

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

Executive Summary

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

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

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

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

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

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

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

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

As further discussed under liquidity and capital resources, total capital expenditures in 2005 are expected to exceed \$100 million.

In terms of the opportunities, challenges and risks that management focused on in 2004, the Company operates in 57 countries throughout the world in the competitive global logistics industry and Company activities are tied directly to the global economy. From the inception of the Company, management has believed that the elements required for a successful global service organization can only be assured through recruiting, training, and ultimately retaining superior personnel. The Company's greatest challenge is now and always has been perpetuating a consistent global culture which demands:

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

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

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

Critical Accounting Estimates

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

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

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

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

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

Recent Accounting Pronouncements

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

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

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

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for 2004, 2003, and 2002, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

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

2004 compared with 2003

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

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

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

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

The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. The Company's North American ocean freight net revenues increased 8% in 2004 compared to 2003. Ocean freight net revenues from the Far East and from Europe increased 22% and 8%, respectively, for 2004 compared with 2003.

Customs brokerage and other services net revenues increased 23% in 2004 as compared with 2003. This is a result of the Company's growing reputation for providing high quality service and consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program. In addition, increased emphasis on regulatory compliance has benefited the Company's customs brokerage offerings.

Salaries and related costs increased 20% in 2004 compared to 2003 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs remained constant as a percentage of net revenues. The relatively consistent relationship between salaries and net revenues is the result of a compensation philosophy that has been maintained since the inception of the Company: offer a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit of the business unit controlled by each key employee. Using this compensation model, changes in individual compensation will occur in proportion to changes in Company profits. Management believes that the growth in revenues, net revenues and net earnings for 2004 are a result of the incentives inherent in the Company's compensation program.

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

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

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

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

2003 compared with 2002

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

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

The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. ECMS continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues decreased 3% in 2003 compared to 2002. This decrease was a result of the Company handling more ocean shipments moving from North America to the Far East, a market which has lower profit per container, and, to a lesser extent, from North America to Europe, a market which has higher profit per container. Ocean freight net revenues from the Far East and from Europe increased 24%, respectively, for 2003 compared with 2002.

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

Salaries and related costs increased 11% in 2003 compared to 2002 as a result of (1) the Company's increased, albeit limited, hiring of sales, operations, and administrative personnel in existing and new offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs remained constant as a percentage of net revenues.

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

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

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

Currency and Other Risk Factors

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

Historically, the primary competitive factors in the international logistics industry have been price and quality of service, including reliability, responsiveness, expertise, convenience, and scope of operations. The Company emphasizes quality service and believes that its prices are competitive with those of others in the industry. Customers have exhibited a trend towards more sophisticated and efficient procedures for the management of the logistics supply chain by embracing strategies such as just-in-time inventory management. The Company believes that this trend has resulted in customers using fewer service providers with

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

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

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

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

Sources of Growth

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

Office Additions

The Company opened 2 start-up offices during 2004.

<i>North America</i>	<i>Far East</i>
Calgary, Canada	Hanoi, Vietnam

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

Internal Growth

Management believes that a comparison of “same store” growth is critical in the evaluation of the quality and extent of the Company’s internally generated growth. This “same store” analysis isolates the financial contributions from offices that have been included in the Company’s operating results for at least one full year. The table below presents “same store” comparisons on a year-over-year basis for the years ended December 31, 2004, 2003 and 2002.

Same store comparisons for the years ended December 31,

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

Liquidity and Capital Resources

The Company’s principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the year ended December 31, 2004 was approximately \$193 million, as compared with \$114 million for 2003. This \$79 million increase is principally due to increased net earnings, the tax benefit of non-qualified stock option exercises and deferred tax expense on unremitted foreign earnings. The increased accounts receivable is offset by increased accounts payable, accrued expenses and taxes payable. Increased accounts receivable is primarily due to higher billings in November and December 2004, compared to the same

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

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

As a customs broker, the Company makes significant 5-10 business day cash advances for certain of its customers' obligations such as the payment of duties to the Bureau of Customs and Border Protection. These advances are made as an accommodation for a select group of credit-worthy customers. Cash advances are a "pass through" and are not recorded as a component of revenue and expense. The billings of such advances to customers are accounted for as a direct increase in accounts receivable to the customer and a corresponding increase in accounts payable to governmental customs authorities. As a result of these "pass through" billings, the conventional Days Sales Outstanding or DSO calculation does not directly measure collection efficiency.

Cash used in investing activities for the year ended December 31, 2004 was \$65 million, as compared with \$26 million during the same period of 2003. The largest use of cash in investing activities is cash paid for capital expenditures. As a non-asset based provider of integrated logistics services, the Company does not own any physical means of transportation (i.e., airplanes, ships, trucks, etc.). However, the Company does have need, on occasion, to purchase buildings to house staff and to facilitate the staging of customers' freight. The Company routinely invests in technology, office furniture and equipment and leasehold improvements. For the year ended December 31, 2004, the Company made capital expenditures of \$66 million as compared with \$21 million for the same period in 2003. Capital expenditures in 2004 included \$24 million for acquisitions of real estate and office/warehouse facilities in New York, California and Korea. Other capital expenditures in 2004 and 2003 related primarily to investments in technology, office furniture and equipment and leasehold improvements. Cash of \$31.3 million was paid into escrow during 2002 to acquire an office and warehouse facility near the San Francisco, California International Airport; the transaction closed on January 7, 2003. The Company currently expects to spend approximately \$30 million for normal capital expenditures in 2005. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. Total capital expenditures in 2005 are expected to exceed \$100 million if the Company adopts a plan calling for capital expenditures to meet the investment requirements of IRC 965. The Company expects to finance capital expenditures in 2005, with cash.

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

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

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

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

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

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

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

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

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

In some cases, the Company's ability to repatriate funds from foreign operations may be subject to foreign exchange controls. At December 31, 2004, cash and cash equivalent balances of \$239.5 million were held by the Company's non-U.S. subsidiaries, of which \$43.9 million was held in banks in the United States.

Impact of Inflation

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

Off-Balance Sheet Arrangements

As of December 31, 2004, the Company did not have any material off-balance-sheet arrangements, as defined in Item 303(a)(4)(ii) of Securities and Exchange Commission (SEC) Regulation S-K.

Quantitative and Qualitative Disclosures about Market Risk

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

Foreign Exchange Risk

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

Foreign exchange rate sensitivity analysis can be quantified by estimating the impact on the Company's earnings as a result of hypothetical changes in the value of the U.S. Dollar, the Company's functional currency, relative to the other currencies in which the Company transacts business. All other things being equal, an average 10% weakening of the U.S. Dollar, throughout the year ended December 31, 2004, would have had the effect of raising operating income approximately \$19 million. An average 10% strengthening of the U.S. Dollar, for the same period, would have the effect of reducing operating income approximately \$15 million.

The Company has approximately \$6 million of net unsettled intercompany transactions at any one point in time. The Company currently does not use derivative financial instruments to manage foreign currency risk and only enters into foreign currency hedging transactions in limited locations where regulatory or commercial limitations restrict the Company's ability to move money freely. Any such hedging activity throughout the year ended December 31, 2004, was insignificant. The Company had no foreign currency derivatives outstanding at December 31, 2004 and 2003. The Company instead follows a policy of accelerating international currency settlements to manage foreign exchange risk relative to intercompany billings. The majority of intercompany billings are resolved within 30 days and intercompany billings arising in the normal course of business are fully settled within 90 days.

Interest Rate Risk

At December 31, 2004, the Company had cash and cash equivalents and short-term investments of \$409 million and short-term borrowings of \$2.3 million, all subject to variable short-term interest rates. A hypothetical change in the interest rate of 10% would have an insignificant impact on the Company's earnings.

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