C H ROBINSON WORLDWIDE INC
Form 10-Q
May 12, 2008
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2008

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, Minnesota	**55347**
(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 x 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 þ	Accelerated Filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of May 7, 2008, the number of shares outstanding of the registrant s Common Stock, par value $.10 per share, was 170,668,227.

Table of Contents

C.H. ROBINSON WORLDWIDE, INC.

FORM 10-Q

For the Quarter Ended March 31, 2008

INDEX

Table of Contents

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)

	March 31, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 379,846	$ 338,885
Available-for-sale securities	34,888	115,842
Receivables, net of allowance for doubtful accounts of $29,473 and $28,023	1,006,355	911,780
Deferred tax asset	5,098	7,184
Prepaid expenses and other	25,681	15,465
Total current assets	1,451,868	1,389,156
PROPERTY AND EQUIPMENT, net	102,164	101,665
GOODWILL	279,366	278,739
INTANGIBLE AND OTHER ASSETS, net	40,388	41,747
Total assets	$ 1,873,786	$ 1,811,307
LIABILITIES AND STOCKHOLDERS INVESTMENT		
CURRENT LIABILITIES:		
Accounts payable and outstanding checks	$ 672,623	$ 618,195
Accrued expenses:		
Compensation and profit-sharing contribution	41,262	101,926
Income taxes and other	68,853	37,498
Total current liabilities	782,738	757,619
LONG TERM LIABILITIES:		
Non current income taxes payable	11,048	10,223
Nonqualified deferred compensation obligation	1,062	1,216
Total liabilities	794,848	769,058
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; 174,208 and 174,221 shares issued, 170,668 and 170,822 shares outstanding	17,066	17,082
Retained earnings	1,051,639	1,002,964
Additional paid-in capital	186,518	190,320
Accumulated other comprehensive income	2,602	263
Treasury stock at cost (3,540 and 3,384 shares)	(178,887)	(168,380)

Total stockholders investment	1,078,938	1,042,249
Total liabilities and stockholders investment	$ 1,873,786	$ 1,811,307

See accompanying notes.

Table of Contents

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 March 31, 2008	Three Months Ended March 31, 2007
GROSS REVENUES:		
Transportation	$ 1,641,612	$ 1,300,418
Sourcing	331,297	308,297
Information Services	12,303	10,610
Total gross revenues	1,985,212	1,619,325
COST OF TRANSPORTATION, PRODUCTS AND HANDLING:		
Transportation	1,342,939	1,037,991
Sourcing	304,244	284,404
Total cost of transportation, products and handling	1,647,183	1,322,395
GROSS PROFITS	338,029	296,930
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES:		
Personnel expenses	153,754	141,776
Other selling, general, and administrative expenses	48,198	39,965
Total selling, general, and administrative expenses	201,952	181,741
INCOME FROM OPERATIONS	136,077	115,189
INVESTMENT AND OTHER INCOME	2,474	3,596
INCOME BEFORE PROVISION FOR INCOME TAXES	138,551	118,785
PROVISION FOR INCOME TAXES	52,233	45,820
NET INCOME	86,318	72,965
OTHER COMPREHENSIVE INCOME:		
Foreign currency translation adjustment and other	2,339	1,104
COMPREHENSIVE INCOME	$ 88,657	$ 74,069
BASIC NET INCOME PER SHARE	$ 0.51	$ 0.43
DILUTED NET INCOME PER SHARE	$ 0.50	$ 0.42
BASIC WEIGHTED AVERAGE SHARES OUTSTANDING	169,858	171,183
DILUTIVE EFFECT OF OUTSTANDING STOCK AWARDS	4,170	3,705
DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	174,028	174,888

See accompanying notes.

C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Three Months Ended March 31, 2008	2007
OPERATING ACTIVITIES		
Net income	$ 86,318	$ 72,965
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	8,255	12,197
Depreciation and amortization	7,663	6,552
Provision for doubtful accounts	2,713	2,011
Other non-cash expense	889	2,443
Changes in operating elements:		
Receivables	(97,455)	(38,924)
Prepaid expenses and other	(10,264)	(8,576)
Accounts payable and outstanding checks	54,535	43,736
Accrued compensation and profit-sharing contribution	(59,102)	(61,854)
Accrued income taxes and other	32,180	24,629
Net cash provided by operating activities	25,732	55,179
INVESTING ACTIVITIES		
Purchases of property and equipment	(5,928)	(10,038)
Purchases of available-for-sale-securities	(99,944)	(37,322)
Sales/maturities of available-for-sale-securities	181,254	35,933
Cash paid for acquisitions		(9,261)
Other	500	167
Net cash provided by (used for) investing activities	75,882	(20,521)
FINANCING ACTIVITIES		
Proceeds from stock issued for employee benefit plans	10,046	9,408
Repurchase of common stock	(41,893)	(32,054)
Excess tax benefit on stock-based compensation plans	7,711	5,630
Cash dividends	(37,996)	(31,348)
Net cash used for financing activities	(62,132)	(48,364)
Effect of exchange rates on cash	1,479	1,104
Net increase/(decrease) in cash and cash equivalents	40,961	(12,602)
CASH AND CASH EQUIVALENTS, beginning of period	338,885	348,592
CASH AND CASH EQUIVALENTS, end of period	$ 379,846	$ 335,990

See accompanying notes.

5

Table of Contents

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 multimodal transportation services and logistics solutions through a network of 220 branch offices operating in North America, Europe, Asia, and South America. The condensed 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 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 results of operations for the interim periods presented. The results of operations for the three months ended March 31, 2008 are not necessarily indicative of results to be expected for the entire 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, 2007.

2. New Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies to other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. We adopted SFAS No. 157 on January 1, 2008 for financial assets and liabilities. SFAS No. 157 did not have any impact on our financial statements. We use significant other observable inputs (level 2) to value our available-for-sale securities. The fair market value of such instruments is $34.9 million as of March 31, 2008.

In February 2008, the FASB issued Staff Position 157-2 which is a partial deferral of the effective date of SFAS No. 157 as it relates to non-financial assets and liabilities. With respect to non-financial assets and liabilities, SFAS No. 157 is effective for us starting in fiscal 2009. We have not determined the impact, if any, the adoption of this statement as it pertains to non-financial assets and liabilities will have on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 gives us the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. We adopted SFAS No. 159 on January 1, 2008. We have elected not to report any financial assets or liabilities at fair value under SFAS No. 159.

In December 2007 the FASB issued SFAS No. 141R, *Business Combinations*. SFAS No. 141R establishes principles and requirements for how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. The statement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for us as of January 1, 2009. Accordingly, any business combinations we engage in will be recorded and disclosed following existing GAAP until January 1, 2009. We expect SFAS No. 141R may have an impact on our consolidated financial statements when effective, but the nature and magnitude of the specific effects will depend upon the nature, terms and size of the acquisitions we complete after the effective date.

Table of Contents

3. Goodwill and Intangible Assets

The change in the carrying amount of goodwill for the period ended March 31, 2008 is as follows (in thousands):

Balance December 31, 2007	$ 278,739
Purchase price adjustment	(399)
Foreign currency translation	1,026
Balance March 31, 2008	$ 279,366

A summary of our other intangible assets is as follows (in thousands):

	March 31, 2008	December 31, 2007
Gross	$ 29,211	$ 29,211
Accumulated amortization	(16,213)	(14,741)
Net	$ 12,998	$ 14,470

Other intangible assets consist primarily of customer lists and non-compete agreements.

Amortization expense for the three months ended March 31, 2008 and 2007 for other intangible assets was $1.5 million and $1.4 million. Estimated amortization expense for each of the five succeeding fiscal years based on the intangible assets at March 31, 2008 is as follows (in thousands):

Remainder of 2008	$ 4,273
2009	5,570
2010	1,981
2011	1,001
2012	173
Total	$ 12,998

4. Litigation

As we previously disclosed, certain gender discrimination class claims were settled in 2006. The settlement was within our insurance coverage limits, and was fully funded by insurance.

Although the gender class settlement was fully funded by insurance, those insurers reserved the right to seek a court ruling that a portion of the settlement was not covered under their policies, and also to dispute payment of certain defense costs incurred in that litigation. Insurance coverage litigation between us and one of our insurance carriers concerning these issues and insurance coverage for individual lawsuits that were not part of the class settlement has been pending in Minnesota State Court. Recent court rulings have determined that the gender class settlement payment was appropriately covered under applicable policies, and that the insurance carrier has a duty to reimburse reasonable defense costs in the gender class action and all but two of the individual lawsuits, and to indemnify C.H. Robinson in all but two of the individual lawsuits. This ruling is subject to appeal.

The settlement of the gender discrimination class claims did not include claims of putative class members who subsequently filed individual Equal Employment Opportunity Commission (EEOC) charges after the denial of class status. 54 of those EEOC claimants filed lawsuits. 41 of those suits have been settled or dismissed. The settlement amounts were not material to our financial position or results of operations. We are vigorously defending the remaining 13 lawsuits.

The settlement of the gender discrimination class claims did not include certain Fair Labor Standard Act (FLSA) overtime claims, which we have previously disclosed. The judge issued an order granting in full our Motion to Decertify the FLSA collective action. Approximately 525 of the dismissed opt-in plaintiffs either filed or joined in lawsuits asserting individual FLSA claims for failure to pay overtime. Approximately 37 of those individuals filed voluntary dismissals of their claims. We have settled all of the remaining lawsuits. The settlement amount was not material to our financial position or results of operations.

Table of Contents

We are not subject to any other pending or threatened litigation other than routine litigation arising in the ordinary course of our business operations, none of which is expected to have a material adverse effect on our financial condition, results of operations, or cash flows.

5. Stock-based Compensation

We account for share-based compensation in accordance with SFAS No. 123R, *Share Based Payment*. Under this standard, 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 are calculated using the Black-Scholes option pricing model. 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.

Our net income for the three months ended March 31, 2008 includes $8.3 million of net compensation related to stock-based compensation arrangements. Our net income for the three months ended March 31, 2007 includes $12.2 million of net compensation costs related to stock-based compensation arrangements.

As of March 31, 2008, there was a total of $41.9 million of unrecognized compensation costs associated to our stock-based compensation plans. Nearly all of the unrecognized costs related to our restricted stock are subject to vesting based on company performance over a period of five years.

Stock Award Plans - 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 and outside directors. A maximum of 28,000,000 shares can be granted under this plan; approximately 11,400,000 shares were available for stock awards as of March 31, 2008, which cover stock options and restricted stock awards. Awards that expire or are cancelled without delivery of shares generally become available for issuance under the plans.

Restricted Stock Awards - We have awarded to certain key employees and non-employee directors restricted shares and restricted units, which are subject to certain vesting requirements based on the operating performance of the company over a five year period. The awards also contain restrictions on the awardees ability to sell or transfer vested shares or units for a specified period of time. The fair value of these shares is established based on the market price on the date of grant discounted for post-vesting holding restrictions. The discount has ranged from 12% to 17 % based on the different post-vesting holding restrictions. These grants are being expensed over the vesting period based on the terms of the awards.

We have also awarded to certain key employees restricted shares and units that vest primarily based on the employees 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 restricted units which are fully vested upon issuance and contain restrictions on the awardees ability to sell or transfer vested 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 by employees.

Stock options The contractual lives of all options as originally granted are 10 years. Options vest over a five-year period from the date of grant, with none vesting the first year and one quarter vesting each year after that. Recipients are able to exercise options using a stock swap which results in a new, fully-vested restoration option with a grant price established based on the date of the swap, and a remaining contractual life equal to the remaining life of the original option. Options issued to non-employee directors vest immediately. The fair value per option is established using the Black-Scholes option pricing model with the resulting expense being recorded over the vesting period of the award. Other than restoration options, we have not issued any new stock options since 2003.

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%. Shares are freely tradable immediately. Employees purchased approximately 96,000 shares of our common stock at an aggregate cost of $4.4 million during the quarter ended March 31, 2008.

6. Income Taxes

C.H. Robinson Worldwide, Inc. and its 80% (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 2003.

Table of Contents