

C H ROBINSON WORLDWIDE INC

Form 10-Q

August 11, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q

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

For the Quarterly Period Ended June 30, 2014

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: 000-23189

C.H. ROBINSON WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

41-1883630

(I.R.S. Employer  
Identification No.)

14701 Charlson Road, Eden Prairie, Minnesota

(Address of principal executive offices)

952-937-8500

55347-5088

(Zip Code)

Registrant's telephone number, including area code

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 (§232.405 of this chapter) during the preceding 12 months (or for 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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer  Accelerated filer

Non-accelerated filer  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

As of August 6, 2014, the number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, was 147,157,543.

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## PART I - FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## C.H. ROBINSON WORLDWIDE, INC.

## Condensed Consolidated Balance Sheets

(unaudited)

(In thousands, except per share data)	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 144,215	\$ 162,047
Receivables, net of allowance for doubtful accounts of \$44,312 and \$39,292	1,699,787	1,449,581
Deferred tax asset	7,156	8,286
Prepaid expenses and other	58,043	44,571
Total current assets	1,909,201	1,664,485
Property and equipment, net	160,268	160,703
Goodwill	828,774	829,073
Other intangible assets, net	107,611	117,467
Other assets	31,252	31,090
Total assets	\$3,037,106	\$2,802,818
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Current liabilities:		
Accounts payable	\$ 815,249	\$ 685,890
Outstanding checks	60,864	69,117
Accrued expenses:		
Compensation and profit-sharing contribution	78,917	85,247
Income taxes	25,682	11,681
Other accrued liabilities	50,286	43,046
Current portion of debt	400,000	375,000
Total current liabilities	1,430,998	1,269,981
Long-term debt	500,000	500,000
Noncurrent income taxes payable	20,281	21,584
Deferred tax liabilities	75,502	70,618
Other long term liabilities	224	911
Total liabilities	2,027,005	1,863,094
Stockholders' investment:		
Preferred stock, \$ .10 par value, 20,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$ .10 par value, 480,000 shares authorized; 178,326 and 179,030 shares issued, 147,725 and 150,197 outstanding	14,772	15,020
Additional paid-in capital	290,064	217,894
Retained earnings	2,520,710	2,413,833
Accumulated other comprehensive loss	(11,699	) (10,620 )
Treasury stock at cost (30,601 and 28,833 shares)	(1,803,746	) (1,696,403 )
Total stockholders' investment	1,010,101	939,724

Total liabilities and stockholders' investment	\$3,037,106	\$2,802,818
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See accompanying notes to the condensed consolidated financial statements.

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## C.H. ROBINSON WORLDWIDE, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income  
(unaudited)

(In thousands, except per share data)	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Revenues:				
Transportation	\$3,038,923	\$2,818,077	\$5,842,627	\$5,421,259
Sourcing	460,816	466,811	796,624	854,663
Payment Services	3,179	3,374	6,252	6,607
Total revenues	3,502,918	3,288,262	6,645,503	6,282,529
Costs and expenses:				
Purchased transportation and related services	2,555,371	2,386,932	4,931,196	4,568,862
Purchased products sourced for resale	425,922	428,059	734,884	784,065
Purchased payment services	588	669	1,151	1,278
Personnel expenses	238,986	206,009	459,283	418,654
Other selling, general, and administrative expenses	81,669	84,117	161,636	158,488
Total costs and expenses	3,302,536	3,105,786	6,288,150	5,931,347
Income from operations	200,382	182,476	357,353	351,182
Interest and other expense	(6,252)	(589)	(12,383)	(649)
Income before provision for income taxes	194,130	181,887	344,970	350,533
Provision for income taxes	75,534	70,015	133,187	135,318
Net income	118,596	111,872	211,783	215,215
Other comprehensive loss	(743)	(3,405)	(1,079)	(5,634)
Comprehensive income	\$117,853	\$108,467	\$210,704	\$209,581
Basic net income per share	\$0.80	\$0.70	\$1.43	\$1.34
Diluted net income per share	\$0.80	\$0.70	\$1.43	\$1.34
Basic weighted average shares outstanding	147,826	159,818	148,167	160,137
Dilutive effect of outstanding stock awards	148	99	126	61
Diluted weighted average shares outstanding	147,974	159,917	148,293	160,198

See accompanying notes to the condensed consolidated financial statements.

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C.H. ROBINSON WORLDWIDE, INC.  
Condensed Consolidated Statements of Cash Flows  
(unaudited)

(In thousands)	Six Months Ended June 30,	
	2014	2013
<b>OPERATING ACTIVITIES</b>		
Net income	\$211,783	\$215,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,349	27,952
Provision for doubtful accounts	11,128	5,635
Stock-based compensation	16,423	9,885
Deferred income taxes	5,894	25,993
Gain on divestiture	(1,848	) —
Loss on sale/disposal of assets	500	138
Other long-term liabilities	—	5
Changes in operating elements (net of acquisitions):		
Receivables	(261,334	) (198,669
Prepaid expenses and other	(14,214	) (12,146
Other non-current assets	270	—
Accounts payable and outstanding checks	121,109	100,481
Accrued compensation and profit-sharing contribution	(6,137	) (35,277
Accrued income taxes	12,698	(69,631
Other accrued liabilities	2,747	(11,310
Net cash provided by operating activities	128,368	58,271
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(14,860	) (18,316
Purchases and development of software	(3,964	) (4,261
Acquisitions, net of cash acquired	—	19,126
Other	268	107
Net cash used for investing activities	(18,556	) (3,344
<b>FINANCING ACTIVITIES</b>		
Proceeds from stock issued for employee benefit plans	7,417	10,298
Stock tendered for payment of withholding taxes	(11,288	) (47,909
Payment of contingent purchase price	—	(927
Repurchase of common stock	(48,869	) (96,432
Cash dividends	(104,909	) (113,031
Excess tax benefit on stock-based compensation	5,198	24,755
Proceeds from short-term borrowings	2,435,000	2,134,023
Payments on short-term borrowings	(2,410,000	) (2,022,017
Net cash used for financing activities	(127,451	) (111,240
Effect of exchange rates on cash	(193	) (3,689
Net decrease in cash and cash equivalents	(17,832	) (60,002
Cash and cash equivalents, beginning of period	162,047	210,019
Cash and cash equivalents, end of period	\$144,215	\$150,017
See accompanying notes to the condensed consolidated financial statements.		



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1: GENERAL

Basis of Presentation - C.H. Robinson Worldwide, Inc. and our subsidiaries (“the company,” “we,” “us,” or “our”) are a global provider of transportation services and logistics solutions through a network of 282 branch offices operating in North America, Europe, Asia, and South America. The consolidated financial statements include the accounts of C.H. Robinson Worldwide, Inc. and our majority owned and controlled subsidiaries. Our minority interests in subsidiaries are not significant. All intercompany transactions and balances have been eliminated in the consolidated financial statements.

The condensed consolidated financial statements, which are unaudited, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods presented. Interim results are not necessarily indicative of results for a full year. Consistent with SEC rules and regulations, we have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. You should read the condensed consolidated financial statements and related notes in conjunction with the consolidated financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2013.

## NOTE 2: GOODWILL AND OTHER INTANGIBLE ASSETS

The change in the carrying amount of goodwill is as follows (in thousands):

Balance, December 31, 2013	\$829,073	
Foreign currency translation	(299	)
Balance, June 30, 2014	\$828,774	

A summary of our other intangible assets, with finite lives, which include primarily customer relationships and non-competition agreements, is as follows (in thousands):

	June 30, 2014	December 31, 2013
Gross	\$146,129	\$148,917
Accumulated amortization	(40,393	) (33,325
Net	\$105,736	\$115,592

Other intangible assets, with indefinite lives, are as follows (in thousands):

	June 30, 2014	December 31, 2013
Trademarks	\$1,875	\$1,875

Amortization expense for other intangible assets is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Amortization expense	\$4,912	\$5,026	\$9,839	\$10,073



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Intangible assets at June 30, 2014 will be amortized over the next seven years, and that expense is as follows (in thousands):

Remainder of 2014	\$9,049
2015	16,939
2016	16,922
2017	16,890
2018	16,225
Thereafter	29,711
Total	\$105,736

**NOTE 3: FAIR VALUE MEASUREMENT**

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1 — Quoted market prices in active markets for identical assets or liabilities.

Level 2 — Observable market-based inputs or unobservable inputs that are corroborated by market data.

Level 3 — Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The table below sets forth a reconciliation of our beginning and ending Level 3 financial liability balance as of June 30, 2013 (in thousands). We had no Level 3 liabilities as of and the during the periods ended June 30, 2014.

Balance, December 31, 2012	\$922
Payments of contingent purchase price	(927)
Total unrealized losses included in earnings	5
Balance, June 30, 2013	\$—

**NOTE 4. FINANCING ARRANGEMENTS**

On October 29, 2012, we entered into a senior unsecured revolving credit facility for up to \$500 million with a \$500 million accordion feature (the "Credit Agreement"), with a syndicate of financial institutions led by U. S. Bank. The purpose of this facility was to partially fund the acquisition of Phoenix International Freight Services, Ltd. ("Phoenix") and to allow us to continue to fund working capital, capital expenditures, dividends, and share repurchases. The Credit Agreement expires on October 29, 2017.

As of June 30, 2014 and December 31, 2013, we had \$400.0 million and \$375.0 million, respectively, in borrowings outstanding under the Credit Agreement, which is classified as a current liability on the consolidated balance sheet. The recorded amount of borrowings outstanding approximates fair value because of the short maturity period of the debt; therefore, we consider these borrowings to be a Level 2 financial liability.

Borrowings under the Credit Agreement generally bear interest at a variable rate determined by a pricing schedule or the base rate (which is the highest of (a) the administrative agent's prime rate, (b) the federal funds rate plus 0.50 percent, or (c) the sum of 1.00 percent plus one-month LIBOR plus a specified margin). As of June 30, 2014, the variable rate equaled LIBOR plus 1.50 percent. In addition, there is a commitment fee on the average daily undrawn stated amount under each letter of credit issued under the facility. The weighted average interest rate incurred on borrowings during the quarter ended June 30, 2014 was approximately 1.7 percent and at June 30, 2014 was approximately 1.7 percent. The weighted average interest rate incurred on borrowings during the quarter ended June 30, 2013 was approximately 1.3 percent and at June 30, 2013 was approximately 1.2 percent.

The Credit Agreement contains various restrictions and covenants. Among other requirements, we may not permit our leverage ratio, as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii)

Consolidated Total Capitalization, to be greater than 0.65 to 1.00. We were in compliance with all of the financial debt covenants as of June 30, 2014.



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The Credit Agreement also contains customary events of default. If an event of default under the Credit Agreement occurs and is continuing, then the administrative agent may declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if we become the subject of voluntary or involuntary proceedings under any bankruptcy, insolvency or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

On August 23, 2013, we entered into a Note Purchase Agreement with certain institutional investors (the “Purchasers”) named therein (the “Note Purchase Agreement”). Pursuant to the Note Purchase Agreement, the Purchasers purchased, on August 27, 2013, (i) \$175,000,000 aggregate principal amount of the company’s 3.97 percent Senior Notes, Series A, due August 27, 2023 (the “Series A Notes”), (ii) \$150,000,000 aggregate principal amount of the company’s 4.26 percent Senior Notes, Series B, due August 27, 2028 (the “Series B Notes”) and (iii) \$175,000,000 aggregate principal amount of the company’s 4.60 percent Senior Notes, Series C, due August 27, 2033 (the “Series C Notes” and, together with the Series A Notes and the Series B Notes, the “Notes”). Interest on the Notes is payable semi-annually in arrears. We applied the proceeds of the sale of the Notes for share repurchases, as discussed in Note 6.

The Note Purchase Agreement contains customary provisions for transactions of this type, including representations and warranties regarding the Company and its subsidiaries and various covenants, including covenants that require us to maintain specified financial ratios. The Note Purchase Agreement includes the following financial covenants: we will not permit our leverage ratio, as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii) Consolidated Total Capitalization to be greater than 0.65 to 1.00; we will not permit the interest coverage ratio, as of the end of each of our fiscal quarters and for the twelve-month period ending, of (i) Consolidated EBIT (earnings before income taxes) to (ii) Consolidated Interest Expense to be less than 2.00 to 1.00; and we will not permit, as of the end of each of our fiscal quarters, Consolidated Priority Debt to exceed 15 percent of Consolidated Total Assets. We were in compliance with all of the financial debt covenants as of June 30, 2014.

The Note Purchase Agreement provides for customary events of default, generally with corresponding grace periods, including, without limitation, payment defaults with respect to the Notes, covenant defaults, cross-defaults to other agreements evidencing indebtedness of the Company or its subsidiaries, certain judgments against the Company or its subsidiaries and events of bankruptcy involving the Company or its material subsidiaries. The occurrence of an event of default would permit certain Purchasers to declare certain Notes then outstanding to be immediately due and payable.

Under the terms of the Note Purchase Agreement, the Notes are redeemable, in whole or in part, at 100 percent of the principal amount being redeemed together with a “make-whole amount” (as defined in the Note Purchase Agreement), and accrued and unpaid interest with respect to each Note. The obligations of the Company under the Note Purchase Agreement and the Notes are guaranteed by C.H. Robinson Company, a Delaware corporation and a wholly-owned subsidiary of the Company, and by C.H. Robinson Company, Inc., a Minnesota corporation and an indirect wholly-owned subsidiary of the Company.

The Notes were issued by the company to the initial purchasers in a private placement in reliance on Section 4(2) of the Securities Act of 1933, as amended (the “Securities Act”). The Notes have not been registered under the Securities Act and may not be offered or sold in the United States absent registration or an applicable exemption from registration requirements.

The fair value of long-term debt approximated \$523.3 million at June 30, 2014, based on observable market-based inputs compared to carrying value of \$500.0 million. If our long-term debt was recorded at fair value, it would be classified as a Level 2 liability.

### NOTE 5: INCOME TAXES

C.H. Robinson Worldwide, Inc. and its 80 percent (or more) owned U.S. subsidiaries file a consolidated federal income tax return. We file unitary or separate state returns based on state filing requirements. With few exceptions, we are no longer subject to audits of U.S. federal, state and local, or non-U.S. income tax returns before 2006.

Our effective tax rate for the three months ended June 30, 2014 and 2013 was 38.9 percent and 38.5 percent, respectively. The effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.



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On August 24, 2013, we entered into two letter agreements with unrelated third party financial institutions to repurchase an aggregate of \$500.0 million of our outstanding common stock (the "ASR Agreements"). The total aggregate number of shares to be repurchased pursuant to these agreements was determined based on the volume-weighted average price of our common stock during the purchase period, less a fixed discount of 0.94 percent. Under the ASR Agreements, we paid \$500.0 million to the financial institutions and received 6.1 million shares of common stock with a fair value of \$350.0 million during the third quarter of 2013, which represented approximately 70 percent of the total shares expected to be repurchased under the ASR agreements. One of the two financial institutions terminated their ASR Agreement and delivered 1.2 million shares in December 2013. We recorded this transaction as an increase in treasury stock of \$425.0 million, and recorded the remaining \$75.0 million as a decrease to additional paid-in capital on our consolidated balance sheet as of December 31, 2013. In February 2014, the remaining ASR Agreement was terminated. Approximately 1.2 million shares were delivered as final settlement of the remaining agreement. We reclassified the \$75.0 million recorded in additional paid-in capital to treasury stock during the first quarter of 2014.

The delivery of 8.5 million shares of our common stock reduced our outstanding shares used to determine our weighted average shares outstanding for purposes of calculating basic and diluted earnings per share for the three and six months ended June 30, 2014.

**NOTE 7: STOCK AWARD PLANS**

Stock-based compensation cost is measured at the grant date based on the value of the award and is recognized as expense as it vests. A summary of our total compensation expense recognized in our condensed consolidated statements of operations and comprehensive income for stock-based compensation is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Stock options	\$2,308	\$319	\$2,761	\$620
Stock awards	8,840	3,940	12,353	7,842
Company expense on ESPP discount	482	511	1,309	1,423
Total stock-based compensation expense	\$11,630	\$4,770	\$16,423	\$9,885

On May 9, 2013, our shareholders approved our 2013 Equity Incentive Plan, which allows us to grant certain stock awards, including stock options at fair market value and performance shares and restricted stock units, to our key employees and outside directors. A maximum of 3,400,000 shares plus the shares remaining available for future grants under the 1997 Plan as of May 9, 2013, can be granted under this plan. Approximately 4,912,000 shares were available for stock awards as of June 30, 2014. Shares subject to awards that expire or are canceled without delivery of shares or that are settled in cash, generally become available again for issuance under the plan.

**Stock Options** - We have awarded performance-based stock options to certain key employees. These options are subject to certain vesting requirements over a five-year period, based on the company's earnings growth. Any options remaining unvested at the end of the five-year vesting period are forfeited to the company. Although participants can exercise options via a stock swap exercise, we do not issue reloads (restoration options).

The fair value of these options is established based on the market price on the date of grant, discounted for post-vesting holding restrictions, calculated using the Black-Scholes option pricing model. Changes in measured stock price volatility and interest rates are the primary reasons for changes in the discount. These grants are being expensed based on the terms of the awards. As of June 30, 2014, unrecognized compensation expense related to stock options was \$40.2 million. The amount of future expense to be recognized will be based on the company's earnings growth and certain other conditions.

**Full Value Awards** - We have awarded performance shares and restricted stock units to certain key employees and non-employee directors. These awards are subject to certain vesting requirements over a five-year period, based on the company's earnings growth. The awards also contain restrictions on the awardees' ability to sell or transfer vested awards for a specified period of time. The fair value of these awards is established based on the market price on the

date of grant, discounted for post-vesting holding restrictions. The discounts on outstanding grants vary from 18 percent to 22 percent and are calculated using the Black-Scholes option pricing model - protective put method. Changes in measured stock price volatility and interest rates are the primary reasons for changes in the discount. These grants are being expensed based on the terms of the awards.

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We have also awarded restricted shares and restricted stock units to certain key employees that vest primarily based on their continued employment. The value of these awards is established by the market price on the date of the grant and is being expensed over the vesting period of the award.

We have also issued to certain key employees and non-employee directors restricted stock units which are fully vested upon issuance. These units contain restrictions on the awardees' ability to sell or transfer vested units for a specified period of time. The fair value of these units is established using the same method discussed above. These grants have been expensed during the year they were earned.

As of June 30, 2014, there is unrecognized compensation expense of \$128.5 million related to previously granted full value awards. The amount of future expense to be recognized will be based on the company's earnings growth and certain other conditions.

Employee Stock Purchase Plan - Our 1997 Employee Stock Purchase Plan allows our employees to contribute up to \$10,000 of their annual cash compensation to purchase company stock. Purchase price is determined using the closing price on the last day of each quarter discounted by 15 percent. Shares are vested immediately. The following is a summary of the employee stock purchase plan activity (dollar amounts in thousands):

## Three Months Ended June 30, 2014

Shares purchased by employees	Aggregate cost to employees	Expense recognized by the company
50,365	\$2,731	\$482

## NOTE 8: LITIGATION

We are not subject to any pending or threatened litigation other than routine litigation arising in the ordinary course of our business operations, including 17 contingent auto liability cases. For such legal proceedings, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to our consolidated financial position, results of operations, or cash flows. Because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the inconsistent treatment of claims made in many of these proceedings, and the difficulty of predicting the settlement value of many of these proceedings, we are often unable to estimate an amount or range of any reasonably possible additional losses. However, based upon our historical experience, the resolution of these proceedings is not expected to have a material effect on our consolidated financial position, results of operations, or cash flows.

## NOTE 9: CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is included in the Stockholders' investment on our condensed consolidated balance sheet. The recorded balance, net of taxes, at June 30, 2014 and December 31, 2013 was \$11.7 million and \$10.6 million, respectively. Accumulated other comprehensive loss is comprised solely of foreign currency translation adjustment at June 30, 2014 and December 31, 2013.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and related notes.

FORWARD-LOOKING INFORMATION

Our quarterly report on Form 10-Q, including this discussion and analysis of our financial condition and results of operations and our disclosures about market risk, contains certain "forward-looking statements". These statements represent our expectations, beliefs, intentions, or strategies concerning future events that, by their nature, involve risks and uncertainties. Forward-looking statements include, among others, statements about our future performance, the continuation of historical trends, the sufficiency of our sources of capital for future needs, the effects of acquisitions or dispositions, the expected impact of recently issued accounting pronouncements, and the outcome or effects of litigation. Risks that could cause actual results to differ materially from our current expectations include changes in economic conditions; changes in market demand and pressures on the pricing for our services; competition and growth rates within the third party logistics industry; freight levels and increasing costs and availability of truck capacity or alternative means of transporting freight; changes in relationships with existing contracted truck, rail, ocean, and air carriers; changes in our customer base due to possible consolidation among our customers, or for other reasons; our ability to successfully integrate the operations of acquired companies with our historic operations; risks associated with litigation, including contingent auto liability and insurance coverage; risks associated with operations outside of the U.S.; risks associated with the potential impacts of changes in government regulations; risks associated with the produce industry, including food safety and contamination issues; fuel price increases or shortages; the impact of war on the economy; changes to our share repurchase activity; and other risks and uncertainties detailed in our Annual and Quarterly Reports. Therefore, actual results may differ materially from our expectations based on these and other risks and uncertainties, including those described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013, filed with the Securities and Exchange Commission on March 3, 2014.

Any forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update such statement to reflect events or circumstances arising after such date.

OVERVIEW

Our company. We are a global provider of transportation services and logistics solutions, operating through a network of branch offices in North America, Europe, Asia, and South America. As a third party logistics provider, we cultivate contractual relationships with a wide variety of transportation companies, and utilize those relationships to efficiently and cost effectively transport our customers' freight. We have contractual relationships with approximately 63,000 transportation companies, including motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. Depending on the needs of our customer and their supply chain requirements, we select and hire the appropriate transportation for each shipment. Our model enables us to be flexible, provide solutions that optimize service for our customers, and minimize our asset utilization risk.

In addition to transportation and logistics services, we also offer fresh produce sourcing and fee-based payment services. Our Sourcing business is the buying, selling, and marketing of fresh produce. We purchase fresh produce through our network of produce suppliers and sell it to retail grocers and restaurant chains, produce wholesalers, and foodservice providers. In some cases, we also arrange the transportation of the produce we sell through our relationships with specialized transportation companies. Those revenues are reported as Transportation revenues. Our fee-based payment service revenues are derived from a cash advance option we offer our contracted carriers. Our business model. We are primarily a service company. We add value and expertise in the procurement and execution of transportation and logistics, including sourcing of produce products for our customers. Our total revenues represent the total dollar value of services and goods we sell to our customers. Our net revenues are our total revenues less purchased transportation and related services, including contracted motor carrier, rail, ocean, air, and other costs, and the purchase price and services related to the products we source. Our net revenues are the primary indicator of our ability to source, add value, and sell services and products that are provided by third parties, and we consider them



to be our primary performance measurement. Accordingly, the discussion of our results of operations below focuses on the changes in our net revenues.

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We keep our business model as variable as possible to allow us to be flexible and adapt to changing economic and industry conditions. We sell transportation services and produce to our customers with varied pricing arrangements. Some prices are committed to for a period of time, subject to certain terms and conditions, and some prices are set on a spot market basis. We buy most of our truckload transportation capacity and produce on a spot market basis. Because of this, our net revenue per transaction tends to increase in times when there is excess supply and decrease in times when demand is strong relative to supply. We also keep our personnel and other operating expenses as variable as possible. Compensation is performance-oriented and, for most employees in the branch network, based on individual performance and the profitability of their branch office.

In addition, we do not have pre-committed targets for headcount. Our personnel decisions are decentralized. Our branch managers determine the appropriate number of employees for their offices, within productivity guidelines, based on their branch's volume of business. This helps keep our personnel expense as variable as possible with the business.

Our branch network. Our branch network is a competitive advantage. Building local customer and contract carrier relationships has been an important part of our success, and our worldwide network of offices supports our core strategy of serving customers locally, nationally, and globally. Our branch offices help us penetrate local markets, provide face-to-face service when needed, and recruit contract carriers. Our branch network also gives us knowledge of local market conditions, which is important in the transportation industry because it is market driven and very dynamic.

Our branches work together to complete transactions and collectively meet the needs of our customers. For large multi-location customers, we often coordinate our efforts in one branch and rely on multiple branch locations to deliver specific geographic or modal needs. As an example, approximately 46 percent of our truckload shipments are shared transactions between branches. Our methodology of providing services is very similar across all branches. The majority of our global network operates on a common technology platform that is used to match customer needs with supplier capabilities, to collaborate with other branch locations, and to utilize centralized support resources to complete all facets of the transaction.

Our people. Because we are a service company, our continued success is dependent on our ability to continue to hire and retain talented, productive people, and to properly align our headcount and personnel expense with our business. Our headcount declined by 31 employees between December 31, 2013 and June 30, 2014. Branch employees act as a team in their sales efforts, customer service, and operations. A significant portion of many of our branch employees' compensation is performance-oriented, based on individual performance and the profitability of their branch. We believe this makes our employees more service-oriented and focused on driving growth and maximizing office productivity. All of our managers and certain other employees who have significant responsibilities are eligible to receive equity awards because we believe these awards are an effective tool for creating long-term ownership and alignment between employees and our shareholders. Generally, these awards vest over five-year periods and also include performance-based requirements. We have also issued restricted equity awards that vest evenly over five years.

Our customers. In 2013, we worked with more than 46,000 active customers, up from approximately 42,000 in 2012. We work with a wide variety of companies, ranging in size from Fortune 100 companies to small family businesses, in many different industries. Our customer base is very diverse and unconcentrated. Our top 100 customers represented approximately 32 percent of our total revenues and approximately 28 percent of our net revenues in 2013. Our largest customer was approximately three percent of our total revenues and approximately two percent of our total net revenues in 2013.

Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2013, our carrier base was approximately 63,000, up from approximately 56,000 in 2012. Motor carriers that had fewer than 100 tractors transported approximately 83 percent of our truckload shipments in 2013. In our Transportation business, no single contracted carrier represents more than approximately two percent of our contracted carrier capacity.



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## RESULTS OF OPERATIONS

The following table summarizes our total revenues by service line (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% change	2014	2013	% change
Transportation	\$3,038,923	\$2,818,077	7.8	\$5,842,627	\$5,421,259	7.8
Sourcing	460,816	466,811	(1.3)	796,624	854,663	(6.8)
Payment Services	3,179	3,374	(5.8)	6,252	6,607	(5.4)
Total	\$3,502,918	\$3,288,262	6.5	\$6,645,503	\$6,282,529	5.8

The following table illustrates our net revenue margins by services and products:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Transportation	15.9	% 15.3	% 15.6	% 15.7
Sourcing	7.6	% 8.3	% 7.8	% 8.3
Payment Services	81.5	% 80.2	% 81.6	% 80.7
Total	14.9	% 14.4	% 14.7	% 14.8

The following table summarizes our net revenues by service line (dollars in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2014	2013	% change	2014	2013	% change
Transportation						
Truckload	\$305,561	\$264,335	15.6	% \$575,398	\$532,939	8.0
LTL <sup>(1)</sup>	67,376	60,711	11.0	% 127,514	119,202	7.0
Intermodal	10,863	9,920	9.5	% 19,803	19,021	4.1
Ocean	50,486	49,124	2.8	% 94,098	91,612	2.7
Air	21,747	20,202	7.6	% 39,201	36,970	6.0
Customs	10,312	9,769	5.6	% 19,644	18,375	6.9
Other Logistics Services	17,207	17,084	0.7	% 35,773	34,278	4.4
Total Transportation	483,552	431,145	12.2	% 911,431	852,397	6.9
Sourcing	34,894	38,752	(10.0)	% 61,740	70,598	(12.5)
Payment Services	2,591	2,705	(4.2)	% 5,101	5,329	(4.3)
Total	\$521,037	\$472,602	10.2	% \$978,272	\$928,324	5.4

(1) Less-than-truckload ("LTL")

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The following table represents certain statements of operations data, shown as percentages of our net revenues:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net revenues	100.0	% 100.0	% 100.0	% 100.0
Operating expenses:				
Personnel expenses	45.9	% 43.6	% 46.9	% 45.1
Other selling, general, and administrative expenses	15.6	% 17.8	% 16.5	% 17.1
Total operating expenses	61.5	% 61.4	% 63.5	% 62.2
Income from operations	38.5	% 38.6	% 36.5	% 37.8
Investment and other (expense) income	(1.2)	)% (0.1)	)% (1.3)	)% (0.1)
Income before provision for income taxes	37.3	% 38.5	% 35.3	% 37.8
Provision for income taxes	14.5	% 14.8	% 13.6	% 14.6
Net income	22.8	% 23.7	% 21.6	% 23.2

### Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

Total revenues and direct costs. Our consolidated total revenues increased 6.5 percent in the second quarter of 2014 compared to the second quarter of 2013. Total Transportation revenues increased 7.8 percent to \$3.0 billion in the second quarter of 2014 from \$2.8 billion in the second quarter of 2013. This increase was driven by higher customer rates and increased volumes in many of our transportation modes. Total purchased transportation and related services increased 7.1 percent in the second quarter of 2014 to \$2.6 billion from \$2.4 billion in the second quarter of 2013. This increase was due to higher transportation costs and higher volumes in many of our transportation modes. Our Sourcing revenue decreased 1.3 percent to \$460.8 million in the second quarter of 2014 from \$466.8 million in the second quarter of 2013. Purchased products sourced for resale decreased 0.5 percent in the second quarter of 2014 to \$425.9 million from \$428.1 million in the second quarter of 2013. These decreases were primarily due to volume and revenue decreases from a large customer. Our Payment Services revenue decreased 5.8 percent to \$3.2 million in the second quarter of 2014 from \$3.4 million in the second quarter of 2013.

Net revenues. Total Transportation net revenues increased 12.2 percent to \$483.6 million in the second quarter of 2014 from \$431.1 million in the second quarter of 2013. Our Transportation net revenue margin increased to 15.9 percent in the second quarter of 2014 from 15.3 percent in the second quarter of 2013.

Our truckload net revenues increased 15.6 percent to \$305.6 million in the second quarter of 2014 from \$264.3 million in the second quarter of 2013; 95 percent of these revenues are derived from North America. Truckload volumes increased approximately four percent in the second quarter of 2014 compared to the second quarter of 2013. Our North American truckload volumes increased approximately three percent in the second quarter of 2014 compared to the second quarter of 2013. Truckload net revenue margin increased in the second quarter of 2014 compared to the second quarter of 2013, due primarily to increased rate per mile. In North America, excluding the estimated impacts of the change in fuel, our average truckload rate per mile charged to our customers increased approximately ten percent in the second quarter of 2014 compared to the second quarter of 2013. In North America, our truckload transportation costs increased approximately nine percent, excluding the estimated impacts of the change in fuel. These increases were largely the result of a change in the mix of our business, with higher growth in shorter-length haul freight compared to other types of truckload business. In general, a shorter length of haul invites higher customer rates and transportation costs per mile.

Our LTL net revenues increased 11.0 percent to \$67.4 million in the second quarter of 2014 from \$60.7 million in the second quarter of 2013. The increase was driven by an eight percent increase in total shipments and a slight increase in net revenue margin. This increase was partially the result of growth in the average size of LTL shipments, as well as a small increase in the length of haul for LTL shipments.

Our intermodal net revenue increased 9.5 percent to \$10.9 million in the second quarter of 2014 from \$9.9 million in the second quarter of 2013. This was primarily due to improved purchased transportation costs, a change in business mix, and a volume increase of one percent. Intermodal volumes were adversely impacted by railroad service levels.

Our ocean transportation net revenues increased 2.8 percent to \$50.5 million in the second quarter of 2014 from \$49.1 million in the second quarter of 2013. This increase in net revenues was primarily due to volume increases partially offset by a decrease in net revenue margin, due to excess capacity in the market.

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Our air transportation net revenues increased 7.6 percent to \$21.7 million in the second quarter of 2014 from \$20.2 million in the second quarter of 2013. This increase was primarily due to volume increases and an increase in net revenue margin.

Our customs net revenues increased 5.6 percent to \$10.3 million in the second quarter of 2014 from \$9.8 million in 2013. This increase was primarily due to higher transaction volumes.

Other logistics services net revenues, which include transportation management services, warehousing, and small parcel, increased 0.7 percent to \$17.2 million in the second quarter of 2014 from \$17.1 million in the second quarter of 2013. This increase was driven by increases in transportation management services, partially offset by declines in other logistics services.

Sourcing net revenues decreased 10.0 percent to \$34.9 million in the second quarter of 2014 from \$38.8 million in the second quarter of 2013. We continued to experience volume and net revenue declines from a large customer. We expect the revenue declines with this large customer to continue throughout 2014. Volumes were also negatively impacted by the drought conditions in the U.S. West Coast. Our net revenue margin decreased to 7.6 percent in the second quarter of 2014 from 8.3 percent in the second quarter of 2013.

Payment Services net revenues decreased 4.2 percent to \$2.6 million in the second quarter of 2014 from \$2.7 million in the second quarter of 2013.

Operating expenses. Operating expenses increased 10.5 percent to \$320.7 million in the second quarter of 2014 from \$290.1 million in the second quarter of 2013. Operating expenses as a percentage of net revenues increased slightly to 61.5 percent in the second quarter of 2014 from 61.4 percent in the second quarter of 2013.

For the second quarter, personnel expenses increased 16.0 percent to \$239.0 million in 2014 from \$206.0 million in 2013. This was primarily due to increases in expenses related to incentive plans that are designed to keep expenses variable with changes in net revenues and profitability and an increase in our average headcount of approximately four percent during the second quarter of 2014 compared to the second quarter of 2013.

For the second quarter, other selling, general, and administrative expenses decreased 2.9 percent to \$81.7 million in 2014 from \$84.1 million in 2013. This was due to a decrease in claims and travel expenses, partially offset by an increase in the provision for doubtful accounts related primarily to our increase in accounts receivable. In the second quarter of 2013, we recorded a \$5.0 million charge related to the settlement of a contingent auto liability claim.

Income from operations. Income from operations increased 9.8 percent to \$200.4 million in the second quarter of 2014 from \$182.5 million in the second quarter of 2013. Income from operations as a percentage of net revenues decreased slightly to 38.5 percent in the second quarter of 2014 from 38.6 percent in the second quarter of 2013.

Interest and other expense. Interest and other expense was an expense of \$6.3 million in the second quarter of 2014 compared to an expense of \$0.6 million in the second quarter of 2013. The change was due primarily to the interest expense related the long-term notes issued during the third quarter of 2013.

Provision for income taxes. Our effective income tax rate was 38.9 percent for the second quarter of 2014 and 38.5 percent 2013. The effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.

Net income. Net income increased 6.0 percent to \$118.6 million in the second quarter of 2014 from \$111.9 million in the second quarter of 2013. Basic and diluted net income per share increased 14.3 percent to \$0.80 from \$0.70.

**Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013**

Total revenues and direct costs. Our consolidated total revenues increased 5.8 percent in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Total Transportation revenues increased 7.8 percent to \$5.8 billion in the six months ended June 30, 2014 from \$5.4 billion in the six months ended June 30, 2013. This increase was driven by higher customer rates and increased volumes in many of our transportation modes. Total purchased transportation and related services increased 7.9 percent in the six months ended June 30, 2014 to \$4.9 billion from \$4.6 billion in the six months ended June 30, 2013. This increase was due to higher transportation costs and higher volumes in many of our transportation modes. Our Sourcing revenue decreased 6.8 percent to \$796.6 million in the six months ended June 30, 2014 from \$854.7 million in the six months ended June 30, 2013. Purchased products sourced for resale decreased 6.3 percent in the six months ended June 30, 2014 to \$734.9 million from \$784.1 million in the six months ended June 30, 2013. These decreases were primarily due to volume and revenue

decreases from a large customer. Our Payment Services revenue decreased 5.4 percent to \$6.3 million in the six months ended June 30, 2014 from \$6.6 million in the six months ended June 30, 2013.



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Net revenues. Total Transportation net revenues increased 6.9 percent to \$911.4 million in the six months ended June 30, 2014 from \$852.4 million in the six months ended June 30, 2013. Our Transportation net revenue margin decreased to 15.6 percent in the six months ended June 30, 2014 from 15.7 percent in the six months ended June 30, 2013.

Our truckload net revenues increased 8.0 percent to \$575.4 million in the six months ended June 30, 2014 from \$532.9 million in the six months ended June 30, 2013; 95 percent of these revenues are derived from North America. Truckload volumes increased approximately four percent in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. Our North American truckload volumes increased approximately three percent. Truckload net revenue margin decreased in the six months ended June 30, 2014 compared to the six months ended June 30, 2013, due primarily to increased cost per mile. In North America, excluding the estimated impacts of the change in fuel, our average truckload rate per mile charged to our customers increased approximately 10 percent in the six months ended June 30, 2014 compared to the six months ended June 30, 2013. In North America, our truckload transportation costs increased approximately 11 percent, excluding the estimated impacts of the change in fuel. These increases were largely the result of a change in the mix of our business, with higher growth in shorter-length haul freight compared to other types of truckload business. In general, a shorter length of haul invites higher customer rates and transportation costs per mile.

Our LTL net revenues increased 7.0 percent to \$127.5 million in the six months ended June 30, 2014 from \$119.2 million in the six months ended June 30, 2013. The increase in net revenues was driven by an increase in total shipments of approximately eight percent, partially offset by decreased net revenue margin. LTL net revenue margin decreased in the six months ended June 30, 2014 compared to the six months ended June 30, 2013 primarily due to carrier price increases.

Our intermodal net revenue increased 4.1 percent to \$19.8 million in the six months ended June 30, 2014 from \$19.0 million in the six months ended June 30, 2013. This was primarily due to improved improved customer pricing and purchased transportation costs, and a change in business mix, partially offset by volume declines.

Our ocean transportation net revenues increased 2.7 percent to \$94.1 million in the six months ended June 30, 2014 from \$91.6 million in the six months ended June 30, 2013. This increase in revenues was primarily due to volume increases partially offset by a decrease in net revenue margin, which was driven by market volatility and strong competition.

Our air transportation net revenues increased 6.0 percent to \$39.2 million in the six months ended June 30, 2014 from \$37.0 million in the six months ended June 30, 2013. This increase was primarily due to volume increases and an increase in net revenue margin.

Our customs net revenues increased 6.9 percent to \$19.6 million in the six months ended June 30, 2014 from \$18.4 million in June 30, 2013. This increase was primarily due to higher transaction volumes.

Other logistics services net revenues, which include transportation management services, warehousing, and small parcel, increased 4.4 percent to \$35.8 million in the six months ended June 30, 2014 from \$34.3 million in the six months ended June 30, 2013. This increase was driven by increases in transportation management services, partially offset by declines in other logistics services.

Sourcing net revenues decreased 12.5 percent to \$61.7 million in the six months ended June 30, 2014 from \$70.6 million in the six months ended June 30, 2013. We continued to experience volume and net revenue declines from a large customer. We expect the revenue declines with this large customer to continue throughout 2014.

Sourcing volumes were also negatively impacted by the drought conditions in the U.S. West Coast. Our net revenue margin decreased to 7.8 percent in the six months ended June 30, 2014 from 8.3 percent in the six months ended June 30, 2013.

Payment Services net revenues decreased 4.3 percent to \$5.1 million in the six months ended June 30, 2014 from \$5.3 million in the six months ended June 30, 2013.

Operating expenses. Operating expenses increased 7.6 percent to \$620.9 million in the six months ended June 30, 2014 from \$577.1 million in the six months ended June 30, 2013. Operating expenses as a percentage of net revenues increased to 63.5 percent in the six months ended June 30, 2014 from 62.2 percent in the six months ended June 30, 2013.

Personnel expenses increased 9.7 percent to \$459.3 million in the six months ended June 30, 2014 from \$418.7 million in the six months ended June 30, 2013. This was due to an increase in expenses related to incentive plans that are designed to keep expenses variable with changes in net revenues and profitability and an increase in our average headcount of approximately five percent.

Other selling, general, and administrative expenses increased 2.0 percent to \$161.6 million in the six months ended June 30, 2014 from \$158.5 million in the six months ended June 30, 2013. This was primarily driven by an increase in the provision for

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doubtful accounts, partially offset by a decrease in travel and claims expenses. In the second quarter of 2013, we recorded a \$5.0 million charge related to the settlement of a contingent auto liability claim.

**Income from operations.** Income from operations increased 1.8 percent to \$357.4 million in the six months ended June 30, 2014 from \$351.2 million in the six months ended June 30, 2013. Income from operations as a percentage of net revenues decreased to 36.5 percent in the six months ended June 30, 2014 from 37.8 percent in the six months ended June 30, 2013.

**Interest and other expense.** Interest and other expense was an expense of \$12.4 million in the six months ended June 30, 2014 compared to an expense of \$0.6 million in the six months ended June 30, 2013. The change was due primarily to the interest expense related the long-term notes issued during the third quarter of 2013.

**Provision for income taxes.** Our effective income tax rate was 38.6 percent for the six months ended June 30, 2014 and June 30, 2013. The effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.

**Net income.** Net income decreased 1.6 percent to \$211.8 million in the six months ended June 30, 2014 from \$215.2 million in the six months ended June 30, 2013. Basic and diluted net income per share increased 6.7 percent to \$1.43 from \$1.34.

## LIQUIDITY AND CAPITAL RESOURCES

We have historically generated substantial cash from operations, which has enabled us to fund our organic growth while paying cash dividends and repurchasing stock. During the fourth quarter of 2012, we entered into a senior unsecured revolving credit facility for up to \$500 million with a \$500 million accordion feature, of which \$400.0 million was outstanding as of June 30, 2014. During the third quarter of 2013, we entered into a Note Purchase Agreement to fund the ASR Agreements to repurchase \$500.0 million worth of our common stock. We expect to use the revolving credit facility and potentially other indebtedness incurred in the future to assist us in continuing to fund working capital, capital expenditures, dividends, and share repurchases. Cash and cash equivalents totaled \$144.2 million and \$162.0 million as of June 30, 2014 and December 31, 2013. Cash and cash equivalents held outside the United States totaled \$67.1 million and \$80.2 million as of June 30, 2014 and December 31, 2013. Working capital at June 30, 2014 and December 31, 2013 was \$478.2 million and \$394.5 million.

We prioritize our investments to grow the business, as we require some working capital and a relatively small amount of capital expenditures to grow. We are continually looking for acquisitions, but those acquisitions must fit our culture and enhance our growth opportunities.

**Cash flow from operating activities.** We generated \$128.4 million and \$58.3 million of cash flow from operations during the six months ended June 30, 2014 and 2013. During the six months ended June 30, 2014, our cash flow from operations increased \$70.1 million compared to the six months ended three months ended June 30, 2013. During the first quarter of 2013, we used \$111.8 million to fund the payment of income taxes, primarily related to the gain recognized on the divestiture of our former subsidiary T-Chek Systems, Inc ("T-Chek").

**Cash used for investing activities.** We used \$18.6 million and \$3.3 million of cash during the six months ended June 30, 2014 and 2013 for investing activities.

We used \$18.8 million and \$22.6 million for capital expenditures during the six months ended June 30, 2014 and 2013 primarily for investments in information technology equipment to support our operating systems, including the purchase and development of software. These information technology investments are intended to improve efficiencies and help grow the business. Additionally, we completed construction on a new office building on our corporate campus in Eden Prairie, Minnesota during the first quarter of 2014. This building replaced space we leased in Eden Prairie. Total capitalized value of the building was approximately \$18.5 million.

During the six months ended June 30, 2013, we received \$19.1 million in cash from settlement of post-closing cash and working capital adjustments, in accordance with the Phoenix purchase agreement.

**Cash used for financing activities.** We used \$127.5 million and generated \$111.2 million of cash flow for financing activities during the six months ended June 30, 2014 and 2013.

During the six months ended June 30, 2014, we had net short term borrowings of \$25.0 million. The outstanding balance on the revolving credit facility was \$400.0 million as of June 30, 2014. We were in compliance with all of the

credit facility's financial debt covenants as of June 30, 2014.

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We used \$104.9 million and \$113.0 million to pay cash dividends during the six months ended June 30, 2014 and 2013. The decrease in 2014 was due to a decrease in outstanding shares compared to 2013.

We used \$11.3 million and \$47.9 million to acquire shares from employees through their withholding taxes resulting from the delivery of restricted equity during the six months ended June 30, 2014 and 2013.

We used \$48.9 million and \$96.4 million on share repurchases during the six months ended June 30, 2014 and 2013.

In August 2013, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of June 30, 2014, there were 11,950,542 shares remaining for future repurchases. The number of shares we repurchase, if any, during future periods will vary based on our cash position, potential uses of our cash, and market conditions.

Management believes that our available cash, together with expected future cash generated from operations, the amount available under our credit facility, and credit available in the market, will be sufficient to satisfy our anticipated needs for working capital, capital expenditures, and cash dividends in the foreseeable future. We also believe we could obtain funds under lines of credit or other forms of indebtedness on short notice, if needed.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our condensed consolidated financial statements include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying condensed consolidated financial statements and related footnotes. In preparing our financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2013, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief discussion of our critical accounting policies and estimates.

**Revenue recognition.** Total revenues consist of the total dollar value of goods and services purchased from us by customers. Net revenues are total revenues less the direct costs of transportation, products, and handling. We act principally as the service provider for these transactions and recognize revenue as these services are rendered or goods are delivered. At that time, our obligations to the transactions are completed and collection of receivables is reasonably assured. Most transactions in our Transportation and Sourcing businesses are recorded at the gross amount we charge our customers for the service we provide and goods we sell. In these transactions, we are the primary obligor, we have credit risk, we have discretion to select the supplier, and we have latitude in pricing decisions. Additionally, in our Sourcing business, we often take loss of inventory risk during shipment and have general inventory risk.

Certain transactions in customs brokerage, transportation management, and sourcing are recorded at the net amount we charge our customers for the service we provide because many of the factors stated above are not present.

**Valuations for accounts receivable.** Our allowance for doubtful accounts is calculated based upon the aging of our receivables, our historical experience of uncollectible accounts, and any specific customer collection issues that we have identified. The allowance of \$44.3 million as of June 30, 2014 increased compared to the allowance of \$39.3 million as of December 31, 2013. This increase was primarily the result of the growth in our total receivable portfolio and a slight deterioration in our aging. We believe that the recorded allowance is sufficient and appropriate based on our customer aging trends, the exposures we have identified, and our historical loss experience.

**Goodwill.** We manage and report our operations as one operating segment. Our branches represent a series of components that are aggregated for the purpose of evaluating goodwill for impairment on an enterprise-wide basis. The fair value of the enterprise-wide reporting unit substantially exceeds the book value; therefore, we have determined that there is no indication of goodwill impairment as of June 30, 2014.



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Stock-based compensation. The fair value of each share-based payment award is established on the date of grant. For grants of restricted shares and restricted units, the fair value is established based on the market price on the date of the grant, discounted for post-vesting holding restrictions. The discounts on outstanding grants vary from 18 percent to 22 percent and are calculated using the Black-Scholes option pricing model. Changes in the measured stock price volatility and interest rates are the primary reason for changes in the discount. For grants of options, we use the Black-Scholes option pricing model to estimate the fair value of share-based payment awards. The determination of the fair value of share-based awards is affected by our stock price and a number of assumptions, including expected volatility, expected life, risk-free interest rate, and expected dividends.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We had \$144.2 million of cash and investments on June 30, 2014, consisting entirely of cash and cash equivalents. Although these investments are subject to the credit risk of the issuer, we manage our investment portfolio to limit our exposure to any one issuer. Substantially all of the cash equivalents are in demand accounts with financial institutions. The primary market risks associated with these investments are liquidity risks.

We are a party to a credit agreement with various lenders consisting of a \$500 million revolving loan facility. Interest accrues on the revolving loan at variable rates based on LIBOR or "prime" plus the applicable add-on percentage as defined. At June 30, 2014, there was \$400.0 million outstanding on the revolving loan.

We are a party to the Note Purchase Agreement with various institutional investors with fixed rates consisting of: (i) \$175,000,000 of the Company's 3.97% Senior Notes, Series A, due August 27, 2023, (ii) \$150,000,000 of the Company's 4.26% Senior Notes, Series B, due August 27, 2028 and (iii) \$175,000,000 of the Company's 4.60% Senior Notes, Series C, due August 27, 2033. At June 30, 2014, there was \$500.0 million outstanding on the notes.

A hypothetical 100-basis-point change in the interest rate would not have a material effect on our earnings. We do not use derivative financial instruments to manage interest rate risk or to speculate on future changes in interest rates. A rise in interest rates could negatively affect the fair value of our investments. Market risk arising from changes in foreign currency exchange rates are not material due to the size of our international operations.

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## ITEM 4. CONTROLS AND PROCEDURES

## (a) Evaluation of disclosure controls and procedures.

Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

## (b) Changes in internal controls over financial reporting.

There were no changes that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect the company's internal control over financial reporting.

## PART II - OTHER INFORMATION

## ITEM 1. Legal Proceedings

We are not subject to any pending or threatened litigation other than routine litigation arising in the ordinary course of our business operations. For such legal proceedings, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to our consolidated financial position, results of operations or cash flows. Because of the preliminary nature of many of these proceedings, the difficulty in ascertaining the applicable facts relating to many of these proceedings, the inconsistent treatment of claims made in many of these proceedings and the difficulty of predicting the settlement value of many of these proceedings, we are often unable to estimate an amount or range of any reasonably possible additional losses. However, based upon our historical experience, the resolution of these proceedings is not expected to have a material effect on our consolidated financial position, results of operations, or cash flows.

## ITEM 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

## ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases by the company during the quarter ended June 30, 2014 of shares of the Company's common stock.

	Total Number of Shares (or Units) Purchased <sup>(a)</sup>	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs <sup>(b)</sup>	Maximum Number of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs <sup>(b)</sup>
April 1, 2014 - April 30, 2014	2,375	\$54.87	—	12,795,442
May 1, 2014 - May 31, 2014	340,223	58.96	338,100	12,457,342
June 1, 2014 - June 30, 2014	508,153	62.08	506,800	11,950,542
Second quarter 2014	850,751	\$60.81	844,900	11,950,542



(a) The total number of shares purchased includes: (i) 844,900 shares of common stock purchased under the authorization described below; and (ii) 5,851 shares of common stock surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

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(b) In August 2013, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of June 30, 2014, there were 11,950,542 shares remaining for future repurchases. Purchases can be made in the open market or in privately negotiated transactions, including Rule 10b5-1 plans and accelerated repurchase programs.

ITEM 3. Defaults on Senior Securities

None

ITEM 4. Mine Safety Disclosures

Not applicable.

ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibits filed with this report:

31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

101 Financial statements from the Quarterly Report on Form 10-Q of the Company for the period ended June 30, 2014, formatted in XBRL

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on August 11, 2014.

C.H. ROBINSON WORLDWIDE, INC.

By:           /s/ John P. Wiehoff  
              John P. Wiehoff  
              Chief Executive Officer

By:           /s/ Chad M. Lindbloom  
              Chad M. Lindbloom  
              Chief Financial Officer (principal accounting officer)