and future years as a result of the adoption of SFAS 123R, which requires the expensing of the fair value of employee stock options. Management expects salaries and related costs as a percentage of net revenues will be more volatile.

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

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

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company s consolidated effective income tax rate in 2005 of 29.6% decreased when compared with the 35.4% rate in 2004. The lower tax rate in 2005 is primarily the result of the Company adopting a plan under Internal Revenue Code (IRC) 965, which was added by the American Jobs Creation Act. In accordance with IRC 965, the Company recorded a one-time tax benefit of $22 million in the fourth quarter of 2005. In order to qualify for this credit, the Company adopted a plan which requires qualified capital expenditures of approximately $105 million over the next two to three years.

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 Asia 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 Asia 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 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 in 2004 compared to 2003. Ocean freight net revenues from Asia 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.

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 United States and certain accounting adjustments made in 2003.

Currency and Other Risk Factors

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

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

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

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

money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2005, 2004 and 2003 was insignificant. Net foreign currency gains realized in 2005, 2004 and 2003 were $862, $86 and $588, respectively. The Company had no foreign currency derivatives outstanding at December 31, 2005 and 2004.

The Company has traditionally generated revenues from airfreight, ocean freight and customs brokerage and other services. Historically, this annual filing has gone on to state that 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. We now believe we were wrong about this.

Sources of Growth

During 2005, the Company opened 12 full-service offices ( ) and 5 satellite offices (+), as follows:

ASIA	EUROPE	LATIN AMERICA	NORTH AMERICA	MIDDLE EAST
Dongguan, PRC	Warsaw, Poland	Porto Alegre, Brazil	Monterrey, Mexico	Tiruppur, India+
Nanjing, PRC	Malmoe, Sweden+	Lima, Peru		
Macau, PRC	Turin, Italy+			
Laem Chabang, Thailand+	Aberdeen, Scotland			
Ningbo, China	Zurich, Switzerland			
Surabaya, Indonesia				
Johor Bahru, Malaysia				
Da Nang, Vietnam+				

Ningbo, Surabaya and Johor Bahru converted from satellites to full-service offices in 2005.

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

Internal Growth - Management believes that a comparison of same store growth is critical in the evaluation of the quality and extent of the Company s internally generated growth. This same store analysis isolates the financial contributions from offices that have been included in the Company s operating results for at least one full year. The table below presents same store comparisons on a year-over-year basis for the years ended December 31, 2005, 2004 and 2003.

Same store comparisons for the years ended December 31,

	2005	2004	2003
Net revenues	16%	20%	10%
Operating income	26%	29%	9%

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, 2005 was $280 million, as compared with $193 million for 2004. This $87 million increase is principally due to increased net earnings 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 2005, compared to the same periods in 2004. 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 Customs and Border Protection of the Department of Homeland Security. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a pass through and are not recorded as a component of revenue and expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable to the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these pass through billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2005 was $91 million, as compared with $65 million during the same period of 2004. 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, 2005, the Company made capital expenditures of $91 million as compared with $66 million for the same period in 2004. Capital expenditures in 2005 included $23 million for acquisitions of real estate and office/warehouse facilities in Houston, Texas and Seattle, Washington. In addition, the Company had real estate development expenditures of $42 million related to projects in San Francisco and Los Angeles, California, Seattle, Washington and Houston, Texas. Other capital expenditures in 2005 and 2004 related primarily to investments in technology, office furniture and equipment and leasehold improvements. The Company currently expects to spend approximately $27 million for normal capital expenditures in 2006. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2006 are currently estimated to be $165 million. This includes normal capital expenditures as noted above, plus additional real estate acquisitions and development required to carry out the Company s plan adopted under IRC 965. The Company expects to finance capital expenditures in 2006 with cash.

Cash used in financing activities for the year ended December 31, 2005 was $120 million as compared with $22 million for the same period in 2004. The Company uses the proceeds from stock option exercises to repurchase the Company s stock on the open market. In 2005, the Company established a policy of repurchasing stock to prevent growth in issued and outstanding shares as a result of stock option exercises. The increase in cash used in financing activities for the year ended December 31, 2005 compared with the same period in 2004 is primarily the result of this new policy. During 2005 and 2004 the net use of cash in financing activities included the payment of dividends of $.30 per share and $.22 per share, respectively.

At December 31, 2005, working capital was $589 million, including cash and short-term investments of $464 million. The Company had no long-term debt at December 31, 2005.

The Company maintains international and domestic unsecured bank lines of credit. At December 31, 2005, the United States facility totaled $50 million and the international bank lines of credit, excluding the U.K. bank facility, totaled $11 million. In addition, the Company maintains a bank facility with its U.K. bank for $12 million which is available for short-term borrowings and issuances of standby letters of credit. At December 31, 2005, the Company had no amounts outstanding on these lines of credit, but was contingently liable for $56 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, 2005, the Company s contractual obligations and other commitments are as follows:

		Payments Due by Period			
In thousands	**Total**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Contractual Obligations:					
Operating leases	$ 87,057	31,316	41,836	10,944	2,961
Unconditional purchase obligations	314,072	314,072			
Construction obligations	13,261	13,261			
Total contractual cash obligations	$ 414,390	358,649	41,836	10,944	2,961

The Company enters into short-term agreements with asset-based providers reserving space on a guaranteed basis. The pricing of these obligations varies to some degree with market conditions. The Company only enters into agreements that management believes the Company can fulfill with relative ease. Historically, the Company has not paid for guaranteed space that it has not used. Management believes, in line with historical experience, committed purchase obligations outstanding as of December 31, 2005, will be fulfilled during 2006 in the Company s ordinary course of business.

		Amount of Commitment Expiration Per Period			
In thousands	**Total amounts committed**	**Less than 1 year**	**1 - 3 years**	**3 - 5 years**	**After 5 years**
Other Commitments:					
International lines of credit	$ 12,850	12,850			
Standby letters of credit	55,639	52,875	1,860	777	127
Total commitments	$ 68,489	65,725	1,860	777	127

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2005, the Company had repurchased and retired 7,150,850 shares of common stock at an average price of $21.68 per share over the period from 1994 through 2005. During 2005, 723,135 shares were repurchased at an average price of $56.90 per share.

The Company has a Discretionary Stock Repurchase Plan under which Management is allowed to repurchase such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2005, the Company had repurchased and retired 3,463,577 shares of common stock at an average price of $37.77 per share over the period from 2001 through 2005. During 2005, 1,463,577 shares were repurchased at an average price of $58.56. These discretionary repurchases were made to keep the number of issued and outstanding shares from growing as a result of stock option exercises.

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

In some cases, the Company s ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At December 31, 2005, cash and cash equivalent balances of $263 million were held by the Company s non-United States subsidiaries, of which $17 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, 2005, 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.

ITEM 7A 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, 2005, would have had the effect of raising operating income approximately $24 million. An average 10% strengthening of the U.S. dollar, for the same period, would have the effect of reducing operating income approximately $19 million. This analysis does not take into account changes in shipping patterns based upon this hypothetical currency fluctuation. For example, a weakening in the U.S. dollar would be expected to increase exports from the United States and depress imports into the United States over some relevant period of time, but the exact affect of this change cannot be quantified without making speculative assumptions.

As of December 31, 2005, the Company had approximately $2 million of net unsettled intercompany transactions. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company s ability to move money freely. Any such hedging activity throughout the year ended December 31, 2005, was insignificant. The Company had no foreign currency derivatives outstanding at December 31, 2005 and 2004. 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, 2005, the Company had cash and cash equivalents and short-term investments of $464 million, of which $342 million was invested at various short-term market interest rates. There were no short-term borrowings at December 31, 2005. A hypothetical change in the interest rate of 10% would not have a significant impact on the Company s earnings.

In management s opinion, there has been no material change in the Company s market risk exposure between 2004 and 2005.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following documents are filed on the pages listed below, as part of Part II, Item 8 of this report.

ITEM 9 CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A CONTROLS AND PROCEDURES

Evaluation of Controls and Procedures

As of December 31, 2005, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer (CEO) and Chief Financial Officer (CFO), an evaluation of the effectiveness of the Company s disclosure controls and procedures was performed. Based on this evaluation, the CEO and CFO have concluded that the Company s disclosure controls and procedures are effective to ensure that material information is recorded, processed, summarized and reported by management of the Company on a timely basis in order to comply with the Company s disclosure obligations under the Securities Exchange Act of 1934 and the SEC rules thereunder.

Changes in Internal Controls

There were no changes in the Company s internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2005, 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, 2005, which is included herein at F-2.

ITEM 9B OTHER INFORMATION

Not applicable.

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item is incorporated by reference to information under the caption Proposal 1 - Election of Directors and to the information under the caption Section 16(a) Reporting Delinquencies in the Company s definitive Proxy Statement for its annual meeting of shareholders to be held on May 3, 2006. See also Part I - Item 1 - Executive Officers of the Registrant.

Audit Committee and Audit Committee Financial Expert

Our Board has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The members of the Audit Committee are James J. Casey, Dan P. Kourkoumelis, Michael J. Malone, and John W. Meisenbach. Our Board has determined that James J. Casey, Chairman of the Audit Committee, is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Exchange Act and that each member of the Audit Committee is independent within the meaning of Rule 4200(a)(15) of the National Association of Securities Dealers listing standards.

Code of Ethics and Governance Guidelines

We have adopted a *Code of Business Conduct* that applies to all Company employees including, of course, our principal executive officer, principal financial officer and principal accounting officer. The *Code of Business Conduct* is posted on our website at *http://www.investor.expeditors.com*. We will post any amendments to the *Code of Business Conduct* at that location. No amendments were made in 2005. In the unlikely event that the Board of Directors approves any sort of waiver to the *Code of Business Conduct* for our executive officers or directors, information concerning such waiver will also be posted at that location. No waivers were granted in 2005. In addition to posting information regarding amendments and waivers on our website, the same information will be included in a Current Report on Form 8-K within four business days following the date of the amendment or waiver, unless website posting of such amendments or waivers is permitted by the rules of The Nasdaq Stock Market, Inc.

ITEM 11 EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to information under the caption Executive Compensation in the Company s definitive Proxy Statement for its annual meeting of shareholders to be held on May 3, 2006.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to information under the captions Principal Holders of Voting Securities and Proposal 1 - Election of Directors in the Company s definitive Proxy Statement for its annual meeting of shareholders to be held on May 3, 2006.

Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information as of December 31, 2005, regarding compensation plans under which equity securities of the Company are authorized for issuance.

Equity Compensation Plan Information

as of December 31, 2005

Plan Category	**Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights**	**Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights**	**Number of Securities Available for Future Issuance, Other Than Securities to be Issued Upon Exercise of All Outstanding Options, Warrants and Rights**
Equity Compensation Plans Approved by Security Holders	11,131,623	29.27	206,581
Equity Compensation Plans Not Approved by Security Holders			
Total	11,131,623	29.27	206,581

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item is incorporated by reference to information under the caption Executive Compensation and Certain Transactions in the Company s definitive Proxy Statement for its annual meeting of shareholders to be held on May 3, 2006.

ITEM 14 PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is incorporated by reference to information under the caption Relationship with Independent Public Accountants in the Company s definitive Proxy Statement for its annual meeting of shareholders to be held on May 3, 2006.

PART IV

ITEM 15 EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Other schedules are omitted because of the absence of conditions under which they are required or because the required information is given in the consolidated financial statements or notes thereto.

3. EXECUTIVE COMPENSATION PLANS AND ARRANGEMENTS

The following list is a subset of the list of exhibits described below and contains all compensatory plans, contracts or arrangements in which any director or executive officer of the Company is a participant, unless the method of allocation of benefits thereunder is the same for management and non-management participants:

(1) Form of Employment Agreement executed by the Company s Chairman and Chief Executive Officer. See Exhibit 10.23.

(2) Form of Employment Agreement executed by the Company s President and Chief Operating Officer and certain of the Company s executive officers. See Exhibit 10.24.

(3) The Company s Amended 1985 Stock Option Plan. See Exhibit 10.4.

(4) Form of Stock Option Agreement used in connection with options granted under the Company s Amended 1985 Stock Option Plan. See Exhibit 10.5.

(5) The Company s Amended 1993 Directors Non-Qualified Stock Option Plan. See Exhibit 10.39.

(6) Form of Stock Option Agreement used in connection with options granted under the Company s 1993 Directors Non-Qualified Stock Option Plan. See Exhibit 10.9.

(7) The Company s Amended 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.40.

(8) Form of Stock Option Agreement used in connection with Non-Qualified options granted under the Company s 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.30.

(9) Form of Stock Option Agreement used in connection with Incentive options granted under the Company s 1997 Non-Qualified and Incentive Stock Option Plan. See Exhibit 10.31.

(10) The Company s 1997 Executive Incentive Compensation Plan. See Exhibit 10.32.

(11) Form of Executive Incentive Compensation Plan Award Certification used in connection with the awards granted under the Company s 1997 Executive Incentive Compensation Plan. See Exhibit 10.33.

(12) Form of Executive Incentive Compensation Plan Award Agreement used in connection with establishing the terms and conditions of an award under the Company s 1997 Executive Incentive Compensation Plan. See Exhibit 10.34.

(13) The Company s 2002 Employee Stock Purchase Plan. See Exhibit 10.42.

(14) The Company s 2005 Stock Option Plan. See Exhibit 10.45.

(15) Form of Stock Option Agreement used in connection with Incentive options granted under the Company s 2005 Incentive Stock Option Plan. See Exhibit 10.46.

(b) EXHIBITS

Exhibit Number	Exhibit
3.1	The Company s Restated Articles of Incorporation and the Articles of Amendment thereto dated December 9, 1993. (Incorporated by reference to Exhibit 3.1 to Form 10-K, filed on or about March 31, 1995.)
3.1.1	Articles of Amendment to the Restated Articles of Incorporation dated November 12, 1996. (Incorporated by reference to Exhibit 3.1.1 to Form 10-K, filed on or about March 31, 1997.)
3.1.2	Articles of Amendment to the Restated Articles of Incorporation dated May 20, 1999. (Incorporated by reference to Exhibit 3.1.2 to Form 10-K, filed on or about March 28, 2003.)
3.1.3	Articles of Amendment to the Restated Articles of Incorporation dated June 12, 2002. (Incorporated by reference to Exhibit 3.1.3 to Form 10-K, filed on or about March 28, 2003.)
3.2	The Company s Amended and Restated Bylaws. (Incorporated by reference to Exhibit 3.2 to Form 10-K, filed on or about March 28, 1994.)
10.4	The Company s Amended 1985 Stock Option Plan. (Incorporated by reference to Exhibit 10.14 to Form 10-K, filed on or about March 28, 1991.)
10.5	Form of Stock Option Agreement used in connection with options granted under the Company s Amended 1985 Stock Option Plan. (Incorporated by reference to Exhibit 10.15 to Form 10-K, filed on or about March 28, 1991.)
10.9	Form of Stock Option Agreement used in connection with options granted under the Company s 1993 Directors Non-Qualified Stock Option Plan. (Incorporated by reference to Exhibit 10.9 to Form 10-K, filed on or about March 28, 1994.)
10.18	Plan and Agreement of Reorganization, dated as of January 1, 1984, between the Company and the individual shareholders of Fons Pte. Ltd. (Incorporated by reference to Exhibit 2.5 to Registration Statement No. 2-91224, filed on May 21, 1984.)
10.19	Plan and Agreement of Reorganization, dated as of January 1, 1984, among the Company, EIO Investment Ltd., Wong Hoy Leung, Chiu Chi Shing, and James Li Kou Wang. (Incorporated by reference to Exhibit 2.6 to Registration Statement No. 2-91224, filed on May 21, 1984.)
10.23	Form of Employment Agreement executed by the Company s Chairman and Chief Executive Officer dated November 2, 1994. (Incorporated by reference to Exhibit 10.23 to Form 10-K, filed on or about March 31, 1995.)
10.24	Form of Employment Agreement executed by the Company s President and Chief Operating Officer and certain of the Company s executive officers dated November 2, 1994. (Incorporated by reference to Exhibit 10.24 to Form 10-K, filed on or about March 31, 1995.)
10.30	Form of Stock Option Agreement used in connection with Non-Qualified options granted under the Company s 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.30 to Form 10-K, filed on or about March 31, 1998.)
10.31	Form of Stock Option Agreement used in connection with Incentive options granted under the Company s 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Exhibit 10.31 to Form 10-K, filed on or about March 31, 1998.)
10.32	The Company s 1997 Executive Incentive Compensation Plan. (Incorporated by reference to Appendix B of the Company s Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 24, 1997.)

10.33	Form of Executive Incentive Compensation Plan Award Certification used in connection with the awards granted under the Company s 1997 Executive Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.33 to Form 10-K, filed on or about March 31, 1998.)
10.34	Form of Executive Incentive Compensation Plan Award Agreement used in connection with establishing the terms and conditions of an award under the Company s 1997 Executive Incentive Compensation Plan. (Incorporated by reference to Exhibit 10.34 to Form 10-K, filed on or about March 31, 1998.)
10.39	The Company s Amended 1993 Directors Non-Qualified Stock Option Plan. (Incorporated by reference to Appendix B of the Company s Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 28, 2001.)
10.40	The Company s Amended 1997 Non-Qualified and Incentive Stock Option Plan. (Incorporated by reference to Appendix C of the Company s Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 28, 2001.)
10.42	The Company s 2002 Employee Stock Purchase Plan. (Incorporated by reference to Appendix A of the Company s Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about April 1, 2002.)
10.45	The Company s 2005 Stock Option Plan. (Incorporated by reference to Appendix A of the Company s Notice of Annual Meeting of Shareholders and Proxy Statement pursuant to Regulation 14A filed on or about March 31, 2005.)
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