

C H ROBINSON WORLDWIDE INC
Form 10-Q
November 08, 2012
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2012

OR

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 (I.R.S. Employer
incorporation or organization) Identification No.)

14701 Charlson Road, Eden Prairie, 55347
Minnesota (Zip Code)
(Address of principal executive offices)
(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, 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 the 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 November 5, 2012, the number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, was 161,192,483.

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FORM 10-Q
For the Quarter Ended September 30, 2012
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PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements
C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(In thousands, except per share data)
(unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$272,955	\$373,669
Receivables, net of allowance for doubtful accounts of \$33,326 and \$31,328	1,334,577	1,189,637
Deferred tax asset	6,639	8,382
Prepaid expenses and other	39,760	39,855
Assets held for sale, excluding cash of \$24.3 million	72,235	—
Total current assets	1,726,166	1,611,543
Property and equipment, net	134,437	126,830
Goodwill	359,606	359,688
Intangible and other assets, net	23,058	39,980
Total assets	\$2,243,267	\$2,138,041
LIABILITIES AND STOCKHOLDERS' INVESTMENT		
Current liabilities:		
Accounts payable and outstanding checks	\$729,744	\$704,734
Accrued expenses:		
Compensation and profit-sharing contribution	86,473	117,541
Income taxes and other	34,514	54,357
Liabilities held for sale	87,324	—
Total current liabilities	938,055	876,632
Long term liabilities:		
Noncurrent income taxes payable	13,411	11,343
Other long term liabilities	926	1,592
Total liabilities	952,392	889,567
Stockholders' investment:		
Preferred stock, \$0.10 par value, 20,000 shares authorized; no shares issued or outstanding	—	—
Common stock, \$0.10 par value, 480,000 shares authorized; 177,271 and 177,312 shares issued; 161,212 and 163,441 shares outstanding	16,121	16,344
Retained earnings	2,020,112	1,845,032
Additional paid-in capital	207,209	205,794
Accumulated other comprehensive loss	(9,878) (9,115
Treasury stock at cost (16,059 and 13,871 shares)	(942,689) (809,581
Total stockholders' investment	1,290,875	1,248,474
Total liabilities and stockholders' investment	\$2,243,267	\$2,138,041
See accompanying notes.		

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C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Income

(In thousands, except per share data)

(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES:				
Transportation	\$2,445,883	\$2,280,208	\$7,099,485	\$6,540,266
Sourcing	418,377	399,220	1,240,704	1,182,784
Payment Services	16,149	15,500	48,048	45,012
Total revenues	2,880,409	2,694,928	8,388,237	7,768,062
COSTS AND EXPENSES:				
Purchased transportation and related services	2,063,109	1,905,731	5,980,489	5,455,022
Purchased products sourced for resale	384,630	366,131	1,134,809	1,081,767
Personnel expenses	179,342	178,117	539,964	532,171
Other selling, general, and administrative expenses	66,071	60,984	191,259	178,327
Total costs and expenses	2,693,152	2,510,963	7,846,521	7,247,287
Income from operations	187,257	183,965	541,716	520,775
Investment and other income	76	50	976	601
Income before provision for income taxes	187,333	184,015	542,692	521,376
Provision for income taxes	71,003	69,668	205,280	198,978
Net income	116,330	114,347	337,412	322,398
Other comprehensive (loss) income	1,867	(2,173)) (763) (2,638)
Comprehensive income	\$118,197	\$112,174	\$336,649	\$319,760
Basic net income per share	\$0.72	\$0.70	\$2.09	\$1.96
Diluted net income per share	\$0.72	\$0.70	\$2.08	\$1.95
Basic weighted average shares outstanding	160,782	163,948	161,784	164,512
Dilutive effect of outstanding stock awards	221	523	258	582
Diluted weighted average shares outstanding	161,003	164,471	162,042	165,094
See accompanying notes.				

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C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Nine Months Ended	
	September 30,	
	2012	2011
OPERATING ACTIVITIES		
Net income	\$337,412	\$322,398
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	21,077	32,074
Depreciation and amortization	26,081	23,714
Provision for doubtful accounts	8,143	6,916
Deferred taxes and other	6,346	94
Changes in operating elements:		
Receivables	(203,361)	(208,994)
Prepaid expenses and other	(2,042)	(2,547)
Accounts payable and outstanding checks	111,628	110,685
Accrued compensation and profit-sharing contribution	(28,230)	8,495
Accrued income taxes and other	(9,898)	720
Net cash provided by operating activities	267,156	293,555
INVESTING ACTIVITIES		
Purchases of property and equipment	(28,096)	(17,402)
Purchases and development of software	(10,795)	(11,679)
Sales/maturities of available-for-sale-securities	—	9,311
Restricted cash	—	5,000
Other investing activities	206	161
Net cash used for investing activities	(38,685)	(14,609)
FINANCING ACTIVITIES		
Payment of contingent purchase price	(11,613)	(4,318)
Proceeds from stock issued for employee benefit plans	13,840	15,127
Stock tendered for payment of withholding taxes	(10,148)	(8,611)
Repurchases of common stock	(167,104)	(161,498)
Excess tax benefit on stock-based compensation	9,831	12,967
Cash dividends	(163,273)	(146,318)
Net cash used for financing activities	(328,467)	(292,651)
Effect of exchange rates on cash	(718)	(2,165)
Net change in cash and cash equivalents	(100,714)	(15,870)
Cash and cash equivalents, beginning of period	373,669	398,607
Cash and cash equivalents, end of period	\$272,955	\$382,737
See accompanying notes.		

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C.H. ROBINSON WORLDWIDE INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

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 234 branch offices operating in North America, Europe, Asia, South America, and Australia. The condensed consolidated financial statements include the accounts of C.H. Robinson Worldwide, Inc. and our majority owned and controlled subsidiaries. Our noncontrolling interests in subsidiaries are not significant. All intercompany transactions and balances have been eliminated in the condensed 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, 2011.

2. Goodwill and Intangible Assets

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

Balance December 31, 2011	\$359,688	
Foreign currency translation	(82)
Balance as of September 30, 2012	\$359,606	

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

	September 30, 2012	December 31, 2011
Gross	\$16,862	\$17,862
Accumulated amortization	(10,823) (9,708
Net	\$6,039	\$8,154

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

	September 30, 2012	December 31, 2011
Trademarks	\$1,875	\$1,850

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

	Nine Months Ended September 30, 2012	2011
Amortization expense	\$2,637	\$3,024

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Estimated amortization expense for each of the five succeeding fiscal years based on the intangible assets at September 30, 2012 is as follows (in thousands):

Remainder of 2012	\$794
2013	3,271
2014	1,851
2015	70
2016	53
Total	\$6,039

3. 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 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 financial condition, results of operations, or cash flows.

4. 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 tables present information as of September 30, 2012 and December 31, 2011, 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
September 30, 2012				
Contingent purchase price related to acquisitions	\$0	\$0	\$1,550	\$1,550
Total liabilities at fair value	\$0	\$0	\$1,550	\$1,550
December 31, 2011				
Contingent purchase price related to acquisitions	\$0	\$0	\$13,070	\$13,070
Total liabilities at fair value	\$0	\$0	\$13,070	\$13,070

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The tables below set forth a reconciliation of our beginning and ending Level 3 financial liability balances (in thousands).

	Three Months Ended September 30,	
	2012	2011
Balance, beginning of period	\$ 1,474	\$ 13,493
Total unrealized losses included in earnings	76	111
Balance, end of period	\$ 1,550	\$ 13,604

	Nine Months Ended September 30,	
	2012	2011
Balance, beginning of period	\$ 13,070	\$ 16,623
Payments of contingent purchase price	(11,613) (4,318
Total unrealized losses included in earnings	93	1,299
Balance, end of period	\$ 1,550	\$ 13,604

5. 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 statements of operations for stock-based compensation is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock-based compensation expense	\$4,518	\$9,465	\$21,077	\$32,074

Our 1997 Omnibus Stock Plan allows us to grant certain stock awards, including stock options at fair market value and restricted shares and units, to our key employees, directors, and other third party service providers. A maximum of 28,000,000 shares can be granted under this plan; approximately 5,576,000 shares were available for stock awards as of September 30, 2012, which cover all equity compensation grants, including stock options and restricted stock awards. 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 options granted in 2011.

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 September 30, 2012, unrecognized compensation expense related to stock options was \$14.5 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. For grants that are still available to vest, the discounts have varied from 18 percent to 22 percent and are calculated using the Black-Scholes option pricing model. Changes in the measured stock price volatility and interest rates are the

primary reason for changes in the discount. These grants are being expensed based on the terms of the awards.

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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 shares and units which are fully vested upon issuance. These shares and units contain restrictions on the awardees' ability to sell or transfer vested shares and 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 September 30, 2012, there was unrecognized compensation expense of \$143.3 million related to previously granted restricted shares and units. The amount of future expense to be recognized will be based primarily 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 table summarizes employee stock purchase plan activity for the period:

Three months ended September 30, 2012

Shares purchased by employees	Aggregate cost to employees	Expense recognized by the company
50,802	\$2,529,584	\$446,397

6. 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 2007.

	Three Months Ended September 30,		
	2012	2011	
Effective income tax rate	37.9	% 37.9	%

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.

7. Assets Held For Sale

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, subject to post-closing adjustments. EFS acquired the assets and assumed certain liabilities of T-Chek. We will record a gain on the sale of the assets and liabilities of approximately \$280 million during the fourth quarter of 2012.

Pursuant to Accounting Standards Codification 360, Property, Plant, and Equipment, we classify assets as "Assets Held For Sale" when we have committed to a plan to sell the assets, including the initiation of a plan to locate a buyer, the assets are available for immediate sale, and it is probable that the assets will be sold within one year based on current conditions and sales prices. Upon classifying the assets as held for sale, the assets are recorded at the lower of historical cost or fair value less selling costs and depreciation is discontinued. The assets of T-Chek qualify as held for sale at September 30, 2012. Assets classified as held for sale were \$72.2 million as of September 30, 2012. Liabilities directly related to assets held for sale totaled \$87.3 million as of September 30, 2012.

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In conjunction with the asset purchase agreement, we have 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 cash outflows after the sale. Consequently, the sale of T-Chek's assets and liabilities will not result in the operating results of T-Chek being accounted for as a discontinued operation. Since the sale of T-Chek's assets and liabilities will not result in accounting for T-Chek's operations as a discontinued operation, the accompanying December 31, 2011 condensed consolidated balance sheet has not been reclassified to reflect the assets and liabilities of T-Chek as assets and liabilities held for sale.

A summary of the assets and liabilities of T-Chek, which are disclosed separately as held for sale in the condensed consolidated balance sheet, as of September 30, 2012 is as follows (in thousands):

Receivables, net	\$ 50,278
Prepaid expenses	1,324
Property and equipment, net	2,233
Other assets	18,400
Total assets held for sale	\$ 72,235
Accounts Payable	\$ 85,677
Other accrued expenses	1,647
Total liabilities held for sale	\$ 87,324

In addition to assets of T-Chek held for sale, cash of \$24.3 million was acquired by EFS as a part of the transaction.

8. Subsequent Events

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. For the year ended December 31, 2011, Apreo had gross revenues of approximately \$100 million and net revenues of approximately \$12 million. The total purchase price of Apreo was approximately \$26.5 million which was paid in cash and is subject to post-closing adjustments.

On October 16, 2012, we sold substantially all of the operations of our subsidiary T-Chek, which represented a majority of our Payment Services business, to EFS. See Note 7 for a discussion of this transaction.

On October 29, 2012, we entered into a senior unsecured revolving credit facility for up to \$500 million with a \$500 million accordion feature, which expires on October 29, 2017. The purpose of this facility is to fund working capital, capital expenditures, dividends, share repurchases and to finance the acquisition of Phoenix International, Inc., ("Phoenix"). Advances under the facility carry an interest rate based 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.

On November 1, 2012, we acquired all of the outstanding stock of Phoenix for the purpose of expanding our current market presence and service offerings in international freight forwarding. In its most recently completed fiscal year, as of June 30, 2012, Phoenix generated gross revenues of approximately \$807 million and net revenues of approximately \$161 million. The total purchase price of Phoenix was \$635 million, subject to post-closing adjustments. Ninety percent of the purchase was paid in cash, and ten percent was paid in newly-issued C.H. Robinson stock.

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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 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 integrate the operations of acquired companies with our historic operations successfully; 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; increases in fuel prices or fuel 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 filed with the Securities and Exchange Commission for the year ended December 31, 2011, filed on February 29, 2012.

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 53,000 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 services, we also offer fresh produce sourcing. Our Sourcing business is the buying, selling, and marketing of fresh produce. We supply fresh produce through our network of third party produce growers and suppliers. Our customers include grocery retailers and restaurants, produce wholesalers, and foodservice providers. In many cases, we also arrange the logistics and transportation of the products we sell and provide related supply chain services such as replenishment, category management, and merchandising. Historically, we also have provided fee-based payment services primarily through our subsidiary, T-Chek Systems, Inc., ("T-Chek"). T-Chek has provided a variety of payment management and business intelligence services primarily to motor carrier companies and to fuel distributors. Those services include funds transfer, fuel purchasing, and online expense management. For most of these services, T-Chek charges a fee per transaction. On October 16, 2012, we sold substantially all of the assets and transferred certain liabilities of T-Chek to Electronic Funds Source, LLC ("EFS"). See footnote 7 to the condensed consolidated financial statements for a discussion of the sale of the T-Chek business and the classification of the T-Chek assets as held for sale in the financial statements. We expect to continue to generate Payment Services revenues from the cash advance option we offer our contracted carriers at a rate of approximately \$3 million per quarter.

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 capacity and produce on a spot market basis. Because of this our net revenue per transaction tends to increase in times when there is excess supply and decrease in times when demand is strong relative to supply. We also keep our personnel and other operating expenses as variable as possible. Compensation is performance-oriented and, for most employees in the branch network, based on 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.

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 40 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 as of September 30, 2012 increased 5.5 percent compared to our headcount as of December 31, 2011. Branch employees act as a team in their sales efforts, customer service, and operations. A significant portion of our branch employees' compensation is performance-oriented, based on individual performance and the profitability of their branch. We believe this makes our sales employees more service-oriented and focused on driving growth and maximizing office productivity. In 2003, we implemented a restricted equity program to better align our key employees with the interests of our shareholders, and to motivate and retain them for the long term. These restricted equity awards vest over a period of up to five years based on the company's earnings growth, and have been awarded annually since 2003.

Our customers. In 2011, we worked with more than 37,000 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 34 percent of our total revenues and approximately 30 percent of our net revenues. Our largest customer was 3.6 percent of our total revenues and 2.3 percent of our total net revenues.

Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2011, our carrier base was approximately 53,000. Motor carriers that had fewer than 100 tractors transported approximately 82 percent of our truckload shipments in 2011. In our Transportation business, no single carrier represents more than approximately two percent of our contracted carrier capacity.

Our goals. Since we became a publicly-traded company in 1997, our long-term compounded annual growth target has been 15 percent for net revenues, income from operations, and earnings per share. Although there have been periods where we have not achieved these goals, since 1997 we have exceeded this compounded growth goal in all three categories. Our expectation is that over time, we will continue to achieve our long-term target of 15 percent

compounded annual growth, but that we will have periods in which we exceed that goal and periods in which we fall short. We expect to reach our long-term growth primarily through internal growth but acquisitions that fit our growth criteria and culture may also augment our growth.

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Results of Operations

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

	Three Months Ended September 30,			Nine Months Ended September 30,			
	2012	2011	% change	2012	2011	% change	
Transportation	\$2,445,883	\$2,280,208	7.3	% \$7,099,485	\$6,540,266	8.6	%
Sourcing	418,377	399,220	4.8	1,240,704	1,182,784	4.9	
Payment Services	16,149	15,500	4.2	48,048	45,012	6.7	
Total	\$2,880,409	\$2,694,928	6.9	% \$8,388,237	\$7,768,062	8.0	%

The following table illustrates our net revenue margins, or net revenues as a percentage of total revenues, by service line:

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2012	2011	2012	2011	
Transportation	15.6	% 16.4	% 15.8	% 16.6	%
Sourcing	8.1	8.3	8.5	8.5	
Payment Services	100.0	100.0	100.0	100.0	
Total	15.0	% 15.7	% 15.2	% 15.9	%

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

	Three Months Ended September 30,	Nine Months Ended September 30,
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