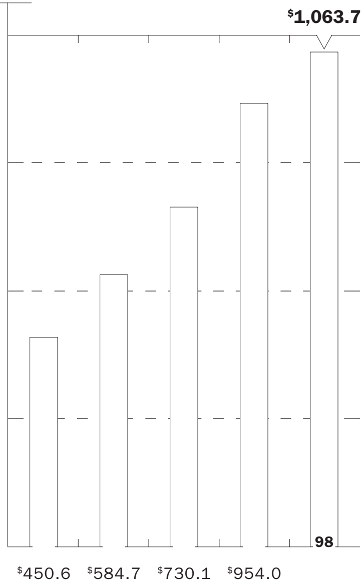
our net_works

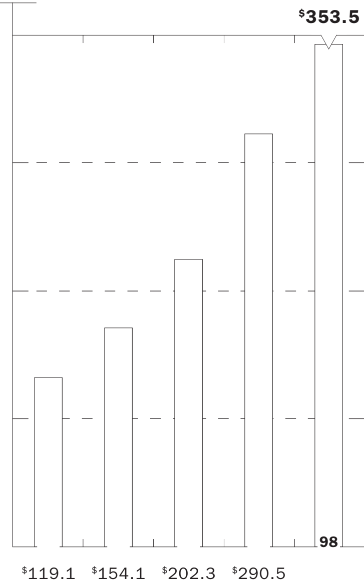
revenues

1994-1998
in millions



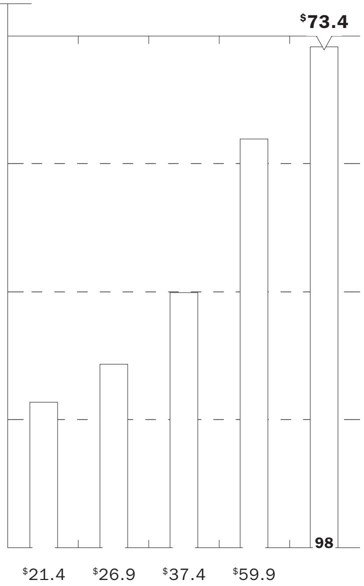
net revenues

1994-1998
in millions



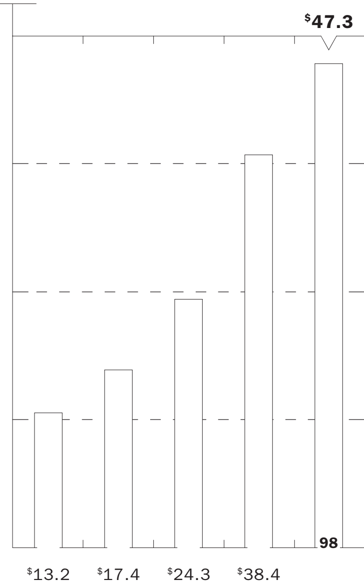
operating
income

1994-1998
in millions



net earnings

1994-1998
in millions



financial highlights

in thousands except per share data

	1998	1997	1996	1995	1994
Revenues	$1,063,707	954,002	730,088	584,691	450,607
Net earnings	47,274	38,411	24,263	17,395	13,217
Basic earnings per share	1.92	1.57	1.00	0.73	0.56
Diluted earnings per share	1.78	1.46	0.95	0.69	0.54
Cash dividends paid per share	0.14	0.10	0.08	0.06	0.05
Working capital	94,601	87,252	83,468	81,431	68,464
Total assets	406,596	344,106	271,986	204,128	162,788
Shareholders' equity	217,198	171,854	140,011	117,192	101,110
Basic shares outstanding	24,617	24,429	24,161	23,972	23,775
Diluted shares outstanding	26,529	26,324	25,644	25,166	24,550

all share and per share information has been adjusted to reflect a 2-for-1 stock split effected in November 1996.

certain 1997 amounts have been reclassified to conform to the 1998 presentation.

consolidated balance sheets

in thousands except share data

december 31,	1998	1997
current assets		
Cash and cash equivalents	$ 49,429	42,094
Short-term investments	394	214
Accounts receivable, less allowance for doubtful accounts of $8,198 in 1998 and $6,449 in 1997	222,598	206,501
Deferred Federal and state income taxes	2,427	4,296
Other	9,151	6,399
Total current assets	283,999	259,504
property and equipment		
Buildings and leasehold improvements	68,833	37,003
Furniture, fixtures, and equipment	65,497	47,031
Vehicles	4,502	4,516
	138,832	88,550
Less accumulated depreciation and amortization	50,307	36,475
	88,525	52,075
Land	14,505	14,475
Net property and equipment	103,030	66,550
Deferred Federal and state income taxes	2,183	1,930
Other assets, net	17,384	16,122
	$406,596	344,106

december 31,		1998	1997
current liabilities			
	Short-term borrowings	$ 12,245	2,145
	Accounts payable	143,523	143,980
	Accrued expenses, primarily salaries and related costs	25,326	18,946
	Federal, state, and foreign income taxes	8,304	7,181
	Total current liabilities	189,398	172,252
shareholders' equity			
	Preferred stock, par value $.01 per share Authorized 2,000,000 shares; none issued	–	–
	Common stock, par value $.01 per share Authorized 80,000,000 shares; issued and outstanding 24,681,841 shares at December 31, 1998 and 24,546,380 shares at December 31, 1997	247	245
	Additional paid-in capital	17,520	15,534
	Retained earnings	203,050	159,225
	Accumulated other comprehensive loss	(3,619)	(3,150)
	Total shareholders' equity	217,198	171,854
	Commitments and contingencies		
		$406,596	344,106

see accompanying notes to consolidated financial statements

certain 1997 amounts have been reclassified to conform to the 1998 presentation.

consolidated statements of earnings

in thousands except share data

years ended december 31,	1998	1997	1996
revenues			
Airfreight	$ 685,613	659,480	512,104
Ocean freight	236,848	180,555	148,907
Customs brokerage and import services	141,246	113,967	69,077
Total revenues	$1,063,707	954,002	730,088
operating expenses			
Airfreight consolidation	539,706	534,699	417,150
Ocean freight consolidation	170,551	128,779	110,603
Salaries and related costs	190,288	153,196	108,797
Selling and promotion	15,018	13,469	10,409
Rent	15,459	10,806	8,279
Depreciation and amortization	15,547	11,159	8,147
Other	43,766	41,979	29,278
Total operating expenses	990,335	894,087	692,663
Operating income	73,372	59,915	37,425

years ended december 31,		1998	1997	1996
other income (expense)				
Interest income		2,206	2,096	2,264
Interest expense		(487)	(358)	(163)
Other, net		486	919	58
Other income, net		2,205	2,657	2,159
Earnings before income taxes		75,577	62,572	39,584
Income tax expense		28,303	24,161	15,321
Net earnings	$	47,274	38,411	24,263
Basic earnings per share	$	1.92	1.57	1.00
Diluted earnings per share	$	1.78	1.46	0.95
Basic shares outstanding		24,617,219	24,428,929	24,161,363
Diluted shares outstanding		26,529,192	26,323,522	25,644,296

see accompanying notes to consolidated financial statements

consolidated statements of shareholders' equity and comprehensive income

in thousands except share data

years ended december 31, 1998, 1997, 1996	common stock shares	common stock par value	additional paid-in capital	retained earnings	accumulated other comprehensive income (loss)	total
Balance at December 31, 1995	24,021,326	$240	13,009	100,928	3,015	117,192
Exercise of stock options	264,260	3	1,409	–	–	1,412
Issuance of shares under stock purchase plan	127,974	1	1,319	–	–	1,320
Shares repurchased under provisions of stock repurchase plan	(200,614)	(2)	(3,318)	–	–	(3,320)
Tax benefits related to stock options and stock purchase plan	–	–	760	–	–	760
Comprehensive income						
Net earnings	–	–	–	24,263	–	24,263
Foreign currency translation adjustments, net of deferred taxes of $164	–	–	–	–	317	317
Total comprehensive income	–	–	–	–	–	24,580
Dividends paid ($.08 per share)	–	–	–	(1,933)	–	(1,933)
Balance at December 31, 1996	24,212,946	$242	13,179	123,258	3,332	140,011
Exercise of stock options	235,360	2	1,476	–	–	1,478
Issuance of shares under stock purchase plan	170,399	2	2,148	–	–	2,150
Shares repurchased under provisions of stock repurchase plan	(72,325)	(1)	(3,090)	–	–	(3,091)
Tax benefits related to stock options and stock purchase plan	–	–	1,821	–	–	1,821
Comprehensive income						
Net earnings	–	–	–	38,411	–	38,411
Foreign currency translation adjustments, net of deferred tax credit of $2,094	–	–	–	–	(6,482)	(6,482)
Total comprehensive income	–	–	–	–	–	31,929
Dividends paid ($.10 per share)	–	–	–	(2,444)	–	(2,444)
Balance at December 31, 1997	24,546,380	$245	15,534	159,225	(3,150)	171,854
Exercise of stock options	159,050	2	1,355	–	–	1,357
Issuance of shares under stock purchase plan	112,777	1	3,618	–	–	3,619
Shares repurchased under provisions of stock repurchase plan	(136,366)	(1)	(4,734)	–	–	(4,735)
Tax benefits related to stock options and stock purchase plan	–	–	1,747	–	–	1,747
Comprehensive income						
Net earnings	–	–	–	47,274	–	47,274
Foreign currency translation adjustments, net of deferred tax credit of $253	–	–	–	–	(469)	(469)
Total comprehensive income	–	–	–	–	–	46,805
Dividends paid ($.14 per share)	–	–	–	(3,449)	–	(3,449)
Balance at December 31, 1998	24,681,841	$247	17,520	203,050	(3,619)	217,198

see accompanying notes to consolidated financial statements

certain 1997 amounts have been reclassified to conform to the 1998 presentation.

consolidated statements of cash flows

in thousands

years ended december 31,	1998	1997	1996
operating			
Net earnings	$ 47,274	38,411	24,263
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for losses on accounts receivable	2,612	3,344	2,120
Depreciation and amortization	15,547	11,159	8,147
Deferred income tax expense (benefit)	3,697	2,253	(37)
Amortization of cost in excess of net assets of acquired businesses	536	500	363
Changes in operating assets and liabilities:			
Increase in accounts receivable	(18,375)	(38,959)	(45,795)
Increase in accounts payable, accrued expenses and taxes payable	5,552	44,551	35,669
Other	(3,605)	(1,455)	(563)
Net cash provided by operating activities	53,238	59,804	24,167
investing			
Decrease (increase) in short-term investments	(121)	(13)	87
Purchase of property and equipment	(52,455)	(36,007)	(20,824)
Acquisition, net of cash	–	(7,076)	–
Other	(93)	(825)	(3,058)
Net cash used in investing activities	(52,669)	(43,921)	(23,795)

years ended	december 31,	1998	1997	1996
financing				
	Short-term borrowings, net	10,067	(2,887)	3,164
	Proceeds from issuance of common stock	4,976	3,628	2,732
	Repurchases of common stock	(4,735)	(3,091)	(3,320)
	Dividends paid	(3,449)	(2,444)	(1,933)
	Net cash provided by (used in) financing activities	6,859	(4,794)	643
	Effect of exchange rate changes on cash	(93)	(5,961)	(191)
	Increase in cash and cash equivalents	7,335	5,128	824
	Cash and cash equivalents at beginning of year	42,094	36,966	36,142
	Cash and cash equivalents at end of year	$ 49,429	42,094	36,966
interest and taxes paid				
	Interest	$ 503	865	282
	Income taxes	27,003	21,148	13,580

non-cash investing and financing

During 1996 the Company purchased real estate for $5.7 million with short-term financing provided by the seller. No principal was paid in 1996. The obligation was paid in February 1997.

see accompanying notes to consolidated financial statements

notes to consolidated financial statements

in thousands except share data

note 1

summary of significant accounting policies

a. basis of presentation

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

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

The consolidated financial statements include the accounts of the Company and its subsidiaries. In addition, the accounts of exclusive agents have been consolidated in those circumstances where the Company maintains unilateral control over the agents' assets and operations, notwithstanding a lack of technical majority ownership of the agents' common stock.

In 1997, the Company acquired its Irish agent in a purchase business combination for approximately $8,500 of cash. Goodwill from this transaction was approximately $5,500. Results of operations of this entity are not material in relation to the Company as a whole.

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

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

b. short-term investments

Short-term investments are designated as available-for-sale and cost approximates market at December 31, 1998 and 1997.

c. long-lived assets, depreciation and amortization

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

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

Interest capitalized in 1998, 1997 and 1996 was $193, $505 and $133, respectively.

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

The excess of the cost over the fair value of the net assets of acquired businesses (included in other assets, net) is amortized on the straight-line method over periods up to 40 years.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 121, "Accounting for the Impairment of Long-Lived Assets and for Assets to Be Disposed Of", long-lived assets (property and equipment) and certain identifiable intangible assets (excess costs over the fair value of the net assets of acquired businesses) are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of long-term assets is measured by a comparison of the carrying amount of such assets against the undiscounted future cash flows expected to be generated by the assets. If such assets are determined to be impaired, the impairment to be recognized is measured by the amount by which the assets' carrying amount exceeds the assets' discounted future cash flows.

d. revenues and revenue recognition

Airfreight revenues include the charges to the Company for carrying the shipments when the Company acts as a freight consolidator. Ocean freight revenues include the charges to the Company for carrying the shipments when the Company acts as a Non-Vessel Operating Common Carrier (NVOCC). Revenues realized in other capacities include only the commissions and fees earned.

Revenues related to shipments are recognized at the time the freight is tendered to a direct carrier at origin. All other revenues, including breakbulk services, local transportation, customs formalities, distribution services and logistics management, are recognized upon performance.

e. income taxes

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

f. net earnings per common share

During 1997, the Company adopted SFAS No. 128. Under SFAS No. 128, diluted earnings per share is computed using the weighted average number of common shares and dilutive potential common shares outstanding. Dilutive potential common shares represent outstanding stock options. Basic earnings per share is calculated using the weighted average of common shares outstanding without taking into consideration dilutive potential common shares outstanding.

g. foreign currency

Foreign currency amounts attributable to foreign operations have been translated into U.S. Dollars using year-end exchange rates for assets and liabilities, historical rates for equity, and average annual rates for revenues and expenses. Unrealized gains or losses arising from fluctuations in the year-end exchange rates are generally recorded as equity adjustments from foreign currency translation. Currency fluctuations are a normal operating factor in the conduct of the Company's business and exchange transaction gains and losses are generally included in freight consolidation expenses. The Company follows a policy of accelerating international currency settlements to manage its foreign exchange exposure. Accordingly, the Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world. Any such hedging activity during 1998, 1997 and 1996 was insignificant. Net foreign currency losses realized during 1998 were approximately $534. Net foreign currency gains realized in 1997 were $1,065. Foreign currency transaction gains and losses realized in 1996 were insignificant.

h. cash equivalents

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

i. comprehensive income

On January 1, 1998, the Company adopted SFAS No. 130, “Reporting Comprehensive Income” which establishes standards for the reporting of comprehensive income and its components in financial statements. Comprehensive income consists of net income and other gains and losses affecting shareholders’ equity that, under generally accepted accounting principles, are excluded from net income. For the Company, these consist of foreign currency translation gains and losses, net of related income tax effects. Prior year financial statements have been reformatted to conform with the requirements of SFAS No. 130.

j. segment reporting

The Company has adopted SFAS No. 131, “Disclosure about Segments of an Enterprise and Related Information” effective for the year ended December 31, 1998. SFAS No. 131 establishes standards for the way that public companies report selected information about segments in their financial statements.

The Company is organized functionally in geographic operating segments. Accordingly, management focuses its attention on revenues, net revenues, operating income, identifiable assets, capital expenditures, depreciation and amortization and equity generated by or allocated to each of these geographical areas when evaluating effectiveness of geographic management.

k. use of estimates

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

l. reclassification

Certain 1996 and 1997 amounts have been reclassified to conform with the 1998 presentation.

note 2

credit arrangements

The Company has a $40,000 United States bank line of credit extending through June 27, 1999. Borrowings under the line bear interest at LIBOR + 0.75% (5.81% at December 31, 1998) and are unsecured. As of December 31, 1998, the Company had $11,000 of borrowings under this line.

The majority of the Company's foreign subsidiaries maintain bank lines of credit for short-term working capital purposes. These credit lines are supported by standby letters of credit issued by a United States bank, or guarantees issued by the Company to the foreign banks issuing the credit line. Lines of credit bear interest at 0.5% to 1.5% over the foreign banks' equivalent prime rates. At December 31, 1998 and 1997, the Company was liable for $1,245 and $1,145, respectively, of borrowings under these lines, and at December 31, 1998 was contingently liable for approximately $19,631 under outstanding standby letters of credit and guarantees related to these lines of credit and other obligations.

In addition, at December 31, 1998 the Company had a $8,312 credit facility with a United Kingdom bank (U.K. facility), secured by a corporate guarantee. The Company was contingently liable under the U.K. facility at December 31, 1998 for $8,312 used to secure customs bonds issued by foreign governments.

At December 31, 1998, the Company was in compliance with all restrictive covenants of these credit lines and the associated credit facilities, including maintenance of certain minimum asset, working capital and equity balances and ratios.

note 3

income taxes

Income tax expense for 1998, 1997 and 1996 includes the following components:

	federal	state	foreign	total
1998				
Current	$ 9,526	2,071	13,009	24,606
Deferred	2,726	971	–	3,697
	$12,252	3,042	13,009	28,303
1997				
Current	$ 9,993	1,669	10,246	21,908
Deferred	1,420	833	–	2,253
	$11,413	2,502	10,246	24,161
1996				
Current	$ 8,633	1,248	5,477	15,358
Deferred (benefit)	(390)	353	–	(37)
	$ 8,243	1,601	5,477	15,321

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

	1998	1997	1996
Computed "expected" tax expense	$26,452	21,900	13,855
Increase (reduction) in income taxes resulting from:			
State and local income taxes, net of Federal income tax benefit	1,977	1,626	1,041
Decrease in valuation allowance for deferred tax assets	(207)	(85)	(72)
Other, net	81	720	497
	$28,303	24,161	15,321

The components of earnings before income taxes are as follows:

	1998	1997	1996
United States	$28,542	22,799	15,213
Foreign	47,035	39,773	24,371
	$75,577	62,572	39,584

The tax effects of temporary differences, tax credits and operating loss carryforwards that give rise to significant portions of deferred tax assets and deferred tax liabilities at December 31, 1998 and 1997 are as follows:

year ended December 31,	1998	1997
Deferred tax assets:		
Foreign tax credits related to unremitted foreign earnings	$ 21,453	14,938
Accrued intercompany and third party charges, deductible for taxes upon economic performance (i.e. actual payment)	2,844	3,194
Foreign currency translation adjustment	2,183	1,930
Provision for doubtful accounts receivable	1,575	1,575
Excess of financial statement over tax depreciation	1,703	1,136
Other	1,286	1,676
Total gross deferred tax assets	31,044	24,449
Less valuation allowance	(223)	(430)
	30,821	24,019
Deferred tax liabilities:		
Unremitted foreign earnings	(23,108)	(15,499)
Other	(3,103)	(2,294)
Total gross deferred tax liabilities	(26,211)	(17,793)
Net deferred tax assets	4,610	6,226
Less current deferred tax assets	(2,427)	(4,296)
Noncurrent deferred tax assets	$ 2,183	1,930

At December 31, 1998, the Company has net operating loss carryforwards for foreign income tax purposes of $636 which are available over an indefinite period to offset future foreign taxable income.

The Company has not provided U.S. Federal income taxes on undistributed earnings of foreign subsidiaries accumulated through December 31, 1992 since the Company intends to reinvest such earnings indefinitely or to distribute them in a manner in which no significant additional taxes would be incurred. Such undistributed earnings are approximately $41,900 and the additional Federal and state taxes payable in a hypothetical distribution of such accumulated earnings would approximate $10,100. Since 1993, the Company has been providing for Federal and state income tax expense on foreign earnings without regard to whether such earnings will be permanently reinvested outside the United States.

note 4

shareholders' equity

a. dividends

On November 7, 1996, the Board of Directors declared a 2-for-1 stock split, effected in the form of a stock dividend of one share of common stock for every share outstanding, and increased the authorized common stock to 80,000,000 shares. The stock dividend was distributed on December 11, 1996 to shareholders of record on November 25, 1996. All share and per share information, except par value, has been adjusted for all years to reflect the stock split.

b. non-discretionary stock repurchase plan

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 1,100,000 shares of the Company's common stock in the open market with the proceeds received from the exercise of Employee and Director Stock Options. As of December 31, 1998, the Company had repurchased and retired 776,748 shares of common stock at an average price of $19.40 over the period from 1994 through 1998.

c. stock option plans

The Company has two stock option plans (the "1985 Plan" and the "1997 Plan") for employees under which the Board of Directors may grant officers and key employees options to purchase common stock at prices equal to or greater than market value on the date of grant. The 1985 Plan provides for non-qualified grants at exercise prices equal to or greater than the market value on the date of grant. Outstanding options generally vest and become exercisable over periods up to five years from the date of grant and expire no more than 10 years from the date of grant. The 1997 Plan provides for qualified and non-qualified grants of options to purchase shares, limited to not more than 50,000 per person per year. Grants less than or equal to 10,000 shares in any fiscal year, are granted at or above common stock prices on the date of grant. Any 1997 Plan grants in excess of the initial 10,000 shares granted per person per year (Excess Grants) require an exercise price of not less than 120% of the common stock price on the date of grant. Excess Grants expire no later than 5 years from the date of grant. Excess Grants in 1997 vest completely 3 years from the date of grant.

The Company also has a stock option plan (Directors Plan) under which non-employee directors elected at each annual meeting are granted non-qualified options to purchase 4,000 shares of common stock on the first business day of the month following the meeting.

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

Details regarding the plans are as follows:

	unoptioned shares			outstanding options	
	1985 plan	1997 plan	directors' plan	number of shares	weighted average price per share
Balance at December 31, 1995	221,564	–	76,000	2,810,200	$ 7.54
Options granted	(212,200)	–	(12,000)	224,200	$14.60
Options exercised	–	–	–	(264,260)	$ 5.42
Options canceled	108,800	–	–	(108,800)	$ 8.51
Balance at December 31, 1996	118,164	–	64,000	2,661,340	$ 8.36
Options authorized	–	2,000,000	–	–	–
Options granted	(15,000)	(416,450)	(12,000)	443,450	$26.16
Options exercised	–	–	–	(235,360)	$ 6.72
Options canceled	97,500	3,700	–	(101,200)	$11.46
Balance at December 31, 1997	200,664	1,587,250	52,000	2,768,230	$11.29
Options granted	(105,000)	(431,700)	(12,000)	548,700	$43.55
Options exercised	–	–	–	(159,050)	$ 9.07
Options canceled	33,125	26,200	–	(59,325)	$ 8.53
Balance at December 31, 1998	128,789	1,181,750	40,000	3,098,555	$16.98

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock option and its employee stock purchase rights plans. Accordingly, no compensation cost has been recognized for its fixed stock option or employee stock purchase rights plans. Had compensation cost for the Company's three stock based compensation and employee stock purchase rights plans been determined consistent with FASB No. 123, the Company's net earnings, basic earnings per share and diluted earnings per share would have been decreased to the pro forma amounts indicated as follows:

	1998	1997	1996
Net earnings – as reported	$47,274	38,411	24,263
Net earnings – pro forma	$42,697	36,216	22,789
Basic earnings per share – as reported	$ 1.92	1.57	1.00
Basic earnings per share – pro forma	$ 1.73	1.48	0.94
Diluted earnings per share – as reported	$ 1.78	1.46	0.95
Diluted earnings per share – pro forma	$ 1.63	1.39	0.89

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

	1998	1997	1996
Dividend yield	0.3%	0.5%	0.5%
Volatility	45%	39%	48%
Risk-free interest rates	4.6 – 5.7%	5.5 – 6.7%	6.8 – 8.5%
Expected life (years) – stock option plans	7	7	7
Expected life (years) – stock purchase rights plan	1	1	1
Weighted average fair value of stock options granted during the year	$22.98	$11.96	$8.10
Weighted average fair value of stock purchase rights	$12.50	$ 9.76	$5.34

The following table summarizes information about fixed-price stock options outstanding at December 31, 1998:

range of exercise price	number outstanding	weighted average remaining contractual life	weighted average exercise price	number exercisable	weighted average exercise price
$ 5.31 – 6.56	1,025,780	1.84 years	$ 5.88	1,025,780	$ 5.88
$ 7.13 – 11.38	959,575	5.80 years	$10.11	592,850	$ 9.78
$14.60 – 29.31	476,250	8.03 years	$21.78	12,000	$29.19
$30.08 – 43.88	636,950	8.50 years	$41.62	12,000	$38.75
$ 5.31 – 43.88	3,098,555	5.39 years	$16.98	1,642,630	$ 7.70

d. basic and diluted earnings per share

The following table reconciles the numerator and the denominator of the basic and diluted per share computations for earnings per share in 1998, 1997 and 1996.

	net earnings	weighted average shares	earnings per share
1998			
Basic earnings per share	$47,274	24,617,219	$1.92
Effect of dilutive stock options	–	1,911,973	–
Diluted earnings per share	$47,274	26,529,192	$1.78
1997			
Basic earnings per share	$38,411	24,428,929	$1.57
Effect of dilutive stock options	–	1,894,593	–
Diluted earnings per share	$38,411	26,323,522	$1.46
1996			
Basic earnings per share	$24,263	24,161,363	$1.00
Effect of dilutive stock options	–	1,482,933	–
Diluted earnings per share	$24,263	25,644,296	$0.95

e. stock purchase plan

The Company's 1988 Employee Stock Purchase Plan provides for 1,400,000 shares of the Company's common stock to be reserved for issuance upon exercise of purchase rights granted to employees who elect to participate through regular payroll deductions beginning August 1 of each year. The purchase rights are exercisable on July 31 of the following year at a price equal to the lesser of (1) 85% of the fair market value of the Company's stock on July 31 or (2) 85% of the fair market value of the Company's stock on the preceding August 1. At December 31, 1998, 1997 and 1996, an aggregate of 958,922 shares, 846,145 shares, and 675,746 shares, respectively, had been issued under the plan, and at December 31, 1998, $2,125 had been withheld in connection with the plan year ending July 31, 1999.

note 5

commitments

a. leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2005. At December 31, 1998, future minimum annual lease payments under all leases are as follows:

1999	$15,987
2000	13,069
2001	8,222
2002	6,749
2003	4,762
Thereafter	2,241
	$51,030

b. employee benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 1998, 1997 and 1996, the Company's contributions under the plans were $2,219, $1,119, and $1,044, respectively.

note 6

contingencies

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

The Company has established teams to identify and correct Year 2000 compliance issues. Information systems with non-compliant code are expected to be modified or replaced with systems that are Year 2000 compliant. Because the Company's information systems were developed from the late 1980's forward, the substantial Year 2000 concerns inherent in hardware and software systems placed into service by many companies at earlier dates are not a primary concern. Management does not believe that future costs directly related to Year 2000 issues will be material. Costs incurred through 1998 were immaterial.

Uninterrupted operations depend upon the ability of third parties, especially airlines, air traffic control and governmental customs organizations to be Year 2000 compliant. The Company has no direct ability to influence the compliance actions of customers, suppliers, agents and other third parties. Accordingly, it is unable to eliminate or estimate the ultimate effect of third party Year 2000 risks on the Company's operating results. The Company's greatest risk is a potential temporary inability of air traffic control and government customs agencies to track flights or transact normal procedures on a timely basis.

note 7

business segment information

Financial information regarding the Company's 1998, 1997, and 1996 operations by geographic area are as follows:

	United States	Far East	Australia/ New Zealand	Canada	Europe	Middle East	Latin America	Eliminations	Consolidated
1998									
Revenues from unaffiliated customers	$311,897	562,500	10,160	4,871	143,925	19,692	10,662	_	1,063,707
Transfers between geographic areas	13,116	3,060	2,400	226	6,559	1,029	2,021	(28,411)	_
Total revenues	$325,013	565,560	12,560	5,097	150,484	20,721	12,683	(28,411)	1,063,707
Net revenue	$170,748	82,024	8,589	3,475	74,199	5,793	8,622	–	353,450
Operating income	$ 27,214	29,343	1,384	703	13,944	845	(61)	_	73,372
Identifiable assets at year end	$220,937	70,465	6,987	4,485	84,112	8,187	11,423	_	406,596
Capital expenditures	$ 40,053	5,998	747	162	3,686	808	1,001	_	52,455
Depreciation and amortization	$ 8,225	2,481	511	151	2,957	663	559	_	15,547
Equity	$217,198	71,012	4,874	1,490	17,282	1,556	(1,354)	(94,860)	217,198
1997									
Revenues from unaffiliated customers	$285,166	526,878	9,611	4,363	112,726	10,098	5,160	_	954,002
Transfers between geographic areas	11,819	3,044	1,847	205	4,688	788	1,340	(23,731)	_
Total revenues	$296,985	529,922	11,458	4,568	117,414	10,886	6,500	(23,731)	954,002
Net revenue	$140,150	76,637	7,847	2,550	55,354	3,546	4,440	–	290,524
Operating income	$ 22,934	25,709	1,125	350	10,104	(136)	(171)	_	59,915
Identifiable assets at year end	$170,999	80,458	5,850	4,563	70,979	5,090	6,167	_	344,106
Capital expenditures	$ 20,695	2,642	980	130	4,142	846	872	_	30,307
Depreciation and amortization	$ 5,755	1,749	449	153	2,319	396	338	_	11,159
Equity	$171,854	62,204	4,278	1,169	10,410	995	(1,395)	(77,661)	171,854
1996									
Revenues from unaffiliated customers	$217,955	422,762	7,743	4,345	71,037	2,615	3,631	_	730,088
Transfers between geographic areas	9,692	2,322	1,811	198	2,577	561	713	(17,874)	_
Total revenues	$227,647	425,084	9,554	4,543	73,614	3,176	4,344	(17,874)	730,088
Net revenue	$ 97,635	57,388	6,698	2,470	34,341	1,703	2,100	–	202,335
Operating income	$ 14,707	17,204	942	630	5,218	(632)	(644)	_	37,425
Identifiable assets at year end	$129,001	82,229	7,279	4,778	40,693	3,604	4,402	–	271,986
Capital expenditures	$ 20,430	2,905	410	178	1,642	840	119	_	26,524
Depreciation and amortization	$ 3,986	1,715	330	132	1,560	206	218	_	8,147
Equity	$140,011	58,996	4,406	1,029	6,932	406	(1,098)	(70,671)	140,011

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

note 8

quarterly results (unaudited)

	first	second	third	fourth
1 9 9 8				
Revenues	$223,349	241,970	289,675	308,713
Net revenues	75,764	82,374	92,890	102,422
Net earnings	8,034	11,080	14,217	13,943
Basic earnings per share	0.33	0.45	0.57	0.57
Diluted earnings per share	0.30	0.42	0.54	0.53
1 9 9 7				
Revenues	$195,969	225,575	262,309	270,149
Net revenues	57,718	68,169	80,180	84,457
Net earnings	5,598	8,174	11,777	12,862
Basic earnings per share	0.23	0.34	0.48	0.52
Diluted earnings per share	0.22	0.31	0.44	0.48

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

independent auditors' report

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

We have audited the consolidated balance sheets of Expeditors International of Washington, Inc. and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of earnings, shareholders' equity and comprehensive income and cash flows for each of the years in the three-year period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Expeditors International of Washington, Inc. and subsidiaries at December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998, in conformity with generally accepted accounting principles.

KPMG LLP

Seattle, Washington
February 16, 1999

management's discussion and analysis of financial condition and results of operations

general

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 offers domestic forwarding services only in conjunction with international shipments. 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 effects adoption of any such proposal will have on the Company's business. Doing business in foreign locations also subjects the Company to a variety of risks and considerations not normally encountered by domestic enterprises. In addition to being affected by governmental policies concerning international trade, the Company's business may also be affected by political developments and changes in government personnel or policies in the nations in which it does business.

The 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 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 quarter has 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.

results of operations

The following table shows the consolidated net revenues (revenues less consolidation expenses) attributable to the Company's principal services and the Company's expenses for 1998, 1997 and 1996, expressed as percentages of net revenues. With respect to the Company's services other than consolidation, net revenues are identical to 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	1998 amount	1998 percent of net revenues	1997 amount	1997 percent of net revenues	1996 amount	1996 percent of net revenues
Net revenues:						
Airfreight	$145,907	41%	124,781	43%	94,954	47%
Ocean freight	66,297	19	51,776	18	38,304	19
Customs brokerage and import services	141,246	40	113,967	39	69,077	34
Net revenues	353,450	100	290,524	100	202,335	100
Operating expenses:						
Salaries and related costs	190,288	54	153,196	53	108,797	54
Other	89,790	25	77,413	26	56,113	27
Total operating expenses	280,078	79	230,609	79	164,910	81
Operating income	73,372	21	59,915	21	37,425	19
Other income, net	2,205	0	2,657	1	2,159	1
Earnings before income taxes	75,577	21	62,572	22	39,584	20
Income tax expense	28,303	8	24,161	9	15,321	8
Net earnings	$ 47,274	13%	38,411	13%	24,263	12%

1998 compared with 1997

Airfreight net revenues in 1998 increased 17% compared with 1997 primarily due to (1) increased airfreight shipments and tonnages handled by the Company from the Far East to North America and Europe, (2) increased prices charged by the airlines which were passed along to customers, and (3) increased export airfreight shipments and tonnages from North America and Europe. The Company's North American export airfreight net revenues increased 20% in 1998 compared to 1997. Airfreight net revenues from the Far East and from Europe increased 9% and 22%, respectively, for 1998 compared with 1997.

Ocean freight net revenues increased 28% in 1998 compared to 1997. Ocean freight demand remained strong throughout 1998 and ocean freight rates from the Far East, the Company's largest trade lane, increased in the last half of the year. During 1998, management continued to expand market share, increase ocean tonnage, and increase net ocean freight revenues while offering competitive market rates to customers. Margins diminished slightly as a result of this increased demand and due to regulatory constraints which restricted the ability of the Company to promptly pass carrier rate increases to NVOCC (Non-Vessel Operating Common Carrier) customers. In addition to increases in the traditional NVOCC and ocean forwarding business, E.C.M.S. (Expeditors Cargo Management Systems), a PC-based ocean freight consolidation management and purchase order tracking service, continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues increased 26% in 1998 compared to 1997. This increase was a result of the Company handling more ocean shipments moving from North America to the Far East and, to a lesser extent, from North America to Europe. Ocean freight net revenues from the Far East and from Europe increased 24% and 35%, respectively, for 1998 compared with 1997.

Customs brokerage and import services revenue increased 24% in 1998 as compared with 1997 as a result of (1) the Company's growing reputation for providing high quality service, (2) consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program, and (3) the growing importance of distribution services as a separate and distinct service offered to existing and potential customers. Distribution services accounted for nearly 35% of the increase in customs brokerage and import services revenues for 1998 compared with 1997.

Salaries and related costs increased in 1998 compared to 1997 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 increased approximately 1% as a percentage of net revenues. This 1% increase is largely attributable to the 1998 peak season being somewhat below initial expectations. 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 1998 are a result of the incentives inherent in the Company's compensation program.

Other operating expenses increased in 1998 as compared with 1997 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 1% in 1998 as compared with 1997 due to the realization of certain economies of scale.

Other income, net, decreased in 1998 as compared to 1997 primarily due to smaller foreign exchange gains recorded in 1998 than in 1997. Interest income was slightly higher in 1998 than in 1997. Interest expense was also slightly higher due to a temporary increase in short-term borrowings.

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 decreased slightly in 1998 to 37.5%.

1997 compared with 1996

Airfreight net revenues in 1997 increased 31% compared with 1996 primarily due to (1) increased airfreight shipments and tonnages handled by the Company from the Far East to North America and Europe, (2) increased prices charged by the airlines which were passed along to customers, and (3) increased export airfreight shipments and tonnages from North America and Europe. The Company's North American export airfreight net revenues increased 34% in 1997 compared to 1996. Airfreight net revenues from the Far East and from Europe increased 25% and 40%, respectively, for 1997 compared with 1996.

Ocean freight net revenues increased 35% in 1997 compared to 1996. During the first two quarters of 1997, the ocean freight market to North America from the Far East continued to be impacted by overcapacity experienced by direct ocean carriers. During the last two quarters of 1997, freight volumes between North America and the Far East somewhat reduced the overcapacity situation. As a result, freight rates, which had steadily fallen over the previous two years, stabilized. Management was still able to expand market share, increase ocean tonnage, expand margins and increase net ocean freight revenues while offering competitive market rates to its customers. In addition to increases in the traditional NVOCC business and ocean forwarding business, E.C.M.S. continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues increased 41% in 1997 compared to 1996. This increase was a result of the Company handling more ocean shipments moving from North America to the Far East and, to a lesser extent, from North America to Europe. Ocean freight net revenues from the Far East and from Europe increased 26% and 57%, respectively, for 1997 compared with 1996.

Customs brokerage and import services revenue increased 65% in 1997 as compared with 1996 as a result of (1) the Company's entry into the truck and rail border brokerage business in the United States, (2) the Company's growing reputation for providing high quality service, (3) consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program, and (4) the growing importance of distribution services as a separate and distinct service offered to existing and potential customers. Distribution services accounted for nearly 16% of the total increase in customs brokerage and import services revenues for 1997 compared with 1996.

Salaries and related costs increased in 1997 compared to 1996 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 decreased approximately 1% as a percentage of net revenues - a measure that management believes is significant in assessing the effectiveness of corporate cost containment objectives. This 1% decrease is largely attributable to increased net revenues in both new and existing offices without a commensurate increase in personnel costs.

Other operating expenses increased in 1997 as compared with 1996 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 1% in 1997 as compared with 1996 due to increased revenues in both new and existing offices and the realization of certain economies of scale.

Other income, net, increased in 1997 as compared to 1996 primarily due to foreign exchange gains. Interest income was lower in 1997 as a result of cash being used for the acquisitions of real estate and of the Company's Irish agent.

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 rates for 1997 and 1996 remained virtually constant at 38.6% for 1997 and 38.7% in 1996.

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 global logistics industry, however, the Company's primary competition is confined to a relatively small number of companies within this group.

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. Recently 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. This trend has made having sophisticated computerized customer service capabilities and a stable worldwide network 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. However, regional and local broker/forwarders will likely remain a competitive force.

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 pricing as much of its business as possible in U.S. Dollars and by accelerating international currency settlements among its offices or agents primarily using an internal clearing house. 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. Any such hedging activity during 1998, 1997 and 1996 was insignificant. During the third and fourth quarters of 1997, the currencies in Thailand, Malaysia, Indonesia and South Korea devalued significantly. The currencies of Taiwan, Singapore and other Far East countries were also weakened by events in these other Asian countries. Net foreign currency losses realized during 1998 were approximately $.534 million. Net foreign currency gains realized in 1997 were $1.065 million. Foreign currency gains and losses realized during 1996 were insignificant.

The Company has traditionally generated revenues from airfreight, ocean freight and customs brokerage and import 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.

Throughout 1998, macroeconomic conditions in Brazil, Mexico and across the Far East have impacted the global economy and, to some degree, have also impacted the Company's business. The Company has a very strong presence in the Far East, where it is most active in arranging exports to North America and Europe. Because of this strong export bias, and also due to the fact that a large volume of the Company's business is transacted in U.S. Dollars, the devaluation of various Asian and other currencies over the past year has not severely impacted the Company's earnings. The Company continues to evaluate what actions may need to be taken in these markets in response to the global economic events in order to safeguard, to the extent possible, the ongoing profitability of the Company's operations.

On January 1, 1999, eleven of fifteen member countries of the European Union established fixed conversion rates between their existing currencies ("legacy currencies") and a new common currency – the Euro. The Euro trades on currency exchanges and may be used in business transactions. The conversion to the Euro eliminates currency exchange rate risk between the member countries. Beginning in January 2002, new Euro-denominated bills and coins will be issued and legacy currencies will be withdrawn from circulation. The Company has established plans to address the issues raised by the Euro currency conversion including the need to adapt computer systems and business processes to accommodate Euro-denominated transactions. Since existing financial systems currently accommodate multiple currencies, the plans contemplate full conversion by the end of 2001. The Company does not expect the conversion costs to be material. Due to numerous uncertainties, the Company is evaluating the effects one common European currency will have on pricing. The Company is unable to predict the resulting impact, if any, on the Company's consolidated financial statements.

year 2000

The Company has established teams to identify and correct Year 2000 compliance issues. Information systems with non-compliant code are expected to be modified or replaced with systems that are Year 2000 compliant. The teams are also charged with investigating the Year 2000 readiness of suppliers, customers, agents and other third parties and with developing contingency plans where necessary.

Key systems have been inventoried and assessed for compliance, and detailed plans are in place for required system modifications or replacements. Remediation and testing activities are underway, with the majority of the systems already compliant. The Company expects to be fully compliant by the end of the second quarter of 1999. Because the Company's systems were developed from the late 1980's forward, the substantial Year 2000 concerns inherent in hardware and software systems placed into service by many companies at earlier dates are not a primary concern. Management does not believe that future costs directly related to Year 2000 issues will be material. Costs incurred through 1998 were immaterial.

The Company has identified critical suppliers, customers and other third parties and is in the process of surveying their Year 2000 remediation programs. Contingency plans for Year 2000-related interruptions are being developed and are expected to include the development of emergency recovery procedures, replacing electronic applications with manual processes and identification of alternate suppliers. Risk assessments and contingency plans, where necessary, are expected to be finalized no later than the second quarter of 1999.

The Company's Year 2000 efforts are ongoing and its overall plan, as well as the consideration of contingency plans, will continue to evolve as new information becomes available. It should be noted that uninterrupted operations depend upon the ability of third parties, especially airlines, air traffic control and governmental customs organizations to be Year 2000 compliant. The Company has no direct ability to influence the compliance actions of customers, suppliers, agents and other third parties. Accordingly, it is unable to eliminate or estimate the ultimate effect of third party Year 2000 risks on the Company's operating results. The Company's greatest risk is a potential temporary inability of air traffic control and government customs agencies to track flights or transact normal procedures on a timely basis. Should this actually happen, management anticipates that restoring normal commerce would become a global priority.

sources of growth

Historically, growth through aggressive acquisition 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 transactions.

office additions

The Company started four new offices during 1998 and added six offices through acquisitions. Offices added through acquisitions are followed by an asterisk.

North America	Europe	Middle East	Far East	Latin America
McAllen, TX	Prague	Dubai*	Tokyo*	Bogota*
	Florence		Osaka*	Cali*
			Manila*	Buenos Aires

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 for the year ended December 31, 1998, relative to the same period of 1997, and for the year ended December 31, 1997, relative to the same period of 1996.

same store comparisons for the years ended December 31,	1998	1997
Net revenues	18%	30%
Operating income	21%	52%

liquidity and capital resources

The Company's principal source of liquidity is cash generated from operations. At December 31, 1998, working capital was $94.6 million, including cash and short-term investments of $49.8 million. The Company had no long-term debt at December 31, 1998. The Company has purchased and renovated a corporate office building located in Seattle, Washington, a portion of which houses the Company's corporate offices. Total costs approximated $40 million. 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 currently expects to spend approximately $15 million on property and equipment in 1999, which is expected to be financed with cash, short-term floating rate, and/or long-term fixed-rate borrowings.

The Company borrows internationally and domestically under unsecured bank lines of credit totaling $40.2 million. At December 31, 1998, the Company was directly liable for $12.2 million drawn on these lines of credit and was contingently liable for an additional $19.6 million of standby letters of credit. In addition, the Company maintains a bank facility with its U.K. bank for $8.3 million. The Company was contingently liable at December 31, 1998 for the entire $8.3 million.

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.

In some cases, the Company's ability to repatriate funds from foreign operations is subject to foreign exchange controls. These matters, at the current time, do not have a significant impact on the Company's operations. The repatriation of certain undistributed earnings of the Company's subsidiaries would, under most circumstances, require the Company to pay some additional Federal and state income tax. The Company has not provided for this additional tax on undistributed earnings accumulated through December 31, 1992 because the Company intends to reinvest such earnings to fund the expansion of its foreign activities, or to distribute them in a manner in which no significant additional taxes would be incurred. At December 31, 1998, the total of such pre-1993 undistributed earnings was approximately $41.9 million and the associated Federal and state tax that would be payable on any hypothetical repatriation of these earnings approximates $10.1 million.

impact of inflation

To date, the Company's business has not been adversely affected by inflation, nor has the Company experienced significant difficulty in passing carrier rate increases on to its customers by means of price increases. 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 might lead to an erosion in the Company's margins. However, 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 no direct exposure to increased costs resulting from increases in interest rates.

The forward looking statements contained in this document involve a number of risks and uncertainties. Factors that could cause actual results to differ materially from these statements include, but are not limited to: risks associated with foreign operations, elimination of intercompany transactions, matching of expenses with associated revenue, seasonality, shifts in consumer demand, the actual impact of the Year 2000 issue, the effect that the adoption of the Euro as the primary currency of 11 member states of the European Union might have on the global economy and the Company's international and domestic customers, other accounting estimates and other risk factors disclosed from time to time in the Company's public reports.

Executive Officers and Directors

directors

Peter J. Rose
Chairman of the Board and Chief Executive Officer, Director

Kevin M. Walsh
President and Chief Operating Officer, Director

James L. K. Wang
Executive Vice President and Director – Far East, Director

James J. Casey
Director

Dan P. Kourkoumelis
Director

John W. Meisenbach
Director
President, MCM Financial
A Financial Services Company

officers

Glenn M. Alger
Executive Vice President and Director – North America

Jean Claude Carcaillet
Sr. Vice President – Australasia

Michael R. Claydon
Sr. Vice President – Europe and Africa

William J. Coogan
Sr. Vice President – Ocean Cargo

Albert H. Leung
Sr. Vice President – Far East

Rommel C. Saber
Sr. Vice President – Near/Middle East and Indian Sub-continent

Tim C. Barber
Sr. Vice President – Sales and Marketing

R. Jordan Gates
Sr. Vice President – Chief Financial Officer and Treasurer

Jeffrey J. King
Sr. Vice President – General Counsel and Secretary

David M. Lincoln
Sr. Vice President and Chief Information Officer

Charles J. Lynch
Vice President – Corporate Controller

Additional Product, Service and Geographic Managers

global product and service

Michael Austin
Vice President – Personnel Development

Rick Ballantyne
Director – Global Distribution Services

Rosanne Esposito
Vice President – Imports

Roger Idiart
Vice President – Global Air Cargo

Adam Seidenwerg
Vice President – E.C.M.S.

Larry Wu
Sr. Vice President – E.C.M.S.

far east

Syed Ershad Ahmed
Managing Director – Bangladesh

Johnny Chang
Sales Director – Far East

T. H. Chiu
Managing Director – Philippines

Andre Fernando
Managing Director – Sri Lanka

Andy Hsia
Managing Director – China

Mark Kato
Managing Director – Japan

J. I. Kim
Managing Director – Korea

E. J. Ong
Managing Director – Malaysia

Thomas Ong
Managing Director – Singapore

Nixen Tanex
Managing Director – Indonesia

Dumrongsak Thanawaleekul
Country Manager and General Manager – Thailand

Michael Wang
Managing Director – Taiwan

Ronald Wong
Managing Director – Hong Kong

north america

Eugene Alger
Regional Vice President – U.S.

Mark Bauer
Regional Vice President – U.S.

Philip Coughlin
Regional Vice President – U.S.

Manuel Diaz
Managing Director – Mexico

Dennis Egan
Regional Vice President – U.S.

J. Ross Hurst
Managing Director – Canada

Bryan Lilly
Regional Vice President – U.S.

Richard Rostan
Regional Vice President – U.S.

Robert Villanueva
Regional Vice President – U.S.

europe and africa

L. Manfred Amberger
Vice President

James M. Anderson
Regional Manager – U.K.

John F. Bermingham
Joint Managing Director – Ireland

Hans Joachim Buchholz
Country Manager – Germany

Stephane P. Carlier
Regional Manager – Benelux

Carlos A. J. da Conceicao
Managing Director – Portugal

Michele Ferrari
Managing Director – Italy

Rene Grabmuller
Managing Director – Czech Republic

Henrik Hedensio
Managing Director – Sweden

Gregory T. Lewis
Joint Managing Director – Ireland

Richard P. Mallabone
Managing Director – South Africa

Timo Matilainen
Managing Director – Finland

Antonio Rey
Managing Director – Spain

Christophe C. Richard
Managing Director – France

Georg Tumler
Managing Director – Austria

middle/near east and india sub-continent

Hamdi Ismail Ali
Managing Director – Egypt

Elias Atsaros
Managing Director – Greece

Adnan Bokhary
Managing Director – Saudi Arabia

Afsar Mahmood
Managing Director – Pakistan

Kurt Meister
Regional Director – India and Pakistan

Amin Saber
Managing Director – UAE – Dubai

Suleyman Ture
Managing Director – Turkey

latin america

Guillermo Ayerbe
Country Manager – Argentina

Jean Chevalier
Country Manager – Colombia

Marcela Maturana
Country Manager – Chile

Idevaldo R. Silva
Managing Director – Latin America and Brazil

corporate information

transfer agent and registrar, dividend disbursing agent

First Chicago Trust
Company of New York
c/o EquiServe
P.O. Box 2500
Jersey City, NJ
07303-2500

e-mail

fctc@em.fcnbd.com

website

http://www.fctc.com

independent auditors

KPMG LLP
3100 Two Union Square
601 Union Street
Seattle, WA 98101-2327

corporate headquarters

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

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

offices and agents

Major Cities of the World

annual meeting

The annual meeting of shareholders is Wednesday, May 5, 1999, at 2:00 pm at:

Expeditors' Corporate
Headquarters
1015 Third Avenue
Seattle, Washington

form 10-K

The Company files an Annual Report with the Securities and Exchange Commission on Form 10-K. Shareholders may obtain a copy of this report without charge by writing:

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

stock price and shareholder data

The following table sets forth the high and low sale prices in the over-the-counter market for the Company's Common Stock as reported by The NASDAQ National Market System under the symbol EXPD.

common stock

quarter	high	low
1998		
First	44 1/2	29 15/16
Second	48 1/4	38 5/8
Third	47 5/8	25
Fourth	43 1/4	24 7/8
1997		
First	28 7/8	20 5/8
Second	30 3/4	22 3/4
Third	47 5/8	28 1/4
Fourth	48 3/4	32

There were 1,453 shareholders of record as of December 31, 1998. Management estimates that there were approximately 7,500 beneficial shareholders at that date.

In 1997 and 1998, the Board of Directors declared a semi-annual dividend of \$.05 per share and \$.07 per share, respectively which was paid as follows:

1998	15 June 15 December
1997	16 June 15 December