

C H ROBINSON WORLDWIDE INC

Form 10-Q

May 10, 2016

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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 March 31, 2016

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-23189

C.H. ROBINSON WORLDWIDE, INC.

(Exact name of registrant as specified in its charter)

|  |                                      |
|--|--------------------------------------|
| Delaware   | 41-1883630                           |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

|  |            |
|--|------------|
| 14701 Charlson Road, Eden Prairie, Minnesota | 55347-5088 |
| (Address of principal executive offices)     | (Zip Code) |

952-937-8500

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  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 May 5, 2016, the number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, was 142,766,636.

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ITEM 1. FINANCIAL STATEMENTSC.H. ROBINSON WORLDWIDE, INC.  
Condensed Consolidated Balance Sheets  
(unaudited)

|   | March 31,<br>2016 | December<br>31,<br>2015 |
|---|-------------------|-------------------------|
| (In thousands, except per share data)   |                   |                         |
| <b>ASSETS</b>   |                   |                         |
| Current assets:   |                   |                         |
| Cash and cash equivalents   | \$ 179,406        | \$ 168,229              |
| Receivables, net of allowance for doubtful accounts of \$41,980 and \$43,455  | 1,463,240         | 1,505,620               |
| Deferred tax asset  | 15,631            | 16,788                  |
| Prepaid expenses and other  | 47,439            | 40,061                  |
| Total current assets  | 1,705,716         | 1,730,698               |
| Property and equipment, net   | 195,920           | 190,874                 |
| Goodwill  | 1,109,392         | 1,108,337               |
| Other intangible assets, net  | 114,182           | 120,242                 |
| Other assets  | 37,035            | 34,207                  |
| Total assets  | \$3,162,245       | \$3,184,358             |
| <b>LIABILITIES AND STOCKHOLDERS' INVESTMENT</b>   |                   |                         |
| Current liabilities:  |                   |                         |
| Accounts payable  | \$ 690,692        | \$ 697,585              |
| Outstanding checks  | 70,393            | 86,298                  |
| Accrued expenses:   |                   |                         |
| Compensation and profit-sharing contribution  | 61,246            | 146,666                 |
| Income taxes  | 32,589            | 12,573                  |
| Other accrued liabilities   | 47,135            | 55,475                  |
| Current portion of debt   | 470,000           | 450,000                 |
| Total current liabilities   | 1,372,055         | 1,448,597               |
| Long-term debt  | 500,000           | 500,000                 |
| Noncurrent income taxes payable   | 18,523            | 19,634                  |
| Deferred tax liabilities  | 79,653            | 65,460                  |
| Other long term liabilities   | 208               | 217                     |
| Total liabilities   | 1,970,439         | 2,033,908               |
| Stockholders' investment:   |                   |                         |
| Preferred stock, \$ .10 par value, 20,000 shares authorized; no shares issued or outstanding                                  | —                 | —                       |
| Common stock, \$ .10 par value, 480,000 shares authorized; 178,783 and 178,784 shares issued, 143,031 and 143,455 outstanding | 14,303            | 14,345                  |
| Additional paid-in capital  | 393,654           | 379,444                 |
| Retained earnings   | 2,977,710         | 2,922,620               |
| Accumulated other comprehensive loss  | (34,396 )         | (37,946 )               |
| Treasury stock at cost (35,752 and 35,329 shares)   | (2,159,465 )      | (2,128,013 )            |
| Total stockholders' investment  | 1,191,806         | 1,150,450               |
| Total liabilities and stockholders' investment  | \$3,162,245       | \$3,184,358             |

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 |             |
|--|--------------------|-------------|
|  | March 31,          |             |
|  | 2016               | 2015        |
| Revenues:  |                    |             |
| Transportation   | \$2,713,688        | \$2,947,257 |
| Sourcing   | 360,255            | 353,633     |
| Total revenues   | 3,073,943          | 3,300,890   |
| Costs and expenses:  |                    |             |
| Purchased transportation and related services                              | 2,179,622          | 2,452,112   |
| Purchased products sourced for resale                                      | 330,986            | 323,668     |
| Personnel expenses   | 277,497            | 255,144     |
| Other selling, general, and administrative expenses                        | 86,886             | 88,041      |
| Total costs and expenses   | 2,874,991          | 3,118,965   |
| Income from operations   | 198,952            | 181,925     |
| Interest and other expense   | (8,772)            | (9,605)     |
| Income before provision for income taxes                                   | 190,180            | 172,320     |
| Provision for income taxes   | 71,217             | 65,844      |
| Net income   | 118,963            | 106,476     |
| Other comprehensive gain (loss)  | 3,550              | (13,198)    |
| Comprehensive income   | \$122,513          | \$93,278    |
| Basic net income per share   | \$0.83             | \$0.73      |
| Diluted net income per share   | \$0.83             | \$0.73      |
| Basic weighted average shares outstanding                                  | 143,525            | 146,204     |
| Dilutive effect of outstanding stock awards                                | 133                | 179         |
| Diluted weighted average shares outstanding                                | 143,658            | 146,383     |
| 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)  | Three months ended March 31, |            |
|---|------------------------------|------------|
|   | 2016                         | 2015       |
| <b>OPERATING ACTIVITIES</b>   |                              |            |
| Net income  | \$ 118,963                   | \$ 106,476 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                              |            |
| Depreciation and amortization   | 16,875                       | 16,243     |
| Provision for doubtful accounts   | 85                           | 3,991      |
| Stock-based compensation  | 15,179                       | 15,336     |
| Deferred income taxes   | 15,350                       | 426        |
| Loss on sale/disposal of assets   | 180                          | 429        |
| Changes in operating elements (net of acquisitions):                              |                              |            |
| Receivables   | 42,295                       | (27,599 )  |
| Prepaid expenses and other  | (7,378 )                     | (12,639 )  |
| Other non-current assets  | —                            | 1,435      |
| Accounts payable and outstanding checks   | (22,783 )                    | 21,105     |
| Accrued compensation and profit-sharing contribution                              | (84,431 )                    | (64,709 )  |
| Accrued income taxes  | 18,905                       | 48,390     |
| Other accrued liabilities   | (9,090 )                     | (8,489 )   |
| Net cash provided by operating activities   | 104,150                      | 100,395    |
| <b>INVESTING ACTIVITIES</b>   |                              |            |
| Purchases of property and equipment   | (13,121 )                    | (3,895 )   |
| Purchases and development of software   | (4,704 )                     | (2,771 )   |
|   | —                            | (369,143 ) |

|  |         |   |         |   |
|--|---------|---|---------|---|
| Acquisitions, net of cash acquired     |         |   |         |   |
| Restricted cash                        | —       |   | 359,388 |   |
| Other                                  | (770    | ) | 462     |   |
| Net cash used for investing activities | (18,595 | ) | (15,959 | ) |

**FINANCING  
ACTIVITIES**

|   |            |   |            |   |
|---|------------|---|------------|---|
| Proceeds from stock issued for employee benefit plans | 6,990      |   | 6,914      |   |
| Stock tendered for payment of withholding taxes       | (32,270    | ) | (9,324     | ) |
| Repurchase of common stock                            | (21,249    | ) | (37,930    | ) |
| Cash dividends  | (63,888    | ) | (57,335    | ) |
| Excess tax benefit on stock-based compensation        | 13,827     |   | 4,842      |   |
| Proceeds from short-term borrowings                   | 1,480,000  |   | 2,025,000  |   |
| Payments on short-term borrowings                     | (1,460,000 | ) | (2,000,000 | ) |
| Net cash used for financing activities                | (76,590    | ) | (67,833    | ) |
| Effect of exchange rates on cash                      | 2,212      |   | (9,760     | ) |
| Net increase in cash and cash equivalents             | 11,177     |   | 6,843      |   |
| Cash and cash equivalents, beginning of period        | 168,229    |   | 128,940    |   |
| Cash and cash equivalents, end of period              | \$ 179,406 |   | \$ 135,783 |   |

See accompanying notes to the condensed consolidated financial statements.

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C.H. ROBINSON WORLDWIDE, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 1. GENERAL

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

The condensed consolidated financial statements, which are unaudited, have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). In our opinion, these financial statements include all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the financial statements for the interim periods presented. Interim results are not necessarily indicative of results for a full year. Consistent with SEC rules and regulations, we have condensed or omitted certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States. You should read the condensed consolidated financial statements and related notes in conjunction with the consolidated financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

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

## NOTE 2. GOODWILL AND OTHER INTANGIBLE ASSETS

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

Balance, December 31, 2015 \$1,108,337

Foreign currency translation 1,055

Balance, March 31, 2016 \$1,109,392

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

|       | March 31, 2016 | December 31, 2015 |
|-------|----------------|-------------------|
| Gross | \$171,172      | \$171,172         |



|                          |           |           |
|--------------------------|-----------|-----------|
| Accumulated amortization | (67,465 ) | (61,405 ) |
| Net                      | \$103,707 | \$109,767 |

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

|            | March 31,<br>2016 | December 31,<br>2015 |
|------------|-------------------|----------------------|
| Trademarks | \$ 10,475         | \$ 10,475            |

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

|                      | Three Months<br>Ended March<br>31,<br>2016 | 2015    |
|----------------------|--|---------|
| Amortization expense | \$6,093                                    | \$6,096 |

Intangible assets at March 31, 2016, will be amortized over the next five years, and that expense is as follows:

|                   |            |
|-------------------|------------|
| Remainder of 2016 | \$ 18,293  |
| 2017              | 24,324     |
| 2018              | 23,785     |
| 2019              | 23,785     |
| 2020              | 13,520     |
| Thereafter        | —          |
| Total             | \$ 103,707 |

**NOTE 3. FAIR VALUE MEASUREMENT**

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

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

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

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

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

We had no Level 3 liabilities as of and during the periods ended March 31, 2016, and December 31, 2015.

**NOTE 4. FINANCING ARRANGEMENTS**

On October 29, 2012, we entered into a senior unsecured revolving credit facility for up to \$500 million with a \$500 million accordion feature (the "Credit Agreement") with a syndicate of financial institutions led by U.S. Bank. The purpose of this facility was to partially fund the acquisition of Phoenix International Freight Services, Ltd. ("Phoenix") and to allow us to continue to fund working capital, capital expenditures, dividends, and share repurchases. In December 2014, we amended the credit facility to increase the amount available from \$500 million to \$900 million and to extend the expiration date from October 2017 to December 2019.

As of March 31, 2016, and December 31, 2015, we had \$470 million and \$450 million, respectively, in borrowings outstanding under the Credit Agreement, which is classified as a current liability on the condensed consolidated balance sheets. The recorded amount of borrowings outstanding approximates fair value because of the short maturity period of the debt; therefore, we consider these borrowings to be a Level 2 financial liability.

Borrowings under the Credit Agreement generally bear interest at a variable rate determined by a pricing schedule or the base rate (which is the highest of (a) the administrative agent's prime rate, (b) the federal funds rate plus 0.50 percent, or (c) the sum of one-month LIBOR plus a specified margin). As of March 31, 2016, the variable rate equaled LIBOR plus 1.00 percent. In addition, there is a commitment fee on the average daily undrawn stated amount under each letter of credit issued under the facility. The weighted average interest rate incurred on borrowings during the

quarter ended March 31, 2016, was

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approximately 1.5 percent and at March 31, 2016, was approximately 1.4 percent. The weighted average interest rate incurred on borrowings during the quarter ended March 31, 2015, was approximately 1.3 percent and at March 31, 2015, was approximately 1.3 percent.

The Credit Agreement contains various restrictions and covenants. Among other requirements, we may not permit our leverage ratio, determined as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii) EBITDA (earnings before interest, taxes, depreciation, and amortization), to exceed 3.00 to 1.00. We were in compliance with all of the financial debt covenants as of March 31, 2016.

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

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

The Note Purchase Agreement contains customary provisions for transactions of this type, including representations and warranties regarding the company and its subsidiaries and various covenants, including covenants that require us to maintain specified financial ratios. The Note Purchase Agreement includes the following financial covenants: we will not permit our leverage ratio, determined as of the end of each of our fiscal quarters, of (i) Consolidated Funded Indebtedness to (ii) EBITDA (earnings before interest, taxes, depreciation, and amortization), to exceed 3.00 to 1.00; we will not permit the interest coverage ratio, as of the end of each of our fiscal quarters and for the twelve-month period then ending, of (i) Consolidated EBIT (earnings before income taxes) to (ii) Consolidated Interest Expense to be less than 2.00 to 1.00; and we will not permit, as of the end of each of our fiscal quarters, Consolidated Priority Debt to exceed 15 percent of Consolidated Total Assets. We were in compliance with all of the financial debt covenants as of March 31, 2016.

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

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

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

The fair value of long-term debt approximated \$548.3 million at March 31, 2016. We estimate the fair value of our debt primarily using an expected present value technique, which is based on observable market inputs using interest rates currently available to companies of similar credit standing for similar terms and remaining maturities, and

considering our own risk. If our long-term debt was recorded at fair value, it would be classified as Level 2.

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## NOTE 5. INCOME TAXES

C.H. Robinson Worldwide, Inc. and its 80 percent (or more) owned U.S. subsidiaries file a consolidated federal income tax return. We file unitary or separate state returns based on state filing requirements. With few exceptions, we are no longer subject to audits of U.S. federal, state and local, or non-U.S. income tax returns before 2009. During the first quarter of 2016, we asserted that we will indefinitely reinvest earnings of foreign subsidiaries to support expansion of our international businesses. The assertion decreased deferred income taxes related to undistributed foreign earnings by \$1.2 million and reduced the effective tax rate compared to the first quarter of 2015. Our effective tax rate for the three months ended March 31, 2016 and 2015 was 37.4 percent and 38.2 percent, respectively. The effective income tax rate for both periods is greater than the statutory federal income tax rate due to state income taxes, net of federal benefit.

## NOTE 6. STOCK AWARD PLANS

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

|  | Three Months    |          |
|--|-----------------|----------|
|  | Ended March 31, |          |
|  | 2016            | 2015     |
| Stock options                          | \$3,337         | \$3,764  |
| Stock awards                           | 10,840          | 10,679   |
| Company expense on ESPP discount       | 1,002           | 893      |
| Total stock-based compensation expense | \$15,179        | \$15,336 |

On May 9, 2013, our shareholders approved our 2013 Equity Incentive Plan, which allows us to grant certain stock awards, including stock options at fair market value and performance shares and restricted stock units, to our key employees and outside directors. A maximum of 3,400,000 shares plus the shares remaining available for future grants under the 1997 Plan as of May 9, 2013, can be granted under this plan. Approximately 728,188 shares were available for stock awards as of March 31, 2016. Shares subject to awards that expire or are canceled without delivery of shares or that are settled in cash generally become available again for issuance under the plan.

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

The fair value of these options is established based on the market price on the date of grant, discounted for post-vesting holding restrictions, calculated using the Black-Scholes option pricing model. Changes in measured stock price volatility and interest rates are the primary reasons for changes in the discount. These grants are being expensed based on the terms of the awards. As of March 31, 2016, unrecognized compensation expense related to stock options was \$50.8 million. The amount of future expense to be recognized will be based on the company's earnings growth and certain other conditions.

**Full Value Awards** - We have awarded performance shares and restricted stock units to certain key employees and non-employee directors. These awards are subject to certain vesting requirements over a five-year period, based on the company's earnings growth. The awards also contain restrictions on the awardees' ability to sell or transfer vested awards for a specified period of time. The fair value of these awards is established based on the market price on the date of grant, discounted for post-vesting holding restrictions. The discounts on outstanding grants vary from 17 percent to 22 percent and are calculated using the Black-Scholes option pricing model-protective put method. Changes in measured stock price volatility and interest rates are the primary reasons for changes in the discount. These grants are being expensed based on the terms of the awards.

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

We have also issued to certain key employees and non-employee directors restricted stock units which are fully vested upon issuance. These units contain restrictions on the awardees' ability to sell or transfer vested units for a specified period of time.

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The fair value of these units is established using the same method discussed above. These grants have been expensed during the year they were earned.

As of March 31, 2016, there was unrecognized compensation expense of \$116.2 million related to previously granted full value awards. The amount of future expense to be recognized will be based on the company's earnings growth and certain other conditions.

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

Three Months Ended March 31, 2016

| Shares purchased<br>by | Aggregate cost<br>to employees | Expense recognized<br>by the company |
|------------------------|--------------------------------|--------------------------------------|
| 89,978                 | \$5,677                        | \$1,002                              |

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

## NOTE 8. ACQUISITIONS

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

|                                |          |
|--------------------------------|----------|
| Cash and cash equivalents      | \$29,302 |
| Receivables                    | 56,228   |
| Other current assets           | 2,395    |
| Property and equipment         | 43,687   |
| Identifiable intangible assets | 37,800   |
| Goodwill                       | 287,220  |
| Trademarks                     | 8,600    |
| Other noncurrent assets        | 3,421    |
| Total assets                   | 468,653  |

|                               |           |
|-------------------------------|-----------|
| Accounts payable              | (44,622 ) |
| Accrued expenses              | (5,485 )  |
| Other liabilities             | (19,939 ) |
| Estimated net assets acquired | \$398,607 |





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

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

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

**NOTE 9. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS**

Accumulated other comprehensive loss is included in Stockholders' investment on our condensed consolidated balance sheets. The recorded balance, net of taxes, at March 31, 2016, and December 31, 2015, was \$34.4 million and \$37.9 million, respectively. Accumulated other comprehensive loss is comprised solely of foreign currency translation adjustment at March 31, 2016, and December 31, 2015.

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

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

FORWARD-LOOKING INFORMATION

Our quarterly report on Form 10-Q, including this discussion and analysis of our financial condition and results of operations and our disclosures about market risk, contains certain “forward-looking statements.” These statements represent our expectations, beliefs, intentions, or strategies concerning future events that, by their nature, involve risks and uncertainties. Forward-looking statements include, among others, statements about our future performance, the continuation of historical trends, the sufficiency of our sources of capital for future needs, the effects of acquisitions or dispositions, the expected impact of recently issued accounting pronouncements, and the outcome or effects of litigation. Risks that could cause actual results to differ materially from our current expectations include changes in economic conditions; changes in market demand and pressures on the pricing for our services; competition and growth rates within the third party logistics industry; freight levels and increasing costs and availability of truck capacity or alternative means of transporting freight; changes in relationships with existing contracted truck, rail, ocean, and air carriers; changes in our customer base due to possible consolidation among our customers, or for other reasons; our ability to successfully integrate the operations of acquired companies with our historic operations; risks associated with litigation, including contingent auto liability and insurance coverage; risks associated with operations outside of the U.S.; risks associated with the potential impacts of changes in government regulations; risks associated with the produce industry, including food safety and contamination issues; fuel price increases or decreases, or fuel shortages; cyber-security related risks; the impact of war on the economy; changes to our capital structure; and other risks and uncertainties detailed in our Annual and Quarterly Reports. Therefore, actual results may differ materially from our expectations based on these and other risks and uncertainties, including those described in Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission on February 29, 2016.

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

OVERVIEW

Our company. We are a global provider of transportation services and logistics solutions, operating through a network of branch offices in North America, Europe, Asia, and South America. As a third party logistics provider, we cultivate contractual relationships with a wide variety of transportation companies, and utilize those relationships to efficiently and cost effectively transport our customers’ freight. We have contractual relationships with approximately 68,000 transportation companies, including motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. Depending on the needs of our customer and their supply chain requirements, we select and hire the appropriate transportation for each shipment. Our model enables us to be flexible, provide solutions that optimize service for our customers, and minimize our asset utilization risk.

In addition to transportation and logistics services, we also buy and sell fresh produce under the brand name Robinson Fresh. Our Sourcing business is the buying, selling, and marketing of fresh produce. We purchase fresh produce through our network of produce suppliers and sell it to retail grocers, restaurant chains, produce wholesalers, and foodservice providers. In some cases, we also arrange the transportation of the produce we sell through our relationships with specialized transportation companies. Those revenues are reported as Transportation revenues.

Our business model. We are primarily a service company. We add value and expertise in the procurement and execution of transportation and logistics, including sourcing of produce products for our customers. Our total revenues represent the total dollar value of services and goods we sell to our customers. Our net revenues are our total revenues less purchased transportation and related services, including contracted motor carrier, rail, ocean, air, and other costs, and the purchase price and services related to the products we source. Our net revenues are the primary indicator of our ability to source, add value, and sell services and products that are provided by third parties, and we consider them

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

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We keep our business model as variable as possible to allow us to be flexible and adapt to changing economic and industry conditions. We sell transportation services and produce to our customers with varied pricing arrangements. Some prices are committed to for a period of time, subject to certain terms and conditions, and some prices are set on a spot market basis. We buy most of our truckload transportation capacity and produce on a spot market basis. Because of this, our net revenue per transaction tends to increase in times when there is excess supply and decrease in times when demand is strong relative to supply.

We keep our personnel and other operating expenses as variable as possible. Compensation is performance-oriented and, for most employees in the office network, based on the profitability of their individual office.

Our personnel decisions are decentralized. Our branch managers determine the appropriate number of employees for their offices, within productivity guidelines, based on their volume of business. This helps keep our personnel expense as variable as possible with the business.

Our office network. Our office network is a competitive advantage. Building local customer and contract carrier relationships has been an important part of our success, and our worldwide network of offices supports our core strategy of serving customers locally, nationally, and globally. Our network offices help us penetrate local markets, provide face-to-face service when needed, and recruit contract carriers. Our network also gives us knowledge of local market conditions, which is important in the transportation industry because it is market driven and very dynamic. In January 2015, we completed our acquisition of Freightquote.com, Inc. ("Freightquote"), a privately held freight broker based in Kansas City, Missouri. Freightquote provides services throughout North America. The acquisition enhances and brings synergies to our LTL and truckload businesses, and expands our e-commerce capabilities.

Our network offices work together to complete transactions and collectively meet the needs of our customers. For large multi-location customers, we often coordinate our efforts in Global Account Centers or in one office and rely on multiple locations to deliver specific geographic or modal needs. As an example, during 2015, approximately 49 percent of our truckload shipments were shared transactions between offices. The majority of our global network operates on a common technology platform that is used to match customer needs with supplier capabilities, to collaborate with other offices, and to utilize centralized support resources to complete all facets of the transaction.

Our people. Because we are a service company, our continued success is dependent on our ability to continue to hire and retain talented, productive people, and to properly align our headcount and personnel expense with our business. Employees act as a team in their sales efforts, customer service, and operations. A significant portion of many of our employees' compensation is performance-oriented, based on individual performance and the profitability of their office. We believe this makes our employees more service-oriented and focused on driving growth and maximizing office productivity. All of our managers and certain other employees who have significant responsibilities are eligible to receive equity awards because we believe these awards are an effective tool for creating long-term ownership and alignment between employees and our shareholders.

Our customers. In 2015, we worked with more than 110,000 active customers. We work with a wide variety of companies, ranging in size from Fortune 100 companies to small family businesses, in many different industries. Our customer base is very diverse and unconcentrated. Our top 100 customers represented approximately 29 percent of our total revenues and approximately 29 percent of our net revenues in 2015. Our largest customer was approximately two percent of our total revenues in 2015.

Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2015, our carrier base was approximately 68,000, up from approximately 63,000 in 2014. Motor carriers that had fewer than 100 tractors transported approximately 83 percent of our truckload shipments in 2015. In our Transportation business, no single contracted carrier represents more than approximately two percent of our contracted carrier capacity.

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## RESULTS OF OPERATIONS

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

|                | Three Months Ended March 31, |             |             |
|----------------|------------------------------|-------------|-------------|
|                | 2016                         | 2015        | %<br>change |
| Transportation | \$2,713,688                  | \$2,947,257 | (7.9)%      |
| Sourcing       | 360,255                      | 353,633     | 1.9%        |
| Total          | \$3,073,943                  | \$3,300,890 | (6.9)%      |

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

|                | Three Months<br>Ended March<br>31, |       |
|----------------|------------------------------------|-------|
|                | 2016                               | 2015  |
| Transportation | 19.7%                              | 16.8% |
| Sourcing       | 8.1%                               | 8.5%  |
| Total          | 18.3%                              | 15.9% |

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

|                          | Three Months Ended March<br>31, |           |             |
|--------------------------|---------------------------------|-----------|-------------|
|                          | 2016                            | 2015      | %<br>change |
| Transportation           |                                 |           |             |
| Truckload                | \$321,684                       | \$298,380 | 7.8%        |
| LTL <sup>(1)</sup>       | 91,293                          | 85,370    | 6.9%        |
| Intermodal               | 9,264                           | 10,512    | (11.9)%     |
| Ocean                    | 58,669                          | 50,190    | 16.9%       |
| Air                      | 18,409                          | 20,639    | (10.8)%     |
| Customs                  | 10,724                          | 10,263    | 4.5%        |
| Other Logistics Services | 24,023                          | 19,791    | 21.4%       |
| Total Transportation     | 534,066                         | 495,145   | 7.9%        |
| Sourcing                 | 29,269                          | 29,965    | (2.3)%      |
| Total                    | \$563,335                       | \$525,110 | 7.3%        |

(1) Less than truckload ("LTL")

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

|   | Three Months<br>Ended March 31, |    |       |    |
|---|---------------------------------|----|-------|----|
|   | 2016                            |    | 2015  |    |
| Net revenues  | 100.0                           | %  | 100.0 | %  |
| Operating expenses:                                 |                                 |    |       |    |
| Personnel expenses                                  | 49.3                            | %  | 48.6  | %  |
| Other selling, general, and administrative expenses | 15.4                            | %  | 16.8  | %  |
| Total operating expenses                            | 64.7                            | %  | 65.4  | %  |
| Income from operations                              | 35.3                            | %  | 34.6  | %  |
| Interest and other expense                          | (1.6)                           | )% | (1.8) | )% |
| Income before provision for income taxes            | 33.8                            | %  | 32.8  | %  |
| Provision for income taxes                          | 12.6                            | %  | 12.5  | %  |
| Net income  | 21.1                            | %  | 20.3  | %  |

### Three Months Ended March 31, 2016, Compared to Three Months Ended March 31, 2015

Total revenues and direct costs. Our consolidated total revenues decreased 6.9 percent in the first quarter of 2016 compared to the first quarter of 2015. Total Transportation revenues decreased 7.9 percent to \$2.7 billion in the first quarter of 2016 from \$2.9 billion in the first quarter of 2015. The decrease was driven by lower rates charged to our customers, primarily due to the lower cost of fuel, partially offset by increased volumes in most of our transportation modes. Total purchased transportation and related services decreased 11.1 percent in the first quarter of 2016 to \$2.2 billion from \$2.5 billion in the first quarter of 2015. The decrease was due to decreased cost of capacity, primarily related to the lower cost of fuel, partially offset by higher volumes in most of our transportation modes. Our Sourcing revenue increased 1.9 percent to \$360.3 million in the first quarter of 2016 from \$353.6 million in the first quarter of 2015. Purchased products sourced for resale increased 2.3 percent in the first quarter of 2016 to \$331.0 million from \$323.7 million in the first quarter of 2015. These increases were primarily due to higher commodity costs and an increase in case volumes.

Net revenues. Total Transportation net revenues increased 7.9 percent to \$534.1 million in the first quarter of 2016 from \$495.1 million in the first quarter of 2015. Our Transportation net revenue margin increased to 19.7 percent in the first quarter of 2016 from 16.8 percent in the first quarter of 2015 primarily due to lower transportation costs, including fuel.

Our truckload net revenues increased 7.8 percent to \$321.7 million in the first quarter of 2016 from \$298.4 million in the first quarter of 2015. Approximately 96 percent of our total truckload net revenues are derived from North American operations. Our North American truckload volumes increased four percent in the first quarter of 2016 compared to the first quarter of 2015. Truckload net revenue margin increased in the first quarter of 2016 compared to the first quarter of 2015, due primarily to lower transportation costs, including fuel. In North America, excluding the estimated impacts of the reduction in fuel costs, our average truckload rate per mile charged to our customers decreased approximately five percent in the first quarter of 2016 compared to the first quarter of 2015. In North America, our truckload transportation costs decreased approximately seven percent, excluding the estimated reduction in fuel costs. In the North American truckload market, capacity was readily available and demand was modest in the first quarter of 2016. Due to these conditions, we experienced higher growth in contractual freight volume in our truckload business and a decline in transactional freight volumes during the first quarter of 2016.

Our LTL net revenues increased 6.9 percent to \$91.3 million in the first quarter of 2016 from \$85.4 million in the first quarter of 2015. LTL volumes increased approximately ten percent in the first quarter of 2016 compared to the first quarter of 2015. Net revenue margin increased in the first quarter of 2016 compared to the first quarter of 2015.

Our intermodal net revenues decreased 11.9 percent to \$9.3 million in the first quarter of 2016 from \$10.5 million in the first quarter of 2015. Intermodal opportunities were negatively impacted by the lower cost truck market during the first quarter of 2016.

Our ocean transportation net revenues increased 16.9 percent to \$58.7 million in the first quarter of 2016 from \$50.2 million in the first quarter of 2015. The increase in net revenues was primarily due to increased net revenue margin and volume growth with new customers.



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Our air transportation net revenues decreased 10.8 percent to \$18.4 million in the first quarter of 2016 from \$20.6 million in the first quarter of 2015. The decrease was primarily due to lower prices, partially offset by margin expansion and volume increases.

Our customs net revenues increased 4.5 percent to \$10.7 million in the first quarter of 2016 from \$10.3 million in 2015. The increase was primarily due to increased transaction volumes.

Other logistics services net revenues, which include managed services, warehousing, and small parcel, increased 21.4 percent to \$24.0 million in the first quarter of 2016 from \$19.8 million in the first quarter of 2015 primarily from volume growth in managed services.

Sourcing net revenues decreased 2.3 percent to \$29.3 million in the first quarter of 2016 from \$30.0 million in the first quarter of 2015. This decrease was primarily due to an increase in product costs caused by adverse weather effects, partially offset by an increase in case volumes. Our net revenue margin for the first quarter of 2016 decreased to 8.1 percent from 8.5 percent in the first quarter of 2015.

Operating expenses. Operating expenses increased 6.2 percent to \$364.4 million in the first quarter of 2016 from \$343.2 million in the first quarter of 2015. Operating expenses as a percentage of net revenues decreased slightly to 64.7 percent in the first quarter of 2016 from 65.4 percent in the first quarter of 2015.

For the first quarter, personnel expenses increased 8.8 percent to \$277.5 million in 2016 from \$255.1 million in 2015. This was primarily due to an average headcount increase of 5.5 percent in the first quarter of 2016 compared to the first quarter of 2015. Additionally, we recognized additional payroll tax expense in the first quarter of 2016 related to the delivery of previously vested restricted equity awards.

For the first quarter of 2016, other selling, general, and administrative expenses decreased 1.3 percent to \$86.9 million in 2016 from \$88.0 million in the first quarter of 2015. This decrease was primarily due to a decrease in the provision for doubtful accounts, partially offset by an increase in travel expenses.

Income from operations. Income from operations increased 9.4 percent to \$199.0 million in the first quarter of 2016 from \$181.9 million in the first quarter of 2015. Income from operations as a percentage of net revenues increased to 35.3 percent in the first quarter of 2016 from 34.6 percent in the first quarter of 2015.

Interest and other expense. Interest and other expense was \$8.8 million in the first quarter of 2016 compared to \$9.6 million in the first quarter of 2015. Interest expense on outstanding debt was \$7.0 million in the first quarter of 2016 compared to \$7.2 million in the first quarter of 2015. The change was due primarily to a decrease in our average outstanding balances on our debt during the quarter ended March 31, 2016, compared to the same period ended March 31, 2015.

Provision for income taxes. Our effective income tax rate was 37.4 percent for the first quarter of 2016 and 38.2 percent for the first quarter of 2015. During the first quarter of 2016, we asserted that we will indefinitely reinvest earnings of foreign subsidiaries to support expansion of our international businesses. The assertion decreased deferred income taxes related to undistributed foreign earnings by \$1.2 million and reduced the effective tax rate compared to the first quarter of 2015. Additionally, the effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.

Net income. Net income increased 11.7 percent to \$119.0 million in the first quarter of 2016 from \$106.5 million in the first quarter of 2015. Basic and diluted net income per share increased 13.7 percent to \$0.83 from \$0.73.

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LIQUIDITY AND CAPITAL RESOURCES

We have historically generated substantial cash from operations, which has enabled us to fund our organic growth while paying cash dividends and repurchasing stock. In 2012, we entered into a senior unsecured revolving credit facility to partially fund the acquisition of Phoenix. In December 2014, we amended the revolving credit facility to increase the amount available from \$500 million to \$900 million and to extend the expiration date from October 2017 to December 2019, primarily to fund the acquisition of Freightquote. In 2013, we entered into a Note Purchase Agreement to fund the repurchase of \$500 million worth of our common stock. The Note Purchase Agreement was amended in February 2015 to conform its financial covenants to be consistent with the amended revolving credit facility. We also expect to use the revolving credit facility and potentially other indebtedness incurred in the future to assist us in continuing to fund working capital, capital expenditures, possible acquisitions, dividends, and share repurchases. Cash and cash equivalents totaled \$179.4 million as of March 31, 2016, and \$168.2 million as of December 31, 2015. Cash and cash equivalents held outside the United States totaled \$126.7 million as of March 31, 2016, and \$114.3 million as of December 31, 2015. Working capital at March 31, 2016, was \$333.7 million and at December 31, 2015, was \$282.1 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, but those acquisitions must fit our culture and enhance our growth opportunities.

**Cash flow from operating activities.** We generated \$104.2 million and \$100.4 million of cash flow from operations during the three months ended March 31, 2016 and March 31, 2015, an increase of \$3.8 million compared to the three months ended March 31, 2015. The decrease in fuel prices in the first three months of 2016 compared to the first three months of 2015 resulted in slower growth in working capital and allowed us to generate higher operating cash flow.

**Cash used for investing activities.** We used \$18.6 million and \$16.0 million of cash during the three months ended March 31, 2016 and March 31, 2015 for investing activities.

We used \$17.8 million and \$6.7 million for capital expenditures during the three months ended March 31, 2016 and March 31, 2015. This increase was primarily due to the purchase and development of software and the continued construction of a second data center. Information technology investments are intended to improve efficiencies and help grow the business.

We used \$369.1 million, net of cash acquired, for the acquisition of Freightquote in January 2015. On January 1, 2015, the restrictions on \$359.4 million of restricted cash held in escrow were lifted and the funds were disbursed out of the escrow accounts, pursuant to the terms of the purchase agreement entered into in connection with the acquisition.

**Cash used for financing activities.** We used \$76.6 million and \$67.8 million of cash flow for financing activities during the three months ended March 31, 2016 and March 31, 2015.

During the three months ended March 31, 2016 and March 31, 2015, we had net short-term borrowings of \$20.0 million and \$25.0 million. The outstanding balance on the revolving credit facility was \$470.0 million as of March 31, 2016. We were in compliance with all of the credit facility's financial debt covenants as of March 31, 2016.

We used \$63.9 million and \$57.3 million to pay cash dividends during the three months ended March 31, 2016 and March 31, 2015. The increase was primarily due to a dividend rate increase in 2016 compared to 2015, partially offset by a decrease in weighted average shares outstanding during the three months ended March 31, 2016, compared to the three months ended March 31, 2015.

We used \$21.2 million and \$37.9 million on share repurchases during the three months ended March 31, 2016 and March 31, 2015. The change was due primarily to a decrease of shares repurchased during the three months ended March 31, 2016, compared to the same period of 2015. In August 2013, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of March 31, 2016, there were 6,583,639 shares remaining for future repurchases under the repurchase 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.

We used \$32.3 million and \$9.3 million to acquire shares from employees through their withholding taxes resulting from the delivery of restricted equity during the three months ended March 31, 2016 and March 31, 2015.

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

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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, 2015, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief discussion of our critical accounting policies and estimates.

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

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

**Valuations for accounts receivable.** Our allowance for doubtful accounts is calculated based upon the aging of our receivables, our historical experience of uncollectible accounts, and any specific customer collection issues that we have identified. The allowance of \$42.0 million as of March 31, 2016, decreased compared to the allowance of \$43.5 million as of December 31, 2015. The decrease was primarily the result of the decrease in our total receivable portfolio and a slight improvement in our aging. We believe that the recorded allowance is sufficient and appropriate based on our customer aging trends, the exposures we have identified, and our historical loss experience.

**Goodwill.** We manage and report our operations as one operating segment. Our branches represent a series of components that are aggregated for the purpose of evaluating goodwill for impairment on an enterprise-wide basis. The fair value of the enterprise-wide reporting unit substantially exceeds the book value; therefore, we have determined that there is no indication of goodwill impairment as of March 31, 2016.

**Stock-based compensation.** The fair value of each share-based payment award is established on the date of grant. For grants of restricted shares and restricted units, the fair value is established based on the market price on the date of the grant, discounted for post-vesting holding restrictions. The discounts on outstanding grants vary from 17 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 \$179.4 million of cash and cash equivalents on March 31, 2016. 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 \$900 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 March 31, 2016, there was \$470.0 million outstanding on the revolving loan.

We are a party to the Note Purchase Agreement, as amended, with various institutional investors with fixed rates consisting of: (i) \$175,000,000 of the company's 3.97 percent Senior Notes, Series A, due August 27, 2023, (ii) \$150,000,000 of the company's 4.26 percent Senior Notes, Series B, due August 27, 2028, and (iii) \$175,000,000 of the company's 4.60 percent Senior Notes, Series C, due August 27, 2033. At March 31, 2016, there was \$500.0 million outstanding on the notes.

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

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.

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

## ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, 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 March 31, 2016, of shares of the company's common stock.

|                                    | Total Number<br>of Shares<br>(or Units)<br>Purchased <sup>(a)</sup> | Average Price<br>Paid Per<br>Share<br>(or Unit) | Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs<br><sup>(b)</sup> | Maximum Number of<br>Shares (or Units)<br>That May Yet Be<br>Purchased Under the<br>Plans or Programs <sup>(b)</sup> |
|------------------------------------|---|---|---|--|
| January 1, 2016-January 31, 2016   | 477,924   | \$ 64.64  | —   | 6,885,661  |
| February 1, 2016-February 29, 2016 | 15,484  | 68.93   | —   | 6,885,661  |
| March 1, 2016-March 31, 2016       | 306,447   | 72.80   | 302,022   | 6,583,639  |
| First quarter 2016                 | 799,855   | \$ 67.85  | 302,022   | 6,583,639  |

(a) The total number of shares purchased includes: (i) 302,022 shares of common stock purchased under the authorization described below; and (ii) 497,833 shares of common stock surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

(b) In August 2013, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of March 31, 2016, there were 6,583,639 shares remaining for future repurchases. Purchases can be made in the open market or in privately negotiated transactions, including Rule 10b5-1 plans and accelerated repurchase programs.

## ITEM 3. DEFAULTS ON SENIOR SECURITIES

None

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS

Exhibits filed with this report:

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

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

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

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

101 Financial statements from the Quarterly Report on Form 10-Q of the company for the period ended March 31, 2016, 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 May 10, 2016.

C.H. ROBINSON WORLDWIDE, INC.

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

By: /s/ Andrew C. Clarke  
Andrew C. Clarke  
Chief Financial Officer (principal accounting officer)