C H ROBINSON WORLDWIDE INC
Form 10-Q
August 08, 2016
Table of Contents

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

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2016
¨ 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	41-1883630
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
14701 Charlson Road, Eden Prairie, Minnesota	55347-5088
(Address of principal executive offices)	(Zip Code)

952-937-8500
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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Date 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 ý 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 ý 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 ý
As of August 4, 2016, the number of shares outstanding of the registrant's Common Stock, par value $.10 per share, was 142,707,477.

Table of Contents

C.H. ROBINSON WORLDWIDE, INC.
TABLE OF CONTENTS

Table of Contents

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, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$207,083	$168,229
Receivables, net of allowance for doubtful accounts of $40,693 and $43,455	1,602,631	1,505,620
Deferred tax asset	10,261	16,788
Prepaid expenses and other	59,127	40,061
Total current assets	1,879,102	1,730,698
Property and equipment, net	211,905	190,874
Goodwill	1,108,761	1,108,337
Other intangible assets, net	108,072	120,242
Other assets	41,230	34,207
Total assets	$3,349,070	$3,184,358
LIABILITIES AND STOCKHOLDERS’ INVESTMENT		
Current liabilities:		
Accounts payable	$757,792	$697,585
Outstanding checks	78,929	86,298
Accrued expenses:		
Compensation and profit-sharing contribution	84,648	146,666
Income taxes	42,094	12,573
Other accrued liabilities	62,994	55,475
Current portion of debt	465,000	450,000
Total current liabilities	1,491,457	1,448,597
Long-term debt	500,000	500,000
Noncurrent income taxes payable	18,615	19,634
Deferred tax liabilities	75,937	65,460
Other long-term liabilities	221	217
Total liabilities	2,086,230	2,033,908
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; 178,783 and 178,784 shares issued, 142,833 and 143,455 outstanding	14,283	14,345
Additional paid-in capital	404,784	379,444
Retained earnings	3,057,158	2,922,620
Accumulated other comprehensive loss	(37,973)	(37,946)
Treasury stock at cost (35,950 and 35,329 shares)	(2,175,412)	(2,128,013)
Total stockholders’ investment	1,262,840	1,150,450
Total liabilities and stockholders’ investment	$3,349,070	$3,184,358

See accompanying notes to the condensed consolidated financial statements.

C.H. ROBINSON WORLDWIDE, INC.
Condensed Consolidated Statements of Operations and Comprehensive Income
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share data)	2016	2015	2016	2015
Revenues:				
Transportation	$2,881,496	$3,130,722	$5,595,184	$6,077,979
Sourcing	418,245	414,366	778,500	767,999
Total revenues	3,299,741	3,545,088	6,373,684	6,845,978
Costs and expenses:				
Purchased transportation and related services	2,324,995	2,582,374	4,504,617	5,034,486
Purchased products sourced for resale	380,531	378,696	711,517	702,364
Personnel expenses	270,251	263,999	547,748	519,143
Other selling, general, and administrative expenses	90,217	90,924	177,103	178,965
Total costs and expenses	3,065,994	3,315,993	5,940,985	6,434,958
Income from operations	233,747	229,095	432,699	411,020
Interest and other expense	(6,265)	(5,894)	(15,037)	(15,499)
Income before provision for income taxes	227,482	223,201	417,662	395,521
Provision for income taxes	84,392	85,993	155,609	151,837
Net income	143,090	137,208	262,053	243,684
Other comprehensive (loss) gain	(3,577)	4,130	(27)	(9,068)
Comprehensive income	$139,513	$141,338	$262,026	$234,616
Basic net income per share	$1.00	$0.94	$1.83	$1.67
Diluted net income per share	$1.00	$0.94	$1.83	$1.67
Basic weighted average shares outstanding	142,998	145,515	143,259	145,856
Dilutive effect of outstanding stock awards	218	164	178	164
Diluted weighted average shares outstanding	143,216	145,679	143,437	146,020

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

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

(In thousands)	Six Months Ended June 30, 2016			2015		
OPERATING ACTIVITIES						
Net income	$	262,053		$	243,684	
Adjustments to reconcile net income to net cash provided by operating activities:						
Depreciation and amortization	35,059			32,682		
Provision for doubtful accounts	2,144			9,053		
Stock-based compensation	25,785			31,019		
Deferred income taxes	17,004			(1,780		)
Loss on sale/disposal of assets	366			438		
Changes in operating elements (net of acquisitions):						
Receivables	(94,030		)	(87,663		)
Prepaid expenses and other	(19,066		)	(19,802		)
Other non-current assets	(1,615		)	736		
Accounts payable and outstanding checks	52,843			56,891		
Accrued compensation and profit-sharing contribution	(61,029		)	(32,027		)
Accrued income taxes	28,502			21,230		
Other accrued liabilities	(755		)	(3,265		)
Net cash provided by operating activities	247,261			251,196		
INVESTING ACTIVITIES						
Purchases of property and equipment	(33,483		)	(11,542		)
Purchases and development of software	(10,493		)	(8,063		)
	—			(369,143		)

Acquisitions, net of cash acquired				
Restricted cash	—		359,388	
Other	(405	)	361	
Net cash used for investing activities	(44,381	)	(28,999	)
FINANCING ACTIVITIES				
Proceeds from stock issued for employee benefit plans	12,132		9,858	
Stock tendered for payment of withholding taxes	(33,133	)	(10,190	)
Repurchase of common stock	(45,248	)	(89,923	)
Cash dividends	(127,520	)	(114,517	)
Excess tax benefit on stock-based compensation	15,104		6,040	
Proceeds from short-term borrowings	2,840,000		3,893,000	
Payments on short-term borrowings	(2,825,000	)	(3,868,000	)
Net cash used for financing activities	(163,665	)	(173,732	)
Effect of exchange rates on cash	(361	)	(5,954	)
Net increase in cash and cash equivalents	38,854		42,511	
Cash and cash equivalents, beginning of period	168,229		128,940	
Cash and cash equivalents, end of period	$ 207,083		$ 171,451	

Noncash transactions from investing activities:

Accrued purchases of property and equipment	$5,359	$—

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

C.H. ROBINSON WORLDWIDE, INC.
NOTES TO CONDENSED 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 operating through a network of offices located 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, 2015.

Recently Issued Accounting Standards - In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). This update requires a lessee to recognize on the balance sheet a liability to make lease payments and a corresponding right-of-use asset. The guidance also requires certain qualitative and quantitative disclosures about the amount, timing, and uncertainty of cash flows arising from leases. This update is effective for annual and interim periods beginning after December 15, 2018, which will require us to adopt these provisions in the first quarter of 2019 using a modified retrospective approach. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our ongoing financial reporting.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation (Topic 718). This update was issued as part of the FASB's simplification initiative and affects all entities that issue share-based payment awards to their employees. The amendments in this update cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, and accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification, and the classification of those taxes paid on the statement of cash flows. This update is effective for annual and interim periods beginning after December 15, 2016, which will require us to adopt these provisions in the first quarter of 2017. This guidance will be applied either prospectively, retrospectively or using a modified retrospective transition method. Early adoption is permitted. We have not yet selected a transition date nor have we determined the effect of the standard on our ongoing financial reporting.

NOTE 2. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Balance, December 31, 2015	$1,108,337
Foreign currency translation	424
Balance, June 30, 2016	$1,108,761

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, 2016	December 31, 2015
Gross	$171,172	$171,172

Accumulated amortization	(73,575)	(61,405)
Net	$97,597	$109,767

Table of Contents

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

	June 30, 2016	December 31, 2015
Trademarks	$10,475	$ 10,475

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Amortization expense	$6,095	$6,093	$12,188	$12,189

Intangible assets at June 30, 2016, will be amortized over the next five years, and that expense is as follows:

Remainder of 2016	$12,183
2017	24,324
2018	23,785
2019	23,785
2020	13,520
Thereafter	—
Total	$97,597

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.

We had no Level 3 assets or liabilities as of and during the periods ended June 30, 2016, and December 31, 2015.

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. In December 2014, we amended the credit facility to increase the amount available from $500 million to $900 million and to extend the expiration date from October 2017 to December 2019.

As of June 30, 2016, and December 31, 2015, we had $465 million and $450 million, respectively, in borrowings outstanding under the Credit Agreement, which is classified as a current liability on the condensed consolidated balance sheets. 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.

Table of Contents

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 one-month LIBOR plus a specified margin). As of June 30, 2016, the variable rate equaled LIBOR plus 1.00 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, 2016, was approximately 1.5 percent and at June 30, 2016, was approximately 1.5 percent. The weighted average interest rate incurred on borrowings during the quarter ended June 30, 2015, was approximately 1.3 percent and at June 30, 2015, was approximately 1.3 percent.

The Credit Agreement contains various restrictions and covenants. Among other requirements, we may not permit our leverage ratio, determined as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii) EBITDA (earnings before interest, taxes, depreciation, and amortization), to exceed 3.00 to 1.00. We were in compliance with all of the financial debt covenants as of June 30, 2016.

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.

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, determined as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii) EBITDA (earnings before interest, taxes, depreciation, and amortization), to exceed 3.00 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 then 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, 2016.

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(a)(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 $570.2 million at June 30, 2016. We estimate the fair value of our debt primarily using an expected present value technique, which is based on observable market inputs using interest rates currently available to companies of similar credit standing for similar terms and remaining maturities, and considering our own risk. If our long-term debt was recorded at fair value, it would be classified as Level 2.

Table of Contents

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 2009. During the first quarter of 2016, we asserted that we will indefinitely reinvest earnings of foreign subsidiaries to support expansion of our international businesses. The assertion decreased deferred income taxes related to undistributed foreign earnings by $1.3 million in the second quarter of 2016 and reduced the effective tax rate compared to the second quarter of 2015.

Our effective tax rate for the three months ended June 30, 2016 and 2015 was 37.1 percent and 38.5 percent, respectively. The effective income tax rate for both periods is greater than the statutory federal income tax rate due to state income taxes, net of federal benefit.

NOTE 6. 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,	
	2016	2015	2016	2015
Stock options	$1,878	$4,109	$5,215	$7,873
Stock awards	8,181	11,057	19,021	21,736
Company expense on ESPP discount	547	517	1,549	1,410
Total stock-based compensation expense	$10,606	$15,683	$25,785	$31,019

On May 12, 2016, our shareholders approved our amended 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 6,000,000 shares plus the shares remaining available for future grants under the 2013 Equity Incentive Plan as of May 12, 2016, can be granted under this plan. Approximately 6,751,919 shares were available for stock awards as of June 30, 2016. 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, 2016, unrecognized compensation expense related to stock options was $48.0 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 17 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.

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.

Table of Contents

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, 2016, there was unrecognized compensation expense of $108.5 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 vest immediately. The following is a summary of the employee stock purchase plan activity (dollar amounts in thousands):

Three Months Ended June 30, 2016		
Shares purchased by employees	Aggregate cost to employees	Expense recognized by the company
48,943	$ 3,094	$ 547

NOTE 7. 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 23 contingent auto liability cases. For some legal proceedings, we have accrued an amount that reflects the aggregate liability deemed probable and estimable, but this amount is not material to our condensed 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 8. ACQUISITIONS

On January 1, 2015, we completed the acquisition of Freightquote.com, Inc. ("Freightquote") for the purpose of enhancing our less than truckload and truckload businesses and expanding our eCommerce capabilities. Total purchase consideration was $398.6 million, which was paid in cash. We used advances under the Credit Agreement to fund part of the cash consideration. The following is a summary of the allocation of purchase consideration to the estimated fair value of net assets for the acquisition of Freightquote (in thousands):

Cash and cash equivalents	$29,302
Receivables	56,228
Other current assets	2,395
Property and equipment	43,687
Identifiable intangible assets	37,800
Goodwill	287,220
Trademarks	8,600
Other noncurrent assets	3,421
Total assets	468,653
Accounts payable	(44,622)
Accrued expenses	(5,485)
Other liabilities	(19,939)

Estimated net assets acquired	$398,607

Table of Contents

Identifiable intangible assets and estimated useful lives are as follows (dollars in thousands):

	Estimated Life (years)	
Customer relationships	5	$37,500
Noncompete agreements	5	300
Total identifiable intangible assets		$37,800

We also acquired a trademark valued at $8.6 million which has been determined to be indefinite-lived. The Freightquote goodwill is a result of acquiring and retaining the Freightquote existing workforce and expected synergies from integrating their business into C.H. Robinson. Purchase accounting is considered final. The goodwill will not be deductible for tax purposes.

NOTE 9. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss is included in Stockholders' investment on our condensed consolidated balance sheets. The recorded balance, at June 30, 2016, and December 31, 2015, was $38.0 million and $37.9 million, respectively. Accumulated other comprehensive loss is comprised solely of foreign currency translation adjustment at June 30, 2016, and December 31, 2015.

Table of Contents

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 decreases, or fuel shortages; cyber-security related risks; the impact of war on the economy; changes to our capital structure; 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, 2015, filed with the Securities and Exchange Commission on February 29, 2016.

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. As of December 31, 2015, we had contractual relationships with approximately 68,000 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 buy and sell fresh produce under the brand name Robinson Fresh. 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, 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 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.
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.

Table of Contents

We keep our personnel and other operating expenses as variable as possible. Compensation is performance-oriented and, for most employees in the office network, based on the profitability of their individual office.
Our personnel decisions are decentralized. Our branch managers determine the appropriate number of employees for their offices, within productivity guidelines, based on their volume of business. This helps keep our personnel expense as variable as possible with the business.
Our office network. Our office 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 network offices help us penetrate local markets, provide face-to-face service when needed, and recruit contract carriers. Our network also gives us knowledge of local market conditions, which is important in the transportation industry because it is market driven and very dynamic.
In January 2015, we completed our acquisition of Freightquote.com, Inc. ("Freightquote"), a privately held freight broker based in Kansas City, Missouri. Freightquote provides services throughout North America. The acquisition enhances and brings synergies to our LTL and truckload businesses, and expands our e-commerce capabilities.
Our network offices work together to complete transactions and collectively meet the needs of our customers. For large multi-location customers, we often coordinate our efforts in Global Account Centers or in one office and rely on multiple locations to deliver specific geographic or modal needs. As an example, during 2015, approximately 49 percent of our truckload shipments were shared transactions between offices. 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 offices, 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. Employees act as a team in their sales efforts, customer service, and operations. A significant portion of many of our employees' compensation is performance-oriented, based on individual performance and the profitability of their office. 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.
Our customers. In 2015, we worked with more than 110,000 active customers. 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 29 percent of our total revenues and approximately 29 percent of our net revenues in 2015. Our largest customer was approximately two percent of our total revenues in 2015.
Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2015, our carrier base was approximately 68,000, up from approximately 63,000 in 2014. Motor carriers that had fewer than 100 tractors transported approximately 83 percent of our truckload shipments in 2015. In our Transportation business, no single contracted carrier represents more than approximately two percent of our contracted carrier capacity.

Table of Contents

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,		
	2016	2015	% change	2016	2015	% change
Transportation	$2,881,496	$3,130,722	(8.0)%	$5,595,184	$6,077,979	(7.9)%
Sourcing	418,245	414,366	0.9 %	778,500	767,999	1.4 %
Total	$3,299,741	$3,545,088	(6.9)%	$6,373,684	$6,845,978	(6.9)%

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Transportation	19.3%	17.5%	19.5%	17.2%
Sourcing	9.0 %	8.6 %	8.6 %	8.5 %
Total	18.0%	16.5%	18.2%	16.2%

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2016	2015	% change	2016	2015	% change
Transportation						
Truckload	$329,740	$334,546	(1.4)%	$651,424	$632,926	2.9 %
LTL(1)	99,778	91,524	9.0 %	191,071	176,894	8.0 %
Intermodal	9,021	11,539	(21.8)%	18,285	22,051	(17.1)%
Ocean	60,068	59,066	1.7 %	118,737	109,256	8.7 %
Air	20,118	19,596	2.7 %	38,527	40,235	(4.2)%
Customs	11,605	10,973	5.8 %	22,329	21,236	5.1 %
Other Logistics Services	26,171	21,104	24.0 %	50,194	40,895	22.7 %
Total Transportation	556,501	548,348	1.5 %	1,090,567	1,043,493	4.5 %
Sourcing	37,714	35,670	5.7 %	66,983	65,635	2.1 %
Total	$594,215	$584,018	1.7 %	$1,157,550	$1,109,128	4.4 %

(1) Less than truckload ("LTL")

Table of Contents

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,	
	2016	2015	2016	2015
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Personnel expenses	45.5 %	45.2 %	47.3 %	46.8 %
Other selling, general, and administrative expenses	15.2 %	15.6 %	15.3 %	16.1 %
Total operating expenses	60.7 %	60.8 %	62.6 %	62.9 %
Income from operations	39.3 %	39.2 %	37.4 %	37.1 %
Interest and other expense	(1.1)%	(1.0)%	(1.3)%	(1.4)%
Income before provision for income taxes	38.3 %	38.2 %	36.1 %	35.7 %
Provision for income taxes	14.2 %	14.7 %	13.4 %	13.7 %
Net income	24.1 %	23.5 %	22.6 %	22.0 %

Three Months Ended June 30, 2016, Compared to Three Months Ended June 30, 2015

Total revenues and direct costs. Our consolidated total revenues decreased 6.9 percent in the second quarter of 2016 compared to the second quarter of 2015. Total Transportation revenues decreased 8.0 percent to $2.9 billion in the second quarter of 2016 from $3.1 billion in the second quarter of 2015. The decrease was driven by lower rates charged to our customers, including fuel, partially offset by increased volumes in most of our transportation services. Total purchased transportation and related services decreased 10.0 percent in the second quarter of 2016 to $2.3 billion from $2.6 billion in the second quarter of 2015. The decrease was due to lower cost of transportation, including fuel, partially offset by higher volumes in most of our transportation service. Our Sourcing revenue increased 0.9 percent to $418.2 million in the second quarter of 2016 from $414.4 million in the second quarter of 2015. Purchased products sourced for resale increased 0.5 percent in the second quarter of 2016 to $380.5 million from $378.7 million in the second quarter of 2015. These increases were primarily due to an increase in case volumes, partially offset by a decrease in commodity costs.

Net revenues. Total Transportation net revenues increased 1.5 percent to $556.5 million in the second quarter of 2016 from $548.3 million in the second quarter of 2015. Our Transportation net revenue margin increased to 19.3 percent in the second quarter of 2016 from 17.5 percent in the second quarter of 2015 primarily due to lower purchased transportation costs, including fuel.

Our truckload net revenues decreased 1.4 percent to $329.7 million in the second quarter of 2016 from $334.5 million in the second quarter of 2015. Approximately 96 percent of our total truckload net revenues are derived from North American operations. Our North American truckload volumes increased three percent in the second quarter of 2016 compared to the second quarter of 2015. Truckload net revenue margin increased in the second quarter of 2016 compared to the second quarter of 2015, due primarily to lower transportation costs, including fuel. In North America, excluding the estimated impacts of the reduction in fuel costs, our average truckload rate per mile charged to our customers decreased approximately 7.5 percent in the second quarter of 2016 compared to the second quarter of 2015. In North America, our truckload transportation costs decreased approximately eight percent, excluding the estimated reduction in fuel costs.

Our LTL net revenues increased 9.0 percent to $99.8 million in the second quarter of 2016 from $91.5 million in the second quarter of 2015. LTL volumes increased approximately seven percent in the second quarter of 2016 compared to the second quarter of 2015. Net revenue margin increased in the second quarter of 2016 compared to the second quarter of 2015 because the reduction in costs were greater than the reduction in pricing to our customers.

Our intermodal net revenues decreased 21.8 percent to $9.0 million in the second quarter of 2016 from $11.5 million in the second quarter of 2015. Intermodal opportunities were negatively impacted by the alternative lower cost truck market during the second quarter of 2016.

Our ocean transportation net revenues increased 1.7 percent to $60.1 million in the second quarter of 2016 from $59.1 million in the second quarter of 2015. The increase in net revenues was primarily due to increased net revenue margin and volume growth with new customers.

Table of Contents

Our air transportation net revenues increased 2.7 percent to $20.1 million in the second quarter of 2016 from $19.6 million in the second quarter of 2015. The increase was primarily due to increased net revenue margin and an increase in volumes, partially offset by pricing declines.

Our customs net revenues increased 5.8 percent to $11.6 million in the second quarter of 2016 from $11.0 million in 2015. The increase was primarily due to increased transaction volumes.

Other logistics services net revenues, which include managed services, warehousing, and small parcel, increased 24.0 percent to $26.2 million in the second quarter of 2016 from $21.1 million in the second quarter of 2015 primarily from volume growth in managed services.

Sourcing net revenues increased 5.7 percent to $37.7 million in the second quarter of 2016 from $35.7 million in the second quarter of 2015. This increase was primarily due to increases in case volumes and net revenue per case. Our net revenue margin for the second quarter of 2016 increased to 9.0 percent from 8.6 percent in the second quarter of 2015.

Operating expenses. Operating expenses increased 1.6 percent to $360.5 million in the second quarter of 2016 from $354.9 million in the second quarter of 2015. Operating expenses as a percentage of net revenues decreased slightly to 60.7 percent in the second quarter of 2016 from 60.8 percent in the second quarter of 2015.

For the second quarter, personnel expenses increased 2.4 percent to $270.3 million in 2016 from $264.0 million in 2015. During the second quarter of 2016, our average headcount increased 5.2 percent compared to the second quarter of 2015. The increase in personnel expense was less than the increase in average headcount due to decreased expenses related to incentive plans that are designed to keep expenses variable with changes in net revenues and profitability.

For the second quarter of 2016, other selling, general, and administrative expenses decreased 0.8 percent to $90.2 million in 2016 from $90.9 million in the second quarter of 2015. This decrease was primarily due to a decrease in the provision for doubtful accounts, partially offset by an increase in other areas including travel expenses.

Income from operations. Income from operations increased 2.0 percent to $233.7 million in the second quarter of 2016 from $229.1 million in the second quarter of 2015. Income from operations as a percentage of net revenues increased to 39.3 percent in the second quarter of 2016 from 39.2 percent in the second quarter of 2015.

Interest and other expense. Interest and other expense was $6.3 million in the second quarter of 2016 compared to $5.9 million in the second quarter of 2015. The change was due primarily to an increase in interest rates on our short-term debt, partially offset by a decrease in our average outstanding balances on our debt during the quarter ended June 30, 2016, compared to the same period ended June 30, 2015.

Provision for income taxes. Our effective income tax rate was 37.1 percent for the second quarter of 2016 and 38.5 percent for the second quarter of 2015. During the first quarter of 2016, we asserted that we will indefinitely reinvest earnings of foreign subsidiaries to support expansion of our international businesses. During the second quarter of 2016, the assertion decreased deferred income taxes related to undistributed foreign earnings by $1.3 million and reduced the effective tax rate compared to the second quarter of 2015. Additionally, 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 4.3 percent to $143.1 million in the second quarter of 2016 from $137.2 million in the second quarter of 2015. Basic and diluted net income per share increased 6.4 percent to $1.00 from $0.94.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Total revenues and direct costs. Our consolidated total revenues decreased 6.9 percent in the six months ended June 30, 2016, compared to the six months ended June 30, 2015. Total Transportation revenues decreased 7.9 percent to $5.6 billion in the six months ended June 30, 2016, from $6.1 billion in the six months ended June 30, 2015. The decrease was driven by lower rates charged to our customers, including fuel, partially offset by increased volumes in most of our transportation services. Total purchased transportation and related services decreased 10.5 percent in the six months ended June 30, 2016, to $4.5 billion from $5.0 billion in the six months ended June 30, 2015. The decrease was due to lower cost of transportation, including fuel, partially offset by increased volumes in most of our transportation services. Sourcing revenue increased 1.4 percent to $778.5 million in the six months ended June 30, 2016, from $768.0 million in the six months ended June 30, 2015. Purchased products sourced for resale increased 1.3 percent in the six months ended June 30, 2016, to $711.5 million from $702.4 million in the six months ended

June 30, 2015. These increases were primarily due to increased case volumes, partially offset by a decrease in net revenue per case.

Table of Contents

Net revenues. Total Transportation net revenues increased 4.5 percent to $1.1 billion in the six months ended June 30, 2016, from $1.0 billion in the six months ended June 30, 2015. Our Transportation net revenue margin increased to 19.5 percent in the six months ended June 30, 2016, from 17.2 percent in the six months ended June 30, 2015, primarily due to lower transportation costs, including fuel.

Our truckload net revenues increased 2.9 percent to $651.4 million in the six months ended June 30, 2016, from $632.9 million in the six months ended June 30, 2015. Approximately 96 percent of our total truckload revenues are derived from North America. North American truckload volumes increased approximately three percent in the six months ended June 30, 2016, compared to the six months ended June 30, 2015. Truckload net revenue margin increased in the six months ended June 30, 2016, compared to the six months ended June 30, 2015, due primarily to decreased cost of transportation, including fuel. In North America, excluding the estimated impact of the reduction in fuel costs, our average truckload rate per mile charged to our customers decreased approximately six percent in the six months ended June 30, 2016, compared to the six months ended June 30, 2015. In North America, our truckload transportation costs decreased approximately seven percent, excluding the estimated impacts of the reduction in fuel costs.

Our LTL net revenues increased 8.0 percent to $191.1 million in the six months ended June 30, 2016, from $176.9 million in the six months ended June 30, 2015. LTL volumes increased approximately nine percent in the six months ended June 30, 2016, compared to the six months ended June 30, 2015. LTL net revenue margin increased in the six months ended June 30, 2016, compared to the six months ended June 30, 2015.

Our intermodal net revenue decreased 17.1 percent to $18.3 million in the six months ended June 30, 2016, from $22.1 million in the six months ended June 30, 2015. Conversion to truckload from intermodal negatively impacted intermodal volumes and net revenues in the six months ended June 30, 2016, due to lower truckload rates.

Our ocean transportation net revenues increased 8.7 percent to $118.7 million in the six months ended June 30, 2016, from $109.3 million in the six months ended June 30, 2015. The increase in revenues was due to increased net revenue margins and volumes.

Our air transportation net revenues decreased 4.2 percent to $38.5 million in the six months ended June 30, 2016, from $40.2 million in the six months ended June 30, 2015. The decrease was due to a decline in revenue per shipment, partially offset by increased volumes.

Our customs net revenues increased 5.1 percent to $22.3 million in the six months ended June 30, 2016, from $21.2 million in June 30, 2015. The increase was due to increased transaction volumes.

Other logistics services net revenues, which include managed services, warehousing, and small parcel, increased 22.7 percent to $50.2 million in the six months ended June 30, 2016, from $40.9 million in the six months ended June 30, 2015. The increase was driven primarily by volume growth in managed services.

Sourcing net revenues increased 2.1 percent to $67.0 million in the six months ended June 30, 2016, from $65.6 million in the six months ended June 30, 2015. This increase was primarily due to increased volumes across a variety of commodities and services, partially offset by a decrease in net revenue per case. Our net revenue margin increased to 8.6 percent in the six months ended June 30, 2016, from 8.5 percent in the six months ended June 30, 2015.

Operating expenses. Operating expenses increased 3.8 percent to $724.9 million in the six months ended June 30, 2016, from $698.1