EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form DEF 14A
March 29, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)
Filed by the Registrant ý

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

ý Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12
Expeditors International of Washington, Inc.
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (check the appropriate box):

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EXPEDITORS INTERNATIONAL
OF WASHINGTON, INC.

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
May 1, 2013

To the Shareholders of Expeditors International of Washington, Inc.

The Annual Meeting of Shareholders of EXPEDITORS INTERNATIONAL OF WASHINGTON, INC. ("Expeditors" or the “Company”) will be held at 2:00 in the afternoon, on Wednesday, May 1, 2013, at the Company’s offices located at 1015 Third Avenue, Seattle, Washington, for the following purposes:

(1) To elect ten (10) directors, each to serve until the next annual meeting of shareholders and the election and qualification of his or her successor (page 3);
(2) To approve, on a non-binding basis, the compensation of the Company’s Named Executive Officers (page 25);
(3) To approve and ratify the adoption of the 2013 Stock Option Plan (page 28);
(4) To ratify the appointment of KPMG LLP as the Company’s independent registered public accounting firm for the year ending December 31, 2013 (page 32);
(5) To consider a shareholder proposal (page 33); and
(6) To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 7, 2013 will be entitled to notice of and to vote at the meeting and any adjournment thereof.

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on May 1, 2013.

The Proxy Statement and Annual Report are available to the Company’s registered holders and employee stock purchase plan participants at www.envisionreports.com/expd and to the Company’s beneficial holders at www.edocumentview.com/expd.

By Order of the Board of Directors
/s/ Peter J. Rose
Peter J. Rose
Chairman of the Board and Chief Executive Officer
Seattle, Washington
March 29, 2013

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the meeting in person, please sign, date and return the accompanying proxy in the enclosed stamped and addressed envelope; or submit your vote and proxy by telephone or by Internet in accordance with the instructions on your proxy card. This will ensure a quorum at the meeting. The giving of the proxy will not affect your right to vote at the meeting if the proxy is revoked in the manner set forth in the accompanying proxy statement.

EXPEDITORS INTERNATIONAL
OF WASHINGTON, INC.
1015 Third Avenue, 12th Floor
Seattle, Washington 98104

PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
May 1, 2013

INFORMATION REGARDING PROXIES

This Proxy Statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors of Expeditors International of Washington, Inc. (the "Company") for use at the annual meeting of shareholders (the "Annual Meeting") to be held at the Company's offices at 1015 Third Avenue, Seattle, Washington on Wednesday, May 1, 2013, at 2:00 p.m. local time, and at any adjournment or adjournments thereof. Only shareholders of record at the close of business on March 7, 2013 (the "Record Date") will be entitled to notice of and to vote at the meeting. On or about March 29, 2013, we will mail to shareholders either: (i) a copy of our Proxy Statement, a form of proxy and an Annual Report, or (ii) a notice of Internet availability of proxy materials, which will indicate how to access the proxy materials on the Internet.

If the accompanying form of proxy is properly executed and returned, the shares represented thereby will be voted in accordance with the instructions specified thereon. In the absence of instructions to the contrary, such shares will be voted:

(1) FOR all of the nominees for the Company's Board of Directors listed in this Proxy Statement and in the form of proxy (page 3);
(2) FOR a non-binding vote approving compensation of our Named Executive Officers (page 25);
(3) FOR approval and ratification of the 2013 Stock Option Plan (page 28);
(4) FOR the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm(page 32); and
(5) AGAINST a shareholder proposal (page 33).

Any shareholder executing a proxy has the power to revoke it at any time prior to the voting thereof on any matter (without, however, affecting any vote taken prior to such revocation) by delivering written notice to the Secretary of the Company, by executing and delivering to the Company another proxy dated as of a later date or by voting in person at the meeting.

If you hold your shares in street name, it is critical that you cast your vote if you want it to count in the election of directors, the non-binding vote approving compensation of Named Executive Officers, the approval and ratification of the 2013 Stock Option Plan and the shareholder proposal. If you hold your shares in street name and you do not instruct your bank or broker how to vote in these matters, no votes will be cast on your behalf. Your bank or broker will have discretion to vote any uninstructed shares on the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm. If you are a shareholder of record and you do not cast your vote, no votes will be cast on your behalf on any of the proposals at the Annual Meeting.

VOTING SECURITIES

The only outstanding voting securities of the Company are shares of Common Stock, $.01 par value (the "Common Stock"). As of the Record Date, there were 206,586,162 shares of Common Stock issued and outstanding, and each such share is entitled to one vote at the Annual Meeting. The presence in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required to constitute a quorum for the transaction of business at the Annual Meeting. Shares of Common Stock underlying abstentions and broker non-votes will be considered present at the Annual Meeting for the purpose of determining whether a quorum is present.

Under Washington law and the Company's bylaws, if a quorum is present, the ten nominees for election to the Board of Directors who receive the majority of the votes cast by persons present in person at the Annual Meeting or represented by proxy shall be elected Directors. Abstentions and broker non-votes will not be counted either in favor of or against the election of the nominees and therefore will have no effect on the outcome of the election.

With respect to the proposals for a non-binding vote approving the compensation of Named Executive Officers, approval and ratification of the 2013 Stock Option Plan, the ratification of the appointment of KPMG LLP as the Company's independent registered public accounting firm and the shareholder proposal , such proposals will be approved if the votes cast by persons present at the Annual Meeting or represented by proxy in favor of the proposal exceed the votes cast against such proposal. Abstentions and broker non-votes will not be counted either in favor of or against such proposals and, therefore, will have no effect on the outcomes of such proposals.

No cumulative voting rights are authorized, and dissenters' rights are not applicable to any of the matters being voted on.

Proxies and ballots will be received and tabulated by Computershare Trust Company, N.A., an independent business entity not affiliated with the Company.

The Common Stock is listed for trading on the NASDAQ Global Select Market under the symbol EXPD. The last sale price for the Common Stock, as reported by NASDAQ on March 7, 2013, was $38.78 per share.

PRINCIPAL HOLDERS OF VOTING SECURITIES

The following table sets forth information, as of March 7, 2013, with respect to all shareholders known by the Company to be beneficial owners of more than five percent of its outstanding Common Stock. Except as noted below, each person has sole voting and dispositive powers with respect to the shares shown.

Name and Address	Amount and Nature of Beneficial Ownership	Percent of Class	
BlackRock, Inc., 40 East 52nd Street, New York, NY 10022	16,713,579(1)	8.00	%
The Vanguard Group, 100 Vanguard Boulevard, Malvern, PA 19355	10,745,095(2)	5.14	%

(1) The holding shown is as of December 31, 2012, according to Schedule 13G/A dated February 4, 2013 filed by BlackRock, Inc., a parent holding company.

(2) The holding shown is as of December 31, 2012, according to Schedule 13G dated February 7, 2013 filed by The Vanguard Group, an investment adviser. The Vanguard Group reports that it has sole voting power with respect to 364,276 shares of common stock, sole dispositive power with respect to 10,389,519 shares of common stock and shared dispositive power of 355,576 shares of common stock.

PROPOSAL 1—ELECTION OF DIRECTORS

The Company's bylaws require a Board of Directors composed of not less than six nor more than ten members. A Board of Directors consisting of ten directors will be elected at the Annual Meeting to hold office until the next annual meeting of shareholders or until the election or qualification of his or her successor. Any vacancy resulting from the non-election of a director may be filled by the Board of Directors. The Board of Directors has unanimously approved the nominees named below. Except for Liane J. Pelletier, all nominees are members of the current Board of Directors.

Majority Vote Standard for Director Elections

The Company's bylaws require that in an uncontested election each director will be elected by the vote of the majority of the votes cast. A majority of votes cast means that the number of shares cast "for" a director's election exceeds the number of votes cast "against" that director. A share which is otherwise present at the meeting but for which there is an abstention, or to which a shareholder gives no authority or direction, shall not be considered a vote cast.

In an uncontested election, a nominee who does not receive a majority of the votes cast will not be elected. An incumbent director who is not elected because he or she does not receive a majority vote will continue to serve as a holdover director until the earliest of: (a) 90 days after the date on which an inspector determines the voting results as to that director; (b) the date on which the Board of Directors appoints an individual to fill the office held by that director; or (c) the date of the director's resignation. Under the Company's resignation policy, any director who does not receive a majority vote in an uncontested election will resign immediately.

The Board of Directors may fill any vacancy resulting from the non-election of a director as provided in the Company's bylaws. The Nominating and Governance Committee will consider promptly whether to fill the position of a nominee who fails to receive a majority vote in an uncontested election and may make a recommendation to the Board of Directors about filling the position. The Board of Directors will act on the Nominating and Governance Committee's recommendation and within ninety (90) days after the certification of the shareholder vote will disclose publicly its decision. Except as provided in the next sentence, no director who fails to receive a majority vote for election will participate in the Nominating and Governance Committee recommendation or Board decision about filling his or her office. If no director receives a majority vote in an uncontested election, then the incumbent directors (a) will nominate a slate of directors and hold a special meeting for the purpose of electing those nominees as soon as practicable, and (b) may in the interim fill one or more positions with the same director(s) who will continue in office until their successors are elected.

Nominees

This years nominees consists of seven independent directors, including our lead independent director, and three management directors. Unless otherwise instructed, it is the intention of the persons named in the accompanying form of proxy to vote shares represented by properly executed proxies for the ten nominees of the Board of Directors named below. Although the Board of Directors anticipates that all of the nominees will be available to serve as directors of the Company, should any one or more of them be unwilling or unable to serve, it is intended that the proxies will be voted for the election of a substitute nominee or nominees designated by the Board of Directors or the seat will remain open until the Board of Directors identifies a nominee.

All directors hold office until the next annual meeting of shareholders of the Company and the election and qualification of his or her successor or until the directors' earlier death, resignation, removal or termination of term.

The following persons are nominated to serve as directors until the Company's 2014 Annual Meeting of Shareholders:

Peter J. Rose has served as a director and Vice President of the Company since July 1981. Mr. Rose was elected a Senior Vice President of the Company in May 1986, Executive Vice President in May 1987, President and Chief Executive Officer in October 1988, and Chairman and Chief Executive Officer in May 1991. Mr. Rose's qualifications to serve on our Board of Directors include his nearly 50 years of experience in the international transportation industry and his many years of senior management and director experience. Mr. Rose is the father-in-law of Jeffrey S. Musser, the Company's Executive Vice President and Chief Information Officer.

Robert R. Wright became a director of the Company in May 2008, was appointed Chair of the Audit Committee in May 2009 and Lead Director in May 2010. Since 2002, Mr. Wright has been the President and Chief Executive Officer of Matthew G. Norton Co., a real estate investment, development and management firm based in Seattle, Washington. Prior to joining Matthew G. Norton, Mr. Wright was the Regional Managing Partner of Tax for Arthur

Andersen and the Chief Financial Officer of Brinderson Ltd., a construction and real estate development company. He currently serves on the Board of Directors for two privately held companies,

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Matthew G. Norton Co. and Stimson Lumber Company. Mr. Wright's qualifications to serve on our Board of Directors include his over 20 years of senior leadership and management experience with a focus on the areas of tax, finance and real estate, in private industry and the public accounting environment.

Mark A. Emmert became a director of the Company in May 2008. Since 2010 he has been President of the National Collegiate Athletic Association. From 2004 to 2010, Dr. Emmert served as the President of the University of Washington ("UW") and is now President Emeritus. Prior to the UW, he was chancellor of Louisiana State University. He also served as the chancellor of the University of Connecticut and held administrative and academic positions at the University of Colorado and Montana State University. Dr. Emmert is currently on the Board of Directors of the Weyerhaeuser Company and of Omnicare, Inc. and is a Life Member of the Council on Foreign Relations and a Fellow of the National Academy of Public Administration. Dr. Emmert's qualifications to serve on our Board of Directors include his many years of experience in the administration of educational and personnel development programs, as well as his expertise in the leadership and management of complex operations with rigid public oversight requirements, and international affairs.

R. Jordan Gates joined the Company as its Controller-Europe in February 1991. Mr. Gates was elected Chief Financial Officer and Treasurer of the Company in August 1994, Senior Vice President-Chief Financial Officer and Treasurer in January 1998, Executive Vice President-Chief Financial Officer and Treasurer in May 2000 and President and Chief Operating Officer of the Company in January 2008, Mr. Gates was also elected as a director in May 2000. Mr. Gates' qualifications to serve on our Board of Directors include his over 20 years of experience in the international transportation industry, primarily in accounting, finance and operations, and his many years of senior management and director experience.

Dan P. Kourkoumelis became a director of the Company in March 1993. From 1967 through 1998, Mr. Kourkoumelis was employed in various positions by Quality Food Centers, Inc., a supermarket chain, and became a member of its Board of Directors in April 1991. He was appointed Executive Vice President in 1983 and Chief Operating Officer in 1987, President in 1989 and served as Chief Executive Officer from 1996 to September 1998. Mr. Kourkoumelis is a member of the Board of Directors of the Western Association of Food Chains. Mr. Kourkoumelis' qualifications to serve on our Board of Directors include his over 20 years of senior leadership, financial and management experience in a public corporation environment with a primary focus on providing superior customer service.

Michael J. Malone has been a director of the Company since August 1999. Mr. Malone is the retired Chairman and Chief Executive Officer of AEI/DMX Music, a $150 million, multinational music programming and distribution company that he founded in 1971 and subsequently sold via merger to Liberty Media, Inc. in May 2001. From the May 2001 merger through February 7, 2005, Mr. Malone served as Chairman of Maxide Acquisition, Inc., the holding company for DMX Music, Inc. and a subsidiary of Liberty Media Corporation. Mr. Malone currently has interests in several premium hotels and restaurants, including the Sorrento Hotel. He is also currently Principal of Hunters Capital, LLC, a Northwest Real Estate Development and Management Company. Mr. Malone is a member of the Board of Directors of HomeStreet Bank. Mr. Malone's qualifications to serve on our Board of Directors include his entrepreneurial skills, as well as his over 20 years of senior leadership and management experience with international operations in a business driven by customer service.

John W. Meisenbach became a director of the Company in November 1991 and was appointed Chair of the Compensation Committee in May 2010. Since 1962, Mr. Meisenbach has been the President of MCM, a financial services company. He currently serves on the Board of Directors of Costco Wholesale Corporation, a wholesale membership store chain and M Financial Holdings, a financial services organization. Mr. Meisenbach is a member of the Board of Directors of the Seattle Police Foundation, an organization that raises support and awareness for the Seattle Police Department; a trustee of Seattle Children's Hospital Foundation, a child health care and pediatric center; and a trustee emeriti of Seattle University, a private university. He is active in numerous industry and civic organizations including the United Way of King County; Global Partnerships; Medical Teams International; and Zion Preparatory Academy. Mr. Meisenbach's qualifications to serve on our Board of Directors include his over 40 years of senior leadership and management experience in the customer oriented financial services industry, including venture capital, employee benefits and business financing.

Liane J. Pelletier has been nominated to serve as director of the Company. Ms. Pelletier is the former Chairman, Chief Executive Officer and President of Alaska Communications Systems, an Alaska based integrated communication services provider, leading the firm from October 2003 to April 2011. From November 1986 to October 2003, Ms. Pelletier held a number of executive positions at Sprint Corporation (now known as Sprint Nextel Corporation), a United States based wireless communications company. Ms. Pelletier is a member of the Board of Directors of Washington Federal, Atlantic Tele-Network and Icicle Seafoods. Ms. Pelletier's qualifications to serve on our Board of Directors include her over 25 years of senior leadership and management experience in the telecommunications industry, including past and current positions as Chairman, Lead Independent Director, and member of Audit, Risk, Nominating and Compensation Committees; and her active leadership and participation in the National Association of Corporate Directors. Both her corporate career and her board service span firms where there is material focus on regulation, information technology and security, foreign operations and customer service.

James L.K. Wang has served as a director and the Managing Director of Expeditors International Taiwan Ltd., the Company's former exclusive Taiwan agent, since September 1981. In October 1988, Mr. Wang became a director of the Company and its Director-Far East, and Executive Vice President in January 1996. In May 2000, Mr. Wang was elected President-Asia Pacific. Mr. Wang's qualifications to serve on our Board of Directors include his nearly 40 years of experience in the international transportation industry, primarily in Asia, and his many years of senior management and director experience.

Tay Yoshitani became a director of the Company in August of 2012. Since March of 2007 he has been the Chief Executive Officer of the Port of Seattle. From 2004 to 2007, he served as the Senior Advisor to the National Association of Waterfront Employers and from 2001 to 2004, was the Executive Director of the Port of Oakland. Prior to that he was the Executive Director for the Port of Baltimore. Mr. Yoshitani is a graduate of United States Military Academy, served five years, which included service in Vietnam with the Corps of Engineers, in the US Army and retired with the rank of Captain. He also has an MBA from Harvard Business School. He currently serves on the Seattle Foundation Board and on the boards of a number of other local Seattle civic and trade-related organizations. Mr. Yoshitani's qualifications to serve on our Board of Directors include his over 20 years of senior leadership and management experience in the ocean transportation industry and over 10 years in airport operations.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS
VOTE FOR THE ELECTION OF EACH OF THE NOMINEES OF THE BOARD OF DIRECTORS.

CORPORATE GOVERNANCE

Board Leadership Structure and Role in Risk Oversight

There are currently nine members of the Board of Directors, three management directors and six independent non-management directors. The Board has a Lead Independent Director ("Lead Director") and three standing committees: Audit, Compensation and Nominating and Corporate Governance. All of the Board committees are comprised solely of the six independent non-management directors. The three management directors have been deliberately excluded from membership on any of the Board's standing committees. The role of Chairman and Chief Executive Officer was combined when Mr. Rose was appointed to these roles in 1991. Given the structure of the Board of Directors and the Board's standing committees, where only independent non-management directors are members, the Board believes this structure has been effective thus far in the Company's operating history due to Mr. Rose's extensive knowledge of our business and industry, his sound understanding of our culture and business strategy, and his corporate and board experience and leadership skills, which promote board communication, governance, continuity and appropriate oversight. The independent non-management directors hold executive sessions at every Board meeting and at such other times as they deem appropriate.

Management is responsible for the assessment and management of risk and brings to the attention of the Board the material risks to the Company. The Board of Directors provides oversight and guidance to management regarding the material risks. Further, the Board has delegated oversight responsibilities for certain areas of risk to its three standing committees as described below. The Board and its committees regularly discuss with management the Company's strategies, goals and policies and inherent associated risks in order to assess appropriate levels of risk taking and steps taken to monitor and control such exposures. The Board of Directors believes that the risk management processes in place for the Company are appropriate. Despite the fact that our Chairman and Chief Executive Officer positions are combined, we believe that the active oversight role played by our Lead Director as well as our Board Committees, which consist solely of independent non-management directors, provides the appropriate level of independent oversight for our Company. Following the completion of Mr. Rose's service as the Chairman of the Board, the position of Chairman of the Board shall be filled by a director that is "independent" within the meaning of all applicable independence requirements of the NASDAQ Stock Market and the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any rules and regulations promulgated thereunder. Following the appointment of an independent director to the position of Chairman of the Board, the position of Lead Independent Director shall be suspended.

Lead Independent Director

On May 5, 2010, the Board of Directors appointed Robert R. Wright to the role of Lead Director. As Lead Director, Mr. Wright is responsible for: (1) presiding at all meetings of the Board if/when the Chairman is not able to be present; (2) presiding at executive sessions of the independent directors; (3) advising the Chairman and Chief Executive Officer as to Board agenda items and meeting dates; (4) being a liaison between the Chairman and Chief Executive Officer and the independent directors; and (5) any other duties as requested by the Board, which include but are not limited to: approving information sent to the Board; approving meeting agendas for the Board; approving meeting schedules to assure adequate time for discussion of all agenda items; calling meetings of independent directors; and, if requested by major shareholders, ensuring that he is available for consultation and direct communication.

Board and Committee Meetings

The Board of Directors held five meetings during the year ended December 31, 2012 and transacted business on four occasions during the year by unanimous written consent.

The Board of Directors has determined that Messrs. Kourkoumelis, Malone, Meisenbach, Wright, Yoshitani and Dr. Emmert, are independent under the applicable independence standards set forth in the rules promulgated under the Exchange Act and the rules of the NASDAQ Stock Market.

In 2012, each director attended at least 75% of the aggregate of the total number of Board of Directors meetings and meetings of committees of the Board of Directors on which they served. Mr. Yoshitani has attended all Board of Directors meetings and meetings of committees of the Board of Directors on which he served since joining the Board of Directors in August 2012. While the Company has no established policy requiring directors to attend the Annual Meeting, historically, and in 2012, all members serving at the time were in attendance.

No members of management serve on any of the committees of the Board of Directors. All committee members are independent non-management directors. The following table shows the current membership of each committee and the number of meetings held by each committee during the year ended December 31, 2012:

Name	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Mark A. Emmert	X	X	X
Dan P. Kourkoumelis	X	X	X
Michael J. Malone	X	X	X
John W. Meisenbach	X	X	X
Robert R. Wright	X	X	X
Tay Yoshitani	X	X	X
Fiscal 2012 meetings	4	4	4

Audit Committee

The Board of Directors has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act which consists of Messrs. Kourkoumelis, Malone, Meisenbach, Wright, Yoshitani and Dr. Emmert. Mr. Wright was elected Chairman on May 6, 2009 and the Board of Directors has determined that he is an audit committee financial expert as defined by Item 407(d)(5) of Regulation S-K under the Exchange Act. In addition, the Board of Directors has determined that each member of the Audit Committee is independent under the NASDAQ independence standards applicable to audit committee members.

The function of the Audit Committee is set forth in the Audit Committee Charter which can be found on the Company’s website at www.investor.expeditors.com. In general, these responsibilities include meeting with the internal financial and audit staff of the Company and members of the independent registered public accounting firm engaged by the Company to review (i) the scope and findings of the annual audit and other procedures, (ii) quarterly and annual financial statements, (iii) accounting policies and procedures and the Company’s financial reporting, and (iv) the internal controls employed by the Company. The Audit Committee has sole authority to appoint, retain, determine funding for, and oversee the Company’s independent registered public accounting firm. The Audit Committee also pre-approves all services to be provided by the Company’s independent registered public accounting firm.

Nominating and Corporate Governance Committee

The Board of Directors has a Nominating and Corporate Governance Committee (the “Nominating Committee”), which consists of Messrs. Kourkoumelis, Malone, Meisenbach, Wright, Yoshitani and Dr. Emmert.

The Nominating and Corporate Governance Committee Charter, which can be found on the Company’s website at www.investor.expeditors.com, states that the Nominating Committee will assist the Board of Directors by (i) identifying individuals qualified to become members of the Board of Directors, and to recommend the director nominees for the election to be held at the next annual meeting of shareholders; (ii) identifying individuals qualified to become members in the event of a vacancy, and to recommend to the Board of Directors qualified individuals to fill any such vacancy; (iii) recommending to the Board of Directors, on an annual basis, director nominees for each Board of Directors committee; and (iv) providing a leadership role with respect to corporate governance of the Company.

Director Nomination Process

The Policy on Director Nominations, which can be found on the Company’s website at www.investor.expeditors.com, describes the process by which director nominees are selected by the Nominating Committee, and includes the criteria the Nominating Committee will consider in determining the qualifications of any candidate for director. Among the qualifications, qualities and skills of a candidate considered important by the Nominating Committee are a candidate’s integrity, ethical character, business judgment, professional experience, expertise, and diversity in experiences and perspectives. Also of consideration and interest in director nominees are the experiences that personal diversity, including ethnicity, gender and education can add to the Board of Directors. In considering candidates for the Board, the Nominating Committee considers the entirety of each candidate’s credentials in the context of these standards. With respect to the nomination of continuing directors for re-election, the individual’s contributions to the Board are also considered.

As a global company, our organization is comprised from top to bottom of people from diverse backgrounds, with over 13,000 employees worldwide, representing more than 60 countries. As a result, the Nominating Committee seeks director candidates with a wide diversity of business and professional experience, skills, gender and ethnic background, which when taken as a whole, will provide the necessary experience, background and leadership to oversee our Company. We believe our current nominees for our Board of Directors have considerable diversity in business backgrounds and education, as well as cultural, gender and ethnic diversity. As new Board positions are filled, the Nominating Committee will actively seek qualified candidates, including those within its current Board members’ community and professional networks, that might allow our Board to benefit from potentially different perspectives arising from gender diversity and further ethnic and cultural diversity on the Board. In the event a search firm is utilized, the firm will be specifically instructed to actively seek qualified candidates with gender, ethnic and cultural diversity. The Nominating Committee at least annually reviews the director nomination procedures to assess the effectiveness of its policies.

The Nominating Committee considers candidates for director who are recommended by its members, by management, and by search firms retained by the Nominating Committee. In addition, the Nominating Committee will evaluate candidates proposed by any single shareholder or group of shareholders that has beneficially owned more than five percent of the Company’s common stock for at least one year and that satisfies certain notice, information and consent provisions in the Company’s Policy on Director Nominations (such individual or group, the “Qualified Stockholder”). In addition, a shareholder may nominate a candidate for election to the Board of Directors if the shareholder complies with the notice, information and consent provisions of Article II of the Company’s Amended and Restated Bylaws which can be found on the Securities and Exchange Commission website at www.sec.gov filed as Exhibit 3.2 to the Company’s Form 10-Q filed with the Securities and Exchange Commission on or about August 8, 2012. As required by the Company’s Bylaws, the notice must be received by the Company not less than 90 days nor more than 120 days prior to the anniversary of the immediately preceding Annual Meeting of Shareholders called for the election of directors. However, if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be delivered not earlier than the close of business on the 120th day prior to the date of such annual meeting and not later than the close of business on the later of the 90th day prior to the date of such annual meeting or, if the first public announcement of the date of such annual meeting is less than 100 days prior to the date of such annual meeting, the 10th day following the day on which public announcement of the date of such meeting is first made by the Company.

The Nominating Committee evaluates all candidates (whether identified internally, by a Qualified Stockholder, or nominated by a shareholder), including incumbent directors, in accordance with the criteria described above and in the Policy on Director Nominations. All candidates for director who, after evaluation, are then recommended by the Nominating Committee and approved by the Board of Directors will be included in the Company’s recommended slate of director nominees in its proxy statement.

Communications with the Board of Directors

Shareholders may communicate with the Board of Directors and the procedures for doing so are located on the Company’s website at www.investor.expeditors.com. Information regarding the submission of comments or complaints relating to the Company’s accounting, internal accounting controls or auditing matters can be found in Section 1.18 of the Company's Code of Business Conduct on the Company’s website at www.investor.expeditors.com.

Compensation Committee Interlocks and Insider Participation

The Board of Directors has a Compensation Committee which consists of Messrs. Kourkoumelis, Malone, Meisenbach, Wright, Yoshitani and Dr. Emmert. Mr. Meisenbach was elected Chairman on May 5, 2010. The function of the Compensation Committee includes consultation with management in establishing the Company’s general policies relating to senior management compensation, overseeing the implementation of short and long-term compensation programs for senior management, ensuring that incentive compensation programs are consistent with the Company’s annual and long-term performance objectives and do not encourage unnecessary or excessive risk taking by employees, and reviewing and making recommendations to the Board of Directors periodically with respect to the compensation of all non-management directors, including compensation under the Company's equity-based plans. The Compensation Committee has been appointed by the Board of Directors to administer the Company’s stock option plans. The Compensation Committee Charter can be found on the Company’s website at www.investor.expeditors.com.

No member of the Compensation Committee is or has been an officer or employee of the Company and none had any interlocking relationships with any other entities of the type that would be required to be disclosed in this Proxy Statement.

AUDIT COMMITTEE REPORT

The Audit Committee has continuously functioned since it was established in 1984 by action of the Board of Directors. The function of the Audit Committee is set forth in an Audit Committee charter (the “Audit Charter”) which was adopted by action of the Board of Directors on May 3, 2000 and was amended on February 22, 2010, and can be found on the Company’s website at www.investor.expeditors.com.

Management is responsible for the Company’s internal controls and the financial reporting process. The Company’s independent registered public accounting firm, selected each year by the Audit Committee, is responsible for performing an independent audit of the Company’s consolidated financial statements, and internal control over financial reporting, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") and for issuing reports thereon. As described in the Audit Charter, the Audit Committee’s responsibility is generally to monitor and oversee these processes. Each member of the Audit Committee was and is independent of management according to both the letter and spirit of the applicable rules.

In addition to its other responsibilities under the Audit Charter, the Audit Committee has reviewed and discussed with management of the Company the Company’s audited consolidated financial statements for the year ended December 31, 2012. The Audit Committee has discussed with KPMG LLP (“KPMG”), the Company’s independent registered public accounting firm for 2012, the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as amended, as adopted by the PCAOB. In addition, the Audit Committee has received from KPMG the written disclosures and the letter required by the PCAOB regarding KPMG’s communications with the Audit Committee concerning independence, and discussed with KPMG the auditor’s independence from the Company and its management.

Based upon the review and discussions referred to above, the Audit Committee recommended to the Board of Directors of the Company that the Company’s audited consolidated financial statements be included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
Robert R. Wright, Chairman
Mark A. Emmert
Dan P. Kourkoumelis
Michael J. Malone
John W. Meisenbach
Tay Yoshitani

DIRECTOR COMPENSATION

Historically, the Company has used a combination of cash and stock-based incentive compensation to attract and retain qualified candidates to serve on the Board. On June 1, 2007, all remaining stock options authorized under the 1993 Directors' Stock Option Plan were granted to the independent non-management members of the Company's Board of Directors. On May 7, 2008, the shareholders approved the 2008 Directors' Restricted Stock Plan. In setting director compensation, the Company considers the amount of time that Directors expend in fulfilling their duties to the Company as well as the skill-level required as members of the Board and its Committees.

Cash Compensation Paid to Board Members

In 2012, members of the Board who are not employees of the Company were entitled to receive an annual cash retainer of $30,000 and $1,000 per day for attending meetings and performing operational reviews. Mr. Wright was paid an additional retainer of $75,000 for his role as Lead Director. Annual cash retainers are paid at the first Board meeting following election or appointment to the Board. Mr. Yoshitani joined the Board of Directors in August 2012 and received a prorata portion of the annual cash retainer.

2008 Directors' Restricted Stock Plan

The 2008 Directors' Restricted Stock Plan is only for the benefit of the independent non-management directors. Each independent non-management director receives $200,000 worth of the Company's restricted stock on June 1st of each year. The stock vests ratably over 12 months and dividends are forfeited until all shares for that grant year have been fully vested. On June 1, 2012, each independent director elected at the 2012 Annual Meeting of Shareholders received 5,340 shares with a fair value of $37.45 per share. The taxation ramifications for the issuance of these shares are the sole responsibility of each outside director.

Stock Option Program

Prior to 2008, on June 1st of each year, each independent non-management director received a stock option grant of 32,000 shares at the closing market price on the date of grant. Until an option is exercised, shares subject to options cannot be voted and do not receive dividends or dividend equivalents.

Director Summary Compensation Table for the Fiscal Year Ended December 31, 2012

The table below summarizes the compensation paid by the Company to independent non-management directors for the fiscal year ended December 31, 2012.

Name	Fees Earned or Paid in Cash	Stock Awards(1)	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Mark A. Emmert(2)	$34,000	199,983	—	—	—	$233,983
Dan P. Kourkoumelis(3)	$35,000	199,983	—	—	—	$234,983
Michael J. Malone(4)	$35,000	199,983	—	—	—	$234,983
John W. Meisenbach(5)	$35,000	199,983	—	—	—	$234,983
Robert R. Wright(6)	$110,000	199,983	—	—	—	$309,983
Tay Yoshitani	$24,500	—	—	—	—	$24,500

(1) This column represents the aggregate grant date fair value of restricted shares granted in 2012. The fair value of restricted stock awards is based on the fair market value of the Company's shares of common stock on the date of grant.

(2) As of December 31, 2012 there were 2,225 unvested restricted shares held by Dr. Emmert.

(3) As of December 31, 2012 there were 160,000 vested option awards and 2,225 unvested restricted shares held by Mr. Kourkoumelis.

(4) As of December 31, 2012 there were 96,000 vested option awards and 2,225 unvested restricted shares held by Mr. Malone.

(5) As of December 31, 2012 there were 64,000 vested option awards and 2,225 unvested restricted shares held by Mr. Meisenbach.

(6)

As of December 31, 2012 there were 2,225 unvested restricted shares held by Mr. Wright.

SECURITY OWNERSHIP OF DIRECTORS AND EXECUTIVE OFFICERS

The following table lists the names and ages, and the amount and nature of the beneficial ownership of Common Stock of each Director and nominee, of each of the Named Executive Officers described in the Summary Compensation Table, and all Directors and Executive Officers as a group at March 7, 2013. Except as noted below, each person has sole voting and dispositive powers with respect to the shares shown.

Name	Age	Amount and Nature of Beneficial Ownership	Percent of Class
Directors and Nominees:			
Peter J. Rose(1)	69	1,177,954	*
Robert R. Wright(2)	53	14,736	*
Mark A. Emmert(3)	60	18,527	*
R. Jordan Gates(4)	57	441,759	*
Dan P. Kourkoumelis(5)	61	211,888	*
Michael J. Malone(6)	68	224,236	*
John W. Meisenbach(7)	76	158,142	*
Liane J. Pelletier	55	—	*
James L.K. Wang(8)	64	535,996	*
Tay Yoshitani	66	—	*
Additional Named Executives Officers:			
Timothy C. Barber(9)	53	295,445	*
Bradley S. Powell(10)	52	23,857	*
All Directors and Executive Officers as a group (22 persons)(11)		4,466,114	2.16%

* Less than 1%

(1) Includes 15,572 shares subject to purchase options exercisable within sixty days.

(2) Includes 4,895 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2013.

(3) Includes 4,895 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2013.

(4) Includes 20,572 shares subject to purchase options exercisable within sixty days.

(5) Includes 128,000 shares subject to stock options exercisable within sixty days and 4,895 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2013.

(6) Includes 96,000 shares subject to stock options exercisable within sixty days and 4,895 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2013.

(7) Includes 64,000 shares subject to stock options exercisable within sixty days and 4,895 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2013.

(8) Includes 73,750 shares subject to purchase options exercisable within sixty days.

(9) Includes 11,500 shares subject to stock options exercisable within sixty days.

(10) Includes 21,250 shares subject to stock options exercisable within sixty days.

(11) Includes 887,293 shares subject to stock options exercisable within sixty days and 24,475 restricted shares for which the directors have sole voting power, but dispositive power is restricted through May 31, 2013.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Overview of Compensation Program

The Compensation Committee of the Board of Directors (all of whom are independent, non-management directors) has responsibility for the determination and oversight of:

- Base salaries for Executive Officers, which are set annually.
- The Company's executive non-equity incentive compensation program (the 2008 Executive Incentive Compensation Plan), as approved by shareholders in 2008. This oversight includes approving participants of the executive non-equity incentive compensation program as well as the percentage each participant will receive of amounts available for distribution under the program and authorizing the actual payments of the non-equity incentive compensation program before they occur.
- The Company's equity compensation programs, consisting of both non-qualified and incentive stock option grants. This oversight includes recommending the amount of total options to be submitted for shareholder approval via the Company's annual proxy statement, as well as approving the amounts of stock options awarded to each employee, particularly the Company's Executive Officers.
- Employment agreements with Executive Officers.

Throughout this Proxy Statement, the individuals who served as the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer during fiscal 2012, as well as the other individuals included in the Summary Compensation Table on page 21 are referred to as the Named Executive Officers ("NEO"). The term Executive refers to individuals who are Executive Officers and senior management who participate in the executive non-equity incentive compensation program, but are not one of the NEO. The term senior management includes all NEO, Executive Officers and other corporate officers, selected direct reports and staff of the Company.

General Philosophy and Objectives

We believe that our compensation programs, which have been in place since the Company became a publicly traded entity, are one of the unique characteristics responsible for differentiating our performance from that of many of our competitors. Throughout the Company's history, our managers, including our most senior managers, have been compensated through a combination of three basic compensation techniques. These consist of:

1. A fixed and modest base salary, one that is intended to be substantially lower (52-91% lower in cases of Executive Officers) than comparable base salaries for similar positions in our industry;
2. A broad-based equity compensation program in the form of stock option grants made to individual employees; and
3. A non-equity incentive compensation program based upon a fixed percentage of the cumulative operating results of the business unit controlled by each key employee, with no upper limit on the potential dollar amount that can be earned through sustained business growth.

The Company has maintained a consistent compensation philosophy: offer a confident and capable individual a modest base salary and the opportunity to share in a fixed and determinable percentage of the operating profit generated by the business unit under his or her control. Growth in individual compensation will only occur in conjunction with an increase in a cumulative contribution to either the respective business unit or Company profits. Key elements of this compensation philosophy include:

1. Encouraging each manager to think and act as an entrepreneur;
2. Establishing compensation levels that are not perceived as being arbitrary;
3. Developing financial rewards that are team-oriented; and
4. Closely aligning the interests of the individual employee with the goals of the Company and returns to the shareholders.

Using this compensation model, changes in individual incentive compensation will occur in proportion to changes in Company profits, creating a direct alignment between corporate performance and shareholder interests. The effectiveness of this alignment is demonstrated by comparing the year-over-year impact on 2012, 2011 and 2010 management bonuses. The Company’s operating

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income in 2012 was 14% lower than the amount reported in 2011. Bonuses earned by field and executive management in 2012 were also down by 9% and 14%, respectively, as compared with 2011. Bonuses earned by each NEO declined by approximately 19% in 2012 as compared with 2011, primarily as a result of adding additional employees to the non-equity incentive program through reducing the relative percentages previously allocated to select NEO and other Executive Officers. The Company’s operating income in 2011 was 13% higher than the amount reported in 2010 and bonuses earned by field and executive management in 2011 both increased by 13% as compared with 2010. The Company’s management incentive compensation programs have always been incentive-based and performance driven and there is no built-in bias that favors or enriches management in a manner inconsistent with overall corporate performance. The non-equity incentive compensation program is intended to provide the largest component of Executive compensation.

Due to the fact that the non-equity incentive compensation program is based on cumulative operating income, any operating losses that are incurred by business units or by the Company must be recovered from future operating profits before any amounts will be due to participating Executives. Since the most significant portion of management compensation comes from the non-equity incentive compensation program, the Company believes that this cumulative feature is a disincentive to excessive risk taking by its managers. No one individual has the authority to commit the Company to excessive risk taking. Due to the nature of the Company’s services, it has a short operating cycle. The outcome of any higher risk transactions, such as overriding established credit limits, would be known in a relatively short time frame. Management believes that when the potential and certain impact on the bonus is fully considered in light of this short operating cycle, the potential for short-term gains that could be generated by engaging in risky business practices is sufficiently mitigated to discourage excessive and inappropriate risk taking. Management believes that both the stability and the long-term growth in revenues, net revenues and net earnings are a result of the incentives inherent in the Company’s compensation program.

We do not employ third-party compensation consultants due to the governing factors that are inherent in the compensation programs described above. Our limited benchmarking activities are merely to review base salaries and other current compensation information and practices disclosed by certain U. S. publicly traded companies in the logistics and transportation industry. This limited benchmarking has not altered our compensation programs, policies or decisions but does annually confirm certain comparative disclosures, such as base salaries of our NEO compared to base salaries for similar positions in our industry, and that our compensation package offered to Executives is competitive and gives our Executives the opportunity to earn superior levels of compensation. Certain information from the Proxy Statements of CH Robinson Worldwide, Inc., FedEx Corporation, Forward Air Corp., Hub Group, Inc., Landstar System, Inc., Ryder System, Inc., United Parcel Services, Inc. and UTi Worldwide, Inc. were reviewed for comparison purposes. While most of these companies are not necessarily comparable in size to our Company, some are significantly larger and others considerably smaller, the Compensation Committee believes this information is useful for the limited comparisons described above.

It is the opinion of both the Compensation Committee and the Company’s management that the manner and degree to which each of the compensation components described above have been utilized has had a direct impact on the Company’s long-term financial performance. Furthermore, we believe that this combined compensation program has a proven track record of aligning both the long-term and short-term interests of our Company’s Executives with the long-term interests of our Company’s shareholders. The Compensation Committee considered the results of last year's say-on-pay vote in reviewing the Company's compensation policies. The Compensation Committee viewed the 90% favorable vote on last year's say-on-pay vote as further validation of the Company's approach to Executive compensation and as a result no changes were made.

Targeted Overall Compensation. Management does not believe that compensation targets, per se, are consistent with the underlying compensation philosophy utilized by the Company. The Company does, however, recognize that because it operates in the highly competitive global logistics services industry, the quality of its service depends upon the quality of the Executives and other employees it is able to attract and retain. In order to succeed, the Company believes that it must be able to attract and retain qualified Executives and employees. The Compensation Committee considers the competitiveness of the entire compensation package of an Executive Officer relative to that paid by similar companies when evaluating the adequacy of the base salaries, percentage allocation of the non-equity incentive compensation program and grants of stock options. The Company's objective is to offer a total compensation package which gives the Executive the opportunity to be paid at a level which the Company believes to be superior to that offered by the Company's competitors in the global logistics services industry. The Company believes that the opportunity for achieving superior levels of compensation is predicated on achieving sustained, long-term profitable results which are superior to those of the Company's competitors.

Based on the Company's general philosophy and objectives described above, hypothetical targets for the overall compensation for Executives and other managers are considered neither useful nor desirable. The Compensation Committee is actively involved in reviewing and approving payments under the non-equity compensation program which are available to each participating Executive, including the NEO. These payments are allocated from a pool consisting of 10% of pre-bonus operating income (referred to hereafter as the "pool"). This is done in consultation with the Chairman and Chief Executive Officer. Over time, as the Company has grown, more participants have been added to this program. The overriding motivation in determining the relative percentage of the pool allocated to each Executive has not been to target specific levels of compensation. Rather, these allocations of the pool have been made to perpetuate a culture that focuses management's attention on creating and sustaining long-term profitable earnings growth by rewarding an increasing number of key Executives with a percentage of the Company's growing profits, which are primarily a function of year-over-year increases in operating income. Both management and the Compensation Committee are committed to keeping this non-equity incentive compensation program intact. With respect to NEO, the Compensation Committee administers the non-equity incentive compensation program.

Role of Executive Officers in Compensation Decisions

The Compensation Committee makes all compensation decisions for the NEO as well as base salaries and stock option grants for all Executive Officers (from the total amount of stock options approved annually by the shareholders). These decisions, other than compensation and option grant determinations of the Chief Executive Officer, are made in consultation with the Chairman and Chief Executive Officer, but implementation of all recommendations of the Chairman and Chief Executive Officer requires the formal written approval of the Compensation Committee. With respect to the non-equity incentive compensation program, the Chairman and Chief Executive Officer recommends allocation percentages for all participating Executives, which must be reviewed and approved by the Compensation Committee. Two Executive Officers did not participate in the non-equity incentive compensation program. While their base salary, title and appointment are subject to approval by the Compensation Committee, their portion of non-equity incentive compensation comes from the standard bonus amounts (25% of pre-bonus operating income, after a corporate management fee is levied) earned by the business units under their direction. Base salaries for each Executive not participating in the non-equity incentive compensation program are recommended by the applicable Executive Officer to whom the Executive reports.

Base Salaries. Throughout its history, the Company has followed the policy of offering its officers and other key managers a compensation package which is weighted toward incentive-based compensation. Accordingly, the Company believes that annual base salaries of its Executive Officers are generally set well below competitive levels paid to senior executives with comparable qualifications, experience and responsibilities at other comparably-sized companies engaged in similar businesses as to that of the Company. This belief is based on the general knowledge of the Compensation Committee and management of the compensation practices in the industry and, in part, on a review of compensation disclosures in the proxy statements of such comparably-sized companies, including certain companies in the industry group index shown in the stock performance graph included in the Company's Annual Report to shareholders.

We believe that modest, below-market base salaries are a key component in the Company's compensation strategy. The primary intention of our compensation philosophy is to create a situation where the risks and returns of entrepreneurship are present at each significant level of the Company. Base salaries for all Executive Officers are reviewed and approved by the Compensation Committee, in consultation with the Chairman and Chief Executive Officer, as part of an annual overall review of compensation. The base salary may be changed as the result of the Compensation Committee's decision that an individual's contribution, duties, and responsibilities to the Company have changed. Base salaries for NEO are typically not adjusted. The base salary of $110,000 per annum for the current Chairman and Chief Executive Officer, for instance, has not changed since Mr. Rose assumed that position in 1988. The base salary for all other NEO is $100,000 per annum and has not changed in the past five years.

Base salaries for each of the NEO for 2012 were as follows:

Name	Position	Base Salary
Peter J. Rose	Chairman and Chief Executive Officer	$110,000
James L.K. Wang	President-Asia Pacific	$100,000
R. Jordan Gates	President and Chief Operating Officer	$100,000
Timothy C. Barber	President-Global Sales and Marketing	$100,000
Bradley S. Powell	Senior Vice President and Chief Financial Officer	$100,000

Equity Compensation Programs. The Company provides an equity compensation program in the form of stock option grants made to individual employees, including Executive Officers, at the discretion of the Compensation Committee. The Company believes that stock option grants afford a desirable, long-term compensation method because they closely align the interests of management with the interests of shareholders. During 2012, the Compensation Committee granted stock options for 2,822,990 shares to approximately 3,000 employees including one NEO as shown in the table below. All stock options granted by the Compensation Committee in 2012 were made based upon recommendations by management on the basis of the factors set forth below and endorsed by the Chairman and Chief Executive Officer. As a practice, any option grant recommendations and subsequent option grants to the Chief Executive Officer and the Executive Officers who reported directly to the Chief Executive Officer are made at the sole initiative and discretion of the Compensation Committee. The NEO who received a stock option grant in 2012 was recommended and approved to receive stock options by the Compensation Committee.

The total number of stock options available to be granted in 2012 was determined by an annual shareholder vote as has been done the previous eight years. All options issued to employees in 2012 were granted with an exercise price equal to 100% of the closing market price on the grant date and will be 50% vested three years from the date of grant, 75% vested four years from the date of grant, and 100% vested five years from the date of grant and have an expiration date of ten years from the date of grant.

The vast majority of stock option grants are made annually at the meeting of the Board of Directors immediately following the annual shareholders meeting. During 2012, all stock options were granted at the closing market price on the day of the 2012 Annual Meeting of the Board of Directors. These options were granted with an exercise price equal to the closing market price on the date of grant and vested on the same vesting schedule detailed in the previous paragraph. The closing market price is the price at which the Company's Common Stock was last sold on the NASDAQ Global Select Market on the date in question.

Factors that affect the amount of stock options awarded to employees, including Executive Officers, are as follows:

- amount of cumulative stock option grants the employee has received;
- employee performance during the past 12 months, including promotions or other noteworthy accomplishments;
- time elapsed since previous stock option grants;
- amount of grants relative to peers within the Company; and
- tenure with the Company and tenure in most recent position.

Stock options granted to each of the NEO in 2012 are as follows:

Name	Position	2012 Stock Option Grants
Peter J. Rose	Chairman and Chief Executive Officer	—
James L.K. Wang	President-Asia Pacific	—
R. Jordan Gates	President and Chief Operating Officer	—
Timothy C. Barber	President-Global Sales and Marketing	—
Bradley S. Powell	Senior Vice President and Chief Financial Officer	10,000

Under the Company's outstanding stock option plans and agreements thereunder, incentive and non-qualified stock options granted under the 2008 and succeeding Stock Option Plans will terminate upon the first to occur of: (1) expiration of the option; (2) ninety days (or three months in the case of the Company's 2011 and 2012 Stock Option Plans and agreements thereunder) following the optionee's termination of employment, other than as a result of death or disability; or (3) six months following the optionee's death or cessation of employment by reason of disability. For options granted prior to the Company's 2008 Stock Option

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Plan, incentive stock options will terminate upon the first to occur of: (1) expiration of the option; (2) termination of employment, other than as a result of death or disability; or (3) ninety days following the optionee's death or cessation of employment by reason of disability.

The Company does not provide employee pension plans except in several instances outside the United States where required to do so by law. The equity incentive compensation program serves two purposes. First, the program provides the potential means for funding individual long-term financial goals (such as retirement, children's education, etc.) by encouraging employees' long-term commitment to creating shareholder value through continued, active service. Second, the program provides a disincentive to management and employees to make short-term business decisions to obtain short-term profits at the expense of long-term corporate and shareholder interests.

Non-Equity Incentive Compensation Program. The Company has maintained a non-equity incentive compensation program for Executive Officers since its inception. In January 1985, the Compensation Committee fixed the aggregate amount of non-equity incentive compensation under the program to 10% of pre-bonus operating income. The Compensation Committee also considered the aggregate amount of discretionary bonuses paid to Executive Officers in each of the years from 1982 to 1984, which approximated 10% of operating income during those years.

The Compensation Committee believes that setting the pool at a fixed percentage of operating income, with fluctuations in amounts paid tied to actual changes in operating income, provides both a better incentive to the Executives than discretionary bonuses or targeted performance goals, and a more direct relationship between each Executive's incentive compensation and shareholders' return. By placing emphasis on growth in operating income, any change in compensation is directly proportional to the profit responsibility of the Executive Officers.

On May 7, 2008, the shareholders adopted the 2008 Executive Incentive Compensation Plan (the "2008 Compensation Plan"). The 2008 Compensation Plan recognizes and rewards, on an annual basis, selected Company executives for their contributions to the overall success of the Company and qualifies compensation paid under this Plan as "performance-based compensation" as that term is defined in Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"). The 2008 Compensation Plan replaced the 1997 Executive Incentive Compensation Plan.

All officers of the Company who receive an annual base salary equal to or less than $120,000 are eligible for inclusion in the 2008 Compensation Plan at the discretion of the Compensation Committee. Individual eligibility and allocation is determined quarterly. Under the 2008 Compensation Plan, any portion of the pool which is not allocated by action of the Compensation Committee may be allocated to key employees determined to be eligible at the discretion of the Chief Executive Officer. However, allocations made by the Chief Executive Officer cannot increase the compensation of any NEO nor can such an allocation cause any individual to become a NEO.

Factors that contribute to how much each Executive receives of the non-equity incentive compensation pool are:

- Historical role within the Company. The Executives having the two highest percentages of the pool, Peter J. Rose, Chairman and Chief Executive Officer and James L.K. Wang, President—Asia Pacific were founding employees of the Company. The relatively significant portions of this pool awarded to these individuals are in partial recognition of their role as founders and their cumulative experience managing the Company. In addition, each of their shares of the pool reflects the significant influence each has played in maximizing corporate profits and thereby increasing shareholder value, since the Company became a public entity in September of 1984. It should be noted, however, that the relative percentage of the pool for each of these founding employees continues to diminish over time as additional Executives participate in the program. Since 2003, as more participants have been added to the program, the relative percentage of the pool allocated to Mr. Rose and Mr. Wang decreased by approximately 35% and 34%, respectively. With respect to the other NEO, the relative percentages have changed over time due to a variety of factors. The relative percentage allocated to Mr. Barber has diminished by approximately 8% over this same time period. Since Mr. Gates' appointment as President and Chief Operating Officer effective January 1, 2008 his relative percentage allocation has declined approximately 14%. Mr. Powell joined the Executive Bonus Pool as Chief Financial Officer in October 2008 and the portion allocated to the Chief Financial Officer in 2012 was 38% less than the percentage allocated to that position in 2007, when Mr. Gates held just that position.

•Function and responsibility. Executives who are in charge of major geographical regions (such as the Americas, Asia Pacific and the EMAIR [Europe, Middle East, African and Indian sub-continent] regions) or major product and service functions (such as air, ocean, brokerage, product management, information technology, marketing, legal, accounting and finance) reporting directly to the Chairman and Chief Executive Officer or the President and Chief Operating Officer, are generally allotted a higher percentage of the pool than those serving in other capacities.
The length of time an Executive has been with the Company and the resulting experience of the Executive, his or her role during that time and his or her contribution to increasing corporate profits and shareholder value all contribute to the amount of compensation an Executive receives under the non-equity incentive compensation program.
•Tenure with the Company and tenure in position. The longer an Executive has participated in the non-equity incentive compensation program, the more money he or she is eligible to earn as the Company’s operating income grows. At the same time, the longer an Executive participates in the program (as was the case with most of the NEO as discussed above), the smaller his or her percentage of the pool becomes over time as more Executives participate in the program. The Company’s philosophy is to have each individual participant gradually receive a smaller percentage of a larger pool over time.
•Adjustments, performance and promotion. From time to time, as older Executives retire and new Executives are promoted into a new position and/or added to the program, the relative percentages are adjusted. Adjustments can also made to give recognition to promotions, achievements and other noteworthy accomplishments.
Amounts earned by all participants in the non-equity incentive compensation program (over 90 participants) during 2012 totaled $58,978,000, of which $41,875,000 was paid to Executive Officers. Amounts earned by NEO from the non-equity incentive compensation program during 2012 and each NEO share of the available pool as approved by the Compensation Committee are as follows:

Name	Position	% of Pool