

EXPEDITORS INTERNATIONAL OF WASHINGTON INC
Form DEF 14A
March 27, 2019

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

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

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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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March 27, 2019

To Our Shareholders

As we enter our 40th year of operation, we look back on one of our best years in the history of the company. In 2018, we generated record gross and net revenues, operating income, net income, and earnings per share. We accomplished these results through the efforts of our highly trained employees, operating in more than 60 countries, bound together by our culture of customer service, regulatory compliance, continuous improvement, and a focus on profitable organic growth.

Over the past 40 years, we have not wavered from our commitment to the core of our business and our business model. We have, however, evolved over the years, with a great example being the strategic work taking place within our Company. In addition to clearly articulating the strategy for the core of our business, our strategy team also is committing time and resources to explore future opportunities. While our focus on the future is not new, we developed our strategy team out of recognition that the pace of global change requires a different approach.

We remain dedicated to sound operations and good governance. Based on conversations with our shareholders, we continue to appreciate how important it is that our executive compensation program measures up to the expectations of our shareholders. We believe in the value of our incentive program and what it brings to our Company as one of our key competitive strengths. While we think it is essential to protect the program's fundamental features, we recognize opportunities to improve it. One enhancement we are introducing in 2019 is the expanded use of long-term performance share units (PSU) to senior executive management, promoting further alignment with our shareholders.

Since 2013, we have lowered our average Director tenure to 5 years from 14 years, and we continue to refresh our Board by nominating Robert Carlile as a Director. We believe that Mr. Carlile's business and financial expertise will serve us well in the years to come and we ask you to confirm his nomination to the Board.

We offer heartfelt thanks to departing Board member and friend, Tay Yoshitani. Mr. Yoshitani offered unique industry insights from his years of professional service with various ports and associations. We will miss his valuable counsel.

We ask for your vote:

You are asked to vote FOR the Board's recommended director nominees and three proposals put forth by the Board, and to vote AGAINST one shareholder proposal that we believe is unnecessary and costly for shareholders.

We look to the next 40 years with confidence and commitment to our employees, customers, service providers, communities and our shareholders. On behalf of the entire Board of Directors and the more than 17,000 employees, we thank you for your continued support and your investment in our business.

Sincerely,

/s/ Robert R. Wright

Robert R. Wright
Chairman of the Board

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NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TUESDAY

May 7, 2019

@ 9:00 A.M. Pacific Time

Expeditors International

1015 Third Ave

Seattle, WA 98104

•Election of Directors

•Approve (advisory) Named Executive Officer Compensation

•Approve Amendment to Employee Stock Purchase Plan

•Ratification of Independent Registered Public Accounting Firm

•Vote on Shareholder Proposal No. 5, if presented at meeting

Record Date: Close of business on March 12, 2019

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 27, 2019. This includes instructions on how to access these materials (including our Proxy Statement and 2018 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.

/s/ Benjamin G. Clark

Benjamin G. Clark
Corporate Secretary
Seattle, Washington
March 27, 2019

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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,” “us,” “our”) 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.

Meeting Agenda & Voting Recommendations

Proposal	Board's Voting Recommendation	Page
No. 1: Election of Directors	ü FOR (each nominee)	pg. 5
No. 2: Advisory Vote to Approve Named Executive Officer Compensation	ü FOR	pg. 19
No. 3: Approve Amendment to Employee Stock Purchase Plan	ü FOR	pg. 34
No. 4: Ratification of Independent Registered Public Accounting Firm	ü FOR	pg. 37
No. 5: Shareholder Proposal: Political Disclosure Shareholder Resolution	X AGAINST	pg. 39

Record Results in 2018

In 2018, the Company generated record results for Revenue, Net Revenue, Operating Income, EPS, and cash returned to shareholders (dividends and share repurchases). At the same time, we continued to make substantial investments in people, processes, technology, and committed resources to strategic innovation to both complement and extend our core businesses.

2016-2018 Financial Performance

(Data in millions except earnings per share)

* Net Revenues are a non-GAAP measure calculated as revenues less directly related operating expenses attributable to the Company's principal services. Please see Management's Discussion and Analysis in our most recent Annual Report on Form 10-K for a reconciliation of Net Revenues to Revenues.

Responding to Shareholders: Increasing Shift to Long-Term Equity Compensation

We value our shareholders’ views on Named Executive Officer (NEO) compensation, and we continue to regularly engage with those representing more than half of the outstanding shares to understand their perspectives on our company, including our compensation programs. Shareholders supported our 2018 and 2017 advisory vote on NEO compensation by 96% and 94%, respectively, by voting FOR our proposals. In 2019, the Board is implementing further changes to compensation for senior executive management, including all NEO. Those changes include shifting cash compensation to long-term, performance-based equity for senior executive management by:

1. Reducing their allocation of the Executive Incentive Compensation Pool by 3% to invest in key personnel, effective January 1, 2019;
 - Further reducing their allocation of the Executive Incentive Compensation Pool by an amount equal to the target
2. value of performance share unit ("PSU") awards that will vest only if 3-year performance goals are achieved for Net Revenues and EPS, matching a similar program that shareholders supported for our CEO in 2017 and 2018; and
3. Substantially increasing the stock ownership requirement.

Substantive Changes to Compensation

The table below shows the proposed changes to compensation for 2019, as well as the changes we implemented in 2018 and 2017, demonstrating our responsiveness to shareholders, while also maintaining the competitive advantages of our foundational compensation programs.

	<p>Reduced senior executive management's allocation of the executive incentive compensation pool by 3% to invest in key personnel</p>	<p>Aligns senior executives with focus on</p> <ul style="list-style-type: none"> •strategic growth initiatives and funds those investments
<p>New Changes adopted for 2019</p>	<p>Further reduced senior executive management's allocation of the executive incentive compensation pool by an amount equal to the target value of PSU awards</p>	<p>Will significantly increase NEO portion of</p> <ul style="list-style-type: none"> •pay to equity, increasing alignment with shareholders <p>Supports focus on long-term performance by</p> <ul style="list-style-type: none"> •requiring 3-year performance goals to be met before any vesting occurs •Aligns senior executive management with shareholders through share ownership (provided PSU are earned) •Aligns with prevalent market practices
	<p>Substantially increased stock holding requirement</p>	<ul style="list-style-type: none"> •Increases alignment with long-term interests of shareholders
	<p>Shifted a greater portion of CEO pay to equity and implemented a PSU program for the CEO</p>	<p>Increased the CEO's equity portion of pay to</p> <ul style="list-style-type: none"> •36% in 2018 from 24% in 2016, in alignment with shareholders <p>Supports focus on long-term performance by</p> <ul style="list-style-type: none"> •requiring 3-year performance goals to be met before any vesting occurs •Aligns CEO with shareholders through share ownership (provided PSU are earned) •Aligns with prevalent market practices
	<p>Reduced senior executive management's allocation of the Executive Incentive Compensation Pool by 6% to fully fund the Company's strategic growth initiatives</p>	<p>Aligns senior executives with focus on</p> <ul style="list-style-type: none"> •strategic growth initiatives and funds those investments
<p>Changes implemented in 2018 and 2017</p>	<p>Added a performance requirement to CEO's executive non-equity incentive compensation, requiring 5% year-over-year operating income growth to earn unreduced payout</p>	<p>Establishes performance expectation for continuous profit growth such that if</p> <ul style="list-style-type: none"> •year-over-year operating income growth is less than 5%, the CEO receives a 5% reduction in his payout •Establishes minimum level of operating income performance
	<p>Replaced stock options with RSU for all key employees</p>	<ul style="list-style-type: none"> •Increases alignment with shareholders •Provides retention of key employees in competitive market for talent

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| Adopted a “hold until met” policy that requires executives to hold 75% of the net after-tax shares received upon vesting of PSU and RSU until their respective stock ownership guidelines are met | <ul style="list-style-type: none">•Increases alignment with shareholders•Aligns with emerging market practices and shareholder preferences |
| Adopted “double trigger” vesting upon a change-in-control for all new equity incentive awards | <ul style="list-style-type: none">•Aligns with emerging market practices and shareholder preferences |

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Director Identification & Nomination Process

The Policy on Director Nominations, which can be found on the Company's website at <https://investor.expeditors.com>, describes the process by which Director nominees are selected by the Nominating and Corporate Governance Committee, and includes the criteria the Committee will consider in determining the qualifications of any candidate for Director. In reviewing candidates for the Board, the 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.

The Committee annually reviews its nomination procedures to assess the effectiveness of the Policy on Director Nominations. The Committee considers candidates for Director who are recommended by its members, by management, and by search firms retained by the Committee. In addition, per the Policy on Director Nominations, the Committee will also consider any candidate proposed by a shareholder satisfying certain notice provisions, and will take into account the size and duration of the recommending shareholder's ownership.

All candidates for Director who, after evaluation, are then recommended by the Committee and approved by the Board of Directors will be included in the Company's recommended slate of Director nominees in its Proxy Statement. In addition, any shareholder or group of up to 20 shareholders that has continuously beneficially owned at least 3% of the Company's Common Stock for at least three years, and who satisfies certain notice, information and consent provisions, may nominate up to 20% of the Directors standing for election and include such nominees on the Company's proxy statement pursuant to the Company's proxy access rights. Lastly, a shareholder may nominate a Director candidate for election outside of the Company's proxy statement if the shareholder complies with the notice, information and consent provisions of Article II of the Company's Bylaws, which can be found on our website at <https://investor.expeditors.com>.

Our Bylaws require any notice for Director nominees for shareholder consideration be submitted by certain deadlines, which are explained in detail under the heading "Deadlines for Shareholder Proposals for the 2020 Annual Meeting of Shareholders."

PROPOSAL NO. 1:
ELECTION OF DIRECTORS

The Company's Bylaws require a Board of Directors composed of not less than 6 nor more than 11 members. Expeditors' Directors are elected at each Annual Meeting to hold office until the next Annual Meeting 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 ten nominees are named below. Proxies cannot be voted for a greater number of persons than the number of nominees named in this proposal.

Nominees for Election

This year's nominees consist of eight independent Directors and two non-independent 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 10 nominees of the Board of Directors named below. Although the Board 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.

The following persons are nominated to serve as Directors until the Company's 2020 Annual Meeting of Shareholders:

ROBERT R. WRIGHT

Robert R. Wright became a Director in May 2008, served as Lead Director beginning May 2010 and was appointed Chairman of the Board in May 2014. 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 a Regional Managing Partner of Tax for Arthur Andersen. He currently serves on the Board of Directors for two privately held companies, Matthew G. Norton Co. and Stimson Lumber Company.

Specific Qualifications, Attributes, Skills & Experience

- Over 20 years of senior leadership and management in private industry and the public accounting environment.
- Expertise in tax, finance and real estate, succession planning and business operations.
- Member of audit, nominating and compensation committees of various company boards.

GLENN M. ALGER

Glenn M. Alger became a Director in May 2017. He is one of the founders of Expeditors and served in various management and senior executive positions over a 25-year period, culminating as President and Chief Operating Officer from September 1999 - May 2007. Prior roles included leading business and operational development in the Americas region and management and evolution of the Company's global products and services. Since his retirement from the Company in 2007, Mr. Alger has been principally engaged as an active investor and manager of his family trust and charitable activities. In 2015 and 2016, Mr. Alger provided consulting services to the Company. As a founder, former senior executive of the Company and a long-term shareholder, Mr. Alger brings a deep understanding of both Company operations specifically and the logistics industry generally.

Specific Qualifications, Attributes, Skills & Experience

- More than 30 years of entrepreneurial, business development, management and senior leadership in global logistics.
- Direct experience building a business from a startup to a global industry leader.
- Industry expertise in customer markets, strategy, competition, organization, technology and finance.
- Over 20 years of governance and oversight experience as a senior executive of a public company.

ROBERT P. CARLILE

Robert P. Carlile retired as a partner at KPMG LLP in 2016. In his 39-year career in public accounting at KPMG and Arthur Andersen, Mr. Carlile served as the lead audit partner on numerous public company engagements operating across different industries including technology, retail, transportation, bio-science, and manufacturing. He worked directly with boards of directors and audit committees of these companies on audits of financial statements and internal controls, registration statements and assistance with mergers, acquisitions and dispositions. In addition to his experience as a lead audit partner Mr. Carlile held a variety of operating leadership positions at KPMG and Arthur Andersen in the Pacific Northwest. In these roles he was responsible for establishing market strategy, fostering community relationships and accomplishing operating results. Mr. Carlile brings expertise to the board in the areas of auditing, accounting and financial reporting, internal controls and corporate governance. Since 2017, Mr. Carlile has served on the Board of Directors of publicly traded Microvision, where he is the Audit Committee Chair. Mr. Carlile also serves on the Board of Directors of the Virginia Mason Health System and Virginia Mason Medical Center and is Chairman of the Northwest Chapter of the National Association of Corporate Directors (NACD). He also is credentialed as a NACD Board Leadership Fellow.

Specific Qualifications, Attributes, Skills & Experience

• More than 30 years of senior leadership and management experience.

• Extensive audit and accounting experience.

• Served as Lead Audit Partner on many global publicly-traded companies.

• Experienced in corporate board governance and engages in continuous education on leading governance practices.