Part of success
is simply
being consistent.

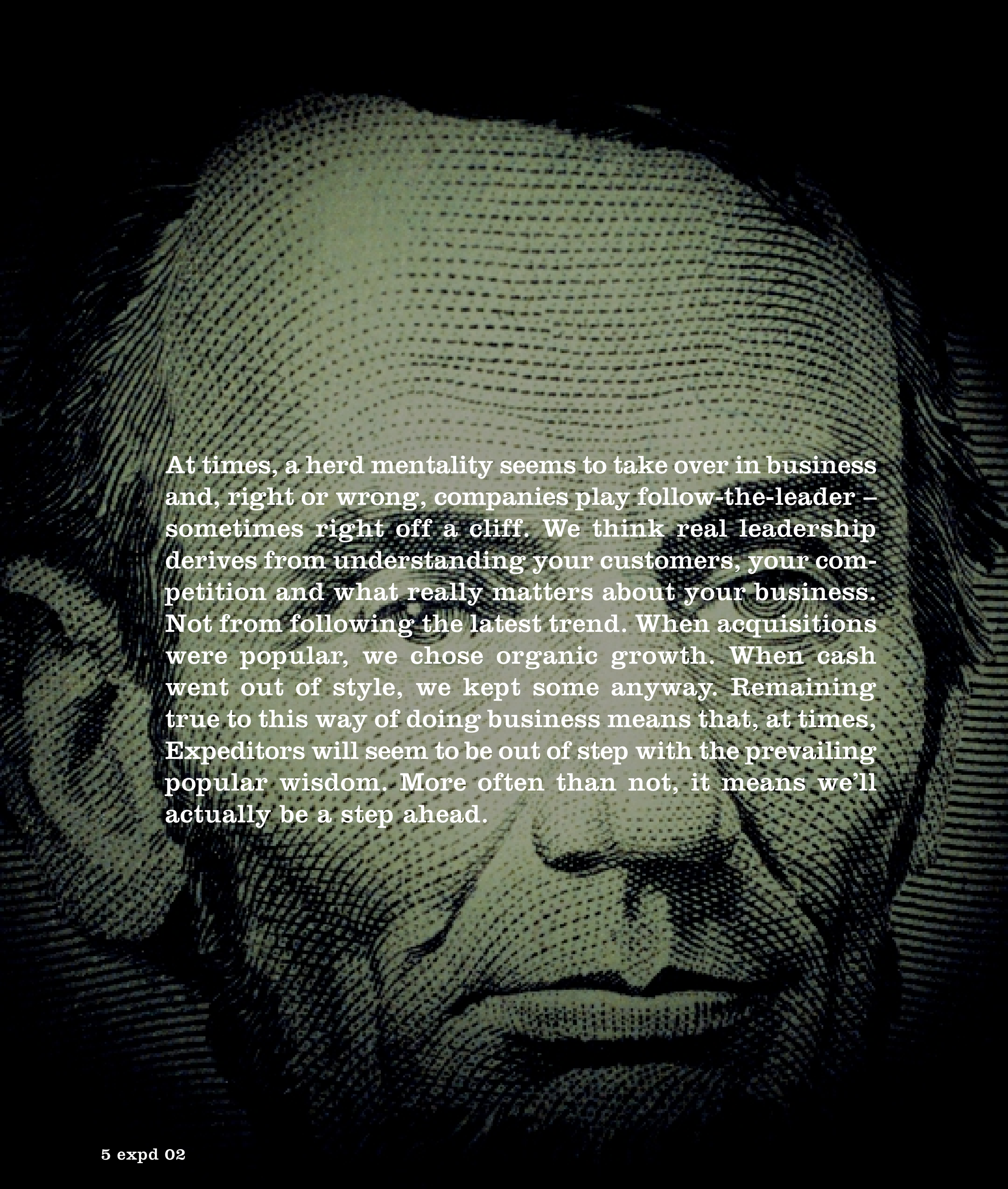
A balance sheet can't reflect the value of a corporation's culture, even though that culture can determine the difference between success and failure. We think that, more than any single reason, our culture is consistently the most important reason behind our ability to grow, even in an economic environment as tough as 2002.

expd

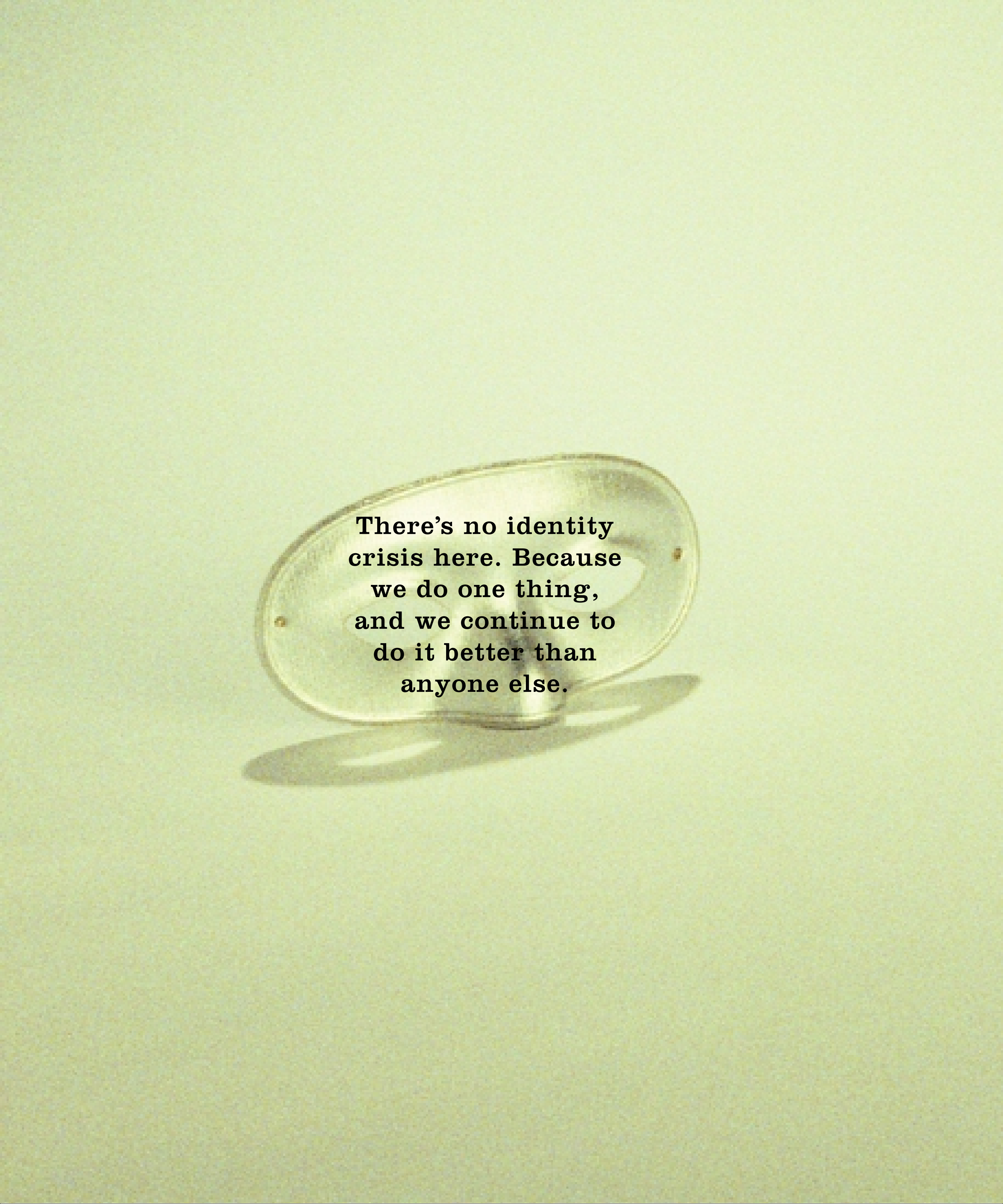
There's nothing
casual
about business.
It demands our attention,
and rewards us
for our commitment.

We take what we do, and how we do it, seriously. In an era of relaxed standards, Expeditors remains something of a traditionalist. The evidence is always in plain sight. You'll see our people in suits and ties every day of the week. Now, some might think this is out of step with the times. We think it represents a simple fact: when you come to work for Expeditors, you come to work. For your customers. For your shareholders. For your own sense of accomplishment. Your first thought is about doing your job the right way. Your next thought is about doing it better. And, in everything you do, you represent what this company stands for.

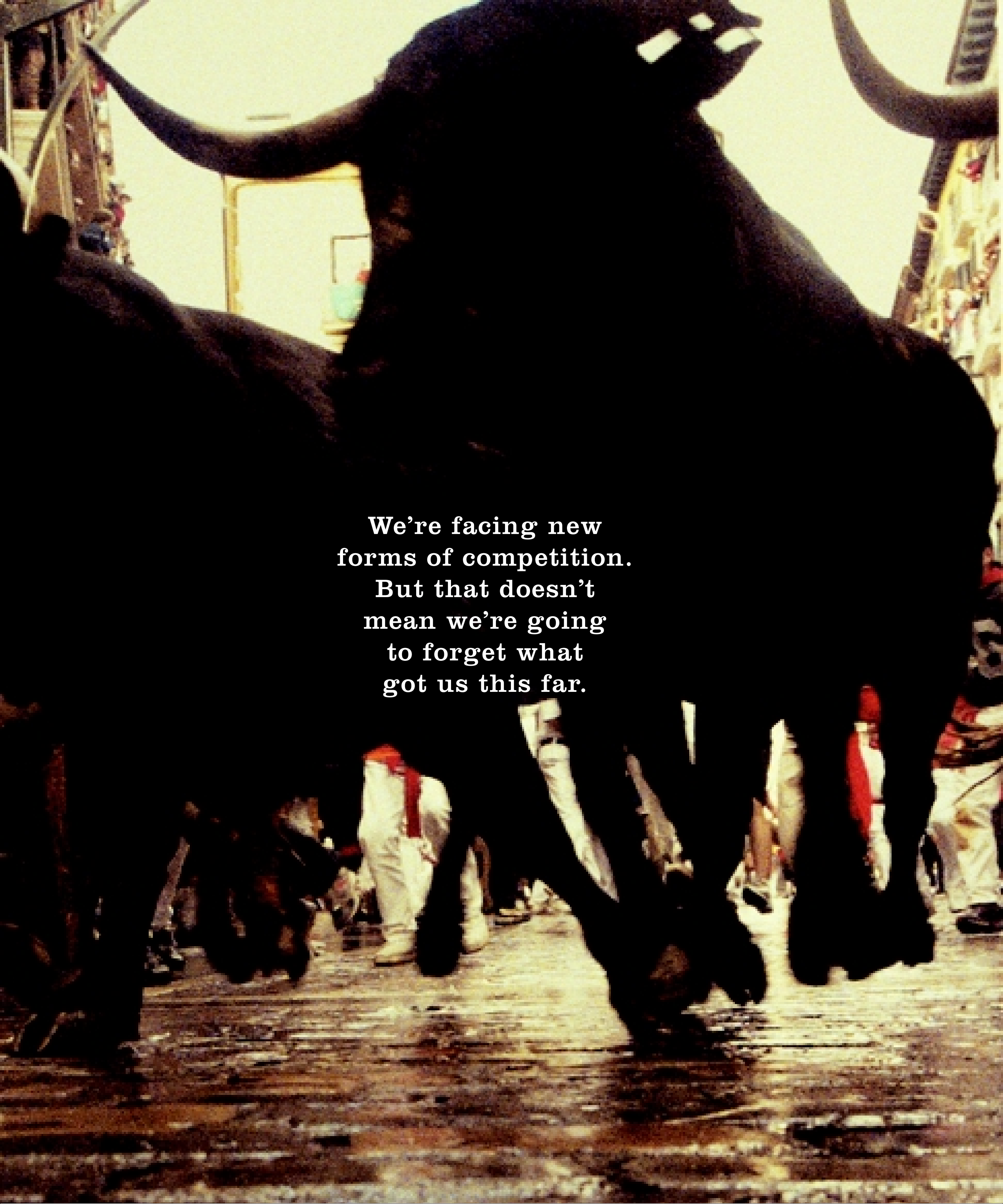
Cash seemed unpopular not so long ago. We thought we'd hang on to some anyway.



At times, a herd mentality seems to take over in business and, right or wrong, companies play follow-the-leader – sometimes right off a cliff. We think real leadership derives from understanding your customers, your competition and what really matters about your business. Not from following the latest trend. When acquisitions were popular, we chose organic growth. When cash went out of style, we kept some anyway. Remaining true to this way of doing business means that, at times, Expeditors will seem to be out of step with the prevailing popular wisdom. More often than not, it means we'll actually be a step ahead.


There's no identity crisis here. Because we do one thing, and we continue to do it better than anyone else.

It's all about knowing who you are. This might seem simple or boring. Yet there are always new opportunities to improve what you do. Ways to become a more effective competitor and a more valued partner. And the reasons you actually can improve are clear. Distractions remain at a minimum while your focus and experience have a way of paying off across every aspect of your chosen expertise. Our expertise is global logistics and supply-chain management and everything that has grown to entail. It has made us experts in customs, in systems, in insurance and a thousand other disciplines. So you see, we have no time to be confused about who we are.


We're facing new
forms of competition.
But that doesn't
mean we're going
to forget what
got us this far.

In business, change is constant. What matters is how you manage change. And how you make certain that while some things change, others do not. Which is why character is the most important aspect of any company. And as Expeditors has grown from only 20 people to an international presence that includes 167 offices and more than 7,869 employees, it's the thing that has made the difference. And it will continue to make the difference. Because consistency is another kind of constant. And Expeditors will always be known for uncompromising service. Because no matter what may change, our character will not.


How do you remain
consistent in a world
that demands change?
Know what matters,
and what doesn’t.

What matters are our customers – and what matters to them. Plain and simple. They are the reason we continue to grow and prosper. In a tough economy, nothing could be more important. They are the reason we continue to expand our global network of offices. As of 2002, we had 167 offices in 54 countries. The needs that shape and drive their businesses continue to shape and drive ours. The problems they face are the problems we learn to anticipate and solve. They are the reason we continue to push the boundaries of technology. They are the reason we continue to introduce innovative products. They are the reason we continue.

And, there's the topic du jour: corporate governance. Don't worry, we've had it all along.

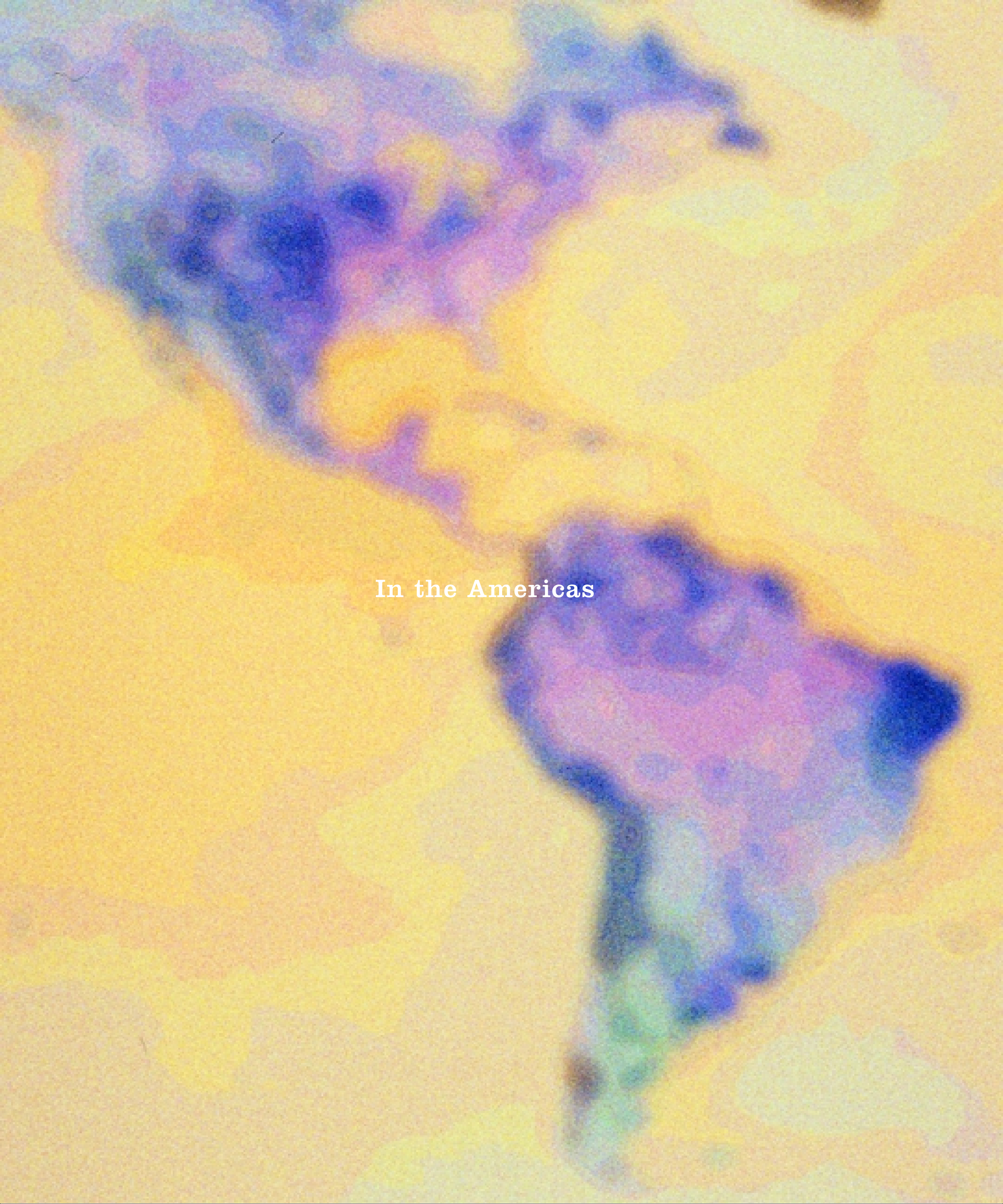
The other
part of success
is hard work.

In the Far East

The strength of the Expeditors Asia network was severely tested during the U.S. West Coast port lockout. Our customers turned to us to keep their supply chains moving when demand was strongest and supply of space was limited. All our staff put in extraordinary efforts, long hours and the energy to make sure our customers' freight kept moving. Through constant communication and creative solutions, we made certain that every possible advantage was implemented. Strong customer satisfaction scores validated our ability to head off these complex challenges. Expeditors' customers would never expect anything less.

In Europe, the Middle East, Africa and the Indian subcontinent

2002 was a difficult year, prompting some soul searching. The results were clear: we controlled costs and improved productivity. We focused on domestic sales, without compromising the attention our Global accounts demand. We consolidated our operations, attracted the right talent, and better integrated our entire region. Most importantly, we did not panic, because we know that no other work force takes more ownership and pride in setting the standards for our industry than Expeditors. Which simply means that the loyalty our customers showed us during these difficult times remains the highlight of our year.



In the Americas

2002 was a great year for Expeditors in the Americas. Our continued focus on the basics combined with our consistent message of cost containment were keys to a successful year. By retaining our customers while we add new customers, improving our productivity standards and never compromising the level of service we deliver, our staff puts our values into practice every day. As a result, our productivity continues to improve even as we develop new business, and grow our depth of knowledge. We believe that when we do what we say, we will continue to have the best staff in the industry, delivering the best customer service in the industry.

In the South Pacific

Growing in a demanding economic climate requires two keys: delivering superior service to customers and containing costs. In the South Pacific region, training remained our focus. Every manager was involved in our training programs designed to connect managers with customers. In fact, 50 percent of a manager's time is spent face-to-face with customers to ensure consistently high service and access to Expeditors' value-added solutions. We also work closely with carriers to contain costs. So, in a tough economy, we were able to make certain that our expenses grew less than our revenue, despite substantial expenses in new facilities.

To Our Shareholders >

In 2002, most people talked about getting back to basics.


Hapag-Lloyd

As usual, Expeditors was more than a step ahead.

Because we never forgot the basics to begin with.

T.W.T.Y.T.W.!!

That was the year that was! One could not think of any phrase more fitting to describe 2002.

The year started slowly and began to heat up as a rumoured slowdown strike/walkout of the I.L.W.U. on the West Coast began to circulate. Many shippers began the switch to airfreight as the rumours intensified; and then became reality.

This debacle led to rate increases by the air carriers, diversions of vessels by the ocean carriers, huge back-ups at the port facilities, tie up of containers, and mass confusion throughout. All of this was exacerbated by a soft economy, major Chapter 11 filings by airlines and shippers alike. Then, there was political turmoil on a global basis.

As if this wasn't bad enough, we then witnessed the accounting debacle of the millennium which destroyed companies, peoples lives, savings, pensions, livelihoods and respect for honesty which hurt so many by the damage caused by a few.

This resulted in an immediate call for reform by the Sarbanes-Oxley initiative mandating honesty and corporate governance, something which most people just took for granted was already in place.

How does a bad company extricate itself from this mess? One has only to plea bargain, give up other employees, and then state that one will expense their employee stock options. It's easy, it's over, and soon to be forgotten.

We wish to reaffirm to our shareholders that corporate governance has always been in place at Expeditors and always will be.

So, how did we fare through all of this confusion? Quite well, we must say because of the performance, through dedication, hard work, and loyalty, of the members of our small family. Did we say loyalty, that much maligned word? When everyone feels that loyalty is on the wane, we feel it is alive and well at Expeditors. If we get a 90-95% buyoff on people believing in our mission and our culture, which has not changed from day one, we are quite satisfied.

We continue to make great strides on the technology front with over 250 people in Seattle for programming, maintenance, and support and another 150 people globally for maintenance and support. Because of their dedication, we are a leader in our field.

Capital expenditures for last year and next will go toward continual upgrade of hardware and facilities. We will remain non-asset based, as always, and maintain our independence.

It was a tough year, and since our inception they all have been. It was rough but extremely gratifying. As always we thank our loyal customers, carriers, vendors, shareholders and above all else the people who work here and continue to strive for excellence. Thank you one and all.

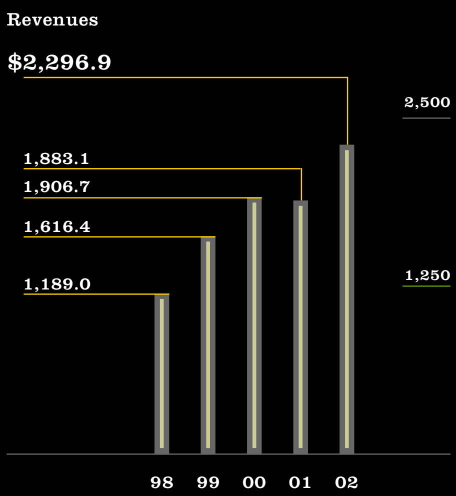
Peter J. Rose

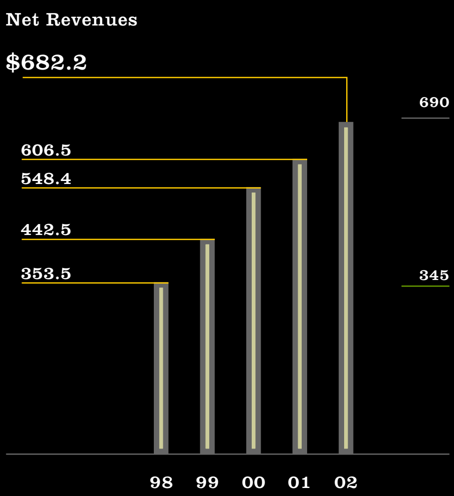
Peter J. Rose, Chairman and Chief Executive Officer

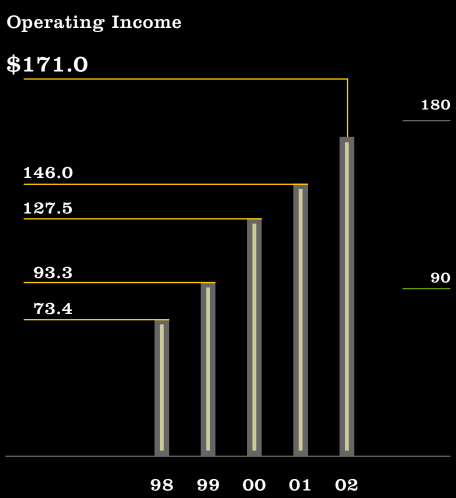
2002 Financial Review

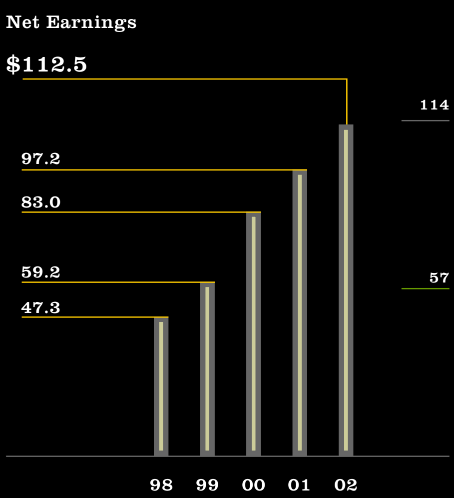
Financial Charts

Dollars in millions
1998-2002









Financial Highlights

In thousands except per share data	2002	2001	2000	1999	1998
Revenues	$ 2,296,903	1,883,070	1,906,726	1,616,383	1,189,044
Net earnings	112,529	97,243	83,035	59,175	47,274
Basic earnings per share	1.08	.93	.81	.59	.48
Diluted earnings per share	1.03	.89	.76	.55	.45
Cash dividends paid per share	.12	.10	.07	.05	.04
Working capital	249,350	237,443	222,829	149,633	94,601
Total assets	879,948	688,437	661,740	535,461	419,493
Shareholders' equity	523,812	414,623	361,784	282,385	217,198
Basic weighted average shares outstanding	103,893	104,160	102,305	100,274	98,468
Diluted weighted average shares outstanding	108,881	109,741	109,358	107,656	106,116

All share and per share information have been adjusted to reflect two 2-for-1 stock splits effected in June, 2002 and May, 1999.

Consolidated Balance Sheets

In thousands except share data December 31,	2002	2001
Current Assets:		
Cash and cash equivalents	$ 211,859	218,677
Short-term investments	87	57
Accounts receivable, less allowance for doubtful accounts of $12,135 in 2002 and $10,410 in 2001	385,864	283,414
Other	7,676	9,109
Total current assets	605,486	511,257
Property and Equipment:		
Buildings and leasehold improvements	112,512	89,179
Furniture, fixtures, equipment and purchased software	120,487	111,585
Vehicles	3,514	3,685
	236,513	204,449
Less accumulated depreciation and amortization	113,683	100,611
	122,830	103,838
Land	82,136	20,007
Net property and equipment	204,966	123,845
Goodwill, net	5,299	5,299
Deferred Federal and state income taxes	11,008	12,156
Other assets, net	53,189	35,880
	$ 879,948	688,437

In thousands except share data

December 31,	2002	2001
Current Liabilities:		
Short-term debt	$ 1,319	1,706
Accounts payable	248,302	195,826
Accrued expenses, primarily salaries and related costs	79,847	59,843
Deferred Federal and state income taxes	9,678	7,651
Federal, state, and foreign income taxes	16,990	8,788
Total current liabilities	356,136	273,814
Shareholders' Equity:		
Preferred stock, par value $.01 per share		
Authorized 2,000,000 shares; none issued	–	–
Common stock, par value $.01 per share		
Authorized 320,000,000 shares;		
issued and outstanding 104,220,940 shares		
at December 31, 2002 and 103,223,708 shares		
at December 31, 2001	1,042	1,032
Additional paid-in capital	21,701	15,588
Retained earnings	512,036	411,992
Accumulated other comprehensive loss	(10,967)	(13,989)
Total shareholders' equity	523,812	414,623
Commitments and contingencies		
	$ 879,948	688,437

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Earnings

In thousands except share data

Years ended December 31,	2002	2001	2000
Revenues:			
Airfreight	$ 1,206,057	971,980	1,053,461
Ocean freight and ocean services	728,174	590,684	542,411
Customs brokerage and import services	362,672	320,406	310,854
Total revenues	2,296,903	1,883,070	1,906,726
Operating Expenses:			
Airfreight consolidation	921,103	717,478	828,033
Ocean freight consolidation	564,060	451,803	427,437
Customs brokerage and import services	129,527	107,253	102,901
Salaries and related costs	359,769	325,545	290,581
Rent and occupancy costs	40,816	36,294	29,253
Depreciation and amortization	22,725	23,544	22,481
Selling and promotion	19,796	20,163	20,231
Other	68,098	54,973	58,285
Total operating expenses	2,125,894	1,737,053	1,779,202
Operating income	171,009	146,017	127,524

In thousands except share data Years ended December 31,	2002	2001	2000
Other Income (Expense):			
Interest income	6,299	9,201	6,327
Interest expense	(178)	(521)	(432)
Other, net	860	(403)	(71)
Other income, net	6,981	8,277	5,824
Earnings before income taxes	177,990	154,294	133,348
Income tax expense	65,461	57,051	50,313
Net earnings	$ 112,529	97,243	83,035
Basic earnings per share	$ 1.08	.93	.81
Diluted earnings per share	$ 1.03	.89	.76
Weighted average basic shares outstanding	103,892,827	104,159,504	102,305,240
Weighted average diluted shares outstanding	108,881,369	109,741,340	109,358,036

See accompanying notes to consolidated financial statements.

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

Consolidated Statements of Shareholders' Equity and Comprehensive Income

In thousands except share data

Years ended December 31, 2002, 2001 and 2000	Common Stock Shares	Common Stock Par Value	Additional Paid–in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 1999	101,288,814	$ 1,013	29,223	257,198	(5,049)	282,385
Exercise of stock options	1,711,610	17	4,825	–	–	4,842
Issuance of shares under stock purchase plan	408,036	4	5,395	–	–	5,399
Shares repurchased under provisions of stock repurchase plan	(506,134)	(5)	(11,497)	–	–	(11,502)
Tax benefits from employee stock plans	–	–	8,926	–	–	8,926
Comprehensive income						
Net earnings	–	–	–	83,035	–	83,035
Foreign currency translation adjustments, net of deferred tax credit of $2,217	–	–	–	–	(4,117)	(4,117)
Total comprehensive income	–	–	–	–	–	78,918
Dividends paid ($.07 per share)	–	–	–	(7,184)	–	(7,184)
Balance at December 31, 2000	102,902,326	$ 1,029	36,872	333,049	(9,166)	361,784
Exercise of stock options	2,548,826	25	8,062	–	–	8,087
Issuance of shares under stock purchase plan	341,828	4	7,188	–	–	7,192
Shares repurchased under provisions of stock repurchase plans	(2,569,272)	(26)	(52,397)	(7,891)	–	(60,314)
Tax benefits from employee stock plans	–	–	15,863	–	–	15,863
Comprehensive income						
Net earnings	–	–	–	97,243	–	97,243
Foreign currency translation adjustments, net of deferred tax credit of $2,597	–	–	–	–	(4,823)	(4,823)
Total comprehensive income	–	–	–	–	–	92,420
Dividends paid ($.10 per share)	–	–	–	(10,409)	–	(10,409)
Balance at December 31, 2001	103,223,708	$ 1,032	15,588	411,992	(13,989)	414,623
Exercise of stock options	1,222,608	12	8,187	–	–	8,199
Issuance of shares under stock purchase plan	358,940	4	8,557	–	–	8,561
Shares repurchased under provisions of stock repurchase plans	(584,316)	(6)	(16,589)	–	–	(16,595)
Tax benefits from employee stock plans	–	–	5,958	–	–	5,958
Comprehensive income						
Net earnings	–	–	–	112,529	–	112,529
Foreign currency translation adjustments, net of deferred tax debit of $1,627	–	–	–	–	3,022	3,022
Total comprehensive income	–	–	–	–	–	115,551
Dividends paid ($.12 per share)	–	–	–	(12,485)	–	(12,485)
Balance at December 31, 2002	104,220,940	$ 1,042	21,701	512,036	(10,967)	523,812

See accompanying notes to consolidated financial statements.

Note: All share and per share amounts have been adjusted to reflect a 2–for–1 stock split effected in June 2002.

Consolidated Statements of Cash Flows

In thousands / Years ended December 31,	2002	2001	2000
Operating Activities:			
Net earnings	$ 112,529	97,243	83,035
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Provision for losses on accounts receivable	2,382	297	4,043
Depreciation and amortization	22,725	23,544	22,481
Deferred income tax expense (benefit)	(687)	2,377	1,203
Tax benefits from employee stock plans	5,958	15,863	8,926
Gain on sale of property and equipment	(1,696)	(169)	(35)
Amortization of cost in excess of net assets of acquired businesses and other intangible assets	950	1,074	920
Impairment write down of other assets	3,502	–	–
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	(99,152)	64,772	(34,399)
Increase (decrease) in accounts payable, accrued expenses and taxes payable	71,089	(32,774)	57,805
Other	(1,107)	(4,613)	10,479
Net cash provided by operating activities	116,493	167,614	154,458

In thousands — Years ended December 31,	2002	2001	2000
Investing Activities:			
Decrease (increase) in short-term investments	(31)	1,698	(818)
Purchase of property and equipment	(81,427)	(37,382)	(25,582)
Proceeds from sale of property and equipment	4,151	789	702
Cash paid for note receivable secured by real estate	(4,262)	(10,208)	–
Cash held in escrow for real estate acquisition	(31,250)	–	–
Other	(333)	(7,754)	(3,783)
Net cash used in investing activities	(113,152)	(52,857)	(29,481)
Financing Activities:			
Repayments of short-term debt, net	(395)	(2,632)	(14,501)
Proceeds from issuance of common stock	16,760	15,279	10,241
Repurchases of common stock	(16,595)	(60,314)	(11,502)
Dividends paid	(12,485)	(10,409)	(7,184)
Net cash used in financing activities	(12,715)	(58,076)	(22,946)
Effect of exchange rate changes on cash	2,556	(7,009)	(4,209)
Increase (decrease) in cash and cash equivalents	(6,818)	49,672	97,822
Cash and cash equivalents at beginning of year	218,677	169,005	71,183
Cash and cash equivalents at end of year	$ 211,859	218,677	169,005
Interest and Taxes Paid:			
Interest	$ 176	524	208
Income taxes	37,111	41,825	19,442

See accompanying notes to consolidated financial statements.

Non-Cash Investing Activities – A note receivable of $14,470 was applied toward the purchase of land and a building in 2002.

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.

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. Cash Equivalents

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

C. Short-term Investments

Short-term investments are designated as available-for-sale and cost approximates market at December 31, 2002 and 2001.

D. Accounts Receivable

The Company maintains an allowance for doubtful accounts, which is reviewed at least monthly for estimated losses resulting from the inability of its customers to make required payments for services. Additional allowances may be necessary in the future if the ability of its customers to pay deteriorates.

E. Long-Lived Assets, Depreciation and Amortization

Property and equipment are recorded at cost 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, equipment and purchased software	3 to 5 years
Vehicles	3 to 5 years

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.

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, purchased goodwill and intangible assets with indefinite useful lives will no longer be amortized but will be subject to annual impairment tests in accordance with the provisions of the statements.

The Company applied the new rules on accounting for goodwill and intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of SFAS No. 142 did not have a material effect on the Company's financial statements. Goodwill amortization expense was $161 during each of the years ended December 31, 2001 and 2000. The Company performed the required initial impairment test of goodwill as of January 1, 2002 and determined there was no impact on the consolidated earnings and financial position of the Company at that time.

Effective January 1, 2002, the Company ceased to amortize goodwill. Goodwill is recorded net of accumulated amortization of $765 at December 31, 2002 and 2001. For the year ended December 31, 2002, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While this standard supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that standard. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business.

Intangible assets with estimable useful lives are amortized over their respective useful lives, and reviewed for impairment in accordance with SFAS No. 144. The Company adopted the provisions of SFAS No. 144 beginning in the first quarter of 2002. Adoption of SFAS No. 144 had no impact on the consolidated earnings and financial position of the Company.

Other intangible assets consist principally of payments made to purchase customer lists of former agents in countries where the Company established its own presence by opening its own offices. Other intangible assets are included in Other Assets, net and are amortized over their estimated useful lives for periods up to 15 years. Balances as of December 31 are as follows:

	2002	2001
Identifiable intangible assets	$ 15,764	15,714
Less accumulated amortization	(6,044)	(5,094)
	$ 9,720	10,620
Aggregate amortization expense for the year ended December 31	$ 950	913

Estimated annual amortization expense will approximate $967 during each of the next five years.

F. Revenues and Revenue Recognition

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

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

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). In each case the Company is acting as an indirect carrier. When acting as an indirect carrier, the Company will issue a House Airway Bill (HAWB) or a House Ocean Bill of Lading (HOBL) to customers as the contract of carriage. In turn, when the freight is physically tendered to a direct carrier, the Company receives a contract of carriage known as a Master Airway Bill for airfreight shipments and a Master Ocean Bill of Lading for ocean shipments. At this point, the risk of loss passes to the carrier, however, in order to claim for any such loss, the customer is first obligated to pay the freight charges.

Based upon the terms in the contract of carriage, revenues related to shipments where the Company issues an HAWB or an HOBL are recognized at the time the freight is tendered to the direct carrier at origin. Costs related to the shipments are also recognized at this same time.

Revenues realized in other capacities, for instance, when the Company acts as an agent for the shipper, and does not issue an HAWB or an HOBL, include only the commissions and fees earned for the services performed. These revenues are recognized upon completion of the services.

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

Arranging international shipments is a complex task. Each actual movement can require multiple services. In some instances, the Company is asked to perform only one of these services. However, in most instances, the Company may perform multiple services. These services include destination breakbulk services and value added ancillary services such as local transportation, export customs formalities, distribution services and logistics management. Each of these services has an associated fee, which is recognized as revenue upon completion of the service.

Typically, the fees for each of these services are quoted as separate components, however, customers on occasion will request an all-inclusive rate for a set of services known in the industry as "door-to-door service." This means that the customer is billed a single rate for all services from pickup at origin to delivery at destination. In these instances, the revenue for origin and destination services, as well as revenue that will be characterized as freight charges, is allocated to branches as set by preexisting Company policy perhaps supplemented by customer specific negotiations between the offices involved. Each of the Company's branches are independent profit centers and the primary compensation for the branch management group comes in the form of incentive-based compensation calculated directly from the operating income of that branch. This compensation structure ensures that the allocation of revenue and expense among components of services, when provided under an all-inclusive rate, are done in an objective manner on a fair value basis, in accordance with Emerging Issues Task Force (EITF) 00-21, "Revenue Arrangements with Multiple Deliverables."

In November 2001, the FASB staff issued Topic D-103 (subsequently recharacterized as EITF 01-14), "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred." This staff announcement clarified certain provisions of EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," and among other things established when reimbursements are required to be shown gross as opposed to net. EITF 01-14 also directed that the new rules should be applied in financial reporting periods beginning after December 15, 2001. Beginning in the first quarter of 2002, the Company has complied with the guidance in EITF 01-14. Prior to the adoption of EITF 01-14, the Company recorded such reimbursements on a net basis. The Company has reclassified amounts in the 2001 and 2000 presentations to conform with the current presentation. The amounts reclassified resulted in an increase to Total Revenues and Transportation Costs of $230,437 in 2001 and $211,545 in 2000. There was no impact on net revenue nor was there any impact on operating income and net earnings as a result of this change.

G. 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, the tax effect of loss carryforwards and tax credit carryforwards. 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.

H. Net Earnings per Common Share

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.

I. Stock Option Plans

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. As the Company did not make a voluntary change to the fair value based method of accounting for stock-based employee compensation in 2002, the adoption of SFAS No. 148 did not have an impact on the Company's consolidated financial position and results of operations. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and will adopt the interim disclosure provisions for its financial reports beginning with the quarter ending March 31, 2003.

The Company applies APB Opinion No. 25, "Accounting for Stock Issued to Employees," 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 SFAS No. 123, the Company's net earnings, basic earnings per share and diluted earnings per share would have been reduced to the pro forma amounts indicated below:

	2002	2001	2000
Net earnings – as reported	$ 112,529	97,243	83,035
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(18,873)	(14,309)	(9,945)
Net earnings – pro forma	$ 93,656	82,934	73,090
Basic earnings per share – as reported	$ 1.08	.93	.81
Basic earnings per share – pro forma	$ .90	.80	.71
Diluted earnings per share – as reported	$ 1.03	.89	.76
Diluted earnings per share – pro forma	$ .89	.78	.69

See Note 5C. for information on the assumptions used to estimate the fair value of option grants.

J. 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 components of other comprehensive income as 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. Such hedging activity during 2002, 2001 and 2000 was insignificant. Net foreign currency gains realized during 2002 were $70. Net foreign currency losses realized during 2001 were $366. Net foreign currency gains realized during 2000 were $309.

K. Comprehensive Income

Comprehensive income consists of net income and other gains and losses affecting shareholders' equity that, under generally accepted accounting principles in the United States, are excluded from net income. For the Company, these consist of foreign currency translation gains and losses, net of related income tax effects.

L. Segment Reporting

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 in each of these geographical areas when evaluating effectiveness of geographic management. The Company charges its subsidiaries and affiliates for services rendered in the United States on a cost recovery basis. Transactions among the Company's various offices are conducted using the same arms-length pricing methodologies the Company uses when its offices transact business with independent agents.

M. 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.

N. Reclassification

Certain prior year amounts have been reclassified to conform with the 2002 presentation.

O. New Accounting Pronouncements

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and/or normal use of the asset. The Company is required and plans to adopt the provisions of SFAS No. 143 beginning in the first quarter of 2003. Management does not anticipate that adoption of SFAS No. 143 will result in a significant impact on the Company's consolidated financial condition or results of operations.

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is required and plans to adopt the provisions of SFAS No. 146 beginning in the first quarter of 2003. Management does not anticipate that adoption of SFAS No. 146 will result in a significant impact on the Company's consolidated financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The provisions of FIN 45 require the Company to value and record the liability for any indirect or direct guarantees of the indebtedness of others entered into after December 31, 2002. The Company does not expect compliance with FIN 45 to have a material impact on its consolidated financial position or results of operations.

Note 2.

Other Assets

Other assets at December 31, 2002 included $31,250 paid into escrow in anticipation of purchasing an office and warehouse facility near the San Francisco, California International Airport. This transaction closed on January 7, 2003.

During the fourth quarter of 2002, the Company evaluated the recoverability of certain other assets and determined that an impairment had occurred. Accordingly, a $3,502 loss was recorded as an operating expense.

Note 3.

Credit Arrangements

The Company has a $50,000 United States bank line of credit extending through July 1, 2003. Borrowings under the line bear interest at LIBOR + .75% (2.25% at December 31, 2002) and are unsecured. As of December 31, 2002, the Company had no 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 totaling $10,284 and $9,396 at December 31, 2002 and 2001, respectively, bear interest at rates up to 3% over the foreign banks' equivalent prime rates. At December 31, 2002 and 2001, the Company was liable for $1,319 and $1,706, respectively, of borrowings under these lines, and at December 31, 2002 was contingently liable for approximately $39,138 under outstanding standby letters of credit and guarantees related to these lines of credit and other obligations.

In addition, at December 31, 2002 the Company had an $8,052 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, 2002 for $8,052 used to secure customs bonds issued to foreign governments.

At December 31, 2002, 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 4.

Income Taxes

Income tax expense for 2002, 2001 and 2000 includes the following components:

	Federal	State	Foreign	Total
2002				
Current	$ 18,937	3,120	38,133	60,190
Deferred	4,067	1,204	–	5,271
	$ 23,004	4,324	38,133	65,461
2001				
Current	$ 9,921	2,806	26,084	38,811
Deferred	16,511	1,729	–	18,240
	$ 26,432	4,535	26,084	57,051
2000				
Current	$ 9,717	2,802	27,665	40,184
Deferred	7,975	2,154	–	10,129
	$ 17,692	4,956	27,665	50,313

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:

	2002	2001	2000
Computed "expected" tax expense	$ 62,297	54,003	46,672
Increase (reduction) in income taxes resulting from:			
State income taxes, net of Federal income tax benefit	2,810	2,948	3,221
Decrease in valuation allowance for deferred tax assets	(1)	(7)	(68)
Other, net	355	107	488
	$ 65,461	57,051	50,313

The components of earnings before income taxes are as follows:

	2002	2001	2000
United States	$ 46,054	46,684	34,176
Foreign	131,936	107,610	99,172
	$ 177,990	154,294	133,348

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, 2002 and 2001 are as follows:

Years ended December 31,	2002	2001
Deferred Tax Assets:		
Foreign tax credits related to unremitted foreign earnings	$ 64,718	49,957
Accrued intercompany and third party charges, deductible for taxes upon economic performance (i.e. actual payment)	3,149	2,867
Foreign currency translation adjustment	6,139	7,766
Provision for doubtful accounts receivable	2,262	2,115
Excess of financial statement over tax depreciation	4,266	3,826
Other	1,151	1,112
Total gross deferred tax assets	81,685	67,643
Less valuation allowance	–	(1)
	81,685	67,642
Deferred Tax Liabilities:		
Unremitted foreign earnings	(71,800)	(55,887)
Other	(8,555)	(7,250)
Total gross deferred tax liabilities	$ (80,355)	(63,137)
Net deferred tax assets	$ 1,330	4,505
Plus current deferred tax liabilities	$ 9,678	7,651
Noncurrent deferred tax assets	$ 11,008	12,156

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 5.

Shareholders' Equity

A. Dividends

On May 8, 2002, 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 320,000,000 shares. The stock dividend was distributed on June 24, 2002 to shareholders of record on June 10, 2002. All share and per share information, except par value per share, has been adjusted for all years to reflect the stock split.

B. Stock Repurchase Plans

The Company has a Non-Discretionary Stock Repurchase Plan under which management is authorized to repurchase up to 10,000,000 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, 2002, the Company had repurchased and retired 5,257,703 shares of common stock at an average price of $12.34 per share over the period from 1994 through 2002.

In September 2001, the Board of Directors approved a Discretionary Stock Repurchase Plan to repurchase and retire 2,000,000 shares of common stock. As of October 11, 2001, all 2,000,000 shares had been repurchased and retired under the plan at an average price of $22.56 per share. In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Plan to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2002, no further shares had been repurchased under the amended discretionary plan.

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 200,000 per person per year. Grants less than or equal to 40,000 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 40,000 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 under the 1997 Plan vest completely in 3 years, and expire no later than 5 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 16,000 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, 1999	376,456	3,267,400	112,000	11,449,710	$ 6.74
Options granted	(190,000)	(1,562,500)	(64,000)	1,816,500	$ 19.04
Options exercised	–	–	–	(1,711,610)	$ 2.83
Options canceled	137,000	273,850	–	(410,850)	$ 11.87
Balance at December 31, 2000	323,456	1,978,750	48,000	11,143,750	$ 9.15
Options authorized	–	5,000,000	400,000	–	$ –
Options granted	(220,000)	(2,060,800)	(64,000)	2,344,800	$ 25.05
Options exercised	–	–	–	(2,548,826)	$ 3.18
Options canceled	–	271,200	–	(271,200)	$ 16.64
Balance at December 31, 2001	103,456	5,189,150	384,000	10,668,524	$ 13.89
Options granted	(100,000)	(2,515,050)	(64,000)	2,679,050	$ 28.61
Options exercised	–	–	–	(1,222,608)	$ 6.71
Options canceled	–	224,850	–	(224,850)	$ 21.32
Balance at December 31, 2002	3,456	2,898,950	320,000	11,900,116	$ 17.80

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:

	2002	2001	2000
Dividend yield	.41%	.38%	.48%
Volatility	49%	51%	51%
Risk-free interest rates	2.0 – 5.2%	3.6 – 5.4%	5.1 – 6.4%
Expected life (years) – stock option plans	4.9 – 8.4	5.2 – 8.5	5.6
Expected life (years) – stock purchase rights plan	1	1	1
Weighted average fair value of stock options granted during the year	$ 13.45	12.68	9.81
Weighted average fair value of stock purchase rights	$ 7.88	8.79	8.95

The following table summarizes information about fixed-price stock options outstanding at December 31, 2002:

Range of Exercise Price	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
$ 1.60 – 3.88	1,834,400	2.3 years	$ 2.80	1,834,400	$ 2.80
$ 6.27 – 14.63	1,972,616	5 years	$ 9.47	1,583,116	$ 9.10
$ 16.04 – 18.95	3,165,950	6.8 years	$ 17.51	728,950	$ 16.04
$ 20.69 – 26.85	2,226,200	8.3 years	$ 24.74	64,000	$ 20.69
$ 28.58 – 34.30	2,700,950	9.3 years	$ 28.69	128,000	$ 30.44
$ 1.60 – 34.30	11,900,116	6.7 years	$ 17.80	4,338,466	$ 8.40

The number of stock options exercisable at December 31, 2001 and 2000, were respectively, 3,983,924, at a weighted average exercise price of $5.78 per share, and 5,194,000, at a weighted average exercise price of $3.39 per share.

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 2002, 2001 and 2000.

	Net Earnings	Weighted Average Shares	Earnings Per Share
2002			
Basic earnings per share	$ 112,529	103,892,827	$ 1.08
Effect of dilutive potential common shares	–	4,988,542	–
Diluted earnings per share	$ 112,529	108,881,369	$ 1.03
2001			
Basic earnings per share	$ 97,243	104,159,504	$ .93
Effect of dilutive potential common shares	–	5,581,836	–
Diluted earnings per share	$ 97,243	109,741,340	$ .89
2000			
Basic earnings per share	$ 83,035	102,305,240	$ .81
Effect of dilutive potential common shares	–	7,052,796	–
Diluted earnings per share	$ 83,035	109,358,036	$ .76

For the years ended December 31, 2002, 2001 and 2000, options to purchase 76,600 shares, 66,400 shares and 5,900 shares, respectively, of common stock with exercise prices greater than the average fair market value of our stock for the period of $29.58, $26.76 and $22.51, respectively, were not included in the computation of diluted earnings per share because the effect would have been antidilutive.

E. Stock Purchase Plan

In May 2002, the shareholders approved the Company's 2002 Employee Stock Purchase Plan ("2002 Plan"), which became effective August 1, 2002 upon the expiration of the 1988 Employee Stock Purchase Plan ("1988 Plan") on July 31, 2002. The Company's 2002 Plan provides for 2,152,726 shares of the Company's common stock, including 152,726 remaining shares transferred from the 1988 Plan, 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, 2002, $5,262 had been withheld in connection with the 2002 Plan year ending July 31, 2003.

Note 6.

Fair Value of Financial Instruments

The Company's financial instruments, other than cash, consist primarily of cash equivalents, short-term investments, accounts receivable, short-term debt, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying amounts based upon market interest rates or their short-term nature.

Note 7.

Commitments

A. Leases

The Company occupies office and warehouse facilities under terms of operating leases expiring up to 2010. Total rent expense for 2002, 2001 and 2000 was $28,147, $24,323 and $19,390, respectively. At December 31, 2002, future minimum annual lease payments under all leases are as follows:

2003	$ 29,769
2004	20,915
2005	11,390
2006	6,213
2007	5,131
Thereafter	10,466
	$ 83,884

B. Employee Benefits

The Company has employee savings plans under which the Company provides a discretionary matching contribution. In 2002, 2001, and 2000, the Company's contributions under the plans were $3,292, $2,937, and $2,596, respectively.

Note 8.

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.

Note 9.

Business Segment Information

Financial information regarding the Company's 2002, 2001, and 2000 operations by geographic area are as follows:

	United States	Other North America	Far East	Europe	Australia / New Zealand	Latin America	Middle East	Eliminations	Consolidated
2002									
Revenues from unaffiliated customers	$ 464,519	69,395	1,294,107	314,582	23,534	26,118	104,648	–	2,296,903
Transfers between geographic areas	30,032	2,278	6,090	9,398	4,041	3,356	2,824	(58,019)	–
Total revenues	$ 494,551	71,673	1,300,197	323,980	27,575	29,474	107,472	(58,019)	2,296,903
Net revenues	$ 274,230	39,234	204,299	112,136	15,103	10,732	26,479	–	682,213
Operating income	$ 40,009	9,401	90,917	18,215	3,521	1,553	7,393	–	171,009
Identifiable assets at year end	$ 436,439	40,262	144,877	210,849	14,553	7,696	25,272	–	879,948
Capital expenditures	$ 13,997	1,086	2,917	60,701	1,057	186	1,483	–	81,427
Depreciation and amortization	$ 12,386	1,393	2,796	4,079	571	529	971	–	22,725
Equity	$ 523,812	21,816	112,199	41,604	10,049	967	9,958	(196,593)	523,812
2001									
Revenues from unaffiliated customers	$ 476,134	52,126	958,698	272,460	17,688	24,708	81,256	–	1,883,070
Transfers between geographic areas	22,222	1,573	5,747	9,672	3,406	3,073	2,920	(48,613)	–
Total revenues	$ 498,356	53,699	964,445	282,132	21,094	27,781	84,176	(48,613)	1,883,070
Net revenues	$ 250,472	29,121	174,259	106,824	11,465	10,330	24,065	–	606,536
Operating income (loss)	$ 41,466	4,506	70,546	19,793	2,555	(197)	7,348	–	146,017
Identifiable assets at year end	$ 403,550	21,244	112,627	118,170	11,101	8,027	20,412	(6,694)	688,437
Capital expenditures	$ 12,194	1,486	2,717	17,009	654	1,087	2,235	–	37,382
Depreciation and amortization	$ 13,264	1,416	3,381	3,290	527	663	1,003	–	23,544
Equity	$ 414,623	5,303	96,664	31,031	8,369	334	7,971	(149,672)	414,623
2000									
Revenues from unaffiliated customers	$ 499,987	43,057	1,001,797	252,951	17,765	18,358	72,811	–	1,906,726
Transfers between geographic areas	22,437	1,255	3,866	9,649	3,235	2,772	3,025	(46,239)	–
Total revenues	$ 522,424	44,312	1,005,663	262,600	21,000	21,130	75,836	(46,239)	1,906,726
Net revenues	$ 241,844	24,172	138,671	103,725	11,289	8,331	20,323	–	548,355
Operating income	$ 38,569	3,210	53,595	23,682	2,321	1,422	4,725	–	127,524
Identifiable assets at year end	$ 352,737	21,215	119,056	115,631	11,040	9,531	19,676	12,854	661,740
Capital expenditures	$ 13,075	1,925	3,591	3,876	550	1,037	1,528	–	25,582
Depreciation and amortization	$ 12,529	1,106	3,712	3,187	542	342	1,063	–	22,481
Equity	$ 361,784	4,582	98,713	31,371	7,117	897	5,997	(148,677)	361,784

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

No single country outside the United States represented more than 10% of the Company's total revenue in any period presented with the exception of Hong Kong which represented 16%, 12% and 14% in 2002, 2001 and 2000, respectively, and Taiwan which represented 12% and 13% in 2001 and 2000, respectively. No single country outside of the United States represented more than 10% of the Company's total identifiable assets in any period presented with the exception of the United Kingdom which represented 12% in 2002.

Note 10.

Quarterly Results (Unaudited)

	1st	2nd	3rd	4th
2002				
Revenues	$ 449,540	535,756	620,394	691,213
Net revenues	146,706	156,144	177,761	201,602
Net earnings	22,230	23,684	30,619	35,996
Basic earnings per share	.22	.23	.29	.35
Diluted earnings per share	.20	.22	.28	.33
2001				
Revenues	$ 457,620	445,513	489,279	490,658
Net revenues	145,686	147,767	157,819	155,264
Net earnings	21,158	21,599	27,369	27,117
Basic earnings per share	.21	.21	.26	.26
Diluted earnings per share	.19	.20	.25	.25

Net revenues are determined by deducting freight consolidation costs from total revenues. The sum of 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, 2002 and 2001, 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, 2002. 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 auditing standards generally accepted in the United States of America. 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 as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Seattle, Washington
February 21, 2003

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 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.

Critical Accounting Policies and Estimates

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

Management believes that the nature of the Company's business is such that there are few, if any, complex challenges in accounting for operations. Revenue recognition is considered the critical accounting policy due to the complexity of arranging and managing global logistics and supply-chain management transactions.

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

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

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). In each case the Company is acting as an indirect carrier. When acting as an indirect carrier, the Company will issue a House Airway Bill (HAWB) or a House Ocean Bill of Lading (HOBL) to customers as the contract of carriage. In turn, when the freight is physically tendered to a direct carrier, the Company receives a contract of carriage known as a Master Airway Bill for airfreight shipments and a Master Ocean Bill of Lading for ocean shipments. At this point, the risk of loss passes to the carrier, however, in order to claim for any such loss, the customer is first obligated to pay the freight charges.

Based upon the terms in the contract of carriage, revenues related to shipments where the Company issues an HAWB or an HOBL are recognized at the time the freight is tendered to the direct carrier at origin. Costs related to the shipments are also recognized at this same time.

Revenues realized in other capacities, for instance, when the Company acts as an agent for the shipper, and does not issue an HAWB or an HOBL, include only the commissions and fees earned for the services performed. These revenues are recognized upon completion of the services.

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

Arranging international shipments is a complex task. Each actual movement can require multiple services. In some instances, the Company is asked to perform only one of these services. However, in most instances, the Company may perform multiple services. These services include destination breakbulk services and value added ancillary services such as local transportation, export customs formalities, distribution services and logistics management. Each of these services has an associated fee, which is recognized as revenue upon completion of the service.

Typically, the fees for each of these services are quoted as separate components, however, customers on occasion will request an all-inclusive rate for a set of services known in the industry as "door-to-door service." This means that the customer is billed a single rate for all services from pickup at origin to delivery at destination. In these instances, the revenue for origin and destination services, as well as revenue that will be characterized as freight charges, is allocated to branches as set by preexisting Company policy perhaps supplemented by customer specific negotiations between the offices involved. Each of the Company's branches are independent profit centers and the primary compensation for the branch management group comes in the form of incentive-based compensation calculated directly from the operating income of that branch. This compensation structure ensures that the allocation of revenue and expense among components of services, when provided under an all-inclusive rate, are done in an objective manner on a fair value basis, in accordance with Emerging Issues Task Force (EITF) 00-21, "Revenue Arrangements with Multiple Deliverables."

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

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

In addition, certain undistributed earnings of the Company's subsidiaries accumulated through December 31, 1992 would, under most circumstances, be subject to some additional United States income tax if distributed to the Company. The Company has not provided for this additional income tax 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. Management believes that the methods utilized in all of these areas are non-aggressive in approach and consistent in application. Management believes that there are limited, if any, alternative accounting principles or methods which could be applied to the Company's transactions. While the use of estimates means that actual future results may be different from those contemplated by the estimates, the Company believes that alternative principles and methods used for making such estimates would not produce materially different results than those reported.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 142, "Goodwill and Other Intangible Assets" effective for fiscal years beginning after December 15, 2001. Under the new rules, purchased goodwill and intangible assets with indefinite useful lives will no longer be amortized but will be subject to annual impairment tests in accordance with the provisions of the statements. Intangible assets with estimable useful lives are amortized over their respective useful lives, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." The Company applied the new rules on accounting for goodwill and intangible assets beginning in the first quarter of 2002. Application of the non-amortization provisions of SFAS No. 142 did not have a material effect on the Company's financial statements. The Company performed the required initial impairment test of goodwill as of January 1, 2002 and determined there was no impact on the consolidated earnings and financial position of the Company at that time. For the year ended December 31, 2002, the Company performed the required annual impairment test during the fourth quarter and determined that no impairment had occurred.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations" which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and for the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction or development and/or normal use of the asset. The Company is required and plans to adopt the provisions of SFAS No. 143 beginning in the first quarter of 2003. Management does not anticipate that adoption of SFAS No. 143 will result in a significant impact on the Company's consolidated financial condition or results of operations.

In August 2001, SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" was issued which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While this standard supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of that standard. SFAS No. 144 also supersedes the accounting and reporting provisions of APB Opinion No. 30, "Reporting the Results of Operations – Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. The Company adopted the provisions of SFAS No. 144 beginning in the first quarter of 2002. Adoption of SFAS No. 144 had no impact on the consolidated earnings and financial position of the Company.

In November 2001, the FASB staff issued Topic D-103 (subsequently recharacterized as EITF 01-14), "Income Statement Characterization of Reimbursements Received for 'Out of Pocket' Expenses Incurred." This staff announcement clarified certain provisions of EITF 99-19 "Reporting Revenue Gross as a Principal versus Net as an Agent," and among other things established when reimbursements are required to be shown gross as opposed to net. EITF 01-14 also directed that the new rules should be applied in financial reporting periods beginning after December 15, 2001. The clarifying rules now require the Company to henceforth report certain reimbursed incidental activities on a gross rather than net basis. The Company has reclassified amounts in the 2001 and 2000 presentations to conform with the current presentation.

The following schedule shows the financial statement impact of the adoption by comparing the net amounts in the report on Form 10K filed on or about March 29, 2002, with the gross amounts reported in this annual report. There is no impact on net revenue, nor is there any impact on operating income or net earnings as a result of this change.

For the years ended December 31,	2001		2000	
	Net	Gross	Net	Gross
Revenues:				
Airfreight	$ 930,998	971,980	1,014,375	1,053,461
Ocean freight and ocean services	508,482	590,684	472,853	542,411
Customs brokerage and import services	213,153	320,406	207,953	310,854
Total Revenues	1,652,633	1,883,070	1,695,181	1,906,726
Costs:				
Airfreight	676,496	717,478	788,947	828,033
Ocean freight and ocean services	369,601	451,803	357,879	427,437
Customs brokerage and import services	–	107,253	–	102,901
Total Costs	1,046,097	1,276,534	1,146,826	1,358,371
Net Revenues	$ 606,536	606,536	548,355	548,355

In June 2002, SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" was issued which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." The Company is required and plans to adopt the provisions of SFAS No. 146 beginning in the first quarter of 2003. Management does not anticipate that adoption of SFAS No. 146 will result in a significant impact on the Company's consolidated financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which clarifies disclosure and recognition/measurement requirements related to certain guarantees. The disclosure requirements are effective for financial statements issued after December 15, 2002 and the recognition/measurement requirements are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The provisions of FIN 45 require the Company to value and record the liability for any indirect or direct guarantees of the indebtedness of others entered into after December 31, 2002. The Company does not expect compliance with FIN 45 to have a material impact on its consolidated financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure" which amends SFAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123 to require prominent disclosure in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. As the Company did not make a voluntary change to the fair value based method of accounting for stock-based employee compensation in 2002, the adoption of SFAS No. 148 did not have an impact on the Company's consolidated financial position and results of operations. The Company has adopted the annual disclosure provisions of SFAS No. 148 in its financial reports for the year ended December 31, 2002 and will adopt the interim disclosure provisions for its financial reports beginning with the quarter ending March 31, 2003.

Results of Operations

The following table shows the consolidated net revenues (revenues less transportation expenses) attributable to the Company's principal services and the Company's expenses for 2002, 2001, and 2000, expressed as percentages of net revenues. Management believes that net revenues are a better measure than total revenues of the relative importance of the Company's principal services since total revenues earned by the Company as a freight consolidator include the carriers' charges to the Company for carrying the shipment whereas revenues earned by the Company in its other capacities include only the commissions and fees actually earned by the Company.

	2002		2001		2000	
In thousands	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues	Amount	Percent of Net Revenues
Net Revenues:						
Airfreight	$ 284,954	42%	$ 254,502	42%	$ 225,428	41%
Ocean freight and ocean services	164,114	24	138,881	23	114,974	21
Customs brokerage and import services	233,145	34	213,153	35	207,953	38
Net revenues	682,213	100	606,536	100	548,355	100
Operating Expenses:						
Salaries and related costs	359,769	53	325,545	54	290,581	53
Other	151,435	22	134,974	22	130,250	24
Total operating expenses	511,204	75	460,519	76	420,831	77
Operating income	171,009	25	146,017	24	127,524	23
Other income, net	6,981	1	8,277	1	5,824	1
Earnings before income taxes	177,990	26	154,294	25	133,348	24
Income tax expense	65,461	10	57,051	9	50,313	9
Net earnings	$ 112,529	16%	$ 97,243	16%	$ 83,035	15%

2002 compared with 2001

Airfreight net revenues in 2002 increased 12% compared with 2001 primarily due to increased airfreight tonnages handled in 2002 as compared with 2001. Airfreight margins decreased approximately 2% during 2002 as compared with 2001 as a result of rate increases initiated by air carriers during the third and fourth quarters in response to excess air cargo demands associated with the west coast port disruptions. Efficient consolidations of dense and fluffy (volumetric) freight allowed the Company to optimize purchased transportation costs while still offering competitive rates to customers. The Company's North American export airfreight net revenues decreased 2% in 2002 compared to 2001. Airfreight net revenues from the Far East and from Europe increased 22% and 12%, respectively, for 2002 compared with 2001. Airfreight rates on Far East to North American trade lanes, the Company's most dominant lane, remained strong throughout 2002, and were particularly strong during the fourth quarter.

Ocean freight and ocean services net revenues increased 18% in 2002 compared to 2001. Ocean freight demand remained strong throughout 2002. Ocean freight rates from the Far East, the Company's largest trade lane fell throughout the year. Ocean freight volumes increased during the last half of 2002, despite a 10-day disruption in service at the ports located on the west coast of the United States. The aftermath of this disruption continued throughout the fourth quarter. Management believes that the Company's continued strong performance through this work disruption is a significant indication of both the strength of the Company's relationships with its vendors and the expertise of its staff. During 2002, management continued to expand market share, increase ocean tonnage, and increase net ocean freight revenues while offering competitive market rates to customers. Changes in the regulatory environment in the United States continued to create new opportunities for the Company's NVOCC operations to provide services to customers who had previously dealt directly with the ocean carriers.

Margins decreased 1% in 2002 as compared with 2001 because the Company reduced rates to increase volumes in response to an environment of falling prices which were a result of the overcapacity situation that existed in the ocean markets. The Company continued its focus of offering competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. Expeditors Cargo Management Systems (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 18% in 2002 compared to 2001. 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 21% and 14%, respectively, for 2002 compared with 2001.

Customs brokerage and import services net revenues increased 9% in 2002 as compared with 2001 as a result of the Company's growing reputation for providing high quality service and consolidation within the customs brokerage market as customers seek out customs brokers with more sophisticated computerized capabilities critical to an overall logistics management program.

Salaries and related costs increased in 2002 compared to 2001 as a result of (1) the Company's increased hiring of sales, operations, and administrative personnel in existing offices to accommodate increases in business activity and (2) increased compensation levels. Salaries and related costs decreased 1% 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 2002 are a result of the incentives inherent in the Company's compensation program.

Other operating expenses increased in 2002 as compared with 2001 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 2002 as compared with 2001. Management believes that this was significant as it reflects the successful achievement of cost containment objectives initiated at the branch level. The ability to sustain these savings into future periods is contingent upon branch level management's ability to adhere to these objectives. During the fourth quarter of 2002, the Company evaluated the recoverability of certain other assets and determined that an impairment had occurred. Accordingly, a $3.5 million loss was recorded as an operating expense.

Other income, net, decreased in 2002 as compared with 2001. Due to much lower interest rates on higher average cash balances and short-term investments during 2002, interest income decreased by $2.9 million. The decrease in interest income during the year ended December 31, 2002, was offset by a $1.5 million gain on the sale of the Company's former Dublin, Ireland facility.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2002 was 36.8%, down marginally from the 37% rate experienced in the prior year. The .2% decrease was caused primarily by a reduction in state tax expense required to be paid by the Company.

2001 compared with 2000

Airfreight net revenues in 2001 increased 13% compared with 2000 primarily due to the Company's ability to expand airfreight margins despite the lower airfreight tonnages, experienced in 2001 compared with 2000. Airfreight margins expanded approximately 5% during 2001 as compared with 2000 despite a 9% drop in worldwide airfreight tonnage in 2001. Efficient consolidations of dense and fluffy (volumetric) freight allowed the Company to optimize purchased transportation costs while still offering competitive rates to customers. The Company's North American export airfreight net revenues increased 4% in 2001 compared to 2000. Airfreight net revenues from the Far East and from Europe increased 24% and 5%, respectively, for 2001 compared with 2000. Airfreight rates on Far East to North American trade lanes, the Company's most dominant lane, remained strong throughout 2001.

Ocean freight and ocean services net revenues increased 21% in 2001 compared to 2000. Ocean freight demand remained strong throughout 2001 and ocean freight rates from the Far East, the Company's largest trade lane, increased in the last half of the year. During 2001, management continued to expand market share, increase ocean tonnage, and increase net ocean freight revenues while offering competitive market rates to customers. Changes in the regulatory environment in the United States continued to create new opportunities for the Company's NVOCC operations to provide services to customers who had previously dealt directly with the ocean carriers.

Margins increased 3% in 2001 as compared with 2000 reflecting the Company's ability to offer competitive rates to customers at the retail level, while leveraging freight volumes to obtain favorable rates from carriers at the wholesale level. ECMS continued to be instrumental in attracting new business. The Company's North American export ocean freight net revenues increased 10% in 2001 compared to 2000. 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 23% and 30%, respectively, for 2001 compared with 2000.

Customs brokerage and import services revenues increased 3% in 2001 as compared with 2000 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 36% of the increase in customs brokerage and import services revenues for 2001 compared with 2000.

Salaries and related costs increased in 2001 compared to 2000 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 1% 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 2001 are a result of the incentives inherent in the Company's compensation program.

Other operating expenses increased in 2001 as compared with 2000 as rent expense, communications expense, quality and training expenses, and other costs expanded to accommodate the Company's growing operations. Other operating expenses as a percentage of net revenues decreased 2% in 2001 as compared with 2000. Management believes that this decrease was significant as it reflects the successful achievement of cost containment objectives initiated at the branch level. The ability to sustain these savings into future periods is contingent upon branch level management's ability to adhere to these objectives.

Other income, net, increased in 2001 as compared to 2000 primarily due to interest income earned on higher cash balances and short-term investments in 2001. Management attributes higher cash balances, in large part, to the success of cash management and billing improvement initiatives.

The Company pays income taxes in the United States and other jurisdictions, as well as other taxes which are typically included in costs of operations. The Company's consolidated effective income tax rate in 2001 was 37%, down marginally from the 37.7% rate experienced in the prior year. The .7% decrease was caused primarily by a reduction in state tax expense required to be paid by the Company.

Currency and Other Risk Factors

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

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

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

The nature of the Company's worldwide operations necessitates the Company dealing with a multitude of currencies other than the U.S. Dollar. This results in the Company being exposed to the inherent risks of the international currency markets and governmental interference. Some of the countries where the Company maintains offices and/or agency relationships have strict currency control regulations which influence the Company's ability to hedge foreign currency exposure. The Company tries to compensate for these exposures by accelerating international currency settlements among its offices or agents. The Company enters into foreign currency hedging transactions only in limited locations where there are regulatory or commercial limitations on the Company's ability to move money freely around the world or the short-term financial outlook in any country is such that hedging is the most time-sensitive way to avoid short-term exchange losses. Any such hedging activity during 2002, 2001 and 2000 was insignificant. Net foreign currency gains realized in 2002 were $70,000. Net foreign currency losses realized during 2001 were $366,000. Net foreign currency gains realized during 2000 were $309,000.

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.

On January 1, 1999, eleven of fifteen member countries of the European Union, later joined by Greece in January 2001, 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 were issued and legacy currencies began to be withdrawn from circulation. The Company has worked diligently 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. The conversion costs were not material. The Company is unable to predict the resulting impact, if any, on the Company's consolidated financial statements of the change to one common currency within the European Union. The Company has not experienced any significant disruption as a result of this phased conversion.

Sources of Growth

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

Office Additions

The Company did not open any offices during 2002.

Internal Growth

Management believes that a comparison of "same store" growth is critical in the evaluation of the quality and extent of the Company's internally generated growth. This "same store" analysis isolates the financial contributions from offices that have been included in the Company's operating results for at least one full year. The table below presents "same store" comparisons on a year-over-year basis for the years ended December 31, 2002, 2001 and 2000.

Same store comparisons for the years ended December 31,

	2002	2001	2000
Net revenues	12%	7%	23%
Operating income	16%	13%	36%

Liquidity and Capital Resources

The Company's principal source of liquidity is cash generated from operating activities. Net cash provided by operating activities for the year ended December 31, 2002 was approximately $116 million, as compared with $168 million for 2001. This $52 million decrease is principally due to increased accounts receivable, offset by increased net earnings and increased accounts payable, accrued expenses and taxes payable.

The Company's business is subject to seasonal fluctuations. Cash flow fluctuates as a result of this seasonality. Historically, the first quarter shows an excess of customer collections over customer billings. This results in positive cash flow. The increased activity associated with peak season (typically commencing late second or early third quarter) causes an excess of customer billings over customer collections. This cyclical growth in customer receivables consumes available cash. In the past, the Company has utilized short-term borrowings to satisfy normal operating expenditures when temporary cash outflows exceed cash inflows. These short-term borrowings have been repaid when the trend reverses and customer collections exceed customer billings. During 2002, short-term borrowings were not required in the United States; the market where cash flow pressures are most intense due to funds advanced in association with customs brokerage activity.

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

Cash used in investing activities for the year ended December 31, 2002 was $113 million, as compared with $53 million during the same period of 2001. The largest use of cash in investing activities is cash paid for capital expenditures. For the year ended December 31, 2002, the Company made capital expenditures of $81 million as compared with $37 million for the same period in 2001. Capital expenditures in 2002 included $59 million for acquisitions of real estate and office/warehouse facilities in New Jersey and the United Kingdom. Capital expenditures in 2001 related primarily to investments in technology and office furniture and equipment. Cash of $31.3 million was paid into escrow during 2002 to acquire an office and warehouse facility near the San Francisco, California International Airport; the transaction closed on January 7, 2003.

Cash used in financing activities for the year ended December 31, 2002 was $13 million as compared with cash used in financing activities of $58 million for the same period in 2001. In 2002, the Company paid down $0.4 million on short-term debt, as compared with $3 million for the same period of 2001. The Company uses the proceeds from stock option exercises to repurchase the Company's stock on the open market. The differences between proceeds from the issuance of common stock and the amounts paid to repurchase common stock for the years ended December 31, 2002 and 2000 represent a timing difference in the receipt of proceeds and the subsequent repurchase of outstanding shares. During the third quarter of 2001, the Board of Directors authorized management to repurchase 2,000,000 shares of the Company's common stock. The difference between proceeds from the issuance of common stock and the amounts paid to repurchase common stock for the year ended December 31, 2001 is primarily due to the repurchase of stock under the discretionary plan authorized by the Board of Directors in September 2001. The repurchase of all 2,000,000 shares was completed on October 11, 2001 at an average price of $22.56 per share. In November 2001, the Board of Directors expanded the Company's Discretionary Stock Repurchase Program to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2002, no further shares had been repurchased under the amended discretionary plan.

At December 31, 2002, working capital was $249 million, including cash and short-term investments of $212 million. The Company had no long-term debt at December 31, 2002. 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. Excluding the acquisition of the office and warehouse facility near the San Francisco, California International Airport, described earlier, the Company currently expects to spend approximately $35 million for normal capital expenditures. In addition to property and equipment, normal capital expenditures include leasehold improvements, warehouse equipment, computer hardware and furniture and fixtures. The Company expects to finance capital expenditures in 2003, with cash.

The Company borrows internationally and domestically under unsecured bank lines of credit. During the third quarter of 2002, the Company entered into an unsecured line of credit agreement with a U.S. financial institution. At December 31, 2002, the U.S. facility totaled $50 million and the international bank lines of credit totaled $10.3 million. In addition, the Company maintains a bank facility with its U.K. bank for $8.1 million. At December 31, 2002, the Company was directly liable for $1.3 million drawn on these lines of credit and was contingently liable for an additional $39.1 million from standby letters of credit and guarantees related to these lines of credit and other obligations.

At December 31, 2002, the Company's contractual obligations and other commitments are as follows:

In thousands	Payments Due by Period Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Contractual Obligations:					
Operating leases	$ 83,884	29,769	38,518	8,508	7,089
Unconditional purchase obligations	205,840	185,040	20,800	–	–
Total contractual cash obligations	$ 289,724	214,809	59,318	8,508	7,089

In thousands	Amount of Commitment Expiration Per Period Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Other Commitments:					
Lines of credit	$ 60,284	60,113	171	–	–
Credit facility	8,052	8,000	–	–	52
Standby letters of credit	39,137	35,988	521	–	2,628
Total commitments	$ 107,473	104,101	692	–	2,680

The Company has a Non-Discretionary Stock Repurchase Plan to repurchase shares from the proceeds of stock option exercises. As of December 31, 2002, the Company had repurchased and retired 5,257,703 shares of common stock at an average price of $12.34 per share over the period from 1994 through 2002.

The Company also has a Discretionary Stock Repurchase Plan under which it retired 2,000,000 shares of common stock as of October 11, 2001, at an average price of $22.56 per share. In November 2001, this plan was expanded to allow for the repurchase of such shares as may be necessary to reduce the issued and outstanding stock to 100,000,000 shares of common stock. As of December 31, 2002, no further shares had been repurchased under the amended discretionary plan.

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 may be subject to foreign exchange controls. At December 31, 2002, cash and cash equivalent balances of $121.4 million were held by the Company's non-U.S. subsidiaries, of which $47.1 million was held in banks in the United States. In addition, certain undistributed earnings of the Company's subsidiaries accumulated through December 31, 1992 would, under most circumstances, be subject to some additional United States income tax if distributed to the Company. Such undistributed earnings are approximately $41.9 million and the additional Federal and state taxes payable in a hypothetical distribution of such accumulated earnings would approximate $10.1 million. The Company has not provided for this additional tax 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.

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 limited 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 implementation of the Euro as the primary currency of 12 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.

Directors and Executive Officers

Directors

Peter J. Rose	Chairman of the Board and Chief Executive Officer, Director
James L. K. Wang	President – Asia, Director
R. Jordan Gates	Executive Vice President – Chief Financial Officer and Treasurer, Director
James J. Casey	Director
Dan P. Kourkoumelis	Director
Michael J. Malone	Director, Chairman, DMX Music, Inc.
John W. Meisenbach	Director, President, MCM Financial, A Financial Services Company

Executive Officers

Glenn M. Alger	President and Chief Operating Officer
Sandy K. Y. Liu	Chief Operating Officer – Asia
Timothy C. Barber	Executive Vice President – Global Sales
Rommel C. Saber	Executive Vice President – Europe, Africa and Near/Middle East
Robert L. Villanueva	Executive Vice President – The Americas
Eugene K. Alger	Senior Vice President – North America
L. Manfred Amberger	Senior Vice President – Continental Europe
Jean Claude Carcaillet	Senior Vice President – Australasia
William J. Coogan	Senior Vice President – Ocean Cargo
Philip M. Coughlin	Senior Vice President – North America
Rosanne Esposito	Senior Vice President – Global Customs
Roger Idiart	Senior Vice President – Air Cargo
Jeffrey J. King	Senior Vice President – General Counsel and Secretary
David M. Lincoln	Senior Vice President and Chief Information Officer
Charles J. Lynch	Senior Vice President – Corporate Controller

Additional Product, Service and Geographic Managers

Global Product and Services

Rick Ballantyne	Vice President – Global Distribution Services
Allison McDonald	Vice President – Information Systems
Erin Thomasson	Vice President – Insurance
James Wei	Senior Vice President – E.C.M.S.

Far East

Johnny Chang	Vice President – Sales
Jacobus Hsieh	Regional Director – South Asia
T. H. Chiu	Regional Sales Director – Asia
Syed Ershad Ahmed	Managing Director – Bangladesh
Aristotle Aniceto	Managing Director – Philippines
Simon Chang	General Manager – Northern China
Matt Ching	General Manager – Central China
Paul Duan	General Manager – Vietnam
Kevin Fung	General Manager – Southern China
Andy Hsia	Managing Director – China
David Hsieh	Managing Director – Taiwan
Michael Leung	General Manager – Penang, Malaysia
Lance Liou	Managing Director – Singapore
Mark Kato	Managing Director – Japan
J. I. Kim	Managing Director – Korea
Sarwan Kumar	General Manager – Ocean – Indonesia
E. J. Ong	Managing Director – Malaysia
Nixen Tanex	General Manager – Air – Indonesia
Wilson Yang	General Manager – Air – Thailand

North America

Joe Coogan	Regional Vice President – U.S.
Dennis Egan	Regional Vice President – U.S.
Karl Francisco	Regional Vice President – U.S.
J. Ross Hurst	Managing Director – Canada
Troy Ryley	Country Manager – Mexico
Bryan Lilly	Regional Vice President – U.S.
Jeff Musser	Regional Vice President – U.S.
Richard Rostan	Regional Vice President – U.S.
Jose Ubeda	Regional Vice President – U.S.

Europe and Africa

James M. Anderson	Regional Vice President – Ireland, U.K., South Africa and Mauritius
Henrik Hedensio	Regional Vice President – Northern Europe
Magdolna Acs	Managing Director – Hungary
Barry L. Baron	Managing Director – United Kingdom
John F. Bermingham	Managing Director – Ireland
Stephane P. Carlier	Managing Director – Belgium
Carlos A. J. da Conceicao	Managing Director – Portugal
Rene Grabmuller	Managing Director – Czech Republic
Gilles Kergoat	Managing Director – Madagascar
Richard P. Mallabone	Managing Director – South Africa
Antonio Rey	Managing Director – Spain
Christophe C. Richard	Managing Director – France
Gunter Soucek	Managing Director – Austria

Near / Middle East and Indian Sub-continent

Kurt Meister	Regional Vice President – Gulf States, Pakistan and India
Hamdi Ismail Ali	Managing Director – Egypt
Elias Atsaros	Managing Director – Greece
Samir Ghaoui	Managing Director – Levant
Afsar Mahmood	Managing Director – Pakistan
K. Murali	Managing Director – India
Amin Saber	Managing Director – U.A.E. – Dubai
Suleyman Ture	Managing Director – Turkey

Latin America

Bruce Krebs	Regional Vice President – Brazil and Managing Director – Mexico
Guillermo Ayerbe	Regional Director – South Cone
Eugenio Mejias	Country Manager – Chile
Carlos Novoa	Country Manager – Venezuela
Ricardo Nunes	Country Manager – Brazil

Corporate Information

Transfer Agent and Registrar, Dividend Disbursing Agent
EquiServe Trust
Company, N.A.
P.O. Box 43023
Providence, RI
02940-3069

Shareholder Services
(800) 756-8200

Hearing Impaired / TDD
(800) 952-9245

Website
http://www.equiserve.com

Independent Auditors
KPMG LLP
801 Second Avenue
Suite 900
Seattle, WA 98104

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 7, 2003, 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
2002		
First	31.17	25.50
Second	31.78	27.50
Third	33.98	24.94
Fourth	34.44	26.98
2001		
First	30.375	21.75
Second	32.96	22.30
Third	31.13	20.975
Fourth	29.50	21.735

There were 3,182 shareholders of record as of December 31, 2002. Management estimates that there were approximately 18,000 beneficial shareholders at that date.

In 2002 and 2001, the Board of Directors declared a semi-annual dividend of $.06 per share and $.05 per share, respectively, which was paid as follows:

2002	17 June 16 December
2001	15 June 17 December

Expeditors

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