

CONSOLIDATED TOMOKA LAND CO

Form 10-Q

August 08, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the quarterly period ended June 30, 2012

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934**

For the transition period from to

Commission file number 01-11350

CONSOLIDATED-TOMOKA LAND CO.

(Exact name of registrant as specified in its charter)

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Florida
(State or other jurisdiction of
incorporation or organization)

59-0483700
(I.R.S. Employer
Identification No.)

1530 Cornerstone Blvd., Suite 100

Daytona Beach, Florida
(Address of principal executive offices)

32117
(Zip Code)

(386) 274-2202
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "accelerated filer," "smaller reporting company," and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒
Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller Reporting Company ☐
Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class of Common Stock Outstanding August 01, 2012 \$1.00 par value 5,831,708

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED BALANCE SHEETS

	(Unaudited) June 30, 2012	December 31, 2011
ASSETS		
Cash	\$ 6,609,969	\$ 6,174
Restricted Cash	4,374,407	2,779,511
Refundable Income Taxes		399,905
Land and Development Costs	27,847,134	27,825,924
Intangible Assets	3,878,070	3,572,096
Assets Held for Sale		7,694,710
Other Assets	8,019,993	8,023,872
	50,729,573	50,302,192
Property, Plant, and Equipment:		
Land, Timber, and Subsurface Interests	15,131,329	15,109,298
Golf Buildings, Improvements, and Equipment	2,535,294	2,535,294
Income Properties, Land, Buildings, and Improvements	118,454,794	111,564,673
Other Furnishings and Equipment	1,181,995	2,320,766
Total Property, Plant, and Equipment	137,303,412	131,530,031
Less, Accumulated Depreciation and Amortization	(11,468,836)	(11,566,420)
Net - Property, Plant, and Equipment	125,834,576	119,963,611
TOTAL ASSETS	\$ 176,564,149	\$ 170,265,803
LIABILITIES		
Accounts Payable	\$ 929,237	\$ 385,685
Accrued Liabilities	6,317,931	7,317,676
Accrued Stock Based Compensation	220,034	484,489
Pension Liability	1,296,571	1,586,513
Income Taxes Payable	385,573	
Deferred Income Taxes	32,176,602	32,060,283
Notes Payable	20,876,849	15,266,714
TOTAL LIABILITIES	62,202,797	57,101,360
Commitments and Contingencies		
SHAREHOLDERS' EQUITY		
Common Stock	5,725,442	5,724,147

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Additional Paid-in Capital	6,367,345	5,697,554
Treasury Stock	(453,654)	
Retained Earnings	103,851,644	102,872,167
Accumulated Other Comprehensive Loss	(1,129,425)	(1,129,425)
TOTAL SHAREHOLDERS' EQUITY	114,361,352	113,164,443
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 176,564,149	\$ 170,265,803

See Accompanying Notes to Consolidated Financial Statements

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF OPERATIONS

	(Unaudited) Three Months Ended		(Unaudited) Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Income				
Real Estate Operations:				
Real Estate Sales				
Sales and Other Income	\$ 930,477	\$ 69,002	\$ 2,004,197	\$ 138,826
Costs and Other Expenses	(338,986)	(370,628)	(632,823)	(688,721)
	591,491	(301,626)	1,371,374	(549,895)
Income Properties				
Leasing Revenues and Other Income	2,454,689	2,227,488	4,793,712	4,435,697
Costs and Other Expenses	(672,821)	(613,778)	(1,327,410)	(1,223,530)
	1,781,868	1,613,710	3,466,302	3,212,167
Golf Operations				
Sales and Other Income	1,253,079	1,347,704	2,582,658	2,721,280
Costs and Other Expenses	(1,478,751)	(1,759,244)	(2,983,740)	(3,393,404)
	(225,672)	(411,540)	(401,082)	(672,124)
Total Real Estate Operations	2,147,687	900,544	4,436,594	1,990,148
Interest and Other Income	191,022	83,007	303,911	258,218
	2,338,709	983,551	4,740,505	2,248,366
General and Administrative Expenses	(1,452,816)	(644,502)	(2,973,057)	(2,437,115)
Loss on Early Extinguishment of Debt			(245,726)	
Income (Loss) from Continuing Operations				
Before Income Taxes	885,893	339,049	1,521,722	(188,749)
Income Taxes	(336,089)	(95,758)	(579,185)	97,233
Income (Loss) from Continuing Operations	549,804	243,291	942,537	(91,516)
Income from Discontinued Operations (net of tax)	49,782	75,491	151,450	151,393
Net Income	\$ 599,586	\$ 318,782	\$ 1,093,987	\$ 59,877
Basic and Diluted Per Share Information:				
Income (Loss) from Continuing Operations	\$ 0.09	\$ 0.04	\$ 0.16	\$ (0.02)
Income from Discontinued Operations (net of tax)	0.01	0.02	0.03	0.03
Net Income Per Share	\$ 0.10	\$ 0.06	\$ 0.19	\$ 0.01

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Dividends Per Share	\$	0.02	\$	0.01	\$	0.02	\$	0.02
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See Accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED-TOMOKA LAND CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	(Unaudited) Three Months Ended		(Unaudited) Six Months Ended	
	June 30, 2012	June 30, 2011	June 30, 2012	June 30, 2011
Net Income	\$ 599,586	\$ 318,782	\$ 1,093,987	\$ 59,877
Cash Flow Hedging Derivative (net of tax of \$28,991 and \$59,923 respectively)		46,164		95,418
Mark to Market Available-for-Sale Investment Securities (net of tax of \$9,322)				(14,844)
Total Other Comprehensive Income, Net of Tax	Total			
Mark A. Emmert(2)	\$14,000	199,953	—	— — \$213,953
Dan P. Kourkouvelis(3)	\$15,000	199,953	—	— — \$214,953
Michael J. Malone(4)	\$15,000	199,953	—	— — \$214,953
John W. Meisenbach(5)	\$15,000	199,953	—	— — \$214,953
Robert R. Wright(6)	\$95,000	199,953	—	— — \$294,953

This column represents the aggregate grant date fair value of restricted shares granted in 2011. The fair value of (1) 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, 2011 there were 1,626 unvested restricted shares held by Dr. Emmert.

(3) As of December 31, 2011 there were 192,000 vested option awards and 1,626 unvested restricted shares held by Mr. Kourkouvelis.

(4) As of December 31, 2011 there were 96,000 vested option awards and 1,626 unvested restricted shares held by Mr. Malone.

(5) As of December 31, 2011 there were 64,000 vested option awards and 1,626 unvested restricted shares held by Mr. Meisenbach.

(6) As of December 31, 2011 there were 1,626 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 8, 2012. 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)	68	1,224,479	*	
James L.K. Wang(2)	64	556,496	*	
R. Jordan Gates(3)	56	485,634	*	
Mark A. Emmert(4)	59	13,306	*	
Dan P. Kourkouvelis(5)	60	263,167	*	
Michael J. Malone(6)	67	219,015	*	
John W. Meisenbach(7)	75	152,921	*	
Robert R. Wright(8)	52	9,515	*	
Additional Named Executives Officers:				
Robert L. Villanueva(9)	59	247,123	*	
Bradley S. Powell (10)	51	9,543	*	
All Directors and Executive Officers as a group (20 persons)(11)		4,827,327	2.28	%

* Less than 1%

(1) Includes 63,740 shares subject to purchase options exercisable within sixty days.

(2) Includes 94,250 shares subject to purchase options exercisable within sixty days.

(3) Includes 65,108 shares subject to purchase options exercisable within sixty days.

(4) Includes 3,574 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2012.

(5) Includes 160,000 shares subject to purchase options exercisable within sixty days and 3,574 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2012.

(6) Includes 96,000 shares subject to purchase options exercisable within sixty days and 3,574 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2012.

(7) Includes 64,000 shares subject to purchase options exercisable within sixty days and 3,574 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2012.

(8) Includes 3,574 restricted shares for which the director has sole voting power, but dispositive power is restricted through May 31, 2012.

(9) Includes 80,470 shares subject to purchase options exercisable within sixty days.

(10) Includes 7,500 shares subject to purchase options exercisable within sixty days.

(11) Includes 1,291,140 shares subject to purchase options exercisable within sixty days and 17,870 restricted shares for which the directors have sole voting power, but dispositive power is restricted through May 31, 2012.

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, including the Chief Executive Officer's post-retirement services agreement.

Throughout this Proxy Statement, the individuals who served as the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer during fiscal 2011, as well as the other individuals included in the Summary Compensation Table on page 21 are referred to as the "Named Executive Officers." The term Executive refers to individuals who are Executive Officers or are otherwise participants in the executive non-equity incentive compensation program, but are not Named Executive Officers. The term senior management includes all Named Executive Officers, Executive Officers and other officers 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 (50-89% 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 the contribution to 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 2011, 2010 and 2009 management bonuses. The Company's operating income in 2011 was 13% higher than the amount reported in 2010. Bonuses earned by field and corporate management in 2011 were also both up 13% as compared with 2010. The Company's operating income in 2010 was 42% higher than the amount reported in 2009 and bonuses earned in 2010 increased by 35% as compared with 2009. The Company's operating income was 19% lower in 2009 compared to 2008 and bonuses earned also declined by 19%. 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 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 incentive bonus programs, 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, the operating cycle is short. 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 and our benchmarking activities are limited to reviewing 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 Named Executive Officers 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 these components has been utilized in combination with the others 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 96% 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 Named Executive Officers. 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 Executives 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 Named Executive Officers, 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 Named Executive Officers 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 recorded as part of field operations (25% of pre-bonus operating income, after a corporate management fee is levied). Base salaries for each Executive not participating in the non-equity incentive compensation program are recommended by the applicable Named 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 Named Executive Officers 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 assuming that position in 1988. The base salary for all other Named Executive Officers is \$100,000 per annum and has not changed in the past five years.

Base salaries for each of the Named Executive Officers for 2011 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

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Robert L. Villanueva	President-The Americas	\$ 100,000
Bradley S. Powell	Senior Vice President and Chief Financial Officer	\$ 100,000

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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 2011, the Compensation Committee granted stock options for 2,998,390 shares to approximately 3,900 employees including two Named Executive Officers as shown in the table below. All stock options granted by the Compensation Committee in 2011 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 Named Executive Officers who received a stock option grant in 2011 were recommended and approved to receive stock options by the Compensation Committee.

The total number of stock options available to be granted in 2011 was determined by an annual shareholder vote as has been done the previous seven years. All options issued to employees in 2011 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 having 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 2011, all stock options were granted at the closing market price on the day of the 2011 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 Named Executive Officers in 2011 are as follows:

Name	Position	2011 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	—
Robert L. Villanueva	President-The Americas	5,500
Bradley S. Powell	Senior Vice President and Chief Financial Officer	8,000

Under the Company's outstanding stock option plans and agreements thereunder, incentive stock options granted under the 2008, 2009, 2010 and 2011 Stock Option Plans and non-qualified stock options 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 2010 and 2011 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 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 isolated instances outside the United States where required to do so by law. The added element of an equity incentive compensation program serves two purposes. First, the program provides the 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 Named Executive Officer nor can such an allocation cause any individual to become a Named Executive Officer.

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 30% and 29%, respectively. With respect to the other Named Executive Officers, the relative percentages have changed over time due to a variety of factors. The relative percentage allocated Mr. Villanueva has diminished by approximately 14% over this same time period while the relative percentage allocated to Mr. Gates increased 4%. This increase was concurrent with Mr. Gates' appointment as President and Chief Operating Officer effective January 1, 2008. The portion of the Executive Bonus Pool allocated to the President and Chief Operating Officer in 2011 was 33% less than the percentage allocated to that position in 2003. Mr. Powell joined the Executive Bonus Pool as Chief Financial Officer in October 2008 and the portion allocated to the Chief Financial Officer in 2011 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 subcontinent] regions) or major product and service functions (such as air, ocean, brokerage, product management, information technology, marketing, accounting and finance) reporting directly to the Chairman and Chief Executive Officer or the President and Chief Operating Officer, are 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 Named Executive Officers 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 are also made to give recognition to promotions, achievements and other noteworthy accomplishments.

Amounts earned by all participants in the non-equity incentive compensation program (approximately 75 participants) during 2011 totaled \$68,702,000, of which \$50,953,376 was paid to Executive Officers. Amounts earned by Named Executive Officers from the non-equity incentive compensation program during 2011 and each Named Executive Officers' share of the available pool as approved by the Compensation Committee are as follows:

Name	Position	% of Pool	2011 Amount Earned
Peter J. Rose	Chairman and Chief Executive Officer	9.7	% \$6,695,888
James L.K. Wang	President-Asia Pacific	9.2	% \$6,293,532
R. Jordan Gates	President and Chief Operating Officer	7.7	% \$5,320,683
Robert L. Villanueva	President-The Americas	7.3	% \$4,991,643
Bradley S. Powell	Senior Vice President and Chief Financial Officer	4.5	% \$3,102,539

While the Company has never incurred an annual or quarterly operating loss since going public in September 1984, such a loss would result in a moratorium on any kind of compensation payments under the non-equity incentive compensation program. The participants in the program would not be entitled to, nor would they expect, any form of payments under the program. More importantly, no further non-equity incentive compensation program payments would be due or payable to participating Executives until future operating income surpassed the operating loss previously incurred. At that time, non-equity incentive compensation would only be due for the portion of cumulative profitability beyond the value of the profits offsetting the operating loss. More simply put, any operating losses must be made up by operating profits, in the aggregate, before permitting further payments under the non-equity incentive compensation program. This also applies across yearly reporting cycles. Were the Company to incur an operating loss in the fourth quarter and record operating income in the first quarter of the ensuing year, the amount of pre-bonus operating income earned in the first quarter must exceed the amount of loss in the previous quarter before any non-equity incentive compensation would be due. This would also apply to a situation where operating income, for years which have previously been audited and reported upon, is subsequently adjusted downward. In that situation, no payments under the non-equity incentive compensation program would be due until future operating income results exceed the amount of the downward adjustment. The Compensation Committee believes that the combination of the Company's short operating cycle and this compensation structure, which emphasizes cumulative operating income, does not encourage our management to take unreasonable risks relating to the Company's business. No additional payments would ever be due if such adjustments increased previously reported fiscal year operating income. The structure of the non-equity incentive compensation plan is designed to discourage our employees from taking unreasonable risks relating to the Company's business. The compensation paid to our Named Executive Officers is weighted heavily toward the non-equity incentive compensation plan, which we believe is an essential part of risk oversight. The percentage of total compensation paid to our Named Executive Officers under the non-equity incentive compensation plan ranged from 92% to 98% in 2011.

The portion of the pool that is allocated to each Named Executive Officer, or other participating Executive Officer, is approved by the Compensation Committee at the beginning of each quarter and the corresponding quarterly distributions are made subsequent to filing the Company's Form 10-Q or Form 10-K with the Securities and Exchange Commission. Actual amounts are only paid subsequent to review by, and receipt of written approval from, the Compensation Committee.

Perquisites and Other Personal Benefits

From a philosophical standpoint, the Company does not provide Executive Officers, named and otherwise, and senior managers with perquisites and personal benefits that are not available to all employees. The Company provides standard benefits packages to all employees which vary country by country based on individual country regulations. In the United States, for instance, the Company

pays 100% of the medical, dental and vision insurance premiums, as well as offering a matching contribution of \$.50 for each \$1.00 of employee savings, up to a maximum annual Company contribution of \$1,500 per qualified employee, under an employee savings plan intended to qualify under Section 401(k) of the Code. The Company believes that the compensation potential available from its three main components of compensation detailed herein are sufficiently attractive that the reliance on other forms of exclusive perquisites and benefits are not necessary to enable the Company to attract and retain superior employees for key positions.

The Company does not believe that the aggregate value of any perquisites for any Named Executive Officer exceeds \$10,000 per year.

Employment Agreements

The Company has entered into employment agreements with all of the Named Executive Officers which provide for the base salaries as indicated above. Each of the employment agreements is automatically renewable upon expiration for additional one-year periods unless either party elects otherwise.

Potential Payments upon Termination and Change in Control

The employment agreement for each Named Executive Officer, other than the Chief Executive Officer, (as well as for all Executive Officers) contains a covenant not to compete which allows the Company to extend the restriction on competition with the Company for six months following termination of the employment relationship. The extension is at the sole discretion of the Company unless the employee terminates the employment relationship by resigning during a specified period surrounding a “change in control,” as defined and discussed below, in which case the employee may decline any accompanying lump sum payment and thereby avoid the accompanying restriction on competition. With respect to the Chief Executive Officer, the employment agreement provides for the automatic extension of the covenant not to compete for six months except that the extension shall not be effective upon resignation or termination without cause during a specified period surrounding a “change in control” as discussed below.

The Company regularly grants stock options to its employees including the Named Executive Officers. The stock options granted under the Company’s stock option plans for employees vest at the rate of 50% three years from the date of grant, an additional 25% four years from the date of grant and the balance five years from the date of grant. However, these option plans all provide that outstanding options will become immediately vested and fully exercisable in connection with the occurrence of a “change in control” of the Company.

“Change in Control” means either of the following: (i) when any person (with certain exceptions) becomes the beneficial owner, directly or indirectly, of 50% of the Company’s then outstanding securities or (ii) when shareholder approval is obtained for a transaction involving the sale of all, or substantially all, of the assets of the Company or a merger of the Company with or into another company.

The following tables illustrate the payments due to each of the Named Executive Officers in the event of termination under either “for cause” or “without cause”.

Name	For Cause(1)	For Cause with Non-Compete Agreement(1)	Without Cause(2)
Peter J. Rose(3)	\$55,000	\$ 55,000	\$3,554,176
James L.K. Wang	—	\$ 50,000	\$3,196,766
R. Jordan Gates	—	\$ 50,000	\$2,710,342
Robert L. Villanueva	—	\$ 50,000	\$2,545,822
Bradley S. Powell	—	\$ 50,000	\$1,601,270

* All amounts are based upon calculations at December 31, 2011.

When terminating an Executive Officer for cause, the Company may, in its sole discretion, enforce the non-compete provision contained in the employment agreements for a lump sum payment representing 50% of the Executive Officer’s base salary. The term “cause” as defined by the employment agreement is any act of an Executive Officer, which in the reasonable judgment of the Board of Directors, constitutes dishonesty, larceny, fraud, deceit, (1) gross negligence, a crime involving moral turpitude, willful misrepresentation to shareholders, directors or officers or material breach of the employment agreement. With respect to Mr. Rose, his employment agreement, which contains a post-retirement service clause, was amended to call for an automatic lump sum payment by the Company representing 50% of his base salary. The non-compete provision is automatically extended except in circumstances discussed above.

When terminating an Executive without cause, the Company must pay the Executive Officer cash compensation in (2) a lump sum amount equal to 50% of his or her base salary plus 50% of the amount of the preceding twelve months of non-equity incentive compensation.

(3) Without cause termination compensation to Mr. Rose would also include amounts that would become due under provisions of a post employment-personal services agreement as described on page 19 of this Proxy Statement. The following table and accompanying narrative illustrates the payments that would be due to each of the Named Executive Officers under several possible “change in control” scenarios.

Name	Column 1 Accelerated Vesting of Stock Options Based on Change in Control Shares	Column 2 Resign or Terminated for Cause	Column 3 Terminated for Cause with Non-Compete Agreement	Column 4 Terminated Without Cause
Peter J. Rose	2,500	\$ —	\$55,000	\$3,554,176
James L.K. Wang	2,500	\$ —	\$50,000	\$3,196,766
R. Jordan Gates	3,750	\$ —	\$50,000	\$2,710,342
Robert L. Villanueva	14,250	\$ 19,150	\$50,000	\$2,545,822
Bradley S. Powell	40,500	\$ 57,600	\$50,000	\$1,601,270

The realized gain was calculated based on a closing market price of the Company’s Common Stock of \$40.96 per share at December 31, 2011, multiplied by the number of each Named Executive Officer’s unvested stock options at (1) that date, which would immediately vest in the event of a change in control as of that date, less the aggregate amount that would be required to be paid to exercise the options.

Scenario 1: No changes are made in management as a result of a change in control as described above. Named Executive Officers would receive the realized gain on acceleration of unvested stock options shown in Column 1.

Scenario 2: Named Executive Officer’s employment agreements are terminated with cause subsequent to a change in control. Amounts due would include the realized gain on acceleration of unvested stock options under Column 1. No amounts are due to the Named Executive Officer under Column 2 other than for the Chairman and Chief Executive Officer. At the Company’s discretion, as noted above, for a lump sum payment of half the Named Executive Officer’s base salary under Column 3, the Company could invoke the non-compete provisions contained in the employment agreement. Mr. Rose’s employment agreement, as noted

above, requires lump sum payment of half of Mr. Rose's base salary under Column 3. The non-compete provisions are automatically extended.

Scenario 3: Named Executive Officer resigns subsequent to a change in control. The Named Executive Officer would be entitled to the realized gain on the acceleration of unvested stock options under Column 1. Other than the Chairman and Chief Executive Officer, the Named Executive Officer would not be entitled to any cash compensation. The Company could, in its sole discretion (except with respect to the Chairman and Chief Executive Officer), pay the Named Executive Officer a lump sum amount under Column 3 in exchange for invoking the non-compete provisions in the employment agreement. In a change in control situation, the Named Executive Officer has the option to reject or to accept this lump sum payment. By rejecting the payment, the Executive will no longer be subject to the non-compete provisions of the employment agreement. Because of the post-retirement services feature in the Chairman and Chief Executive Officer's employment agreement, a lump sum payment of half of the base salary shown under Column 3 is required. The Chairman and Chief Executive Officer would no longer be subject to the non-compete provisions of the employment agreement.

Scenario 4: Named Executive Officer's employment agreements are terminated without cause subsequent to the change in control. Amounts due would include the realized gain on the acceleration of unvested stock options shown in Column 1. In addition, the Named Executive Officer would be entitled to receive cash compensation based on one-half of base salary plus one-half of the amount of non-equity incentive compensation program received by the Executive in the preceding twelve months under Column 4. Under the terms of the employment agreement, when an Executive is terminated without cause, the non-compete provisions remain in effect for six-months from the date of termination, except with respect to the Chairman and Chief Executive Officer, whose non-compete provisions will not be applicable following termination without cause subsequent to a change in control.

Post Employment—Personal Services Agreement. The employment agreement of the Chairman and Chief Executive Officer contains a term providing for post-employment personal services to the Company for a minimum of sixty days per year including up to twenty days of business travel annually. Subject to earlier termination as described below, the personal services agreement will run until age seventy. In exchange for his services to the Company, the Chairman and Chief Executive Officer will receive an annual payment initially equal to the base salary received for the most recent twelve months of service. Payments after the first year will be indexed for changes to the Consumer Price Index (CPI) or similar index.

Had the Chairman and Chief Executive Officer retired on December 31, 2011, the initial annual payment under this agreement would have been \$110,000. Assuming a yearly increase of 3.5% (the annual change in the 2011 CPI) for each ensuing annual payment and including certain standard benefits, the Company estimates that it would pay the Chairman and Chief Executive Officer approximately \$150,000 through March 13, 2013 (the agreement's remaining term), unless earlier terminated, as provided below. The agreement also extends coverage under the Company's standard benefits package as amended from time to time. The Chairman and Chief Executive Officer is prohibited from competing with the Company during the term of the personal services agreement and for six months thereafter. The obligation of the Company for such compensation is subject to termination in the event of death, disability or willful failure to perform and would also terminate in the event that employment was terminated for cause.

The Compensation Committee recognizes the key role that continuity in personal relationships plays in the global logistics services business. This personal services agreement assures the Company of the post-retirement involvement and loyalty of the Chairman and Chief Executive Officer. In addition, this agreement anticipates and facilitates the eventual orderly transition from one Chief Executive Officer to another.

Other Retirement or Disability Payments. Other than the post employment-personal services agreement of the Chairman and Chief Executive Officer, the Company has no formal retirement obligations to make any payments to any Executive Officer upon his or her death, disability or retirement except to Executive Officers domiciled in countries where statutory regulation require that these benefits be provided to all employees.

While there is no legal or contractual obligation to do so, the Company has, on occasion, accelerated the vesting of any unvested stock options of employees who pass away.

Policy on Deductibility of Compensation. Under Section 162(m) of the Code, the Federal income tax deduction for certain types of compensation paid to certain of the Named Executive Officers, is limited to \$1,000,000 per Named

Executive Officer per taxable year unless such compensation meets certain requirements. The Compensation Committee believes that this limitation will not apply to compensation accrued in 2012. In making future compensation decisions, the Compensation Committee intends to take into

account and mitigate to the extent feasible the effect of Section 162(m) as it discharges its responsibilities, although in certain cases the Compensation Committee may award compensation to Named Executive Officers which are not fully deductible as a result of this limitation. (Please refer to page 29 for further discussion concerning the deductibility of compensation relating to the proposed 2012 Stock Option Plan.)

Accounting for Stock-Based Compensation. The Company accounts for stock-based payments including its Stock Option Plans, Restricted Stock Program and Employee Stock Purchase Plan in accordance with the requirements of Accounting Standards Codification Topic 718, Compensation – Stock Compensation.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Company has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS

John W. Meisenbach, Chairman

Mark A. Emmert

Dan P. Kourkouvelis

Michael J. Malone

Robert R. Wright

SUMMARY COMPENSATION TABLE FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

The table below summarizes the total compensation paid or earned by each of the Named Executive Officers for each of the fiscal years shown. The Company has entered into employment and indemnification agreements with all of the Named Executive Officers.

The Named Executive Officers were not entitled to receive payments which would be characterized as “Bonus” payments for the fiscal years shown. Amounts listed under “Non-Equity Incentive Plan Compensation” were determined based on percentages of the pool that were allocated to each Named Executive Officer by the Compensation Committee based on the factors described in the Compensation Discussion and Analysis contained herein.

Salary for the Named Executive Officers in 2011 accounted for approximately 2% and “Option Awards” and “Non-Equity Incentive Plan Compensation” accounted for approximately 97% of the total compensation of the Named Executive Officers. Benefits accounted for less than 1% of the total compensation of Named Executive Officers.

The following table sets out the type and amount of compensation paid to each Named Executive Officer for the years ended December 31:

Name and Position	Year	Salary	Option Awards(2)	Non-Equity Incentive Plan Compensation(3)	All Other Compensation(4)	Total
Peter J. Rose Chairman and Chief Executive Officer	2011	\$ 110,000	—	\$ 6,695,888	\$ 1,500	\$6,807,388
	2010	\$ 110,000	—	\$ 6,443,691	\$ 1,500	\$6,555,191
	2009	\$ 110,000	—	\$ 4,671,392	\$ 1,500	\$4,782,892
James L.K. Wang(1) President-Asia Pacific	2011	\$ 100,000	—	\$ 6,293,532	—	\$6,393,532
	2010	\$ 100,000	—	\$ 5,857,902	—	\$5,957,902
	2009	\$ 100,000	—	\$ 4,362,745	—	\$4,462,745
R. Jordan Gates President and Chief Operating Officer	2011	\$ 100,000	—	\$ 5,320,683	\$ 1,500	\$5,422,183
	2010	\$ 100,000	—	\$ 5,014,364	\$ 1,500	\$5,115,864
	2009	\$ 100,000	—	\$ 3,521,033	\$ 1,500	\$3,622,533
Robert L. Villanueva President-The Americas	2011	\$ 100,000	\$115,088	\$ 4,991,643	\$ 1,500	\$5,208,231
	2010	\$ 100,000	—	\$ 4,714,733	\$ 1,500	\$4,816,233
	2009	\$ 100,000	\$75,177	\$ 3,310,635	\$ 1,500	\$3,487,312
Bradley S. Powell Senior Vice President and Chief Financial Officer	2011	\$ 100,000	\$167,400	\$ 3,102,539	\$ 1,500	\$3,371,439
	2010	\$ 100,000	\$314,696	\$ 2,670,493	\$ 1,500	\$3,086,689
	2009	\$ 100,000	\$150,354	\$ 1,210,385	\$ 1,500	\$1,462,239

Mr. Wang is a resident of Taiwan and a substantial portion of his base salary is paid in an estimated equivalent of (1) New Taiwan Dollars. Any amount by which the currency fluctuations exceeded his \$100,000 base salary is subtracted from his final payment due under the Non-Equity Incentive Compensation Plan.

This column represents the aggregate grant date fair value of options granted in each of the years presented. All (2) assumptions used to determine the grant date fair value of the option awards are included in Note 2 to the Company’s consolidated financial statements on Form 10-K as filed on February 28, 2012.

The payments were made pursuant to the non-equity incentive compensation program, as described under the (3) caption “Executive Compensation – Non-Equity Incentive Compensation Program.” The amounts listed were earned during the fiscal year.

These amounts include the Company’s matching contributions of \$.50 for each \$1.00 of employee savings, up to a (4) maximum annual Company contribution of \$1,500 per qualified employee, under an employee savings plan intended to qualify under Section 401(k) of the Code.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table sets forth certain information regarding awards granted during 2011 to the Named Executive Officers. For more information regarding each award, please see “Compensation Discussion and Analysis” in this Proxy Statement.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(1)			All Other Option Awards: Number of Securities Underlying Options(2)	Exercise or Base Price of Option Awards(3)	Grant Date Fair Value of Option Awards(4)
		Threshold	Target	Maximum			
Peter J. Rose	—	—	\$6,695,888	—	—	—	—
James L.K. Wang	—	—	\$6,293,532	—	—	—	—
R. Jordan Gates	—	—	\$5,320,683	—	—	—	—
Robert L. Villanueva	05/04/11	—	\$4,991,643	—	5,500	\$52.80	\$115,088
Bradley S. Powell	05/04/11	—	\$3,102,539	—	8,000	\$52.80	\$167,400

(1) The total amount available to officers participating in the non-equity incentive compensation program, including all Named Executive Officers, is limited to 10% of pre-bonus operating income. Individual amounts earned under this plan are determined by participation percentages approved by the Compensation Committee. The Company does not use thresholds or targets or maximums in determining levels of compensation.

The above grants were made pursuant to the Company’s 2011 Stock Option Plan (“Option Plan”). All options granted in fiscal 2011 are subject to a vesting schedule. Subject to earlier vesting under certain conditions set forth in the (2) Option Plan, 50% of the options will be exercisable commencing three years from the date of the grant and an additional 25% will be exercisable four and five years from the date of the grant, respectively. (See “Potential Payments upon Termination and Change in Control”). The options expire ten years from the date of the grant.

(3) The exercise price is the market closing price of the underlying security on the grant date.

(4) All assumptions used to determine the grant date fair value of the option awards are included in Note 2 to the Company’s consolidated financial statements included on Form 10-K as filed on February 28, 2012.

OPTION EXERCISES AND YEAR-END OPTION VALUE TABLES

The following tables set forth certain information regarding options held by the Named Executive Officers. Options exercised during the year ended December 31, 2011:

Name	Option Exercises	
	Number of Shares Acquired on Exercise	Value Realized on Exercise(1)
Peter J. Rose	—	\$—
James L.K. Wang	280,000	\$9,425,000
R. Jordan Gates	—	\$—
Robert L. Villanueva	—	\$—
Bradley S. Powell	—	\$—

(1) Represents the difference between the market price of the Company’s Common Stock at exercise and the exercise price of the options, multiplied by the number of options exercised.

Outstanding option awards at December 31, 2011:

Name	Year of Grant	Option Awards		Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Exercise or Base Price	Expiration Date
		Number of Securities Underlying Unexercised Options				
		Exercisable	Unexercisable(1)			
Peter J. Rose	2008	2,500	2,500	—	\$46.94	5/7/2018
	2005	11,822	—	—	\$24.45	5/4/2015
	2003	44,536	—	—	\$18.30	5/7/2013
James L.K. Wang	2008	2,500	2,500	—	\$46.94	5/7/2018
	2005	20,000	—	—	\$24.45	5/4/2015
	2003	50,000	—	—	\$18.30	5/7/2013
R. Jordan Gates	2008	2,500	2,500	—	\$46.94	5/7/2018
	2007	3,750	1,250	—	\$42.90	5/2/2017
	2005	20,000	—	—	\$24.45	5/4/2015
	2003	50,000	—	—	\$18.30	5/7/2013
	2002	80,000	—	—	\$14.29	5/8/2012
Robert L. Villanueva	2011	—	5,500	—	\$52.80	5/4/2021
	2009	—	5,000	—	\$37.13	5/6/2019
	2008	2,500	2,500	—	\$46.94	5/7/2018
	2007	3,750	1,250	—	\$42.90	5/2/2017
	2006	10,000	—	—	\$43.88	5/3/2016
	2005	11,822	—	—	\$24.45	5/4/2015
	2003	44,536	—	—	\$18.30	5/7/2013
Bradley S. Powell	2011	—	8,000	—	\$52.80	5/4/2021
	2010	—	20,000	—	\$40.64	5/5/2020
	2009	—	10,000	—	\$37.13	5/6/2019
	2008	2,500	2,500	—	\$35.80	10/1/2018

(1) Unexercisable options granted in 2011, 2010 and 2009 will vest 50% three years from the date of the grant and an additional 25% will be vesting four and five years from the date of the grant, respectively. Unexercisable options granted in 2008 will vest 50% in 2012 and 50% in 2013 on the anniversary day of the date of grant. Unexercisable options granted in 2007 will vest in 2012 on the anniversary day of the date of grant.

SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information as of December 31, 2011 regarding compensation plans under which equity securities of the Company are authorized for issuance.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights(1)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(2)	Number of Securities Available for Future Issuance, Other Than Securities to be Issued Upon Exercise of All Outstanding Options, Warrants and Rights(3)
Equity Compensation Plans Approved by Security Holders	17,252,229	\$ 38.45	2,848,017
Equity Compensation Plans Not Approved by Security Holders	—	—	—
Total	17,252,229	\$ 38.45	2,848,017

(1) Does not include 19,500 for restricted stock awards that were not fully vested as of December 31, 2011.

(2) The weighted-average exercise price does not take into account the shares issuable upon vesting of outstanding stock awards which have no exercise price.

(3) Includes 2,740,093 available for issuance under the employee stock purchase plan, 8,522 available for future grants of stock options and 99,402 shares available for issuance of restricted stock awards. These Plans consist of the Company's 1985 and 2011 Stock Option Plans, 2002 Employee Stock Purchase Plan and the 2008 Directors' Restricted Stock Plan.

PROPOSAL 2—NON-BINDING VOTE ON COMPENSATION OF THE COMPANY'S NAMED EXECUTIVE OFFICERS

The Company recognizes that there is currently a considerable focus in the public eye on executive compensation. This focus has been primarily caused by widely publicized instances of abusive executive compensation practices that have been inconsistent with corporate financial performance, excessive risk taking and/or excessive perquisites. Section 14A of the Exchange Act requires publicly-traded companies, including the Company, to submit the compensation methodology and amounts for its Named Executive Officers ("NEO") to the shareholders for a non-binding vote, known as "say-on-pay." The Company believes that since becoming a publicly-traded company in 1984, its own historical track record regarding executive compensation practices, including its NEO compensation, stands in stark contrast to the kinds of inconsistent pay practices, risk taking or excessive perquisites that have drawn the aforementioned public scrutiny. In 2011, compensation of the Company's NEO was approved by over 96% of votes cast. The Board of Directors has elected to submit the non-binding vote on compensation of the Company's NEO to shareholders on an annual basis.

The Company has always had a management compensation program heavily weighted on its non-equity incentive compensation plan, which management and the Board of Directors feel reinforces a proper and transparent alignment between management and shareholders' interests in overall corporate performance. This alignment is further reinforced by the Company's broad-based use of its equity incentive plan to grant stock options to many key employees. These incentive programs are designed with comparatively modest base salaries paid to its executive officers and other key employees, including its NEO, which would be incidental to the amount that could be earned from the equity and non-equity incentive compensation programs. The Company believes that its compensation philosophy has also been a critical factor in sustaining its long-term track record of above market shareholder returns. The Company strongly believes that any modification to the Company's compensation philosophy or incentive programs could have a profound impact on the Company's culture and operating philosophy, which would not be in the long-term interest of our shareholders.

The Company operates in the service industry and understands that the ability to attract and effectively motivate and manage “the best and brightest” is a critical differentiator to its objectives of providing the caliber of customer service that is the ultimate source of the Company’s performance. Compensation is the Company’s largest overhead expense (78% in 2011). Accordingly, the Company uses a consistent, sound, easily described and administered compensation program, at all operating levels. Finally, it has always been the Company’s belief that shareholder and corporate interests are not met by lavishing extensive perquisites on its executive officers beyond those generally available to all the Company’s employees. As a consequence, there are no extraordinary

perquisites granted to our executive officers beyond usual and reasonable perquisites available to most, if not all, employees.

To effectively cast a vote on this compensation proposal, we feel it is critical that our shareholders be knowledgeable about the Company's compensation philosophy from both a historical perspective and impact on future performance. We encourage our shareholders to review the Company's Compensation Discussion and Analysis ("CD&A") beginning on page 11, as well as the Summary Compensation Table and other related compensation tables and narrative in detail and spend the requisite time to appropriately understand the particular reasons for the Company's request for continued shareholder support for its compensation programs before casting their votes.

The Board of Directors, the Compensation Committee and the Company's management believe that our compensation programs are one of the unique characteristics responsible for differentiating our performance from that of many of our competitors. In our opinion, the manner and degree to which each of these components has been utilized in combination with the others has had a direct impact on the Company's short-term and long-term financial performance. Furthermore, we believe that this combined compensation program has a proven track record of aligning both the short-term and long-term interests of our Company's key employees, including the Company's NEO, with the long-term interests of our Company's shareholders. For these reasons, we are committed to keeping these programs intact.

As described in the “Compensation Discussion and Analysis” section of this Proxy Statement, our compensation programs consist of the following key components and philosophies:

Base Salary	Provide a fixed, modest base salary that is intended to be substantially lower than comparable base salaries for similar positions in our industry.																		
Equity Incentive Compensation	Utilize a broad-based plan that closely aligns the long-term interests of management and key employees with the long-term interests of shareholders by awarding annual stock option grants to a significant number of both management and key employees that vest over five years from date of grant. Consistent with past practices, in 2011, we granted stock options to approximately 3,900 key employees, including two Named Executive Officers.																		
Non-Equity Incentive Compensation	Incentivize key employees, including the Company’s NEO, with a consistent performance driven plan that has no built-in bias which favors or enriches management in a manner inconsistent with overall corporate performance. This program is intended to provide the largest component of management compensation thereby aligning the interests of management with the goals of the Company and long-term returns to the shareholders. This program is based on a fixed percentage of the cumulative operating results of the Company or business unit controlled by each key employee, with no upper limit on the potential dollar amount that can be earned through sustained business growth. By placing emphasis on growth in operating income, any change in compensation is directly proportional to the profit responsibility of the individual. The incentive program is based on cumulative operating results and, therefore, any operating losses must be made up by future operating profits, in the aggregate, before permitting further payments under this program. Payments to NEO and key employees under this plan are allocated from a pool consisting of 10% of pre-bonus operating income. Allocations of the pool to individual executives is based on their historical role in the Company, function and responsibility, tenure with the Company, tenure in the position, and adjustments as executives retire and new executives are added to the program, promotions, achievements and other noteworthy accomplishments.																		
Perquisites and Other Benefits	We do not provide NEO with perquisites and personal benefits that are not available to all employees. We do not provide employee pension plans except in several isolated instances outside the United States where required to do so by law. The effectiveness of the alignment of our compensation programs with Company performance is demonstrated by comparing the year-over-year impact on 2011, 2010 and 2009 Named Executive Officer compensation as follows: <table> <tr> <th></th><th>2011</th><th>2010</th><th>2009</th><th></th></tr> <tr> <td>Percentage change in operating income from prior year</td><td>13</td><td>% 42</td><td>% (19</td><td>)%</td></tr> <tr> <td>Average percentage change in total compensation earned for the four Named Executive Officers that were employed by the</td><td>6</td><td>% 37</td><td>% (20</td><td>)%</td></tr> </table>					2011	2010	2009		Percentage change in operating income from prior year	13	% 42	% (19	)%	Average percentage change in total compensation earned for the four Named Executive Officers that were employed by the	6	% 37	% (20	)%
	2011	2010	2009																
Percentage change in operating income from prior year	13	% 42	% (19	)%															
Average percentage change in total compensation earned for the four Named Executive Officers that were employed by the	6	% 37	% (20	)%															

Company during these periods in similar positions.

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Accordingly, we are again asking our shareholders to approve on a non-binding basis at the 2012 Annual Meeting of Shareholders the compensation of the Company's Named Executive Officers as disclosed in the Compensation Discussion and Analysis, the Summary Compensation Table and the related compensation tables, notes and narrative in this Proxy Statement.

THE BOARD OF DIRECTORS RECOMMENDS A NON-BINDING VOTE FOR THE APPROVAL OF THE COMPENSATION OF NAMED EXECUTIVE OFFICERS.

Effect of Proposal

This "say-on-pay" proposal is non-binding on the Board of Directors. The approval or disapproval of this proposal by shareholders will not require the Board of Directors or the Compensation Committee to take any action regarding compensation of NEO. The final decision on the compensation of the Company's NEO remains with the Board of Directors and/or its Compensation Committee. As we believe our compensation programs are one of the unique characteristics responsible for differentiating our performance from that of many of our competitors, any significant changes to these compensation programs could affect the Company's performance. Although non-binding, the Board of Directors and the Compensation Committee will review and consider the voting results when making future decisions regarding the Company's compensation of NEO. Unless the Board of Directors modifies its policy on the frequency of future say-on-pay non-binding votes, the next say-on-pay non-binding vote will be held at the Company's 2013 Annual Meeting.

PROPOSAL 3—APPROVAL AND RATIFICATION OF THE 2012 STOCK OPTION PLAN

As described in the Compensation Discussion and Analysis portion of this Proxy Statement, a broad-based equity compensation program has historically been an important component of the Company's overall compensation philosophy. We encourage our shareholders to review the Company's particular reasons for requesting continued shareholder support for its equity incentive compensation programs as described on page 14 of this Proxy Statement. The Company recognizes that due to some rather notorious past abuses by other companies, a sentiment of caution surrounding the practice of granting stock options might exist in the minds of some shareholders. However, the Company also firmly believes that when used in a broad-based format, employee stock options provide a powerful means to align the interests of the Company's employees with those of its shareholders. To address any possible shareholder reservations, in 2005, the Company instituted what it considers to be a very "pro-shareholder" policy of seeking annual shareholder approval of its proposed stock option grants. All grants made subsequent to these annual authorizations must be made by the 30th of April in the ensuing year.

As in prior years, the primary beneficiaries of the proposed 2012 Stock Option Plan will be the non-executive officers of the Company. Over the last three years, in the aggregate, the Executive Officers have received the following percentages of total stock options granted:

2009	2.65	%
2010	2.13	%
2011	1.73	%

Management and the Board of Directors feel strongly that broad-based stock option grants need to be a continuing component of the Company's overall compensation program. Particularly since the Company does not have a general policy of providing employee pension plans. If the 2012 Stock Option Plan is not approved, the Company will be unable to grant stock options to new or existing employees until such time as the shareholders approve a stock option plan in the future. Accordingly, Management and the Board of Directors believe that a vote against the Company's proposed 2012 stock option program could harm the Company's ability to attract and retain the long-term services of its greatest asset which the Company relies upon to grow its business...its people.

At the Annual Meeting, the shareholders of the Company will be asked to approve and ratify the Company's 2012 Stock Option Plan, which, if approved, will make available 3,000,000 shares of the Company's authorized but unissued Common Stock for purchase upon exercise of options granted under the Plan. Over 13,000 individuals would be eligible to receive options under the 2012 Stock Option Plan as of March 8, 2012. In 2011, options were granted to

approximately 3,900 key employees under the 2011 Stock Option Plan. The 2012 Stock Option Plan includes an annual limitation on the maximum number of shares that may be granted to any

individual to meet the Section 162(m) exception for deductibility of performance-based compensation. A summary of the 2012 Stock Option Plan is described below, and the 2012 Stock Option Plan can be viewed in its entirety in Appendix A of this Proxy Statement. In addition, the proposed 2012 Stock Option Agreement can be viewed in its entirety in Appendix B of this Proxy Statement.

At March 8, 2012, the following options to purchase shares of Common Stock were outstanding by plan:

Option Plan	Number of Shares Outstanding
1997 Stock Option Plan	2,394,307
2005 Stock Option Plan	1,342,816
2006 Stock Option Plan	2,063,068
2007 Stock Option Plan	1,324,566
2008 Stock Option Plan	1,745,910
2009 Stock Option Plan	2,182,475
2010 Stock Option Plan	2,436,135
2011 Stock Option Plan	2,915,165
1993 Directors' Plan	320,000
Total (1)	16,724,442

(1) The weighted average exercise price of these options was \$38.96 and the weighted average remaining contractual life was 5.8 years.

If Proposal 3 is approved on May 2, 2012, 3,000,000 shares of Common Stock will be available for grant pursuant to the 2012 Stock Option Plan and 6,912 shares of Common Stock will be available for grant pursuant to the 1985 Option Plan. There are no further shares of Common Stock available for grant pursuant to other plans.

The Board of Directors has approved a non-discretionary stock repurchase plan which currently authorizes the repurchase of up to 40,000,000 shares of Common Stock with the proceeds received from the exercise of stock options outstanding under the plans noted above and the 2012 Stock Option Plan if approved. As of March 8, 2012, the Company had repurchased and retired 23,244,441 shares of Common Stock under this non-discretionary repurchase plan. In addition, the Board of Directors has authorized a discretionary stock repurchase plan which allows for the repurchase of such shares as may be necessary to reduce the total shares outstanding to 200,000,000. It is the present sense of the Board of Directors, that management make use of this discretionary authority to eliminate any further growth in the number of issued and outstanding shares as a result of option exercises. As of March 8, 2012, the Company had repurchased and retired 21,329,630 shares of Common Stock under this discretionary repurchase plan.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 3—APPROVAL AND RATIFICATION OF THE 2012 STOCK OPTION PLAN.

SUMMARY OF THE 2012 STOCK OPTION PLAN

The following summary of the Company's 2012 Stock Option Plan (the "2012 Option Plan") is qualified in its entirety by reference to the full text of the 2012 Stock Option Plan, a copy of which is included as Appendix A to this Proxy Statement.

The 2012 Option Plan provides for the grant of two types of options: (1) Incentive Stock Options, which are options that meet the requirements of Section 422 of the Code, and (2) Non-Qualified Stock Options. Shareholder approval will make available a total of 3,000,000 shares of the Company's authorized but unissued Common Stock for purchase upon exercise of options granted under the 2012 Option Plan. The term of the 2012 Option Plan is one year. No options may be granted under the 2012 Option Plan after midnight April 30, 2013. In addition, no options may be granted under the 2012 Option Plan if there are no shares available for issuance. No reload options may be granted under the 2012 Option Plan.

Incentive Stock Options may be granted to employees of the Company or a related corporation. Non-Qualified Stock Options may be granted to employees of the Company, a related corporation, or affiliated companies. In any fiscal

year, no employee may

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receive options to purchase more than 100,000 shares of Common Stock and no option may be granted with an exercise price less than the fair market value measured on the date of the grant.

The 2012 Option Plan will be administered by a committee of the Board of Directors consisting exclusively of members that are both “non-employee directors” and “outside directors” as those terms are defined in the 2012 Option Plan. The Committee will have authority to construe, amend or terminate the 2012 Option Plan. The Committee is prohibited from repricing options to account for market price declines under the 2012 Option Plan. A written agreement will evidence each option and determine whether the option is an Incentive Stock Option or Non-Qualified Stock Option. The form of 2012 Stock Option Agreement can be viewed in its entirety in Appendix B to this Proxy Statement.

Options will expire no later than ten years from the date of grant; provided that no Incentive Stock Option granted to a greater-than-ten-percent shareholder will expire later than five years from the date of grant. Vested options generally will terminate upon the first to occur of: (1) expiration of the option; (2) three months 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.

Options granted under the 2012 Option Plan will be 50% vested from three years, 75% vested from four years and fully vested five years from the date of grant. The Committee may accelerate vesting. Upon a change in control, all options outstanding at the date thereof will become fully vested and exercisable. The purchase price of option shares must be paid by wire transfer, except to the extent another method is permitted by the Committee.

The 2012 Option Plan will only be effective upon approval by the shareholders. No options have been granted under the 2012 Option Plan and no determination has been made as to who will receive an option grant if the 2012 Option Plan is approved by the shareholders.

The Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974, as amended, and is not qualified under Code Section 401(a).

Because benefits under the 2012 Option Plan will depend on the Committee’s actions and the fair market value of our Common Stock at various future dates, it is not possible to determine the benefits that will be received by executive officers and other employees if the 2012 Option Plan is approved by our shareholders. Information concerning awards under the 2011 Option Plan is available in the Proxy Statement in the following tables and the narrative accompanying them: Compensation Discussion and Analysis; Summary Compensation Table, Grants of Plan Based Awards Table, Option Exercises and Year-End Option Value Tables.

FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE 2012 OPTION PLAN

The following description of Federal income tax consequences addresses the tax consequences for both “Incentive Stock Options” as defined in Section 422 of the Code and “Non-Qualified Options” and is intended merely to provide basic information with respect to the tax treatment applicable to the 2012 Option Plan. Although the Company believes the following statements are correct, the statements are based upon legislative, administrative, and judicial authority that is subject to revision and differing interpretations. Each participant in the Company’s 2012 Option Plan should consult his or her own tax advisor concerning the tax consequences of grant, exercise, or surrender of an option and the sale or other disposition of any stock acquired pursuant to the exercise of an option. Individual financial and Federal tax situations may vary, and state and local tax considerations may be significant.

Non-Qualified Stock Options

Any option that does not meet with all the requirements of Section 422 of the Code is commonly referred to as a non-qualified stock option. The grant of a non-qualified stock option does not have income tax consequences for either the Company or the recipient. Upon exercise of the option, the optionee must recognize ordinary taxable income in an amount equal to the difference between the fair market value of the shares acquired upon exercise and the amount paid to exercise the option. The optionee exercising a non-qualified stock option will have a tax liability subject to withholding even though the shares giving rise to the liability may not have been sold and converted to cash on the date of exercise. The optionee receives a tax basis in the shares equal to the amount of income reported plus the amount of cash or basis of other property exchanged in the exercise.

The Company should be entitled to an income tax deduction at time of exercise, and in the same amount, as the optionee recognizes ordinary taxable income.

Stock acquired through the exercise of a non-qualified stock option is a capital asset in the hands of the optionee. When the stock is sold, the holder will recognize a capital gain or loss in an amount equal to the difference between the amount realized upon the

sale and the adjusted basis of the stock sold. The sale of stock has no tax impact on the Company.

Incentive Stock Options

An incentive stock option must meet all the requirements of Section 422 of the Code. Optionees do not recognize regular taxable income upon the grant or upon the exercise of an incentive stock option. However, the difference between the exercise price and the fair market value of such shares as of the date of exercise will be an adjustment for the purpose of calculating alternative minimum taxable income. The alternative minimum tax is payable only to the extent that it exceeds the regular income tax. If the alternative minimum tax applies, it may be possible to recover some, if not all, of the alternative minimum tax paid through a credit carried forward to a tax year where regular tax liability exceeds the alternative minimum tax.

So long as the stock acquired through an incentive stock option is held for at least one year from the date of exercise and two years from the date of the grant, the sale of the shares is not considered to be a disqualifying disposition. Any gain or loss, measured by the difference between the amount realized upon sale and the adjusted basis will be treated as proceeds from the sale of a long-term capital asset. In general, the adjusted basis will be the cash or adjusted basis of other property exchanged to exercise the option. The Company will not receive an income tax deduction for qualifying dispositions.

Shares which are sold in a disqualifying disposition (anything that is not a qualifying disposition) in situations other than in an insolvency proceeding require the seller to recognize ordinary income at the time of the disposition in an amount equal to the lesser of (1) the difference between the exercise price and the fair market value of the shares at the time the option was exercised or (2) the difference between the exercise price and the amount realized upon disposition of the shares, and the seller is required to recognize long-term or short-term capital gain or loss (depending on whether the seller has held the shares for more than 12 months or for 12 months or less) in an amount equal to the difference between the sale price of the shares and the fair market value of the shares on the date the seller exercised the option. The Company receives an income tax deduction on the amount recognized as ordinary income.

Special Rules. Special rules may apply in the case of individuals subject to Section 16(b) of the Exchange Act. In particular, unless a special election is made pursuant to Section 83(b) of the Code, shares of Company Common Stock received pursuant to the exercise of an option may be treated as restricted as to transferability and subject to a substantial risk of forfeiture for a period of up to six months after the date of grant. Accordingly, the amount of any ordinary income recognized, and the amount of the Company's tax deduction, may be determined as of the end of such period.

Deductibility of Executive Compensation Under Code Section 162(m). Section 162(m) of the Code generally limits to \$1,000,000 the amount that a publicly-held corporation is allowed each year to deduct for the compensation paid to the Company's Principal Executive Officer and the Company's three other most highly paid Executive Officers other than the Principal Financial Officer. However, "qualified performance-based compensation" is not subject to the \$1,000,000 deduction limit.

The 2012 Option Plan has been designed to permit grants of options issued under the plan to qualify under the performance-based compensation rules so that income attributable to the exercise of a non-qualified stock option may be exempt from the \$1,000,000 deduction limit. The 2012 Option Plan's provisions are consistent in form with the performance-based compensation rules, so that if the committee that grants options consists exclusively of members of the Board of Directors of the Company who qualify as "outside directors," and the exercise price is not less than the fair market value of the shares of Common Stock to which such grants relate, the compensation income arising on exercise of those options should qualify as performance-based compensation which is deductible even if that income would be in excess of the otherwise applicable limits on deductible compensation income under Code Section 162(m).

ACCOUNTING TREATMENT

The applicable accounting treatment for options granted under the 2012 Option Plan is set forth in Accounting Standards Codification Topic 718, Compensation—Stock Compensation (ASC Topic 718). Under ASC Topic 718, the Company recognizes stock compensation expense based on an estimate of the grant date fair value of options granted to employees under the stock option plan. This expense is recorded on a straight-line basis over the option vesting period.

PROPOSAL 4—RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2012

The Audit Committee has appointed KPMG LLP to be the Company’s independent registered public accounting firm for the year ending December 31, 2012 and the Board is asking shareholders to ratify that selection. The Board of Directors has determined that it is desirable to request ratification of its appointment at the Annual Meeting. If the shareholders do not ratify the appointment of KPMG LLP, the appointment of independent registered public accountants will be reconsidered by the Audit Committee. Representatives of KPMG LLP are expected to be present at the Annual Meeting and have the opportunity to make a statement, if they so desire, and to respond to appropriate questions.

Information relating to the aggregate KPMG LLP fees for professional services rendered for the fiscal years ended December 31, 2011 and 2010 can be found under the heading Relationship With Independent Public Accountants below.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT SHAREHOLDERS VOTE FOR PROPOSAL 4—RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY’S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2012.

RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

The Company has selected KPMG LLP to continue as its principal independent registered public accounting firm for the current year. Set forth below is information relating to the aggregate KPMG LLP fees for professional services rendered for the fiscal years ended December 31, 2011 and 2010, including affiliated member firms of the KPMG International network.

Description of Professional Service	2011	2010
Audit Fees(1)	\$2,393,000	\$2,351,000
Audit Related Fees(2)	\$31,000	\$12,000
Tax Fees(3)	\$102,000	\$76,000
All Other Fees	\$—	\$—

(1) Includes fees associated with the annual audit, the reviews of the Company’s quarterly reports on Form 10-Q, a registration statement, and statutory audits required internationally.

(2) Includes the fees for attestations reports for international subsidiaries.

(3) Includes the fees for tax advice and compliance. No fees were paid to KPMG LLP in either year for tax planning.

The Audit Committee has established a policy which prohibits the Company from retaining its principal independent registered public accounting firm for any engagements other than those that could be described above as audit, audit related, or other services pre-approved by the Audit Committee.

In all cases, the Audit Committee has approved the services provided in advance and has determined that the provision of any of these services is compatible with KPMG LLP maintaining its independence.

PROPOSAL 5—SHAREHOLDER PROPOSAL TO ADOPT AN INDEPENDENT BOARD CHAIRMAN POLICY

The Company is not responsible for the content of this shareholder proposal or supporting statement.

The Company has been notified that Mr. John Chevedden, 2215 Nelson Avenue, No. 205, Redondo Beach, California 90278, the beneficial owner of 80 shares of the Company's Common Stock, intends to present the following proposal for consideration at the Annual Meeting:

"RESOLVED: Shareholders request that our board of directors adopt a policy that, whenever possible, the chairman of our board of directors shall be an independent director (by the standard of the New York Stock Exchange), who has not previously served as an executive officer of our Company. The policy should be implemented so as not to violate any contractual obligations in effect when this resolution is adopted. This policy should also specify how to select a new independent chairman if a current chairman ceases to be

independent between annual shareholder meetings.

To foster flexibility, this proposal gives the option of being phased in and implemented when our next CEO is chosen. When a CEO serves as our board chairman, this arrangement may hinder our board's ability to monitor our CEO's performance. Many companies already have an independent Chairman. An independent Chairman is the prevailing practice in the United Kingdom and many international markets.

The merit of this Independent Board Chairman proposal should also be considered in the context of the opportunity for additional improvement in our company's 2011 reported corporate governance in order to more fully realize our company's potential:

The Corporate Library, an independent investment research firm rated our company to "D" with "High Governance Risk" and "Very High Concern" in executive pay - \$28 million for our CEO Peter Rose.

Five board members had 12 to 30 years long-tenure including CEO Peter Rose, who has had board tenure since the Reagan administration, and Dan Plato Kourkouvelis, who was flagged by The Corporate Library for his board responsibilities at The Great Atlantic & Pacific Tea Company leading up to its bankruptcy. Long-tenured directors held chairmanships and/or majorities on all of our board's committees. Nearly half of our board members were executives, calling into question our board's ability to act as an effective counterbalance to management.

Annual incentive pay for executives was derived simply from a percentage of pre-bonus operating income, which created a potential for executives to artificially focus on only one aspect of company growth. Bonus allocations to named executives were at the discretion of the executive pay committee, which can undermine the integrity of a pay-for-performance executive pay philosophy.

Equity pay consisted solely of discretionary stock option grants. Our CEO realized \$17 million on the exercise of 573,000 options in 2010. Likewise, COO Jordan Gates realized over \$10 million. (Mr. Gates also received our highest negative votes.) Such practices were not reflective of executive pay that was well-aligned with shareholder interests. An independent Chairman policy can improve investor confidence in our Company and strengthen the integrity of our Board. Please encourage our board to respond positively to this proposal for an Independent Board Chairman - Yes on 5."

BOARD OF DIRECTORS' RESPONSE:

The Board of Directors and its Nominating and Corporate Governance Committee have considered this proposal and concluded that its adoption is unnecessary and not in the best interests of our shareholders.

The Board of Directors unanimously recommends that shareholders vote AGAINST this proposal for the following reasons:

Expeditors and its shareholders are best served by having Mr. Peter J. Rose, Expeditors' founder and Chief Executive Officer serve as Chairman of the Board of Directors. This shareholder proposal, were it to be adopted, would preclude the current Chairman and Chief Executive Officer, Peter J. Rose, from relinquishing his Chief Executive Officer role in the future and retaining his role as Chairman of the Board of Directors or ever serving as Chairman at any time in the future. We strongly believe that the leadership Mr. Rose has provided both as Chief Executive Officer and as Chairman has been reflected in the increase in shareholder value during his tenure in both positions.

Under Mr. Rose's tenure as Chief Executive Officer, shareholder value has increased dramatically. A July 6, 2010 article published by The Wall Street Journal on WSJ.com, which included the results of a study conducted by Spencer Stuart, the executive recruiting firm for The Wall Street Journal, noted that as of that date, Mr. Rose ranked first among active Chief Executive Officers with at least fifteen years tenure based on increases in shareholder value that occurred while they served as Chief Executive Officers (8,298% per the aforementioned article during a time the Standard & Poor's 500 Index advanced 335%).¹ This list also included such Chief Executive Officer luminaries as Mr. Warren Buffet of Berkshire Hathaway. Mr. Rose has an impressive track record in creating, and, most recently during the most difficult business environment since the Great Depression of the 1930's, preserving shareholder value. In the Board of Directors' opinion, to deny the shareholders, employees and customers of the Company the ongoing leadership as Chairman of one of the United States' most successful Chief Executive Officers in creating shareholder value would not only be a travesty, it would be detrimental to the interests of all the Company's stakeholders. The Board of Directors feels its opinion on this matter gains increased credibility when the facts surrounding some of the issues raised in this shareholder proposal are reviewed. While the Board of Directors feels the aforementioned

argument concerning Mr. Rose's track record in creating shareholder value, in and of itself, provides sufficient enough reason to recommend shareholders reject this proposal, the Board of Directors also believes that our

shareholders will be benefited in making their decision by understanding the following facts absent from the shareholder proposal:

- a. The Board of Directors created the role of Lead Independent Director and designated Mr. Robert R. Wright, a Director since May 2008, to the role in May 2010. In that capacity, Mr. Wright's responsibilities are to address and resolve the alleged governance issues that this shareholder proposal purports would be solved by the appointment of an Independent Chairman.
- b. While the Independent Chairman's role is a more common practice in the United Kingdom, more than 60% of companies in the Standard & Poor's 500 Index have boards that are chaired by the Chief Executive Officer.² While the Corporate Library may have given the Company a "D" rating in governance based in part on Mr. Rose's compensation, the Institutional Shareholder Services, in 2008, when the Company submitted its executive incentive compensation plan for shareholder approval, commended Expeditors' management for designing the plan to directly link compensation with performance. The Company's shareholders went on to approve the same executive incentive compensation plan by over 95% of votes cast. Senior management at Expeditors is compensated primarily based on incentive bonuses tied to operating income. This is the same method by which key managers at various levels throughout the Company are compensated. Management has written very extensively under the proxy statement's section titled "Compensation Discussion and Analysis" (see page 11), concerning the importance of the Company's non-equity compensation plan to the creation of shareholder value. It should also be noted that Mr. Rose works on a
- c. base salary of \$110,000 per year, unchanged since he became Chairman and Chief Executive Officer in 1988. The remainder of his annual compensation comes from the non-equity incentive plan which is directly linked to the Company's performance being based on the Company's operating income. Mr. Rose's share of the non-equity incentive compensation plan has declined from 24.1% in 1989 to 9.7% in 2011 as more people participate in the plan (approximately 75 in 2011). In last year's say-on-pay vote, the shareholders approved the equity compensation of the Company's Named Executive Officers by over 96% of votes cast. One wonders if the Corporate Library rating would improve if the Company's operating income were zero and Mr. Rose's compensation was just his base salary of \$110,000. While apparently this would improve our grade from the Corporate Library, we are quite certain of the grade that the Company would receive from stakeholders in such a scenario.
- d. The proponent puts forth a compensation figure for Mr. Rose of \$28 million, ostensibly for 2010, the last full year that salary information was disclosed prior to the publication of this proxy statement. Management and the Board of Directors have been unable to re-compute this figure using any definition of compensation with which they are familiar nor have they been able to derive the figure from the Corporate Library or the definitive proxy statement or the reference provided by the proponent. That said, if one adds Mr. Rose's total compensation of \$6,555,191 for 2010, which was disclosed in the Company's definitive proxy statement for the 2011 annual meeting (filed with the Securities and Exchange Commission on March 18, 2011), and the \$17,078,068 Mr. Rose realized from the exercise of stock options which were granted by the Company primarily in 2000, 2001 and 2002 when the Company's stock was trading at prices between \$9.48 and \$14.29 per share, one would calculate a sum of \$23,633,259. While we cannot speak to the source of the \$28 million, the Board of Directors believes the components of the \$23,633,259 should be very clear. Both the \$6,555,191 and the \$17,078,068 are a direct result of corporate performance which enhanced shareholder value. The increase in value of the stock options is a direct and proportional reflection of the increase in shareholder value that was created during the nearly 10 years that the stock options were unexercised (590%). Like most senior executives of the Company, Mr. Rose does not habitually exercise stock options until their expiration date draws close. Expeditors stock options are granted with a 10 year life. In the Board of Director's opinion, to suggest by innuendo or otherwise that these stock option gains are not pay-for-performance is both false and misleading. An argument also can be made that since the value of the stock options have been amortized as expense in the Company's financial statements, the compensatory portion of the options have been accounted for within the financial statements themselves via the amortization of the Black-Scholes derived option fair value. As such, any gains that the individual option recipient may recognize is in fact a return on investment and while interesting to note, are not properly classified as a component of compensation. Perhaps this is why the Securities and Exchange Commission does not categorize such gains on stock options as compensation. Expeditors implemented ASC Topic 718 (formerly known as SFAS 123R) using the modified retrospective method, whereby

expense for all options are amortized into the historical financial statements of the Company. In the final analysis, and a critical point to note in making the case for stock option gains being performance based, had there been no increase in shareholder value since the options were granted (again 590%), there would have been no value in the stock options Mr. Rose exercised and there would perhaps be other concerns about Mr. Rose's performance that would have been discussed.

Expeditors' independent Board of Directors effectively oversees our management and provides oversight of Expeditors' business and affairs. The Board of Directors includes five independent and effective directors. The Board of Directors sees the tenure of the Board of Directors as an important attribute, not a weakness and the Company does not apologize for the tenure of its Board members. It seems to us that the longer the tenure Board members have, the better Board members understand the Company, thereby, the better they are able to represent shareholder interests. Of the eight Board members, a majority are independent which we believe is certainly sufficient to insure that shareholder interests are presented above and beyond the interests of management, should those interests not align. The proponent neglects to note that our standing committees are fully comprised of outside and independent non-management directors to ensure adequate independent oversight of management's policies and decisions, particularly as it relates to the key areas of compensation, audit and governance oversight.

With respect to Mr. Dan Plato Kourkouvelis' directorship at the Great Atlantic & Pacific Tea Company (A&P), the proponent fails to note that Mr. Kourkouvelis was not an executive of A&P. The fact that he was a non-executive director of a company which filed for a Chapter 11 protection, like many companies in these extraordinarily difficult times, is not a disclosure required by the Securities and Exchange Commission in our proxy statement. Expeditors has benefited from Mr. Kourkouvelis' experience serving on another publicly-traded company's Board of Directors including a company that faced financial challenges. Whatever challenges A&P might have had in this economy, to infer that Mr. Kourkouvelis' long service to the Expeditors board is in some way discounted by his service as a non-executive director of another company that filed for bankruptcy is somewhat like blaming the doctor for delivering a baby boy when you wanted a baby girl. As a director, no matter how integral you are to the final outcome, there are just some things that are determined by the actions of others beyond your control.

Expeditors disagrees with the proponent's assertions in the supporting statement regarding executive compensation. The Company's non-equity executive incentive compensation plan was approved by shareholders in 2008, and the Company's stock option plan has been approved annually by shareholders since 2005. The compensation of the Company's Named Executive Officers was also approved by shareholders in a non-binding, "say-on-pay" vote conducted in 2011, and management has expressed its intent to have this vote yearly to reinforce its foundational importance to the Company. The Board of Directors and management believe that compensation at Expeditors is key to Company performance. As discussed under the heading "Compensation Discussion and Analysis" the Company's executive compensation program consists of a fixed and modest base salary, a broad-based equity compensation program in the form of stock options and 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 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 Named Executive Officers is \$100,000 per annum and has not changed in the past five years. While the annual incentive pay is calculated from operating income, increases in compensation can only come from increases in operating income or increases in the percentage of the bonus pool shared by corporate executives from which the Named Executive Officers are also paid. The share that each executive obtains from the bonus pool is controlled by the Compensation Committee made up of independent Board members. Mr. Rose's share of this pool in 2011 was 9.7%. This percentage, which was 24.1% in 1989, has been reduced over the years and as of 2011, approximately 75 participants are in this pool. More importantly, decreases in operating income result in a commensurate decrease in compensation. Management and the Board of Directors believe that sustained growth in operating income is key in perpetuating a healthy, sustainable and vibrant company. Compensating management on operating income, as described in the Compensation Discussion and Analysis, reinforces this importance.

The proponent's contention that reliance on this basis for deriving compensation would cause management to only focus on one dimension of growth calls into question the effectiveness of this policy and is neither accurate nor reflective of management's past decisions. During 2009, when the economy was teetering on the edge of what economists and even the President of the United States are now calling the greatest economic collapse since the Great Depression, Expeditors refused to downsize its work force. While this would have created better short-term profits for the shareholders by increasing operating income (and conversely would have preserved management's short term

compensation) it would have damaged long term shareholder value. The proponent also fails to acknowledge Mr. Rose's compensation, and that of three of the other Named Executive Officers were decreased by 21% in 2009 while operating income from operations declined by 19%.³ Again we point out that management clearly demonstrated by their actions that their focus on growth is not focused on single dimension short-term profitability, rather they are predicated in the empirically tested premise that making long term decisions based on increasing or at least preserving shareholder value, is the best way to create long-term, sustainable shareholder value. The best long term needs of the Company were met by senior management's refusal to lay-off employees, despite being castigated by Wall Street and in some instances, customers. By not laying-off employees, the Company

expanded market share by maintaining its critical customer service standards. Senior management also invested in the Company's intellectual capital by preserving valued employees' expertise. Had management succumbed to external pressures and executed mass layoffs, as were done by their competitors, management believes the Company would have had a disastrous 4th quarter of 2009 and a 2010 result that would have been far lower than the amounts recorded. Had management pursued the short-term option and laid-off its employees, it is entirely conceivable they would have made more in compensation in 2009 than they recorded - a move management believes analogous to bragging about a 30 pound weight loss that was a result of amputating one's own leg. Ultimately all forms of compensation can be detrimental if used in the wrong manner. The Board of Directors unanimously agrees that management's use of its compensation program has always been directly aligned with shareholder performance expectations and has indeed been a deterrent for the Company not making some of the disastrous short-term forays into the ridiculous that many of their competitors have done.

The proponent takes issue with Mr. Rose and Mr. Gates' stock option grants and their exercise of previously granted stock options, but neglects to mention that the options exercised in 2010 had been granted nearly 10 years ago and would have expired if not exercised. The value of the options was a result of the 590% increase in shareholder value that occurred during that 10 year period from when the options were initially granted. These amounts were absolutely the epitome of "pay-for-performance" alignment as they would have been worth nothing had the Company not increased its value to shareholders over that same 10 year time period. As a final aside, while Mr. Gates did garner the most negative votes, he was re-elected by a nearly 88% approval factor. The Company has implemented a policy which automatically identifies and replaces a director receiving less than 50% of the shareholder votes cast. The governance in this matter is responsible and transparent.

In any case, these portions of the supporting statement concern executive compensation matters and have no bearing on the proponent's proposal, which seeks a policy concerning having an independent board chair.

In conclusion, the Board of Directors believes that Expeditors and its shareholders have been, and will continue to be, well served by having Mr. Rose continue to serve as Chairman of the Board now and in the future. The proponent's proposal is unwarranted, unnecessary, and inconsistent with the best interests of Expeditors and its shareholders.

ACCORDINGLY, THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE SHAREHOLDERS VOTE AGAINST PROPOSAL 5—SHAREHOLDER PROPOSAL TO ADOPT AN INDEPENDENT BOARD CHAIRMAN POLICY.

¹ Lublin, Joann S. (2010). CEO Tenure, Stock Gains Often Go Hand-in-Hand. The Wall Street Journal, July 6, 2010. Retrieved from <http://online.wsj.com/article/SB10001424052748703900004575325172681419254.html>

² Noonan, Jerry and DeVries, Bob (2011). Most Boards Combine the Chair and CEO Roles. Research & Insight, Spencer Stuart, June 2011. Retrieved from <http://www.spencerstuart.com/research/bi/1511/>

³ 2009 was the first full year of employment for Mr. Brad Powell, the Company's Senior Vice President and Chief Financial Officer.

OTHER BUSINESS

As of the date of this Proxy Statement, management knows of no other business which will be presented for action at the meeting. If any other business requiring a vote of the shareholders should come before the meeting, the persons designated as your proxies will vote or refrain from voting in accordance with their best judgment.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The following section describes, since the beginning of the year ended December 31, 2011, (i) transactions in which the Company or any of its subsidiaries was a party, in which the amount involved exceeded \$120,000 and in which a director, a director nominee, an Executive Officer, any immediate family member of a director, director nominee or Executive Officer, a security holder known to own more than five percent of the Company's common stock or any immediate family member of the security holder had, or will have, a direct or indirect material interest or (ii) certain business relationships that existed between the Company and directors or director nominees, or between the Company

and entities affiliated with such directors or director nominees. Our written policy and procedures with respect to any related person transaction between the Company and any related person requiring disclosure under Item 404(a) of Regulation S-K under the Exchange Act, is that such transaction is consummated only if the Audit Committee approves or ratifies such transaction (or the disinterested members of the Board of Directors approve or ratify such transaction).

Brian Coughlin, the brother of Philip M. Coughlin, Executive Vice President—North America, was employed as District Manager of the Company's Chicago office at a base salary of \$48,000 and was paid incentive compensation based on branch profitability in the amount of \$915,830 in addition to standard benefits for 2011. On May 4, 2011, Brian Coughlin was granted a 3,500 share stock option at fair market value. The aggregate grant date fair value of these options of \$67,375 will be expensed on a straight-line basis over their five year vesting period.

Jeffrey S. Musser, the son-in-law of Peter J. Rose, Chairman and Chief Executive Officer, was employed as Executive Vice President—Chief Information Officer and an Executive Officer of the Company at a base salary of \$100,000 and was paid incentive compensation based on Company profitability in the amount of \$3,786,005 in addition to standard benefits for 2011.

Allen J.L. Wang, the son of James L.K. Wang, President—Asia Pacific and Director, was employed as Regional Vice President-Northern China at a base salary of \$83,988 (CNY 542,816) and was paid incentive compensation based on the profitability of Asia offices in the amount of \$874,284 (CNY 5,650,495) in addition to standard benefits for 2011. On May 4, 2011, Allen Wang was granted a 2,500 share stock option at fair market value. The aggregate grant date fair value of these options of \$52,313 will be expensed on a straight-line basis over their five year vesting period.

Anthony Villanueva, the son of Robert L. Villanueva, President-The Americas, was employed as Air Export Manager of the Company's Seattle office at a base salary of \$42,000 and was paid incentive compensation based on branch profitability in the amount of \$122,524 in addition to standard benefits for 2011. On May 4, 2011, Mr. Villanueva was granted a 1,500 share stock option at fair market value. The aggregate grant date fair value of these options of \$28,875 will be expensed on a straight-line basis over their five year vesting period.

In connection with the acquisition of the assets of certain Asia affiliates (including Taiwan) effective January 1, 1984, the Company agreed to use its best efforts, so long as James L.K. Wang remains a shareholder of the Company and is employed by the Company or any of its affiliates or exclusive agents, to cause one person nominated by Mr. Wang to be elected to the Company's Board of Directors. In addition, the Company agreed that it will make no appointment of a manager for any Asia office without prior consultation with Mr. Wang so long as he remains a shareholder of the Company and is employed by the Company or one of its affiliates or exclusive agents. Pursuant to this agreement, Mr. Wang has been nominated for re-election to the Company's Board of Directors.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires that the Company's directors, certain of its officers, and persons who own more than ten percent of a registered class of the Company's equity securities, file reports of ownership on Form 3 and changes of ownership on Form 4 or 5 with the Securities and Exchange Commission and NASDAQ. Officers, directors and greater than 10% shareholders are required by the Securities and Exchange Commission regulation to furnish the Company with copies of all such forms they file.

Based solely on its review of the copies of such forms received by the Company, and on written representations by the Company's officers and directors regarding their compliance with the filing requirements, the Company believes that all reports required from its officers, directors and greater than 10% beneficial owners were filed on a timely basis during 2011.

DEADLINES FOR SHAREHOLDER PROPOSALS FOR THE 2013 ANNUAL MEETING OF SHAREHOLDERS

Pursuant to Rule 14a-8 under the Exchange Act, certain shareholder proposals may be eligible for inclusion in the Company's proxy materials for the 2013 Annual Meeting of Shareholders. In order to be eligible for inclusion, such proposals must be received by the Secretary at the Company's principal executive offices no later than November 15, 2012. Such proposals also must comply with Securities and Exchange Commission regulations regarding the inclusion of shareholder proposals in company-sponsored materials.

The Company's bylaws provide a formal procedure for bringing business before the Annual Meeting of Shareholders. A shareholder proposing to present a matter (other than a proposal brought pursuant to Rule 14a-8 under the Exchange Act) before the 2013 Annual Meeting of Shareholders or nominate a candidate for election to the Board of Directors at the 2013 Annual Meeting Shareholders must deliver notice of the proposal or nomination to the Secretary at the Company's principal executive offices between January 2, 2013 and February 1, 2013. In the event that the date of the Annual Meeting of Shareholders is more than 30 days before or more than 60 days after May 2, 2013, notice of the

proposal or nomination must be delivered to the Secretary at the Company's principal executive offices not earlier than the 120th day prior to the date of the annual meeting and not later than the later of the 90th day prior to the date of the annual meeting or, if the first public announcement of the date of the annual meeting is less than 100 days

prior to the date of the annual meeting, the 10th day following the day on which the Company first makes a public announcement of the date of the meeting. The shareholder's notice must include the specified information concerning the proposal or nominee as described in the Company's bylaws. The Company will not consider any proposal or nomination that does not meet the Company's bylaw requirements or Securities and Exchange Commission requirements for submitting a proposal or nomination. Pursuant to Rule 14a-4(c)(1) under the Exchange Act, the proxies designated by the Company for the 2013 Annual Meeting of Shareholders will have discretionary authority to vote with respect to any matter presented at the meeting if the Company has not received notice of the matter by the dates required under the Company's bylaws, as described above, and in certain other instances specified in that rule. To reduce the expenses of delivering duplicate materials, we are taking advantage of the Securities and Exchange Commission's "householding" rules which permit us to deliver only one set of proxy materials (or one Notice of Internet Availability of Proxy Materials) to shareholders who share an address unless otherwise requested. If you share an address with another shareholder and have received only one set of materials, you may request a separate copy at no cost to you by calling Computershare at 1-866-641-4276 or by writing to Bradley S. Powell, Senior Vice President and Chief Financial Officer, 1015 Third Avenue, 12th Floor, Seattle, Washington 98104. For future annual meetings you may request separate materials, or request that we send only one set of materials to you if you are receiving multiple copies, by calling Computershare at 1-866-641-4276 or by writing to Mr. Powell at the address listed above.

SOLICITATION OF PROXIES

The proxy accompanying this Proxy Statement is solicited by the Board of Directors of the Company. Proxies may be solicited by officers, directors and regular supervisory and executive employees of the Company, none of whom will receive any additional compensation for their services. In addition, the Company has agreed to pay the firm of Advantage Proxy a fee of \$10,000 plus reasonable expenses for proxy solicitation services. Solicitations of proxies may be made personally, or by mail, telephone, telegraph, facsimile or messenger.

The Company, if requested, will pay persons holding shares of Common Stock in their names or in the names of nominees, but not owning such shares beneficially, such as brokerage houses, banks and other fiduciaries, for the expense of forwarding soliciting materials to their principals. All such costs of solicitation of proxies will be paid by the Company.

By Order of the Board of Directors

/s/ Amy J. Tangeman
Amy J. Tangeman
Secretary
Seattle, Washington
March 20, 2012

APPENDIX A

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

2012 STOCK OPTION PLAN

This 2012 Stock Option Plan (the “2012 Option Plan”) provides for the grant of options to acquire shares of common stock, \$.01 par value (the “Common Stock”), of EXPEDITORS INTERNATIONAL OF WASHINGTON, INC., a Washington corporation (the “Company”). Stock options granted under this 2012 Option Plan that qualify under Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), are referred to in this 2012 Option Plan as “Incentive Stock Options.” Incentive Stock Options and stock options that do not qualify under Section 422 of the Code (“Non-Qualified Stock Options”) granted under this 2012 Option Plan are referred to as “Options.”

1. PURPOSES.

The purposes of this 2012 Option Plan are to retain the services of valued key employees of the Company, its subsidiaries and such other affiliates as the Plan Administrator shall select in accordance with Section 3 below; to encourage such persons to acquire a greater proprietary interest in the Company, thereby strengthening their incentive to achieve the objectives of the shareholders of the Company; and to serve as an aid and inducement in the hiring of new employees.

2. ADMINISTRATION.

This 2012 Option Plan shall be administered by the Board of Directors of the Company (the “Board”) if each director is an “outside director” (as defined below). If all directors are not outside directors, the 2012 Option Plan shall be administered by a committee designated by the Board and composed of two (2) or more members of the Board that are “non-employee directors” and “outside directors” (as defined below), which committee (the “Committee”) may be the compensation committee or a separate committee especially created for this purpose. The term “non-employee director” shall have the meaning assigned to it under Rule 16b-3 (as amended from time to time) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or any successor rule or regulatory requirement. The term “outside director” shall have the meaning assigned under Section 162(m) of the Code (as amended from time to time) and the regulations (or any successor regulations) promulgated thereunder (“Section 162(m) of the Code”). The Committee shall have the powers and authority vested in the Board hereunder (including the power and authority to interpret any provision of this 2012 Option Plan or of any Option). The members of any such Committee shall serve at the pleasure of the Board. A majority of the members of the Committee shall constitute a quorum, and all actions of the Committee shall be taken by a majority of the members present. Any action may be taken by a written instrument signed by all of the members of the Committee and any action so taken shall be fully effective as if it had been taken at a meeting. The Board, or any committee thereof appointed to administer the 2012 Option Plan, is referred to herein as the “Plan Administrator.”

Subject to the provisions of this 2012 Option Plan, and with a view to effecting its purpose, the Plan Administrator shall have sole authority, in its absolute discretion, to: (a) construe and interpret this 2012 Option Plan; (b) define the terms used in this 2012 Option Plan; (c) prescribe, amend and rescind rules and regulations relating to this 2012 Option Plan; (d) correct any defect, supply any omission or reconcile any inconsistency in this 2012 Option Plan; (e) grant Options under this 2012 Option Plan; (f) determine the individuals to whom Options shall be granted under this 2012 Option Plan and whether the Option is an Incentive Stock Option or a Non-Qualified Stock Option; (g) determine the time or times at which Options shall be granted under this 2012 Option Plan; (h) determine the number of shares of Common Stock subject to each Option, the exercise price of each Option, the duration of each Option and the times at which each Option shall become exercisable; (i) determine all other terms and conditions of Options; and (j) make all other determinations necessary or advisable for the administration of this 2012 Option Plan. All decisions, determinations and interpretations made by the Plan Administrator shall be binding and conclusive on all participants in this 2012 Option Plan and on their legal representatives, heirs and beneficiaries.

The Board or the Committee may delegate to one or more executive officers of the Company the authority to grant Options under this 2012 Option Plan to employees of the Company who, on the Date of Grant, are not subject to Section 16(b) of the Exchange Act with respect to the Common Stock (“Non-Insiders”), and are not “covered employees” as such term is defined for purposes of Section 162(m) of the Code (“Non-Covered Employees”), and in connection therewith the authority to determine: (a) the number of shares of Common Stock subject to such Option; (b) the

duration of the Option; (c) the vesting schedule for determining the times at which such Option shall become exercisable; and (d) all other terms and conditions of such Options. The exercise price for any Option granted by action of an executive officer or officers pursuant to such delegation of authority shall not be less than the fair market value

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per share of the Common Stock on the Date of Grant. Such delegation of authority shall not include the authority to accelerate the vesting, extend the period for exercise or otherwise alter the terms of outstanding Options. The term “Plan Administrator” when used in any provision of this 2012 Option Plan other than Sections 2, 5(m), 5(n) and 12 shall be deemed to refer to the Board or the Committee, as the case may be, and an executive officer who has been authorized to grant Options pursuant thereto, insofar as such provisions may be applied to persons that are Non-Insiders and Non-Covered Employees and Options granted to such persons.

3. ELIGIBILITY.

Incentive Stock Options may be granted to any individual who, at the time the Option is granted, is an employee of the Company or any Related Corporation (as defined below), including employees who are directors of the Company (“Employees”). Non-Qualified Stock Options may be granted to Employees and to such other persons who are employed by affiliated companies, other than directors who are not Employees, as the Plan Administrator shall select. Options may be granted in substitution for outstanding Options of another corporation in connection with the merger, share exchange, acquisition of property or stock or other reorganization between such other corporation and the Company or any subsidiary of the Company. Any person to whom an Option is granted under this 2012 Option Plan is referred to as an “Optionee.” Any person who is the owner of an Option is referred to as a “Holder.”

As used in this 2012 Option Plan, the term “Related Corporation” shall mean any corporation (other than the Company) that is a “Parent Corporation” of the Company or “Subsidiary Corporation” of the Company, as those terms are defined in Sections 424(e) and 424(f) respectively, of the Code (or any successor provisions), and the regulations thereunder (as amended from time to time).

4. STOCK.

The Plan Administrator is authorized to grant Options to acquire up to a total of 3,000,000 shares of the Company’s authorized but unissued Common Stock during the period beginning with the Effective Date as provided for in Section 7 and ending on April 30, 2013 (“Option Grant Period”). The number of shares with respect to which Options may be granted hereunder is subject to adjustment as set forth in Subsection 5(m) hereof. In the event that any outstanding Option expires or is terminated for any reason, the shares of Common Stock allocable to the unexercised portion of such Option may again be subject to an Option to the same Optionee or to a different person eligible under Section 3 of this 2012 Option Plan so long as the grant is made within the Option Grant Period; provided however, that any canceled Options will be counted against the maximum number of shares with respect to which Options may be granted to any particular person as set forth in Section 6 hereof.

5. TERMS AND CONDITIONS OF OPTIONS.

Each Option granted under this 2012 Option Plan shall be evidenced by a written or online agreement approved by the Plan Administrator (the “Agreement”). Agreements may contain such provisions, not inconsistent with this 2012 Option Plan, as the Plan Administrator in its discretion may deem advisable. All Options also shall comply with the following requirements:

(a) Number of Shares and Type of Option.

Each Agreement, in itself or by reference to a service provider’s stock option website, shall state the number of shares of Common Stock to which it pertains and whether the Option is intended to be an Incentive Stock Option or a Non-Qualified Stock Option. In the absence of action to the contrary by the Plan Administrator in connection with the grant of an Option, all Options shall be Non-Qualified Stock Options. The aggregate fair market value (determined at the Date of Grant, as defined below) of the stock with respect to which Incentive Stock Options are exercisable for the first time by the Optionee during any calendar year shall not exceed \$100,000, or such other limit as may be prescribed by the Code as it may be amended from time to time. Any portion of an Option which exceeds the annual limit shall not be void, but rather shall be a Non-Qualified Stock Option.

(b) Date of Grant.

Each Agreement, in itself or by reference to a service provider’s stock option website, shall state the date within the Option Grant Period that the Plan Administrator has deemed to be the effective date of the Option for purposes of this 2012 Option Plan (the “Date of Grant”).

(c) Option Price.

Each Agreement, in itself or by reference to a service provider's stock option website, shall state the price per share of Common Stock at which it is exercisable. The exercise price shall be fixed by the Plan Administrator at whatever price the Plan

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Administrator may determine in the exercise of its sole discretion; provided that the per share exercise price for any Option granted shall not be less than the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith; provided further, that with respect to Incentive Stock Options granted to greater-than-10 percent (> 10%) shareholders of the Company (as determined with reference to Section 424(d) of the Code), the exercise price per share shall not be less than 110 percent (110%) of the fair market value per share of the Common Stock at the Date of Grant as determined by the Plan Administrator in good faith; and, provided further, that Options granted in substitution for outstanding options of another corporation in connection with the merger, share exchange, acquisition of property or stock or other reorganization involving such other corporation and the Company or any subsidiary of the Company may be granted with an exercise price equal to the exercise price for the substituted option of the other corporation, subject to any adjustment consistent with the terms of the transaction pursuant to which the substitution is to occur.

(d) Duration of Options.

At the time of the grant of the Option, the Plan Administrator shall designate, subject to Subsection 5(g) below, the expiration date of the Option, which date shall not be later than ten (10) years from the Date of Grant; provided, that the expiration date of any Incentive Stock Option granted to a greater-than-10 percent (>10%) shareholder of the Company (as determined with reference to Section 424(d) of the Code) shall not be later than five (5) years from the Date of Grant. In the absence of action to the contrary by the Plan Administrator in connection with the grant of a particular Option, and except in the case of Incentive Stock Options as described above, all Options granted under this Section 5 shall expire ten (10) years from the Date of Grant.

(e) Vesting Schedule.

No Option shall be exercisable until it has vested. The vesting schedule for each Option shall be fifty percent (50%) vested three (3) years from the Date of Grant, seventy-five percent (75%) vested four (4) years from the Date of Grant and one hundred percent (100%) vested five (5) years from the Date of Grant.

(f) Acceleration of Vesting.

The vesting of one or more outstanding Options may be accelerated by the Plan Administrator at such times and in such amounts as it shall determine in its sole discretion. The vesting of Options also shall be accelerated under the circumstances described in Subsection 5(n) below.

(g) Term of Option.

Vested Options shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events: (i) the expiration of the Option, as designated by the Plan Administrator in accordance with Subsection 5(d) above; (ii) the expiration of three (3) months following the date of an Optionee's termination of employment with the Company, any Related Corporation or any affiliated company, as the case may be, other than as a result of death or Disability; or (iii) the expiration of six (6) months following (A) the date of death of the Optionee or (B) cessation of an Optionee's employment by reason of Disability (as defined below). If an Optionee's employment or contractual relationship is terminated by death, any Option held by the Optionee shall be exercisable only by the person or persons to whom such Optionee's rights under such Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or country of the Optionee's domicile at the time of death. For purposes of the 2012 Option Plan, "Disability" shall mean that the Optionee is unable engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted, or can be expected to last, for a continuous period of not less than twelve (12) months. This definition of "Disability" is intended to comply with, and will be interpreted consistently with, sections 22(e)(3) and 422(c)(6) of the Code. Upon making a determination of Disability, the Plan Administrator shall, for purposes of the 2012 Option Plan, determine the date of an Optionee's termination of employment.

Unless accelerated in accordance with Subsection 5(f) above, unvested Options shall terminate immediately upon termination of employment of the Optionee by the Company or by the Optionee for any reason whatsoever, including death or Disability. For purposes of this 2012 Option Plan, transfer of employment between or among the Company and/or any Related Corporation or affiliated company shall not be deemed to constitute a termination of employment with the Company or any Related Corporation or affiliated company. For purposes of this Subsection with respect to Incentive Stock Options, employment shall be deemed to continue while the Optionee is on military leave, sick leave

or other bona fide leave of absence (as determined by the Plan Administrator). The foregoing notwithstanding, employment shall not be deemed to continue beyond the first ninety (90) days of such leave, unless the Optionee's re-employment rights are guaranteed by statute or by contract.

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(h) Exercise of Options.

Options shall be exercisable, in full or in part, at any time after vesting, until their termination. If less than all of the shares included in the vested portion of any Option are purchased, the remainder may be purchased at any subsequent time prior to the expiration of the Option term. No portion of any Option for less than ten (10) shares (as adjusted pursuant to Subsection 5(m) below) may be exercised; provided, that if the vested portion of any Option is less than ten (10) shares, it may be exercised with respect to all shares for which it is vested. Only whole shares may be issued pursuant to an Option, and to the extent that an Option covers less than one (1) share, it is unexercisable.

Options or portions thereof may be exercised by giving written notice to the Company, which notice shall specify the number of shares to be purchased, and be accompanied by payment in the amount of the aggregate exercise price for the Common Stock so purchased, which payment shall be in the form specified in Subsection 5(i) below. The Company shall not be obligated to issue, transfer or deliver a certificate of Common Stock to the Holder of any Option, until provision has been made by the Holder, to the satisfaction of the Company, for the payment of the aggregate exercise price for all shares for which the Option shall have been exercised and for satisfaction of any tax withholding obligations associated with such exercise. Except as set forth in the Agreement, during the lifetime of an Optionee, Options are exercisable only by the Optionee or a transferee who takes title to the Option in the manner permitted by Subsection 5(k) hereof.

(i) Payment upon Exercise of Option.

Upon the exercise of any Option, the aggregate exercise price shall be paid to the Company by wire transfer, or, if permitted by the Plan Administrator, in cash, by cashier's check or any other method approved by the Plan Administrator. In addition, the Holder may pay for all or any portion of the aggregate exercise price by delivering to the Company shares of Common Stock previously held by such Holder which shall be valued at fair market value as of the date of exercise (as determined by the Plan Administrator).

(j) Rights as a Shareholder.

A Holder shall have no rights as a shareholder with respect to any shares covered by an Option until such Holder becomes a record holder of such shares, irrespective of whether such Holder has given notice of exercise. Subject to the provisions of Subsections 5(m) and 5(n) hereof, no rights shall accrue to a Holder and no adjustments shall be made on account of dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights declared on, or created in, the Common Stock for which the record date is prior to the date the Holder becomes a record holder of the shares of Common Stock covered by the Option, irrespective of whether such Holder has given notice of exercise.

(k) Transfer of Option.

Options granted under this 2012 Option Plan and the rights and privileges conferred by this 2012 Option Plan may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will, by applicable laws of descent and distribution, and shall not be subject to execution, attachment or similar process. Upon any attempt to transfer, assign, pledge, hypothecate or otherwise dispose of any Option or of any right or privilege conferred by this 2012 Option Plan contrary to the provisions hereof, or upon the sale, levy or any attachment or similar process upon the rights and privileges conferred by this 2012 Option Plan, such Option shall thereupon terminate and become null and void.

(l) Securities Regulation and Tax Withholding.

(1) Shares shall not be issued with respect to an Option unless the exercise of such Option and the issuance and delivery of such shares shall comply with all relevant provisions of law, including, without limitation, Section 162(m) of the Code, any applicable state securities laws, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations thereunder and the requirements of any stock exchange or automated inter-dealer quotation system of a registered national securities association upon which such shares may then be listed, and such issuance shall be further subject to the approval of counsel for the Company with respect to such compliance, including the availability of an exemption from registration for the issuance and sale of such shares. The inability of the Company to obtain from any regulatory body the authority deemed by the Company to be necessary for the lawful issuance and sale of any shares under this 2012 Option Plan, or the unavailability of an exemption from registration for the issuance and sale of any shares under this 2012 Option Plan, shall relieve the Company of any

liability with respect to the non-issuance or sale of such shares.

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As a condition to the exercise of an Option, the Plan Administrator may require the Holder to represent and warrant in writing at the time of such exercise that the shares are being purchased only for investment and without any then-present intention to sell or distribute such shares. At the option of the Plan Administrator, a stop-transfer order against such shares may be placed on the stock books and records of the Company, and a legend indicating that the stock may not be pledged, sold or otherwise transferred unless an opinion of counsel is provided stating that such transfer is not in violation of any applicable law or regulation, may be stamped on the certificates representing such shares in order to assure an exemption from registration. The Plan Administrator also may require such other documentation as may from time to time be necessary to comply with Federal and state securities laws.

(2) The Holder shall pay to the Company by certified or cashier's check, unless another method is permitted by the Plan Administrator, promptly upon exercise of an Option or, if later, the date that the amount of such obligations becomes determinable, all applicable Federal, state, local and foreign withholding taxes that the Plan Administrator, in its discretion, determines to result upon exercise of an Option or from a transfer or other disposition of shares of Common Stock acquired upon exercise of an Option or otherwise related to an Option or shares of Common Stock acquired in connection with an Option.

(3) The issuance, transfer or delivery of certificates of Common Stock pursuant to the exercise of Options may be delayed, at the discretion of the Plan Administrator, until the Plan Administrator is satisfied that the applicable requirements of the Federal and state securities laws and the withholding provisions of the Code have been met.

(m) Stock Dividend or Reorganization.

(1) If (i) the Company shall at any time be involved in a transaction described in Section 424(a) of the Code (or any successor provision) or any "corporate transaction" described in the regulations thereunder; (ii) the Company shall declare a dividend payable in, or shall subdivide or combine, its Common Stock or (iii) any other event with substantially the same effect shall occur, the Plan Administrator shall, subject to applicable law, with respect to each outstanding Option, proportionately adjust the number of shares of Common Stock subject to such Option and/or the exercise price per share so as to preserve the rights of the Holder substantially proportionate to the rights of the Holder prior to such event, and to the extent that such action shall include an increase or decrease in the number of shares of Common Stock subject to outstanding Options, the number of shares available under Section 4 of this 2012 Option Plan shall automatically be increased or decreased, as the case may be, proportionately, without further action on the part of the Plan Administrator, the Company, the Company's shareholders, or any Holder.

(2) In the event that the presently authorized capital stock of the Company is changed into the same number of shares with a different par value, or without par value, the stock resulting from any such change shall be deemed to be Common Stock within the meaning of the 2012 Option Plan, and each Option shall apply to the same number of shares of such new stock as it applied to old shares immediately prior to such change.

(3) The foregoing adjustments in the shares subject to Options shall be made by the Plan Administrator, or by any successor administrator of this 2012 Option Plan, or by the applicable terms of any assumption or substitution document.

(4) The grant of an Option shall not affect in any way the right or power of the Company to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, to merge, consolidate or dissolve, to liquidate or to sell or transfer all or any part of its business or assets.

(n) Change in Control.

(1) If at any time there is a Change in Control (as defined below) of the Company, all Options outstanding at the date thereof shall accelerate and become fully vested and exercisable in full for the duration of the Option term as of the later of the date of the Change in Control or six months after the Date of Grant of the Option. For purposes of this Subsection, "Change in Control" shall mean either one of the following: (i) when any "person," as such term is used in Sections 13(d) and 14(d) of the Exchange Act as amended (other than the Company, a subsidiary thereof or a Company employee benefit plan, including any trustee of such plan acting as trustee) becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing fifty percent (50%) or more of the combined voting power of the Company's then outstanding securities; or (ii) the occurrence of a transaction requiring shareholder approval, and involving the sale of all or substantially all of the assets of the Company or the merger of the Company with or into another corporation.

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(2) Except as provided in this Section 5, no Optionee or Holder shall have rights by reason of any subdivision or consolidation of shares of stock of any class including Common Stock or the payment of any stock dividend on shares of Common Stock, or any other increase or decrease in the number of shares of Common Stock, or by reason of any liquidation, dissolution, corporate combination or division; and any issuance by the Company of shares of stock of any class including Common Stock, or securities convertible into shares of stock of any class including Common Stock, shall not affect, and no adjustment by reason thereof shall be made with respect to, the number or price of shares of Common Stock subject to any Option.

6. LIMITATION ON INDIVIDUAL OPTION GRANTS.

Except as otherwise provided in this Section 6, no person shall be eligible to receive Options to purchase more than 100,000 shares of Common Stock.

7. EFFECTIVE DATE; TERM.

The date on which this 2012 Option Plan is adopted (the “Effective Date”) shall be the date of ratification by the shareholders. No Option shall be granted by the Plan Administrator prior to the approval of this 2012 Option Plan by a vote of the shareholders of the Company. For purposes of granting Options, the 2012 Option Plan shall terminate at midnight on April 30, 2013, unless terminated before then by the Plan Administrator and for other purposes the 2012 Option Plan shall remain in effect as long as any Options are outstanding. In any event, the 2012 Option Plan shall finally terminate no later than April 30, 2023.

8. NO OBLIGATIONS TO EXERCISE OPTION.

The grant of an Option shall impose no obligation upon the Optionee to exercise such Option.

9. NO RIGHT TO OPTIONS OR TO EMPLOYMENT.

Whether or not any Options are to be granted under this 2012 Option Plan shall be exclusively within the discretion of the Plan Administrator, and nothing contained in this 2012 Option Plan shall be construed as giving any person any right to participate under this 2012 Option Plan. The grant of an Option shall in no way constitute any form of agreement or understanding binding on the Company, any Related Company or any affiliate, express or implied, that the Company, any Related Company or any affiliate will employ or contract with an Optionee for any length of time, nor shall it interfere in any way with the Company’s or, where applicable, a Related Company’s or affiliate’s right to terminate Optionee’s employment at any time, which right is hereby reserved.

10. APPLICATION OF FUNDS.

The proceeds received by the Company from the sale of Common Stock issued upon the exercise of Options shall be used to purchase and retire Common Stock pursuant to Rule 10b-18 to the extent such transactions have been authorized by the Board and in other cases for general corporate purposes, unless otherwise directed by the Board.

11. INDEMNIFICATION OF PLAN ADMINISTRATOR.

In addition to all other rights of indemnification they may have as members of the Board, members of the Plan Administrator shall be indemnified by the Company for all reasonable expenses and liabilities of any type or nature, including attorneys’ fees, incurred in connection with any action, suit or proceeding to which they or any of them are a party by reason of, or in connection with, this 2012 Option Plan or any Option granted under this 2012 Option Plan, and against all amounts paid by them in settlement thereof (provided that such settlement is approved by independent legal counsel selected by the Company), except to the extent that such expenses relate to matters for which it is adjudged that such Plan Administrator member is liable for willful misconduct; provided, that within fifteen (15) days after the institution of any such action, suit or proceeding, the Plan Administrator member involved therein shall, in writing, notify the Company of such action, suit or proceeding, so that the Company may have the opportunity to make appropriate arrangements to prosecute or defend the same.

12. AMENDMENT OF 2012 OPTION PLAN.

The Plan Administrator may, at any time, modify, amend or terminate this 2012 Option Plan or modify or amend Options granted under this 2012 Option Plan, including, without limitation, such modifications or amendments as are necessary to maintain compliance with applicable statutes, rules or regulations; provided however, no amendment with respect to an outstanding Option which has the effect of reducing the benefits afforded to the Holder thereof shall be made over the objection of such Holder, provided further, that the Plan Administrator is prohibited from any downward modification of the Option Price established under Section 5(c) not specifically authorized in the 2012 Option Plan. The Plan Administrator may condition the effectiveness of any such amendment on the receipt of shareholder approval at such time and in such manner as the Plan Administrator may consider necessary for the Company to comply with or to avail the Company and/or the Optionees of the benefits of any securities, tax, market listing or other administrative or regulatory requirement.

The Effective Date of this 2012 Option Plan was established by vote of the shareholders of the Company held on May 2, 2012.

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APPENDIX B

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

2012 STOCK OPTION PLAN

STOCK OPTION AGREEMENT

THIS AGREEMENT is entered into as of —, 2012 (the “Date of Grant”) between Expeditors International of Washington, Inc., a Washington corporation (the “Company”), and the option grant recipient (the “Optionee”).

WHEREAS, the Company has approved and adopted the 2012 Stock Option Plan (the “Plan”), pursuant to which the Board of Directors is authorized to grant to employees of the Company and its subsidiaries and affiliates stock options to purchase common stock, \$.01 par value, of the Company (the “Common Stock”);

WHEREAS, the Plan provides for the granting of stock options that either (i) are intended to qualify as “Incentive Stock Options” within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the “Code”), or (ii) do not qualify under Section 422 of the Code (“Non-Qualified Stock Options”);

WHEREAS, on —, 2012 (the “Date of Grant”), the Company authorized the grant to the Optionee of an [an Incentive Stock Option][a Non-Qualified Stock Option] to purchase shares of Common Stock (the “Option”);

NOW, THEREFORE, the Company hereby grants to Optionee the option to purchase, upon the terms and conditions set forth herein and in the Plan, shares of Common Stock, as stated in the initial grant notice and/or Optionee’s account at a service provider’s stock option website. (At the time of this grant, Optionee views and accepts the Option at the self-service website of Solium Capital Inc.: http://www.solium.com/can_en/.)

1. **Type of Option.** This option is intended to be [an Incentive Stock Option][a Non-Qualified Stock Option].
2. **Date of Grant.** This option was granted on —, 2012.
3. **Exercise Price.** The exercise price for the Option shall be \$— per share.
4. **Limitation on the Number of Shares.** The tax treatment set forth in Section 422 of the Code is subject to certain limitations. These limitations, which are described in Section 5(a) of the Plan and are based upon the Code, generally limit the number of shares that will qualify under Section 422 in any given calendar year. Under Section 5(a) any portion of an Option that exceeds the annual limit shall be a “Non-Qualified Stock Option.” The Company can make no representation that any of this Option will actually qualify under Section 422 when exercised.
5. **Vesting Schedule.**

Vesting Date	Portion of Total Option Which Will Be Exercisable	
—, 2015	50	%
—, 2016	75	%
—, 2017	100	%

Upon any Change in Control of the Company, as defined in the Plan, the Option shall accelerate and become fully vested and exercisable in accordance with Section 5(n) of the Plan.

6. **Option Not Transferable.** This Option may not be transferred, assigned, pledged or hypothecated in any manner (whether by operation of law or otherwise) other than by will or by the laws of descent and distribution, and shall not be subject to execution, attachment or similar process. Should any of the foregoing occur, Section 4 of the Plan provides that this Option shall terminate and become null and void.

7. **Investment Intent.** By accepting this Option, Optionee represents and agrees for himself, and all persons who acquire rights in this Option in accordance with the Plan through Optionee, that none of the shares of Common Stock purchased upon exercise of this Option will be distributed in violation of applicable federal and state laws and regulations, and Optionee shall furnish evidence satisfactory to the Company (including a written and signed representation letter and a consent to be bound by all transfer restrictions imposed by applicable law, legend condition, or otherwise) to that effect, prior to delivery of the purchased shares of Common Stock.

8. **Termination of Option.** A vested Option shall terminate, to the extent not previously exercised, upon the occurrence of the first of the following events:

- (i) ten years from the Date of Grant;
- (ii) the expiration of three (3) months following the date of an Optionee's termination of employment with the Company for any reason other than death or Disability; or
- (iii) the expiration of six (6) months following the date of death of the Optionee or the cessation of employment of the Optionee by reason of Disability.

In the event of death or Disability of the Optionee, the Option shall be exercisable only by the Optionee, the Optionee's personal representative or administrator or guardian or the person or persons to whom the Optionee's rights under the Option shall pass by the Optionee's will or by the laws of descent and distribution of the state or county of the Optionee's domicile at the time of death. Each unvested Option granted pursuant hereto shall terminate upon the Optionee's termination of employment for any reason whatsoever, including death or Disability. For Incentive Stock Option purposes, "Disability" shall mean that the Optionee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted, or can be expected to last, for a continuous period of not less than twelve (12) months. This definition of "Disability" is intended to comply with, and will be interpreted consistently with, Sections 22(e)(3) and 422(c)(6) of the Code.

9. **Stock.** In the case of any stock split, stock dividend or like change in the nature of shares granted by this Agreement, the number of shares and option price shall be proportionately adjusted as set forth in Section 5(m) of the Plan.

10. **Exercise of Option.** Each exercise of this Option shall be by means of written notice delivered to the Company at its principal executive office in Seattle, Washington, specifying the number of shares of Common Stock to be purchased. Upon each exercise of this Option, the full exercise price for the Common Stock to be purchased together with the amount necessary for the Company to satisfy its withholding obligation imposed by the Internal Revenue Code of 1986, if any, shall be paid to the Company by wire transfer, except to the extent another method of payment is permitted by the Plan Administrator. Alternatively, the Optionee may pay for all or any portion of the exercise price by delivery of previously acquired shares of Common Stock with a fair market value equal to or greater than the full exercise price or by complying with any other payment mechanism which the Plan Administrator may approve at the time of exercise. The exercise date of this Option shall be the date of the Company's receipt of the full exercise price for the Common Stock to be purchased.

11. **Holding Period for Incentive Stock Options.** In order to obtain the favorable tax treatment currently provided by Section 422 of the Code, the shares of Common Stock must be sold, if at all, after a date which is the later of two (2) years from the date of grant of the Incentive Stock Option or one (1) year from the date upon which the Option is exercised. The Optionee agrees to report sales of such shares prior to the above determined date within one (1) business day after such sale is concluded.

12. **Optionee Acknowledgments.** Optionee acknowledges that he has read and understands the terms of this Agreement and that:

- (a) The issuance of shares of Common Stock pursuant to the exercise of this Option, the issuance of any securities with respect to such Common Stock by way of a stock dividend or stock split or in connection with a combination of shares, recapitalization, merger, consolidation or reorganization, and any resale of any such shares of Common Stock, may only be effected in compliance with applicable state and federal laws and regulations, including the Securities Act of 1933, as amended (the "Securities Act");

(b) By acceptance of the Option, he agrees to defend, indemnify and hold the Company harmless from and against loss or liability arising from the transfer of the Option or any Common Stock issued pursuant thereto or any interest therein in violation of the provisions of the Securities Act or of this Option Agreement;

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- (c) He agrees that prior to any exercise of the Option, he will seek access to all information relating to the merits and risks of acquiring Common Stock necessary to make an informed decision;
- (d) He is not entitled to any rights as a shareholder with respect to any shares of Common Stock issuable hereunder until he becomes a shareholder of record;
- (e) The shares of Common Stock subject hereto may be adjusted in the event of certain organic changes in the capital structure of the Company or for any other reason permitted by the Plan; and
- (f) This Agreement does not constitute an employment agreement nor does it entitle Optionee to any specific employment or to employment for a period of time, and Optionee's continued employment, if any, with the Company shall be at will and is subject to termination in accordance with the Company's prevailing policies and any other agreement between Optionee and the Company.

13. Professional Advice. The acceptance and exercise of the Option and the sale of Common Stock issued pursuant to exercise of the Option may have consequences under federal and state tax and securities laws which may vary depending on the individual circumstances of the Optionee. Accordingly, the Optionee acknowledges that he has been advised to consult his personal legal and tax advisor in connection with this Agreement and his dealings with respect to the Option or the Common Stock.

14. Notices. Any notice required or permitted to be made or given hereunder shall be hand delivered or mailed by certified or registered mail to the Company's address set forth below, or to the Optionee's address on file at the Company's Stock Administration department or as changed from time to time by written notice to the other. Notices shall be deemed received and effective upon the earlier of (i) hand delivery to the recipient, (ii) five days after the date of postmark by the United States Postal Service or its successor or (iii) posting on the service provider's stock option website.

Company: Expeditors International of Washington, Inc.
Attention: Stock Administration
1015 Third Avenue, 12th Floor
Seattle, Washington 98104

15. Agreement Subject to Plan. This Option and this Agreement evidencing and confirming the same are subject to the terms and conditions set forth in the Plan and in any amendments to the Plan existing now or in the future, which terms and conditions are incorporated herein by reference. A copy will be made available upon request. Should any conflict exist between the provisions of the Plan and those of this Agreement, those of the Plan shall govern and control. This Agreement and the Plan set forth the entire understanding between the Company and the Optionee with respect to the Option and shall be construed and enforced under the laws of the State of Washington.

Dated as of the — day of —, 2012.

EXPEDITORS INTERNATIONAL OF WASHINGTON, INC.

By
Chairman and C.E.O.

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