EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form PRE 14A
March 03, 2016

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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 x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

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

¨ 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)

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x No fee required.

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March 24, 2016

To Our Shareholders:

Over the last two years, the Board of Directors has made several significant advancements in areas vital to Expeditors future success. This transition began with the promotion of Jeffrey S. Musser to President and Chief Executive Officer in March 2014 and continued with our close oversight of changes to many of the key leadership positions at Expeditors in 2014 and 2015. We filled all but one of these key positions with executives who have spent the bulk of their careers with Expeditors and we look to their 22 years of average tenure to continue to inspire our employees and lead the growth strategies of our global business.

With these leadership changes, the Board approved the Company s new strategic initiatives in 2014 and has diligently monitored management implementation and progress to date. Management has made excellent progress thus far and there is still much more to come.

Based on the Company s performance, the leadership transition and growth strategies have worked well. We posted great results in 2014 and then we beat them in 2015 which was the most profitable year in the Company s history. The Board is extremely proud of this success, as it has given us the flexibility to continue to invest in future growth opportunities and return capital to our shareholders through increased dividends and prudent share repurchases.

The Board also made significant alterations to the executive compensation structure in 2014 and examined the results of those changes in 2015 from several different views, including those of management, shareholders and proxy advisory firms. From a failed say-on-pay vote in 2014, and despite a negative rating from proxy advisory firms in 2015, 67% of our shareholders supported us on NEO compensation last year. As expected, these efforts improved the relationship between the Company s financial performance and NEO compensation in 2015 as follows:

- EPS increased 25% and operating income increased 21%; while

- CEO total compensation increased 9% and total NEO compensation decreased 3%.

While we are pleased with this progress and appreciate our shareholders support, we have continued our dialogue with shareholders and hired a compensation consulting firm in November 2015 to advise us on further changes the Board should consider to improve our executive compensation programs.

We have also been focused on governance and shareholder rights. Last year, shareholders approved our proxy access framework and, as promised, this year the Board is submitting for your vote a bylaw amendment that implements proxy access rights. Based on outreach to holders of nearly 60% of our shares and a continuing and thorough review of marketplace developments with respect to key parameters of proxy access, the Directors believe the bylaw amendment is a well-defined mechanism that strengthens proxy access rights in ways that promote the long-term interests of the Company and its shareholders.

The Board made significant progress towards fulfilling its multi-year succession plan with the appointment of Diane Gulyas to the Board in November 2015 and the nomination of James DuBois on this year s Board slate. The 2016 Board slate reflects enhanced skill sets and a reduction in tenure.

We also offer a heartfelt and sincere thank you to John Meisenbach, who is retiring from our Board in May. John s contribution to the Board and to the Company over the last 24 years is immeasurable and we will miss his insight, guidance and sense of humor.

The Board recommendations that are contained in this proxy are made only after careful deliberation over the best interests of our Company, shareholders and employees and prior voting results. On behalf of the entire Board of Directors and more than 15,000 employees of Expeditors, we want to thank you for your continued support and investment in our business.

Sincerely,

Robert R. Wright

Chairman of the Board

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NOTICE OF ANNUAL MEETING

OF SHAREHOLDERS

Date:	Tuesday, May 3, 2016
Time:	9:00 a.m. Pacific Time
Place:	Expeditors International 1015 Third Avenue Seattle, Washington 98104
Record Date:	Close of business on March 8, 2016

Meeting Agenda:

Election of 11 Directors

Approve (advisory) executive compensation

Approve 2016 Stock Option Plan

Ratify appointment of independent auditors for 2016

Approve a Proxy Access Amendment to the Company s Bylaws

Vote on a shareholder proposal, if presented at meeting

Important Notice of Internet Availability of Proxy Materials

This notice of Annual Meeting of Shareholders and related proxy materials are being distributed or made available to shareholders beginning on or about March 24, 2016. This includes instructions on how to access these materials (including our Proxy Statement and 2015 Annual Report to shareholders) online.

Please vote your shares

We encourage shareholders to vote promptly, as this will save the expense of additional proxy solicitation.

You may vote in the following ways:

By Order of the Board of Directors,

Expeditors International of Washington, Inc.

Benjamin G. Clark

Corporate Secretary

Seattle, Washington

March 24, 2016

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PROXY SUMMARY

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 , Expeditors , we) for use at the Annual Meeting of Shareholders (the Annual Meeting). This proxy summary is intended to provide a broad overview of the items that you will find elsewhere in this Proxy Statement. As this is only a summary, we encourage you to read the entire Proxy Statement for more information about these topics prior to voting.

Annual Meeting of Shareholders

DATE: Tuesday, May 3, 2016

TIME: 9:00 a.m. Pacific Time

LOCATION: Expeditors International, 1015 Third Avenue, Seattle, Washington 98104

RECORD DATE: Close of business on March 8, 2016

Meeting Agenda & Voting Recommendations

Proposal	**Board s Voting Recommendation**	**Page References (for more detail)**
No. 1: Election of 11 Directors	FOR (each nominee)	pp. 19
No. 2: Advisory Vote to Approve Named Executive Officer Compensation	FOR	pp. 46

No. 3: Approve 2016 Stock Option Plan	FOR	pp. 47
No. 4: Ratification of Independent Registered Public Accounting Firm	FOR	pp. 52
No. 5: Approve a Proxy Access Amendment to the Company s Bylaws	FOR	pp. 53
No. 6: Shareholder Proposal: Recovery of Unearned Management Bonuses	AGAINST	pp. 57

2015 Performance Highlights

2015 was the best year in our Company s history. Milestones included:

- Achieving record levels of net revenues[(1)], operating income, and earnings per share (EPS)[(2)]
- Improving our efficiency as measured by operating income as a percentage of net revenues to 33%
- Realizing meaningful progress against our strategic initiatives and enablers contributing to our overall performance
- Returning record levels of cash to shareholders through dividends and share repurchases

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PROXY SUMMARY

2015 Compensation Highlights

Beginning with the promotion of Jeffrey S. Musser to President and Chief Executive Officer in March 2014, we have successfully transitioned many of the leadership positions at Expeditors and developed and began implementation of our strategic initiatives. These changes, combined with the alterations made to our executive compensation structure in 2014, improved the relationship between the Company s financial performance and Named Executive Officers (NEO) compensation in 2015 as follows:

- EPS increased 25% and operating income increased 21%; while
- CEO total compensation increased 9% and total NEO compensation decreased 3%.

The charts below show the Company s operational performance compared to total NEO compensation and Expeditors total shareholder return (TSR) compared to Peer Group TSR over the past three years, indexed year-to-year performance using a January 1, 2013 base year investment of $100. TSR consists of stock price appreciation plus reinvested dividends.

(1) Excludes former CEO s retirement bonus of $8 million in 2013.

We made significant alterations to our compensation structure in 2014 and examined the results of those changes in 2015 from several different views, including those of employees, shareholders and proxy advisory firms. From a failed say-on-pay vote in 2014 with 44% of shareholders supporting NEO compensation, and despite a negative rating from proxy advisory firms in 2015, 67% of our shareholders supported our NEO compensation structure last year. These structural changes, combined with the transition of our leadership, have proven as effective as we expected. Most importantly, we have maintained the core compensation programs that are critical to preserving our culture.

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PROXY SUMMARY

In 2014 and 2015, we made several changes in our approach to designing our NEO compensation programs, including:

- Establishing a policy prohibiting future retirement bonuses
- Implementing a compensation plan that significantly reduced cash bonuses allocated to NEO under the non-equity incentive compensation plan
- Capping increases to NEO compensation
- Increasing long-term incentive compensation by granting additional time-vested stock option awards to NEO
- Implementing an executive stock ownership policy
- Expanding compensation clawback policy for financial restatements to include all members of senior management
- Hiring a compensation consulting firm in November 2015 to advise us on potential future changes we can make to improve our executive compensation programs
- Continuing our dialogue with shareholders

(1) Excludes former CEO s retirement bonus of $8 million in 2013.

The table below shows the significant reductions in executive incentive bonus pool payouts from 2013 to 2015. Percentages paid out to NEO positions in the Executive Incentive Compensation Plan were as follows:

(1) CEO was P. Rose in 2013 and J. Musser in 2014 and 2015.

(2) NEO1 was R. Villanueva in 2013 and P. Coughlin in 2014 and 2015.

(3) NEO2 was J. Wang in 2013 and 2014 and E. Alger in 2015.

(4) NEO3 was J. Gates in 2013 and 2014 and D. Wall in 2015.

(5) CFO was B. Powell for all periods presented.

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PROXY SUMMARY

The table below shows the increases in long-term incentive compensation in the form of time vested stock option grants to NEO positions from 2013 to 2015.

(1) CEO was P. Rose in 2013 and J. Musser in 2014 and 2015.

(2) NEO1 was R. Villanueva in 2013 and P. Coughlin in 2014 and 2015.

(3) NEO2 was J. Wang in 2013 and 2014 and E. Alger in 2015.

(4) NEO3 was J. Gates in 2013 and 2014 and D. Wall in 2015.

(5) CFO was B. Powell for all periods presented.

Compensation Philosophy

When it comes to compensation philosophy, we re different.

We think to get differentiated results, you have to have a different approach. Conventional wisdom these days is that to properly incentivize management, a company has to use several, non-GAAP (Generally Accepted Accounting Principles) measures. We disagree.

We believe that our compensation programs are one of the unique characteristics responsible for differentiating our performance from that of many of our competitors. Throughout our history, managers, including our most senior managers, have been compensated through a combination of three basic techniques. These consist of:

1. A fixed and modest base salary currently set at $100,000 for our NEO and senior managers;

2. A long-term incentive equity compensation program in the form of time-vested stock option grants; and

3. A non-equity incentive compensation program based on a fixed percentage of operating income.

By design, our compensation model is highly variable. We believe this motivates and properly incentivizes management to grow our business, keep costs in check and continue to generate positive operating income. No bonus is guaranteed, since the vast majority of our business is not under long-term contract and is regularly put out for bid. We have to earn our customers business with every shipment, and we need a compensation structure that reflects this high customer service, short-cycle model. The design also holds management fully accountable for excessive risk-taking as any operating losses that are incurred must be recovered in full from future operating income before any non-equity incentives are re-initiated.

PROXY SUMMARY

The single largest component of NEO compensation is non-equity incentive compensation based on GAAP operating income. Operating income captures many elements of managing a healthy business, including growing and maintaining profitable business, gaining new customers, improving customer satisfaction, managing carriers and service provider relationships and costs, increasing employee satisfaction and retention, controlling expenses and collecting cash timely.

There are many targets and measures one could use to assess management s performance, such as gross revenue, expense control and budget targets. To be successful, management must optimize the multiple elements of a full P&L, culminating with operating income. This metric is comprehensive, simple, objective and easily understood. It reflects short- and long-term growth and efficiency, and creates a prudent and entrepreneurial environment.

The second largest component of NEO compensation is time-vested stock options awarded at fair value at the date of grant. The NEO only realizes compensation if the value of the Company increases over the long-term.

Governance Highlights

The 2015 Board slate reflects enhanced skill sets, backgrounds that are closely mapped to Expeditor s strategic direction, a reduction in tenure, and enhanced Board diversity. The slate reflects a multi-year Board succession plan established in 2014:

- Added Diane Gulyas as an additional independent member of the Board of Directors to enhance global business management experience

- Added James Jim DuBois to the slate of independent members of the Board of Directors to augment IT and cybersecurity expertise

We acted upon the 2015 shareholder vote to establish a proxy access framework and are putting forth for shareholder approval a proxy access amendment to the Company s Bylaws. We also updated and strengthened the Company s Code of Business Conduct. In addition, we refined and strengthened our enterprise risk oversight program, and allocated accountability for risk oversight across the committees and the full Board. Lastly, we decreased the number of non-independent Directors.

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BOARD OPERATIONS

The Board of Directors has adopted policies and procedures to ensure effective operations and governance. Our corporate governance materials, including our Corporate Governance Principles, the Charters of each of the Board s Committees and our Code of Business Conduct, can be found on our website at www.investor.expeditors.com. In 2015, the Board was composed of nine independent Directors and two non-independent Directors. Mr. Wright serves as the independent Chairman of the Board of Directors. The primary functions of Expeditors Board of Directors include:

- Ensuring that the long-term interests of shareholders are being served;
- Approving and monitoring strategies and related management performance;
- Overseeing the conduct of our business and monitoring significant enterprise risks;
- Overseeing our processes for maintaining the integrity of our financial statements and other public disclosures, and compliance with laws and ethical conduct;
- Evaluating CEO and senior management performance and determining executive compensation;
- Planning CEO succession and monitoring management s succession planning for other key executive officers; and
- Establishing effective governance structure, including appropriate Board composition and planning for Board succession.

The Board of Directors has determined that all Directors except Messrs. Musser and Wang are independent under the applicable independence standards set forth in the rules promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act) and the rules of the NASDAQ Stock Market. The Board has designated that only independent Directors can serve as Committee members.

The Board currently has the following Committees: Nominating and Corporate Governance, Compensation and Audit. Each Committee operates under a written charter, all of which are available on our website www.investor.expeditors.com. The Board anticipates amending its Bylaws in 2016 to provide that a special meeting of the Board may be called by the Chairman of the Board, the CEO, or a majority of the Directors.

The Board s Committees analyze and review the Company s activities in key areas such as financial reporting, internal controls over financial reporting, compliance with Company policies, corporate governance, significant risks, succession planning and executive compensation.

The Board and its Committee Chairs review the agendas and matters to be considered in advance of each meeting. Each Board and Committee member is free to raise matters that are not on the agenda at any meeting and to suggest items for inclusion on future agendas.

Each Director is provided in advance with materials to be considered at every meeting of the Board and Committees and has the opportunity to provide comments and suggestions.

The Board and its Committees provide feedback to management and management answers questions raised by the Directors during Board and Committee meetings.

Independent Board and Committee members meet separately at each Board and Committee meeting and as otherwise needed.

Board Attendance

The Board met six times in 2015 and each Director attended at least 75% of the total number of Board of Directors meetings and Committee meetings on which they served. While the Company has no established policy requiring Directors to attend the Annual Meeting, all but one member attended the 2015 Annual Meeting.

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BOARD OPERATIONS

Director Retirement Policy

In 2015, the Board established a Director policy, whereby an individual Director will not be nominated to stand for election to the Board of Directors at the next Annual Meeting if the Director has reached an age of 72 years. This policy became effective in 2016.

In May 2016, John W. Meisenbach will retire from the Board of Directors after 24 years of service. Mr. Meisenbach became a Director of the Company in November 1991 and was appointed Chair of the Compensation Committee in May 2010. Since August of 2010, Mr. Meisenbach has been the Chairman of the Board for MCM, a financial services company. Prior to being Chairman, Mr. Meisenbach was the President of MCM from 1962 to December 2008 and Chief Executive Officer from December 2008 to February 2013. He currently serves on the Board of Directors of Costco Wholesale Corporation.

Board s Role in Risk Oversight

Senior management is responsible for the assessment and day-to-day management of risk and brings to the attention of the Board the material risks to the Company. The Board provides oversight and guidance to management regarding the material risks. The Board strengthened its approach to enterprise risk oversight in 2015 and assigned oversight responsibilities for specific areas of risk to its three standing Committees. The Board and its Committees regularly discuss with management the Company s strategies, operations, compliance, policies and inherent associated risks in order to assess appropriate levels of risk taking and steps taken to monitor, mitigate and control such exposures. The Board believes the Company s risk management processes are appropriate and that the active oversight role played by the Board and its Committees provides the appropriate level of oversight for the Company.

Director Compensation Program

The Board uses a combination of cash and stock-based compensation to attract and retain qualified candidates to serve on the Board. In setting Director compensation, the Compensation Committee considers the amount of time that Directors expend in fulfilling their duties as well as the skill-level required as members of the Board and its Committees.

In 2014, the shareholders approved the 2014 Directors Restricted Stock Plan, which authorized 250,000 shares of stock for issuance to eligible Director. Under this Plan, each eligible Director annually receives $200,000 worth of Expeditors restricted stock and such shares vest immediately upon grant. As of December 31, 2015, there are 185,450 shares remaining for issuance under this plan.

Board of Directors Annual Compensation & Stock Ownership Requirements

Board Retainer	$30,000 in cash.
Board Meeting & Attendance	$1,000 per day for attending a meeting or performing operational reviews.
Board Chair Retainer	An additional $150,000 retainer is paid to the Chair of the Board.
Board Committee Chair Retainer	An additional retainer is paid to the Chairs of the Audit, Compensation and Nominating and Corporate Governance Committees of $20,000, $15,000 and $12,500, respectively.
Restricted Stock Plan	Each non-management Director receives $200,000 worth of the Company s stock. All shares are fully vested at time of issuance.
Stock Ownership Policy	Each independent director is required to accumulate a minimum of 15,000 shares of the Company s Common Stock over a six-year period from the date first elected to the Board or the policy adoption date.

Beginning in May 2016, Board meeting fees will be eliminated. The annual Board retainer will increase to $65,000; the Board Chair retainer will increase to $175,000; the Audit Committee Chair will increase to $25,000; and the Compensation and Nominating and Corporate Governance Committee Chairs will each increase to $20,000.

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BOARD OPERATIONS

Director Summary Compensation Table for the Fiscal Year Ended December 31, 2015

The table below summarizes the compensation paid by the Company to non-employee Directors for the fiscal year ended December 31, 2015:

Name	Fees Earned or Paid in Cash	Stock Awards [1]	Option Awards	Non-Equity Incentive Plan Compensation	All Other Compensation	Total
Robert R. Wright	$ 192,000	199,999				$ 391,999
Mark A. Emmert	$ 56,000	199,999				$ 255,999
Diane H. Gulyas[2]	$ 17,000					$ 17,000
Dan P. Kourkoumelis[3]	$ 42,000	199,999				$ 241,999
Michael J. Malone[3]	$ 41,000	199,999				$ 240,999
	$ 38,000	199,999				$ 237,999

John W.
Meisenbach