

C H ROBINSON WORLDWIDE INC  
Form 10-Q  
August 08, 2013  
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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, 2013

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 2, 2013, the number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, was 159,343,889.

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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, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 150,017	\$ 210,019
Receivables, net of allowance for doubtful accounts of \$36,581 and \$34,560	1,570,886	1,412,136
Deferred tax asset	10,602	11,780
Prepaid expenses and other	51,463	38,355
Total current assets	1,782,968	1,672,290
Property and equipment, net	153,327	149,851
Goodwill	826,288	822,215
Other intangible assets, net	127,254	137,411
Other assets	31,708	22,458
Total assets	\$ 2,921,545	\$ 2,804,225
<b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>		
Current liabilities:		
Accounts payable	\$ 747,022	\$ 639,460
Outstanding checks	60,950	68,016
Accrued expenses:		
Compensation and profit-sharing contribution	67,518	103,343
Income taxes	51,919	121,581
Other accrued liabilities	37,926	46,171
Current portion of debt	365,652	253,646
Total current liabilities	1,330,987	1,232,217
Noncurrent income taxes payable	20,621	20,590
Deferred tax liabilities	69,928	45,113
Other long term liabilities	944	1,933
Total liabilities	1,422,480	1,299,853
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; 178,668 and 178,695 shares issued, 159,737 and 161,327 outstanding	15,974	16,133
Additional paid-in capital	296,914	303,479
Retained earnings	2,320,398	2,218,229
Accumulated other comprehensive loss	(14,979	) (9,345 )
Treasury stock at cost (18,931 and 17,368 shares)	(1,119,242	) (1,024,124 )
Total stockholders' investment	1,499,065	1,504,372

Total liabilities and stockholders' investment	\$2,921,545	\$2,804,225
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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,	
	2013	2012	2013	2012
Revenues:				
Transportation	\$2,818,077	\$2,476,805	\$5,421,259	\$4,653,602
Sourcing	466,811	462,597	854,663	822,327
Payment Services	3,374	16,312	6,607	31,899
Total revenues	3,288,262	2,955,714	6,282,529	5,507,828
Costs and expenses:				
Purchased transportation and related services	2,386,932	2,107,799	4,568,862	3,917,380
Purchased products sourced for resale	428,059	422,392	784,065	750,179
Purchased payment services	669	—	1,278	—
Personnel expenses	206,009	177,184	418,654	360,622
Selling, general, and administrative expenses	84,117	63,425	158,488	125,188
Total costs and expenses	3,105,786	2,770,800	5,931,347	5,153,369
Income from operations	182,476	184,914	351,182	354,459
Investment, interest, and other (expense) income	(589)	) 686	(649)	) 900
Income before provision for income taxes	181,887	185,600	350,533	355,359
Provision for income taxes	70,015	71,018	135,318	134,277
Net income	111,872	114,582	215,215	221,082
Other comprehensive loss	(3,405)	) (2,857)	) (5,634)	) (2,630)
Comprehensive income	\$108,467	\$111,725	\$209,581	\$218,452
Basic net income per share	\$0.70	\$0.71	\$1.34	\$1.36
Diluted net income per share	\$0.70	\$0.71	\$1.34	\$1.36
Basic weighted average shares outstanding	159,818	161,887	160,137	162,290
Dilutive effect of outstanding stock awards	99	313	61	353
Diluted weighted average shares outstanding	159,917	162,200	160,198	162,643

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,	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$215,215	\$221,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	27,952	17,208
Provision for doubtful accounts	5,635	3,608
Stock-based compensation	9,885	16,559
Deferred income taxes	25,993	3,543
Loss on sale/disposal of assets	138	2,397
Other long-term liabilities	5	17
Changes in operating elements, net of effects of acquisitions:		
Receivables	(198,669	) (229,361
Prepaid expenses and other	(12,146	) (5,631
Accounts payable and outstanding checks	100,481	130,457
Accrued compensation and profit-sharing contribution	(35,277	) (51,556
Accrued income taxes	(69,631	) 9,058
Other accrued liabilities	(11,310	) (7,353
Net cash provided by operating activities	58,271	110,028
<b>INVESTING ACTIVITIES</b>		
Purchases of property and equipment	(18,316	) (17,403
Purchases and development of software	(4,261	) (7,567
Acquisitions, net of cash acquired	19,126	—
Other	107	192
Net cash used for investing activities	(3,344	) (24,778
<b>FINANCING ACTIVITIES</b>		
Proceeds from stock issued for employee benefit plans	10,298	10,736
Stock tendered for payment of withholding taxes	(47,909	) (8,020
Payment of contingent purchase price	(927	) (11,613
Repurchase of common stock	(96,432	) (105,483
Cash dividends	(113,031	) (109,151
Excess tax benefit on stock-based compensation	24,755	7,654
Proceeds from short-term borrowings	2,134,023	—
Payments on short-term borrowings	(2,022,017	) —
Net cash used for financing activities	(111,240	) (215,877
Effect of exchange rates on cash	(3,689	) (2,415
Net decrease in cash and cash equivalents	(60,002	) (133,042
Cash and cash equivalents, beginning of period	210,019	373,669
Cash and cash equivalents, end of period	\$150,017	\$240,627
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 276 branch offices operating in North America, Europe, Asia, South America, and Australia. 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, 2012.

## NOTE 2: GOODWILL AND OTHER INTANGIBLE ASSETS

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

Balance, December 31, 2012	\$822,215	
Phoenix acquisition - measurement period adjustment	4,606	
Foreign currency translation	(533	)
Balance, June 30, 2013	\$826,288	

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, 2013	December 31, 2012
Gross	\$149,644	\$149,644
Accumulated amortization	(24,265	) (14,108
Net	\$125,379	\$135,536

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

	June 30, 2013	December 31, 2012
Trademarks	\$1,875	\$1,875

Amortization expense for other intangible assets was (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Amortization expense	\$5,026	\$966	\$10,073	\$1,808





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Intangible assets at June 30, 2013 will be amortized over the next eight years, and that expense is as follows (in thousands):

Remainder of 2013	\$10,042
2014	18,719
2015	16,939
2016	16,922
2017	16,827
Thereafter	45,930
Total	\$125,379

**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 following table presents information as of December 31, 2012, about our financial assets and liabilities that are measured at fair value on a recurring basis, according to the valuation techniques we used to determine their fair values (in thousands).

	Level 1	Level 2	Level 3	Total Fair Value
December 31, 2012				
Contingent purchase price related to acquisitions	—	—	922	922
Total liabilities at fair value	\$—	\$—	\$922	\$922

In measuring the fair value of the contingent payment liability, we used an income approach that considers the expected future earnings of the acquired businesses and the resulting contingent payments, discounted at a risk-adjusted rate.

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

	Three Months Ended June 30,	
	2013	2012
Balance, beginning of period	\$—	\$1,265
Payments of contingent purchase price	—	—
Total unrealized losses included in earnings	—	209
Balance, end of period	\$—	\$1,474

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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 will 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, 2013, we had \$365.0 million in borrowings outstanding under the Credit Agreement which is classified as a current liability on the consolidated balance sheet. We consider these borrowings to be a Level 2 financial liability and therefore, the recorded amount of borrowings outstanding approximates fair value because of the short maturity period of the debt.

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

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 the debt covenants as of June 30, 2013.

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.

**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, 2013 and 2012 were 38.5% and 38.3%, 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.

**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 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,	
	2013	2012	2013	2012
Stock options	\$319	\$495	\$620	\$997
Stock awards	3,940	5,809	7,842	14,107
Company expense on ESPP discount	511	489	1,423	1,455
Total stock based compensation expense	\$4,770	\$6,793	\$9,885	\$16,559

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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 restricted shares and 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 7,095,000 shares were available for stock awards under the new plan as of June 30, 2013. Awards that expire or are canceled without delivery of shares generally become available 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) on the grants from 2011 and 2012.

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, 2013, unrecognized compensation expense related to stock options was \$25.5 million. The amount of future expense to be recognized will be based on the company's earnings growth and certain other conditions.

**Restricted Stock Awards** - We have awarded performance-based restricted shares and restricted units to certain key employees and non-employee directors. These restricted shares and restricted units 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 shares or units for a specified period of time. The fair value of these shares is established based on the market price on the date of grant, discounted for post-vesting holding restrictions. The discounts have varied from 12 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 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 units which are fully vested upon issuance. These shares and units contain restrictions on the awardees' ability to sell or transfer vested shares or units for a specified period of time. The fair value of these shares is established using the same method discussed above.

These grants have been expensed during the year they were earned.

As of June 30, 2013, there is unrecognized compensation expense of \$137.1 million related to previously granted restricted shares and units. 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 the 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, 2013

Shares purchased by employees	Aggregate cost to employees	Expense recognized by the company
60,472	\$2,894	\$511

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## 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 eleven 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 not able 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.

During the second quarter of 2013, we recorded a \$5.0 million charge related to the settlement of a contingent auto liability claim. The \$5.0 million represents the amount of our retained risk under the terms of our contingent auto liability insurance policy.

## NOTE 8: ACQUISITIONS AND DIVESTITURES

On November 1, 2012, we acquired all of the outstanding stock of Phoenix International Freight Services, Ltd. for the purpose of expanding our current market presence and service offerings in international freight forwarding. Total purchase consideration was \$677.3 million, net of estimated post-closing cash and working capital adjustments, in accordance with the purchase agreement. The acquisition price was financed with \$60.2 million in newly-issued common stock (representing 1.1 million shares), borrowings under the revolving credit facility of approximately \$173.0 million discussed in Note 4, and the remainder with cash on-hand.

The following is a preliminary summary of the allocation of purchase consideration to the estimated fair value of net assets for the acquisition of Phoenix (in thousands):

Cash and cash equivalents	\$75,372	
Receivables	125,595	
Other current assets	8,929	
Property and equipment	12,160	
Identifiable intangible assets	130,000	
Goodwill	452,483	
Other noncurrent assets	15,596	
Total assets	\$820,135	
Accounts payable	\$(45,367	)
Accrued expenses	(14,340	)
Other liabilities	(83,155	)
Estimated net assets acquired	\$677,273	

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

	Estimated	Estimated
	Life (years)	Life (years)
Customer relationships	\$ 129,800	8
Noncompete agreements	200	5
Total identifiable intangible assets	\$ 130,000	

The Phoenix goodwill is a result of acquiring and retaining the Phoenix existing workforce and expected synergies from integrating their business into C.H. Robinson. The goodwill is not deductible for tax purposes. Purchase accounting is considered preliminary, subject to revision, mainly with respect to certain working capital accounts, taxes, and goodwill, as



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final information was not available as of June 30, 2013. We do not expect any revisions to the preliminary allocation of purchase price to have a material impact on our consolidated financial statements.

The measurement period adjustments during the first six months of 2013 to the previously recorded opening balances relate primarily to changes in the allocation of purchase consideration to certain accounts based on continued resolution of certain working capital adjustments with the selling shareholders. The adjustments during 2013 resulted in a \$1.5 million increase in receivables, a \$4.6 million increase in goodwill, and a \$10.6 million increase in other assets. The offset to these adjustments was a reduction in the estimated receivable amount from the selling shareholders. The measurement period adjustments were recorded prospectively as they are not considered material to the financial statements for the six months ended June 30, 2013.

On October 16, 2012, we sold substantially all of the operations of our subsidiary, T-Chek Systems, Inc. ("T-Chek"), which represented a majority of our Payment Services business, to Electronic Funds Source, LLC ("EFS") for \$302.5 million in cash. EFS acquired the assets and assumed certain liabilities of T-Chek.

We recorded a gain on the sale of the assets and liabilities of approximately \$281.6 million during the fourth quarter of 2012. In conjunction with the sale, we entered into two ten-year agreements with EFS: a money transfer services agreement and a MasterCard services agreement. These agreements for ongoing activities between us and EFS are expected to result in significant continuing cash outflows. Consequently, the sale of T-Chek's assets and liabilities did not result in the operating results of T-Chek being accounted for as a discontinued operation.

For the three and six month periods ended June 30, 2012, on an unaudited pro forma basis, assuming the T-Chek divestiture and the Phoenix acquisition had closed on January 1, 2011, the results of C.H. Robinson excluding T-Chek and including Phoenix would have resulted in the following (in thousands).

	Three Months Ended June 30, 2013			
	C.H. Robinson As Reported	T-Chek Operations	Phoenix Operations	Combined Pro Forma
Total revenues	\$2,955,714	\$(13,354 )	\$223,408	\$3,165,768
Income from operations	184,914	(6,815 )	10,601	188,700
Net income	114,582	(4,275 )	6,437	116,744
	Six Months Ended June 30, 2012			
	C.H. Robinson As Reported	T-Chek Operations	Phoenix Operations	Combined Pro Forma
Total revenues	\$5,507,828	\$(26,129 )	\$406,608	\$5,888,307
Income from operations	354,459	(12,497 )	14,937	356,899
Net income	221,082	(7,812 )	7,728	220,998

For the three and six month periods ended June 30, 2012, Phoenix pro forma financial information includes the following adjustments (in thousands).

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012
Contractual changes in compensation	\$(5,080 )	\$(5,080 )
Additional amortization expense on identifiable intangible assets	4,067	8,133
Rent expense for new lease agreements	84	168
Depreciation on acquired building	37	75
Incremental interest expense	638	1,275
Tax effect	(262 )	(523 )





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The pro forma consolidated financial information was prepared for comparative purposes only and includes certain adjustments, as noted above. The adjustments are estimates based on currently available information and actual amounts may have differed materially from these estimates. They do not reflect the effect of costs or synergies that would have been expected to result from the integration of the acquisition. The pro forma information does not purport to be indicative of the results of operations that actually would have resulted had the acquisition occurred at the beginning of each period presented or of future results of the consolidated entity. The results of operations and financial condition of Phoenix has been included in our consolidated financial statements since the acquisition date of November 1, 2012.

On October 1, 2012, we acquired all of the outstanding stock of the operating subsidiaries of Apreo Logistics S.A. ("Apreo"), a leading freight forwarder based in Warsaw, Poland, for the purpose of expanding our current market presence and service offerings in Europe. The total purchase price of Apreo was approximately \$26.5 million, which was paid in cash and is subject to post-closing adjustments. We recorded \$17.4 million of goodwill and other intangible assets related to this acquisition. The goodwill is not deductible for tax purposes. The results of operations and financial condition of Apreo have been included in our consolidated financial statements since its acquisition date. The results of our operations for 2012 were not materially impacted by this acquisition.

**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, 2013 and December 31, 2012 was \$15.0 million and \$9.3 million, respectively. Accumulated other comprehensive loss is comprised solely of foreign currency translation adjustment at June 30, 2013 and December 31, 2012.

In February 2013, the Financial Accounting Standards Board issued guidance on the reporting of amounts reclassified out of accumulated other comprehensive income (loss). This guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required to be reclassified in its entirety to net income. Entities may present this information either on the face of the statement where net income is presented or in the notes. This guidance was effective for the Company on January 1, 2013, and is to be applied prospectively. The guidance required additional disclosures, however it did not impact our results of operations, financial position or cash flows. During the quarter ended June 30, 2013, no amounts of accumulated other comprehensive loss were reclassified into net income.

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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; 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; 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, 2012, filed with the Securities and Exchange Commission on March 1, 2013.

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, South America, and Australia. 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 56,000 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. Historically, our Payment Services business consisted primarily of our subsidiary T-Chek, which provided a variety of management and business intelligence services to motor carrier companies and to fuel distributors. On October 16, 2012, we sold substantially all of the assets and transferred certain liabilities of T-Chek to EFS. We expect to continue to generate Payment Services revenues of approximately \$3 million per quarter from the T-Chek 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. In a balanced market, where there is little change in supply and demand and there are fewer unplanned freight opportunities, there is greater pricing pressure on the buy and sell of our services and therefore, our net revenue margins will generally be lower.

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 the profitability of their individual 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.

In October 2012, we acquired all of the outstanding stock of the operating subsidiaries of Apreo Logistics S.A. ("Apreo"), a leading freight forwarder based in Warsaw, Poland. This acquisition enhances our truckload capabilities in Europe. In November 2012, we acquired all of the outstanding stock of Phoenix International Freight Services, Ltd, ("Phoenix"), an international freight forwarder based in Chicago, Illinois. Phoenix has a strong track record and diverse customer base in the international freight forwarding industry. This acquisition expanded our global forwarding network.

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 43 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 grew by 153 employees during the second quarter of 2013. 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. In 2012, we also issued restricted equity awards that vest evenly over five years, starting on December 31, 2013.

Our customers. In 2012, we worked with more than 42,000 active customers, up from approximately 37,000 in 2011. 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 34 percent of our total revenues and approximately 29 percent of our net revenues in 2012. Our largest customer was approximately 3.4 percent of our total revenues and approximately 2.2 percent of our total net revenues

in 2012.

Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2012, our carrier base was approximately 56,000, up from approximately 53,000 in 2011. Motor carriers that had fewer than 100 tractors transported approximately 82 percent of our truckload shipments in 2012. 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,		
	2013	2012	% change	2013	2012	% change
Transportation	\$2,818,077	\$2,476,805	13.8 %	\$5,421,259	\$4,653,602	16.5 %
Sourcing	466,811	462,597	0.9 %	854,663	822,327	3.9 %
Payment Services	3,374	16,312	(79.3)%	6,607	31,899	(79.3)%
Total	\$3,288,262	\$2,955,714	11.3 %	\$6,282,529	\$5,507,828	14.1 %

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Transportation	15.3 %	14.9 %	15.7 %	15.8 %
Sourcing	8.3 %	8.7 %	8.3 %	8.8 %
Payment Services	80.2 %	100.0 %	80.7 %	100.0 %
Total	14.4 %	14.4 %	14.8 %	15.3 %

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2013	2012	% change	2013	2012	% change
Transportation						
Truckload	\$264,335	\$256,193	3.2 %	\$532,939	\$519,775	2.5 %
LTL <sup>(1)</sup>	60,711	56,445	7.6 %	119,202	108,272	10.1 %
Intermodal	9,920	10,019	(1.0)%	19,021	19,730	(3.6)%
Ocean	49,124	16,958	189.7 %	91,612	32,719	180.0 %
Air	20,202	10,577	91.0 %	36,970	19,450	90.1 %
Customs	9,769	3,934	148.3 %	18,375	7,334	150.5 %
Other Logistics Services	17,084	14,880	14.8 %	34,278	28,942	18.4 %
Total Transportation	431,145	369,006	16.8 %	852,397	736,222	15.8 %
Sourcing	38,752	40,205	(3.6)%	70,598	72,148	(2.1)%
Payment Services	2,705	16,312	(83.4)%	5,329	31,899	(83.3)%
Total	\$472,602	\$425,523	11.1 %	\$928,324	\$840,269	10.5 %

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

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In previous filings, we did not break out LTL and customs net revenues separately. The following table provides further breakout of our LTL and customs net revenues from Truck and Other Logistics Services net revenues as previously reported (in thousands).

	2012				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Truckload	\$263,582	\$256,193	\$269,097	\$271,248	\$248,577	\$264,029	\$268,376	\$256,894
LTL	51,827	56,445	58,863	57,025	45,923	50,273	52,990	49,549
Total Truck	\$315,409	\$312,638	\$327,960	\$328,273	\$294,500	\$314,302	\$321,366	\$306,443
	2012				2011			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Customs	\$3,400	\$3,934	\$4,109	\$6,782	\$2,935	\$3,306	\$3,490	\$3,369
Other logistics services	14,062	14,880	13,087	15,420	11,130	11,542	11,262	12,838
Total Other Logistics Services	\$17,462	\$18,814	\$17,196	\$22,202	\$14,065	\$14,848	\$14,752	\$16,207

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,	
	2013	2012	2013	2012
Net revenues	100.0	% 100.0	% 100.0	% 100.0
Operating expenses:				
Personnel expenses	43.6	% 41.6	% 45.1	% 42.9
Other selling, general, and administrative expenses	17.8	% 14.9	% 17.1	% 14.9
Total operating expenses	61.4	% 56.5	% 62.2	% 57.8
Income from operations	38.6	% 43.5	% 37.8	% 42.2
Investment and other income	(0.1)	)% 0.2	% (0.1)	)% 0.1
Income before provision for income taxes	38.5	% 43.6	% 37.8	% 42.3
Provision for income taxes	14.8	% 16.7	% 14.6	% 16.0
Net income	23.7	% 26.9	% 23.2	% 26.3

#### Three Months Ended June 30, 2013 Compared to Three Months Ended June 30, 2012

Total revenues and direct costs. Our consolidated total revenues increased 11.3 percent in the second quarter of 2013 compared to the second quarter of 2012. Total Transportation revenues increased 13.8 percent to \$2.82 billion in the second quarter of 2013 from \$2.48 billion in the second quarter of 2012. This increase was driven by higher volumes in most of our transportation modes, including the impact of acquisitions. Total purchased transportation and related services increased 13.2 percent in the second quarter of 2013 to \$2.39 billion from \$2.11 billion in the second quarter of 2012. This increase was due to higher volumes in many of our transportation modes, including the impact of acquisitions. Our Sourcing revenue increased 0.9 percent to \$466.8 million in the second quarter of 2013 from \$462.6 million in the second quarter of 2012. Purchased products sourced for resale increased 1.3 percent in the second quarter of 2013 to \$428.1 million from \$422.4 million in the second quarter of 2012. These increases were primarily due to a one percent increase in case volumes. Our Payment Services revenue decreased 79.3 percent to \$3.4 million in the second quarter of 2013 from \$16.3 million in the second quarter of 2012. The decrease was due to the sale of substantially all of our Payment Services business, T-Chek, to Electronic Funds Source, LLC on October 16, 2012. Net revenues. Total Transportation net revenues increased 16.8 percent to \$431.1 million in the second quarter of 2013 from \$369.0 million in the second quarter of 2012. Our Transportation net revenue margin increased to 15.3 percent in the second quarter of 2013 from 14.9 percent in the second quarter of 2012. Several of our transportation services, such as global forwarding and LTL, which have a higher net revenue margin, grew faster than services with lower net revenue margins.

Our truckload net revenues increased 3.2 percent to \$264.3 million in the second quarter of 2013 from \$256.2 million in the second quarter of 2012. Truckload volumes increased approximately nine percent in the second quarter of 2013 compared to



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the second quarter of 2012. We estimate that our acquisition of Apreo Logistics S.A. (“Apreo”), which was completed in October 2012, contributed approximately four percent to our volume growth in the second quarter of 2013. The Apreo business has a large number of short haul shipments in Poland. Truckload net revenue margin decreased in the second quarter of 2013 compared to the second quarter of 2012, due primarily to the net revenue margin decline in our European truckload business. In North America, truckload net revenue margins were relatively flat as rates charged to our customers and truckload transportation costs increased approximately one percent.

Our LTL net revenues increased 7.6 percent to \$60.7 million in the second quarter of 2013 from \$56.4 million in the second quarter of 2012. The increase in net revenues was driven by an increase in total shipments of approximately eight percent, partially offset by decreased net revenue margin.

Our intermodal net revenue decreased 1.0 percent to \$9.9 million in the second quarter of 2013 from \$10.0 million in the second quarter of 2012. This decrease was largely due to decreased volumes offset partially by an increased net revenue margin. Our net revenue margin increase was due primarily to a change in our mix of business.

Our ocean transportation net revenues increased 189.7 percent to \$49.1 million in the second quarter of 2013 from \$17.0 million in the second quarter of 2012. Our air transportation net revenues increased 91.0 percent to \$20.2 million in the second quarter of 2013 from \$10.6 million in the second quarter of 2012. Our customs net revenues increased 148.3 percent to \$9.8 million in the second quarter of 2013 from \$3.9 million in 2012. These increases were primarily due to our acquisition of Phoenix.

Other logistics services net revenues, which include transportation management services, warehousing, and small parcel, increased 14.8 percent to \$17.1 million in the second quarter of 2013 from \$14.9 million in the second quarter of 2012. This increase was primarily due to the acquisitions of Apreo and Phoenix.

Sourcing net revenues decreased 3.6 percent to \$38.8 million in the second quarter of 2013 from \$40.2 million in the second quarter of 2012. This decrease was primarily due to decreased net revenue margin as a result of a change in our commodity and service mix due to weather. Our net revenue margin decreased to 8.3 percent in the second quarter of 2013 from 8.7 percent in the second quarter of 2012.

Payment Services net revenues decreased 83.4 percent to \$2.7 million in the second quarter of 2013 from \$16.3 million in the second quarter of 2012. Approximately \$12.8 million of this decrease is due to the divestiture of T-Chek on October 16, 2012.

Operating expenses. Operating expenses increased 20.6 percent to \$290.1 million in the second quarter of 2013 from \$240.6 million in the second quarter of 2012. Operating expenses as a percentage of net revenues increased to 61.4 percent in the second quarter of 2013 from 56.5 percent in the second quarter of 2012. During the second quarter of 2013, operating expenses grew faster than net revenues primarily as a result of the impact of the Phoenix acquisition, including amortization of acquisition-related intangible assets. Phoenix has a higher operating expense to net revenue ratio than C.H. Robinson has historically experienced.

For the second quarter, personnel expenses increased 16.3 percent to \$206.0 million in 2013 from \$177.2 million in 2012. This was due to an increase in our average headcount of approximately 30 percent, related primarily to the acquisitions of Phoenix and Apreo in the fourth quarter of 2012. We estimate that our average headcount, excluding acquisitions and divestitures, increased approximately eight percent in the second quarter of 2013 compared to 2012. The personnel expense increase was partially offset by declines in expenses related to incentive plans that are designed to keep expenses variable with changes in net revenues and profitability. The increase in personnel expenses was also partially offset by the divestiture of T-Chek in October 2012.

For the second quarter, other selling, general, and administrative expenses increased 32.6 percent to \$84.1 million in 2013 from \$63.4 million in 2012. This increase was driven primarily by Phoenix operations, partially offset by the divestiture of T-Chek. For the second quarter, acquisition amortization expense increased to \$5.0 million in 2013 from \$1.0 million in 2012. This increase was driven by the amortization of the definite-lived intangible assets recorded in connection with the acquisition of Phoenix. For the second quarter, our provision for doubtful accounts increased \$4.5 million in 2013 compared to 2012. This was due to the collection of a receivable that had been previously written off and an improvement in the overall quality of our receivables portfolio during the second quarter of 2012.

During the second quarter of 2013, we also recorded a \$5.0 million charge related to the settlement of a contingent auto liability claim. The \$5.0 million represents the amount of our retained risk under the terms of our contingent auto liability insurance policy. Although we remain a party to several contingent auto liability cases, it should be noted that this is only the fourth case

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in the last ten years in which we have been required to contribute in excess of \$1.0 million in settlement or satisfaction of a contingent auto liability claim.

Income from operations. Income from operations decreased 1.3 percent to \$182.5 million in the second quarter of 2013 from \$184.9 million in the second quarter of 2012. This includes a decrease of approximately \$6.8 million related to the divestiture of T-Chek and also reflects an increase in operating expenses. Income from operations as a percentage of net revenues decreased to 38.6 percent in the second quarter of 2013 from 43.5 percent in the second quarter of 2012.

Investment, interest, and other (expense) income. Investment, interest, and other (expense) income was an expense of \$0.6 million in the second quarter of 2013 compared to income of \$0.7 million in the second quarter of 2012. The change is due primarily to the interest expense related to the borrowings on our credit facility.

Provision for income taxes. Our effective income tax rate was 38.5 percent for the second quarter of 2013 and 38.3 percent for the second quarter of 2012. 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 2.4 percent to \$111.9 million in the second quarter of 2013 from \$114.6 million in the second quarter of 2012. Basic and diluted net income per share decreased 1.4 percent to \$0.70 from \$0.71.

Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

Total revenues and direct costs. Our consolidated total revenues increased 14.1% in the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Total Transportation revenues increased 16.5 percent to \$5.42 billion in the six months ended June 30, 2013 from \$4.65 billion in the six months ended June 30, 2012. This increase was driven by higher volumes in most of our transportation modes and by acquisitions. Total purchased transportation and related services increased 16.6 percent in the six months ended June 30, 2013 to \$4.57 billion from \$3.92 billion in the six months ended June 30, 2012. This increase was due to higher volumes in many of our transportation modes and by acquisitions. Our Sourcing revenue increased 3.9 percent to \$854.7 million in the six months ended June 30, 2013 from \$822.3 million in the six months ended June 30, 2012. Purchased products sourced for resale increased 4.5 percent in the six months ended June 30, 2013 to \$784.1 million from \$750.2 million in the six months ended June 30, 2012. These increases were primarily due to higher case volumes. Our Payment Services revenue decreased 79.3 percent to \$6.6 million in the six months ended June 30, 2013 from \$31.9 million in the six months ended June 30, 2012. This decrease was due to the sale of substantially all of our Payment Services business, T-Chek, to Electronic Funds Source, LLC on October 16, 2012.

Net revenues. Total Transportation net revenues increased 15.8 percent to \$852.4 million in the six months ended June 30, 2013 from \$736.2 million in the six months ended June 30, 2012. Our Transportation net revenue margin decreased to 15.7 percent in the six months ended June 30, 2013 from 15.8 percent. Several of our transportation services, such as global forwarding and LTL, which have a higher net revenue margin, grew faster than services with lower net revenue margins.

Our truckload net revenues increased 2.5 percent to \$532.9 million in the six months ended June 30, 2013 from \$519.8 million in the six months ended June 30, 2012. Truckload volumes increased approximately nine percent in the six months ended June 30, 2013 compared to the six months ended June 30, 2012. We estimate that our acquisition of Apreo, which was completed in October 2012, contributed approximately four percent to our volume growth in the six months ended June 30, 2013. The Apreo business has a large number of short haul shipments in Poland. In North America, truckload net revenue margin decreased in the six months ended June 30, 2013 compared to the six months ended June 30, 2012, due primarily to increased cost of capacity, partially offset by increased rates charged to our customers. Excluding the estimated impact of the change in fuel, on average, our truckload rates increased approximately one percent in the six months ended June 30, 2013 compared to the six months ended June 30, 2012. Our truckload transportation costs increased approximately two percent, excluding the estimated impacts of the change in fuel.

Our LTL net revenues increased 10.1 percent to \$119.2 million in the six months ended June 30, 2013 from \$108.3 million in the six months ended June 30, 2012. LTL shipment volumes increased approximately ten percent in the six months ended June 30, 2013 compared to the six months ended June 30, 2012.

Our intermodal net revenue decreased 3.6 percent to \$19.0 million in the six months ended June 30, 2013 from \$19.7 million in the six months ended June 30, 2012. This decrease was largely due to decreased net revenue margin and volume declines. Our net revenue margin decline was due to a change in our mix of business.

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Our ocean transportation net revenues increased 180.0 percent to \$91.6 million in the six months ended June 30, 2013 from \$32.7 million in the six months ended June 30, 2012. Our air transportation net revenues increased 90.1 percent to \$37.0 million in the six months ended June 30, 2013 from \$19.5 million in the six months ended June 30, 2012. Our customs net revenues increased 150.5 percent to \$18.4 million in the six months ended June 30, 2013 from \$7.3 million in the six months ended June 30, 2012. These increases were primarily due to our acquisition of Phoenix.

Other logistics services net revenues, which include transportation management services, warehousing, and small parcel, increased 18.4 percent to \$34.3 million in the six months ended June 30, 2013 from \$28.9 million in the six months ended June 30, 2012. This increase was primarily due to the acquisitions of Apreo and Phoenix and transaction increases in our transportation management services.

Sourcing net revenues decreased 2.1 percent to \$70.6 million in the six months ended June 30, 2013 from \$72.1 million in the six months ended June 30, 2012. This decrease was primarily due to decreased net revenue margin, partially offset by increased volumes. Our net revenue margin decreased to 8.3 percent in the six months ended June 30, 2013 from 8.8 percent in the six months ended June 30, 2012.

Payment Services net revenues decreased 83.3 percent to \$5.3 million in the six months ended June 30, 2013 from \$31.9 million in the six months ended June 30, 2012. Approximately \$26.1 million of this decrease is due to the divestiture of T-Chek on October 16, 2012.

Operating expenses. Operating expenses increased 18.8 percent to \$577.1 million in the six months ended June 30, 2013 from \$485.8 million in the six months ended June 30, 2012. Operating expenses as a percentage of net revenues increased to 62.2 percent in the six months ended June 30, 2013 from 57.8 percent in the six months ended June 30, 2012. During the six months ended June 30, 2013, operating expenses grew faster than net revenues primarily as a result of the impact of the Phoenix acquisition, including amortization of acquisition-related intangible assets. Phoenix has a higher operating expense to net revenue ratio than C.H. Robinson has historically experienced.

For the six months ended June 30, personnel expenses increased 16.1 percent to \$418.7 million in 2013 from \$360.6 million in 2012. This was due to an increase in our average headcount of approximately 30 percent, related primarily to the acquisitions of Phoenix and Apreo in the fourth quarter of 2012. We estimate that our average headcount, excluding acquisitions and divestitures, increased approximately eight percent in the six months ended June 30, 2013 compared to the same period of 2012. In addition, during the the first quarter of 2013, there was additional payroll tax of approximately \$3 million related to the delivery of previously vested restricted equity awards. The personnel expense increase was partially offset by declines in expenses related to incentive plans that are designed to keep expenses variable with changes in net revenues and profitability. The increase in personnel expenses was also partially offset by the divestiture of T-Chek in October 2012.

For the six months ended June 30, other selling, general and administrative expenses increased 26.6 percent to \$158.5 million in 2013 from \$125.2 million in 2012. This increase was driven primarily by Phoenix operations, partially offset by the divestiture of T-Chek. For the six months ended June 30, acquisition amortization increased to \$10.1 million in 2013 from \$1.7 million in 2012. This increase was driven by the amortization of the definite-lived intangible assets recorded in connection with the acquisition of Phoenix.

Income from operations. For the six months ended June 30, income from operations decreased 0.9 percent to \$351.2 million in 2013 from \$354.5 million in 2012. This includes a decrease of approximately \$12.5 million related to the divestiture of T-Chek and also reflects an increase in operating expenses. For the six months ended June 30, income from operations as a percentage of net revenues decreased to 37.8% in 2013 from 42.2% in 2012.

Investment, interest and, other (expense) income. For the six months ended June 30, investment, interest, and other (expense) income was an expense of \$0.6 million in 2013 compared to income of \$0.9 million in 2012. The change is due primarily to the interest expense related to the borrowings on our credit facility.

Provision for income taxes. For the six months ended June 30, our effective income tax rate was 38.6 percent in 2013 and 37.8 percent in 2012. 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. For the six months ended June 30, net income decreased 2.7 percent to \$215.2 million in 2013 from \$221.1 million in 2012. Basic and diluted net income per share decreased 1.5 percent to \$1.34 in 2013 from \$1.36 in 2012.



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LIQUIDITY AND CAPITAL RESOURCES

We have historically generated substantial cash from operations, which has enabled us to fund our growth while paying cash dividends and repurchasing stock. In 2012, we entered into a senior unsecured revolving credit facility to partially fund the acquisition of Phoenix. We also expect to use this 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 \$150.0 million and \$210.0 million as of June 30, 2013 and December 31, 2012. Cash and cash equivalents held outside the United States totaled \$92.4 and \$103.3 million as of June 30, 2013 and December 31, 2012. Working capital at June 30, 2013 and December 31, 2012 was \$452.0 million and \$440.1 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 to redeploy our cash, but those acquisitions must fit our culture and enhance our growth opportunities. We continue to invest our cash with a focus on principal preservation. Our current interest-bearing cash and cash equivalents consist primarily of cash holdings and municipal money market funds. Our investment income related to cash and cash equivalents is down compared to last year due to lower balances and to the changes in the overall market yields of high-quality, short-term investments. Cash flow from operating activities. We generated \$58.3 million and \$110.0 million of cash flow from operations during the six months ended June 30, 2013 and 2012. During the six months ended June 30, 2013, our cash flow from operations decreased 47.0 percent compared to a 2.7 percent decrease in net income. 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 T-Chek.

Cash used for investing activities. We used \$3.3 million and \$24.8 million of cash during the six months ended June 30, 2013 and 2012 for investing activities.

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.

We used \$22.6 million and \$25.0 million for capital expenditures during the six months ended June 30, 2013 and 2012. This was 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 have begun construction on a new office building on our corporate campus in Eden Prairie, Minnesota. We expect the completion date of the building to be the first quarter of 2014. This building will replace the space we currently lease in Eden Prairie. We expect a total cost of approximately \$18 million. We have spent \$6.2 million on the building through June 30, 2013. We expect to fund the majority of the balance to complete the building in the second half of 2013.

Cash used for financing activities. We used \$111.2 million and \$215.9 million of cash flow for financing activities during the six months ended June 30, 2013 and 2012.

During the six months ended June 30, 2013, we had net borrowings of \$112.0 million. On October 29, 2012, we entered into a senior unsecured revolving credit facility for up to \$500 million with a \$500 million accordion feature, of which \$365.0 million was outstanding as of June 30, 2013. The purpose of this facility was to partially fund the acquisition of Phoenix and will assist us in continuing to fund working capital, capital expenditures, dividends, and share repurchases. Advances under the facility carry an interest rate based on our total funded debt to total capitalization, as measured at the end of each quarter, and are based on a spread over LIBOR for outstanding balances. In addition, there is a commitment fee on the average daily undrawn stated amount under each letter of credit issued under the facility. We were in compliance with all of the credit facility's debt covenants as of June 30, 2013.

We used \$113.0 million and \$109.2 million to pay cash dividends during the six months ended June 30, 2013 and 2012. The increase in 2013 was due to an increase in our quarterly dividend rate to \$0.35 in 2013 from \$0.33 per share in 2012, partially offset by a decrease in outstanding shares.

We used \$47.9 million and \$8.0 million to acquire shares from employees through their withholding taxes resulting from the delivery of restricted equity in the first quarter of 2013 and 2012.

We used \$96.4 million and \$105.5 million on share repurchases during the six months ended June 30, 2013 and 2012. The decrease in 2013 was due to a nine percent decrease in the average price per share repurchased offset partially by a one percent increase from the number of shares repurchased in 2012. We are currently purchasing shares under the 2012 authorization of

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10,000,000 shares. As of June 30, 2013, there were 9,083,663 shares remaining under this authorization. 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.

Assuming no change in our current business plan, 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, cash dividends, and share repurchases in future periods. 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, 2012, 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 take loss of inventory risk during shipment and have general inventory risk. Certain transactions in customs brokerage and transportation management 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 \$36.6 million as of June 30, 2013 increased compared to the allowance of \$34.6 million as of December 31, 2012. This increase was primarily due to growth in our accounts receivable balance. 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, 2013.

**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 have varied from 12 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.



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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We had \$150.0 million of cash and investments on June 30, 2013, 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, 2013, there was \$365.0 million outstanding on the revolving loan.

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.

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.

As previously announced, we acquired Apreo and Phoenix during the fourth quarter of 2012. We have not fully evaluated any changes in internal control over financial reporting associated with these acquisitions and therefore any material changes that may result from these acquisitions have not been disclosed in this report. We intend to disclose all material changes resulting from these acquisitions within or prior to the time of our first annual assessment of internal control over financial reporting that is required to include these entities.

The results reported in this quarterly report include those of Apreo and Phoenix.

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## 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 not able 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.

During the second quarter of 2013, we recorded a \$5.0 million charge related to the settlement of a contingent auto liability claim. The \$5.0 million represents the amount of our retained risk under the terms of our contingent auto liability insurance policy.

## 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, 2012, 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, 2013 of shares of the Company's common stock.

	Total Number of Shares (or Units) Purchased <sup>(1)</sup>	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
April 1, 2013—April 30, 2013	8,674	\$58.86	—	9,955,888
May 1, 2013—May 31, 2013	518,881	57.97	517,153	9,438,735
June 1, 2013—June 30, 2013	361,519	56.23	355,072	9,083,663
Second quarter 2013	889,074	\$57.27	872,225	9,083,663

(1) The total number of shares purchased includes shares purchased under the authorizations described below, and shares reacquired from employees as swaps for the cost of stock options, or shares surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

(2) In August 2012, the Board of Directors authorized management to repurchase an additional 10,000,000 shares of our common stock. As of June 30, 2013, there were 9,083,663 shares remaining under the 2012 authorization.

## ITEM 3. Defaults on Senior Securities

None

ITEM 4.  
Not applicable.

Mine Safety Disclosures

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ITEM 5. Other Information

None

ITEM 6. Exhibits

Exhibits filed with this report:

- 10.1 C.H. Robinson Worldwide, Inc. 2013 Equity Incentive Plan (incorporated by referenceto Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 14, 2013)
- 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, 2013, 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 8, 2013.

C.H. ROBINSONSON 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)

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