

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.

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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.

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 1999, 1998 and 1997, 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	1999		1998		1997	
	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
Net Revenues						
Airfreight	\$183,767	41%	145,907	41%	124,781	43%
Ocean freight	87,181	20	66,297	19	51,776	18
Customs brokerage and import services	171,538	39	141,246	40	113,967	39
Net revenues	442,486	100	353,450	100	290,524	100
Operating Expenses						
Salaries and related costs	240,740	54	190,288	54	153,196	53
Other	108,423	25	89,790	25	77,413	26
Total operating expenses	349,163	79	280,078	79	230,609	79
Operating income	93,323	21	73,372	21	59,915	21
Other income, net	1,322	0	2,205	0	2,657	1
Earnings before income taxes	94,645	21	75,577	21	62,572	22
Income tax expense	35,470	8	28,303	8	24,161	9
Net earnings	\$ 59,175	13%	47,274	13%	38,411	13%

1999 compared with 1998

Airfreight net revenues in 1999 increased 26% compared with 1998 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 21% in 1999 compared to 1998. Airfreight net revenues from the Far East and from Europe increased 26% and 23%, respectively, for 1999 compared with 1998.

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Ocean freight net revenues increased 32% in 1999 compared to 1998. Ocean freight demand remained strong throughout 1999 and ocean freight rates from the Far East, the Company's largest trade lane, increased in the last half of the year. During 1999, 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, ECMS (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 18% in 1999 compared to 1998. 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 36% and 32%, respectively, for 1999 compared with 1998.

Customs brokerage and import services revenue increased 21% in 1999 as compared with 1998 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 29% of the increase in customs brokerage and import services revenues for 1999 compared with 1998.

Salaries and related costs increased in 1999 compared to 1998 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 1999 are a result of the incentives inherent in the Company's compensation program.

Other operating expenses increased in 1999 as compared with 1998 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 1999 as compared with 1998.

Other income, net, decreased in 1999 as compared to 1998 primarily due to smaller foreign exchange gains recorded in 1999 than in 1998. Interest income was slightly higher in 1999 than in 1998. Interest expense was also higher in 1999 due to an 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 remained constant in 1999 at 37.5%.

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 customers. In addition to increases in the traditional NVOCC and ocean forwarding business, ECMS, 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.

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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%.

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.

SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" establishes accounting standards for derivative and hedging transactions and is effective for fiscal years beginning after June 15, 2000. 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 1999, 1998 and 1997 was insignificant. During the third and fourth quarters of 1997, the currencies in Thailand, Malaysia, Indonesia and South

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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 gains realized during 1999 were \$.196 million. Net foreign currency losses realized in 1998 were \$.534 million. Net foreign currency gains realized in 1997 were \$1.065 million.

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 1999, 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 which have adopted the fixed currency conversion rates between their respective legacy currencies and the Euro. 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.

Prior to December 31, 1999, the Company incurred costs to assess any potential Year 2000 issues. These amounts were immaterial and the Company has experienced no significant problems related to Year 2000 in doing business in early 2000.

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 5 new offices during 1999 and added 6 offices through acquisitions. Offices added through acquisitions are followed by an asterisk.

North America

United States:
Pittsburgh, PA

Canada:
Montreal, Quebec

Mexico:
Nogales

Europe and Africa

United Kingdom:
East Midlands

Africa:
Port Louis, Mauritius

Middle East

Turkey:
Ankara*
Istanbul*
Izmir*
Mersin*

Greece:
Athens*

Lebanon:
Beirut*

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, 1999, relative to the same period of 1998, and for the year ended December 31, 1998, relative to the same period of 1997.

Same store comparisons for the years ended December 31,	1999	1998	1997
Net revenues	22%	18%	30%
Operating income	24%	21%	52%

Liquidity and Capital Resources

The Company’s principal source of liquidity is cash generated from operations. At December 31, 1999, working capital was \$152.2 million, including cash and cash equivalents and short-term investments of \$72.3 million. The Company had no long-term debt at December 31, 1999. 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 \$28 million on property and equipment in 2000, 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 \$50.9 million. At December 31, 1999, the Company was directly liable for \$19.4 million drawn on these lines of credit and was contingently liable for an additional \$13.7 million of standby letters of credit. In addition, the Company maintains a bank facility with its U.K. bank for \$8.1 million. The Company was contingently liable at December 31, 1999 for the entire \$8.1 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, 1999, 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 the associated revenue, seasonality, shifts in consumer demand, 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.

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