

Mother nature started the year off with the tsunami, followed by hurricanes, and earthquakes; all of which affected our offices and more importantly our people in one form or another — and the year culminated with an idiotic transit strike in New York.

As for Expeditors, in spite of everything, we followed up a good year in 2004 with an even better 2005. How did we do this? We stayed the course, developing better systems while retaining excellent accounts, and the best employees in the business.

With merger-mania rampant in our industry, our employees choose to stay here and continue to shine. They are the main reason for another record year.

One could hardly imagine that in twenty-five years we have witnessed the demise of Emery, Airborne, Fritz, Circle, Bax, Intertrans, Exel, along with a host of smaller companies around the world, with more to follow. Some change is good, but come on!

Expeditors continued to open new offices, 12 full-service and 5 satellite offices in 2005, and will continue along those lines in 2006. Our carrier relations upon which we rely very heavily are excellent, in both ocean and air. And our N.A.T. (North American Transportation) product continues to pick up steam and we look forward to bigger results in 2006.

We usually mention any major loss of business, but this year there were no major losses, it was just one of “those” kind of years.

Elsewhere, despite Sarbanes-Oxley, greed and avarice continued apace in the business world. How has Sarbanes-Oxley affected our company? It’s doubled our audit fees. As to due diligence by management and the board, we remain in excellent shape.

We fully realize that the expensing of options is a concern, but it is now mandatory and we, like everyone else, will comply. It’s a shame that all this was caused by a few “pigs at the trough.” And it’s an even greater shame that the ones who will bear the biggest price going forward are the employees who actually create shareholder value.

As much as we appreciate our shareholders, the mere holding of a share of stock does not provide any customer service nor does it deliver dollar one to the bottom line. Our success is the result of the extraordinary efforts of our employees. A stock option won't dilute any shareholder's interest if there isn't an increase in value. And who wants to be a shareholder in a concern where the employees aren't giving their best efforts to grow the company?

We still believe that options were an important part of what got us to where we are today and we believe that options will continue to be an important part of our incentive compensation approach in the future. We do options differently. Our policy is simple; we don't make mega-grants to a few executives and then pay lip-service to the rest of the employees with a grant of ten shares each. We spread the options across a wide spectrum to achieve the desired results — i.e., focusing the employees on long-term shareholder interests such as retaining a stable workforce and producing regular growth in real “cash” earnings. It must be understood that at the end of the day, with stock option expensing, what changes? Nothing! Our net revenue and cash remain intact.

We do want to thank everyone for a record year and look forward eagerly to next year.



**Peter J. Rose**

Chairman and Chief Executive Officer