

C H ROBINSON WORLDWIDE INC  
Form 10-Q  
August 09, 2006

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**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2006

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

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**C.H. ROBINSON WORLDWIDE, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**8100 Mitchell Road, Eden Prairie, Minnesota**  
(Address of principal executive offices)

**(952) 937-8500**

**41-1883630**  
(I.R.S. Employer  
Identification No.)

**55344-2248**  
(Zip Code)

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(Registrant's telephone number, including area code)

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 2, 2006, the number of shares outstanding of the registrant's Common Stock, par value \$.10 per share, was 173,397,873.

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## PART I FINANCIAL INFORMATION

## ITEM 1. Financial Statements

## C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In thousands, except per share data)

(unaudited)

	June 30, 2006	December 31, 2005
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 239,406	\$ 230,628
Available-for-sale securities	123,155	122,551
Receivables, net of allowance for doubtful accounts of \$29,944 and \$29,439	788,467	716,725
Deferred tax asset	8,275	5,999
Prepaid expenses and other	14,375	8,878
Total current assets	1,173,678	1,084,781
PROPERTY AND EQUIPMENT, net	66,108	60,721
GOODWILL, net	259,869	223,137
INTANGIBLE AND OTHER ASSETS, net	27,795	26,429
Total assets	\$ 1,527,450	\$ 1,395,068
<b>LIABILITIES AND STOCKHOLDERS INVESTMENT</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable and outstanding checks	\$ 539,188	\$ 473,882
Accrued expenses		
Compensation and profit-sharing contribution	57,932	94,333
Income taxes and other	51,181	44,268
Total current liabilities	648,301	612,483
<b>LONG TERM LIABILITIES:</b>		
Deferred tax liability		1,469
Non-qualified deferred compensation obligation	1,243	1,079
Total liabilities	649,544	615,031
<b>STOCKHOLDERS INVESTMENT:</b>		
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; 174,111 shares issued, 173,344 and 173,030 shares outstanding	17,334	17,303
Additional paid-in capital	242,650	244,284
Retained earnings	719,807	640,551
Deferred compensation	(68,801)	(87,210)
Cumulative other comprehensive income (loss)	163	(1,901)
Treasury stock at cost (767 and 1,081 shares)	(33,247)	(32,990)
Total stockholders investment	877,906	780,037

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Total liabilities and stockholders' investment	\$ 1,527,450	\$ 1,395,068
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See accompanying notes.

**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		Six Months Ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
<b>GROSS REVENUES</b>				
Transportation	\$ 1,363,246	\$ 1,122,305	\$ 2,579,155	\$ 2,122,241
Sourcing	326,853	273,549	600,275	479,658
Information Services	10,898	9,288	20,682	18,183
<b>Total gross revenues</b>	<b>1,700,997</b>	<b>1,405,142</b>	<b>3,200,112</b>	<b>2,620,082</b>
<b>COST OF TRANSPORTATION, PRODUCTS AND HANDLING</b>				
Transportation	1,130,324	939,737	2,123,266	1,765,827
Sourcing	300,054	249,993	551,170	439,461
<b>Total cost of transportation, products and handling</b>	<b>1,430,378</b>	<b>1,189,730</b>	<b>2,674,436</b>	<b>2,205,288</b>
<b>GROSS PROFITS</b>	<b>270,619</b>	<b>215,412</b>	<b>525,676</b>	<b>414,794</b>
<b>SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES</b>				
Personnel expenses	129,609	106,138	256,820	207,067
Other selling, general, and administrative expenses	37,092	28,945	72,504	59,606
<b>Total selling, general, and administrative expenses</b>	<b>166,701</b>	<b>135,083</b>	<b>329,324</b>	<b>266,673</b>
<b>INCOME FROM OPERATIONS</b>	<b>103,918</b>	<b>80,329</b>	<b>196,352</b>	<b>148,121</b>
<b>INVESTMENT AND OTHER INCOME</b>	<b>2,877</b>	<b>1,287</b>	<b>5,542</b>	<b>2,418</b>
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>106,795</b>	<b>81,616</b>	<b>201,894</b>	<b>150,539</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>40,201</b>	<b>32,269</b>	<b>77,186</b>	<b>59,416</b>
<b>NET INCOME</b>	<b>66,594</b>	<b>49,347</b>	<b>124,708</b>	<b>91,123</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS):</b>				
Foreign currency translation adjustment	1,760	106	2,099	(651)
<b>COMPREHENSIVE INCOME</b>	<b>\$ 68,354</b>	<b>\$ 49,453</b>	<b>\$ 126,807</b>	<b>\$ 90,472</b>
<b>BASIC NET INCOME PER SHARE</b>	<b>\$ 0.39</b>	<b>\$ 0.29</b>	<b>\$ 0.73</b>	<b>\$ 0.54</b>
<b>DILUTED NET INCOME PER SHARE</b>	<b>\$ 0.38</b>	<b>\$ 0.28</b>	<b>\$ 0.71</b>	<b>\$ 0.52</b>
<b>BASIC WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>171,215</b>	<b>170,236</b>	<b>171,051</b>	<b>170,056</b>
<b>DILUTIVE EFFECT OF OUTSTANDING STOCK AWARDS</b>	<b>3,983</b>	<b>4,158</b>	<b>4,019</b>	<b>4,208</b>
<b>DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING</b>	<b>175,198</b>	<b>174,394</b>	<b>175,070</b>	<b>174,264</b>

See accompanying notes.



**C.H. ROBINSON WORLDWIDE, INC. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(unaudited)

	Six Months Ended	
	2006	June 30, 2005
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 124,708	\$ 91,123
Adjustments to reconcile net income to net cash provided by operating activities		
Stock-based compensation	26,856	18,982
Depreciation and amortization	11,547	8,613
Provision for doubtful accounts	3,307	4,190
Other non-cash income	(3,470)	(3,228)
Changes in operating elements		
Receivables	(75,048)	(107,982)
Prepaid expenses and other	(5,498)	(3,477)
Accounts payable	65,323	80,824
Accrued compensation and profit sharing contribution	(34,955)	(12,337)
Accrued income taxes and other	2,913	867
Net cash provided by operating activities	115,683	77,575
<b>INVESTING ACTIVITIES:</b>		
Purchases of property and equipment, net	(15,802)	(12,455)
Purchases of available for-sale-securities	(55,116)	(51,620)
Sales/maturities of available for-sale-securities	54,512	50,824
Cash paid for acquisitions, net	(33,974)	(43,590)
Other	(928)	(1,609)
Net cash used for investing activities	(51,308)	(58,450)
<b>FINANCING ACTIVITIES:</b>		
Proceeds from stock issued for employee benefit plans	16,135	10,923
Repurchase of common stock	(37,695)	(15,483)
Excess tax benefit on stock based compensation plans	9,367	2,273
Cash dividends	(45,370)	(25,703)
Net cash used for financing activities	(57,563)	(27,990)
Effect of exchange rates on cash	1,966	(664)
Net increase (decrease) in cash and cash equivalents	8,778	(9,529)
CASH AND CASH EQUIVALENTS, beginning of period	230,628	166,476
CASH AND CASH EQUIVALENTS, end of period	\$ 239,406	\$ 156,947

See accompanying notes.





**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 203 branch offices operating in North America, South America, Europe, and Asia. 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 six months ended June 30, 2006 and 2005 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, 2005.

**2. New Accounting Pronouncements**

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109, (FIN 48) which clarifies the accounting for uncertainty in tax positions. This Interpretation requires that we recognize in our financial statements, the impact of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The provisions of FIN 48 are effective for us as of January 1, 2007. We are currently in the process of evaluating the impact of the adoption of FIN 48.

**3. Acquisitions**

On May 18, 2006 we acquired the ongoing operations and certain assets of Payne, Lynch & Associates, Inc ( Payne Lynch ), a non-asset based third party logistics company that specializes in flat bed and over dimensional freight brokerage. The purchase price was \$30.0 million of which \$26.0 million in cash was paid at closing. The remaining \$4.0 million will be paid when certain conditions are met. The results reported in this quarterly report include those of Payne Lynch for the period May 18, 2006 through June 30, 2006.

**4. Goodwill and Intangible Assets**

A summary of our intangible assets as of June 30, 2006 is as follows (in thousands):

	Unamortizable intangible assets	Amortizable intangible assets
Gross	\$ 271,798	\$ 26,534
Accumulated amortization	(11,929)	(9,472)
Net	\$ 259,869	\$ 17,062

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The change in the carrying amount of goodwill for the period ended June 30, 2006 is as follows (in thousands):

Balance December 31, 2005	\$ 223,137
Goodwill associated with acquisitions	36,732
Balance June 30, 2006	\$ 259,869

The change in the carrying amount of amortizable intangible assets for the period ended June 30, 2006 is as follows (in thousands):

Balance December 31, 2005	\$ 18,520
Intangible assets associated with acquisitions	950
Amortization expense	(2,408)
Balance June 30, 2006	\$ 17,062

Amortization expense for the six months ended June 30, 2006 for other intangible assets was \$2.4 million. Estimated amortization expense for each of the five succeeding fiscal years based on the intangible assets at June 30, 2006 is as follows (in thousands):

Remainder of 2006	\$ 2,424
2007	4,652
2008	4,639
2009	4,422
2010	846
Thereafter	79

## 5. Litigation

As we previously disclosed, during 2002 we were named as a defendant in two lawsuits by a number of present and former employees. The first lawsuit alleged a hostile working environment, unequal pay, promotions, and opportunities for women, and failure to pay overtime. The second lawsuit alleges a failure to pay overtime. The plaintiffs in both lawsuits sought unspecified monetary and non-monetary damages and class action certification.

On March 31, 2005, the judge issued an order denying class certification for the hostile working environment claims, and allowing class certification for certain claims of gender discrimination in pay and promotion. The judge also granted our motions for summary judgment as to the hostile working environment claims of ten of the named plaintiffs, and dismissed those claims.

The gender discrimination class claims and the remaining two hostile work environment claims were settled in principle on April 11, 2006, which was preliminarily approved by the court on June 12, 2006. The settlement consists of \$15 million for all damages, costs, and attorneys fees, to be allocated as determined by the Court. The proposed settlement also includes programmatic relief offered by C.H. Robinson. As a condition of the settlement, we made no admission of liability. The \$15 million is within our insurance coverage limits, and has been fully funded by the insurance carriers. The insurance carriers have reserved the right to seek a court ruling that a portion of that settlement is not covered under the applicable policies but C.H. Robinson will vigorously oppose any such effort. The final approval hearing is scheduled for September 18, 2006.

The settlement proposal does not include the overtime pay lawsuits, or the claims of putative class members who have now filed individual EEOC charges after the denial of class status on March 31, 2005. We continue to deny all allegations and are vigorously defending the remaining charges. Currently, the amount of any loss is not expected to be material to us; however, unfavorable developments could have a material adverse effect on our consolidated financial statements.

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.

## 6. Stock-based compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards (SFAS) No. 123(R), *Share-based Payment*, using the modified prospective application method. Prior to this adoption, we had previously adopted the fair value recognition provisions of SFAS No. 123 using the retroactive restatement method described in SFAS No. 148 effective January 1, 2004. Because the fair value recognition provisions of SFAS No. 123, *Stock-Based Compensation*, and SFAS No. 123(R) were materially consistent under our equity plans, the adoption of SFAS No. 123(R) did not have a significant impact on our financial position or our results of operations. Prior to our adoption of SFAS No. 123(R), benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS 123(R) requires the excess tax benefits to be reported as a financing cash inflow rather than as a reduction of taxes paid.

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Our net income for the six months ended June 30, 2006 includes \$26.9 million of compensation costs and \$10.4 million of income tax benefits related to our stock-based compensation arrangements. Our net income for the six months ended June 30, 2005 includes \$19.0 million of compensation costs and \$6.8 million of income tax benefits related to our stock-based compensation arrangements.

As of June 30, 2006, there was a total of \$68.8 million of unrecognized compensation costs associated to our stock-based compensation plans. Of this amount, \$64.5 million is related to our restricted stock plan, nearly all of which is subject to vesting based on company performance over a period five years through December 31, 2010, and an additional \$4.3 million is related to stock options, that are scheduled to be recognized over their vesting period that extends until the first quarter of 2008.

## 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; 12,405,159 shares were available for stock awards as of June 30, 2006, 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 Plan** We have awarded to certain key employees 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 fair value of these shares is established based on the market price on the date of grant and is adjusted for holding restrictions. These grants are recorded as deferred compensation within stockholders' investment in the accompanying financial statements and are being expensed based on the terms of the awards.

We have also awarded restricted shares to certain key employees that vest primarily based on their continued employment over time. 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.

**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. Awardees are able to exercise options using a stock swap which results in a new, fully-vested 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 grant. Options issued to non-employee directors vested 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 35,000 shares of our common stock at an aggregate cost of \$1.6 million during the quarter ended June 30, 2006.

## 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, 2005, 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. 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 and 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, 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 market demand and pricing for our services, the impact of competition, changes in relationships with our customers, freight levels and our ability to source capacity to transport freight, our ability to source produce, the risks associated with litigation and insurance coverage, our ability to integrate acquisitions, the impacts of war, the risks associated with operations outside the United States, and changing economic conditions. Therefore, actual results may differ materially from our expectations based on these and other risks and uncertainties, including those described in the Business Description of our Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2005 filed on March 16, 2006.

## Overview

We are a global provider of multimodal transportation services and logistics solutions, operating through a network of branch offices in North America, South America, Europe, and Asia. We are a non-asset based transportation provider, meaning we do not own the transportation equipment that is used to transport our customers' freight. Through our relationships with transportation companies, we select and hire the appropriate transportation to manage our customers' needs. As an integral part of our transportation services, we provide a wide range of value-added logistics services, such as supply chain analysis, freight consolidation, core carrier program management, and information reporting.

In addition to multimodal transportation services, we have two other logistics business lines: fresh produce sourcing and fee-based information services. Our Sourcing business is the buying and selling of fresh produce. We purchase fresh produce through our network of produce suppliers, and sell it to wholesalers, grocery retailers, restaurants, and foodservice distributors. In the majority of cases, we also arrange the transportation of the produce we sell, through our relationships with specialized transportation companies. Our Information Services business is our subsidiary, T-Chek Systems, Inc., which provides a variety of management and information services to motor carrier companies and to fuel distributors. Those services include funds transfer, driver payroll services, fuel management services, and fuel and use tax reporting.

Our gross revenues represent the total dollar value of services and goods we sell to our customers. Our costs of transportation, products, and handling include the direct costs of transportation, including motor carrier, rail, ocean, air and other costs, and the purchase price of the products we source. We act principally as a service provider to add value and expertise in the procurement and execution of these services and products for our customers. Our gross profits (gross revenues less the direct costs of transportation, products, and handling) are the primary indicator of our ability to source, add value, and resell services and products that are provided by third parties, and are considered by management to be our primary performance measurement. Accordingly, the discussion of our results of operations below focuses on the changes in our gross profits.

Our variable cost business model allows us to be flexible and adapt to changing economic and industry conditions. We buy most of our transportation capacity and produce on a spot-market basis. We also keep our personnel and other operating expenses as variable as possible. Compensation, our largest operating expense, is performance oriented and, for most employees in the branch network, based on the profitability of our branch offices.

We believe our branch network is a major competitive advantage. Our worldwide network of offices supports our core strategy of serving customers locally, nationally, and globally. Our branch offices help us penetrate local markets, provide face-to-face service when needed, and recruit carriers. Our branch network also gives us knowledge of local market conditions, which is important in transportation because it is so dynamic and market-driven.

Our branches work together to complete transactions and collectively meet the needs of our customers. Over 30 percent of our transactions are shared transactions between branches. For our top 100 customers (who comprise approximately one-third of our gross profits), we often coordinate our efforts in one branch and rely on multiple branch locations to deliver specific geographic or modal needs. In addition, our methodology of providing services is very similar across all branches. Our North American branches have a common technology platform that they use to match customer needs with supplier capabilities, to collaborate with other branch locations, and to utilize centralized support resources to complete all facets of the transaction.

We opened three new branches during the second quarter of 2006, and added one branch through our acquisition of Payne Lynch on May 18, 2006. We are planning to open two to four branches during the remainder of 2006. Because we usually open new offices with only two or three employees, we do not expect them to make a material contribution to our financial results in the first few years of their operation. We believe building local customer and carrier relationships has been an important part of our success. Acquisitions that fit our growth criteria and culture may also augment our growth.

We are a service company, and our continued success is dependent on our ability to continue to hire and retain talented, productive people. To meet the demands of our growth, we added approximately 400 employees during the second quarter of 2006 and have added a total of over 1,000 employees since the second quarter of 2005. Branch employees act as a team in their sales efforts, customer service, and operations. A significant portion of our branch employees' compensation is performance-oriented, based on individual performance and the profitability of their branch. We believe this makes our sales employees more service-oriented, focused, and creative. In 2003, we implemented a new restricted stock program to better align our key employees with the interests of our shareholders, and to motivate and retain them for the long-term. These restricted stock awards vest based on the performance of the company over a five year period, and have been awarded annually since 2003.

Since we became a publicly-traded company in 1997, our long-term compounded annual growth target has been 15 percent for gross profits, income from operations, and earnings per share. This goal was based on an analysis of our performance in the previous twenty years, during which our compounded annual growth rate was 15 percent. Since 1997, we have slightly exceeded this compounded growth goal in all three categories. Our expectation has been that over time we will continue to achieve our target of 15 percent growth, but that we will have periods in which we exceed that goal, and periods in which we fall short. In the second



quarter of 2006, we exceeded our long-term growth goal in gross profits, income from operations, and earnings per share. Our gross profits grew 26.7 percent, our income from operations increased 32.6 percent, and our diluted earnings per share increased 36.5 percent.

During the second quarter of 2006, we increased our truckload transaction volumes near our long-term growth target of 15 percent. We continue to gain market share and win additional business from our customer base. A significant portion of our gross profit growth in the second quarter of 2006 was also due to increased pricing. During 2004 and 2005, the price of truckload transportation services charged by motor carriers increased significantly more than the rate of increase in prior years. The rate increases were driven by both increased operating costs for the carriers, including the price of fuel and driver wages, and by pricing leverage as increased freight volumes drove an increase in the demand for capacity. Because of these marketplace conditions, our gross revenue per truckload increased approximately 15 percent in 2005 compared to 2004, and increased by approximately 10 percent in the second quarter of 2006 compared to the second quarter of 2005. We were able to maintain our margin percentage on full truckload business consistent with prior quarters, adjusted for seasonality.

In the transportation industry, results of operations generally show a seasonal pattern as customers reduce shipments during and after the winter holiday season. In recent years, our income from operations has been lower in the first quarter than in the other three quarters, but it has not had a significant impact on our results of operations or our cash flows. Also, inflation has not materially affected our operations due to the short-term, transactional basis of our business. However, we cannot fully predict the impact seasonality and inflation may have in the future.

In our opinion this is a normal cyclical pattern in the truck transportation industry. As truck transportation rates increase, it becomes more lucrative to provide those services as new carriers and capacity enter the marketplace. Over time, the supply of capacity and the demand for that capacity tends to become more balanced. In that situation, the growth of our transactional business may slow or even decline. These cycles can change rapidly based on economic conditions and it is difficult to predict when and at what pace that will happen.

## Results of Operations

The following table sets forth our gross profit margins, or gross profit as a percentage of gross revenues, between services and products:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Transportation	17.1%	16.3%	17.7%	16.8%
Sourcing	8.2	8.6	8.2	8.4
Information Services	100.0	100.0	100.0	100.0
Total	15.9%	15.3%	16.4%	15.8%

The following table summarizes our gross profits by service line:

	Three Months Ended			Six Months Ended		
	June 30,		% change	June 30,		% change
	2006	2005		2006	2005	
Gross profits (in thousands)						
Transportation:						
Truck	\$ 201,431	\$ 161,983	24.4%	\$ 396,564	\$ 316,003	25.5%
Intermodal	9,572	7,312	30.9	17,503	14,268	22.7
Ocean	8,595	6,114	40.6	17,419	11,774	47.9
Air	6,433	2,319	177.4	11,477	4,986	130.2
Miscellaneous	6,891	4,840	42.4	12,926	9,383	37.8
Total transportation	232,922	182,568		455,889	356,414	27.9
Sourcing	26,799	23,556	13.8	49,105	40,197	22.2
Information Services	10,898	9,288	17.3	20,682	18,183	13.7



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Total	\$ 270,619	\$ 215,412	25.6%	\$ 525,676	\$ 414,794	26.7%
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The following table represents certain statement of operations data shown as percentages of our gross profits:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Gross profits	100.0%	100.0%	100.0%	100.0%
Selling, general, and administrative expenses				
Personnel expenses	47.9	49.3	48.9	49.9
Other selling, general, and administrative expenses	13.7	13.4	13.8	14.4
<b>Total selling, general, and administrative expenses</b>	<b>61.6</b>	<b>62.7</b>	<b>62.6</b>	<b>64.3</b>
Income from operations	38.4	37.3	37.4	35.7
Investment and other income	1.1	0.6	1.1	0.6
Income before provision for income taxes	39.5	37.9	38.4	36.3
Provision for income taxes	14.9	15.0	14.7	14.3
Net income	24.6%	22.9%	23.7%	22.0%

### Three Months Ended June 30, 2006 Compared to Three Months Ended June 30, 2005

*Revenues.* Gross revenues for the three months ended June 30, 2006 were \$1.7 billion, an increase of 21.0 percent over gross revenues of \$1.4 billion for the three months ended June 30, 2005. Gross profits for the three months ended June 30, 2006 were \$270.6 million, an increase of 25.6 percent over gross profits of \$215.4 million for the three months ended June 30, 2005. This was a result of an increase in Transportation gross profits of 27.6 percent to \$232.9 million from \$182.6 million in 2005, an increase in Sourcing gross profits of 13.8 percent to \$26.8 million from \$23.6 million in 2005, and an increase in Information Services gross profits of 17.3 percent to \$10.9 million from \$9.3 million in 2005.

For the second quarter, our gross profit margin increased to 15.9 percent in 2006 from 15.3 percent in 2005. Transportation gross profit margin increased to 17.1 percent from 16.3 percent. Sourcing gross profit margin decreased to 8.2 percent from 8.6 percent. Our Information Services business is a fee-based business, so our gross revenues are equal to our gross profits.

For the second quarter, total Transportation gross profits increased 27.6 percent to \$233.0 million in 2006 from \$182.6 million in 2005. Our transportation gross profit margin increased to 17.1 percent in 2006 from 16.3 percent in 2005.

This increase in our Transportation gross profit margin is due primarily to the mix of services that make up our transportation business line. Our air transportation and miscellaneous transportation management services have higher gross profit margins than Transportation as a whole. Both services had gross profit growth significantly greater than our overall Transportation gross profit growth. In addition, our intermodal and refrigerated truck services both increased their gross profit margins by eliminating or re-pricing unprofitable or lower margin freight to achieve a normal profit margin. Our full truckload, dry van gross profit margin was consistent from the second quarter of 2005 to the second quarter of 2006.

Our truck transportation gross profits grew 24.4 percent in the second quarter of 2006. Approximately one-half of the growth was driven by volume increases. The other half of our gross profit growth was due to pricing increases split between freight rate increases and rising fuel costs. Our full truckload dry van gross profit margin was consistent with the second quarter of 2005.

Our intermodal gross profits increase of 30.9 percent in the second quarter of 2006 resulted from an increase in gross profit margins, offset by a slight decrease in volume. Our gross profit margin expanded due to rate increases and the elimination of some lower margin business.

In our international freight forwarding business, our ocean gross profits increased 40.6 percent and our air gross profits increased 177.4 percent in the second quarter of 2006. Excluding the impact of the acquisitions of Bussini Transport S.r.l. ( Bussini ) and Hirdes Group Worldwide ( Hirdes ), announced in the third quarter of 2005, we estimate our ocean gross profits would have increased approximately 25 percent in the second quarter of 2006. Our growth was driven by increased volumes and expanded margins, due to increased availability of capacity in the marketplace. Our air gross profits would have increased approximately 70 percent in the second quarter., due to increased volumes with project-related business and increased volume in the Asia Pacific region.

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Miscellaneous transportation gross profits consist primarily of transportation management fees, customs brokerage fees, and warehouse and cross-dock services. A majority of the services we provide in this category are fee-based, so our gross revenues are equal to our gross profits for these services. The increase of 42.4 percent in the second quarter was driven by increases in our transportation management fees and customs brokerage business. Excluding the impact of the acquisitions of Bussini and Hirdes, we estimate our miscellaneous transportation gross profits increased approximately 35 percent.

For the second quarter, Sourcing gross profits increased 13.8 percent to \$26.8 million in 2006 from \$23.6 million in 2005. This increase was due to higher volumes with our retail and foodservice customers through integrated programs.

Information Services is comprised entirely of revenues related to our subsidiary, T-Chek Systems. For the second quarter, Information Services gross profit increased 17.3 percent to \$10.9 million from \$9.3 million in 2005, primarily due to transaction volume growth.

*Personnel Expenses.* Personnel expenses for the three months ended June 30, 2006 were \$129.6 million, an increase of 22.1 percent over personnel expenses of \$106.1 million for the three months ended June 30, 2005. Our consolidated headcount increased by 606 since December 31, 2005 and by a total of 1,014 since June 30, 2005. For the second quarter, personnel expense as a percentage of gross profit decreased to 47.9 percent in 2006 from 49.3 percent in 2005. While many of our personnel expenses are variable, historically we have gained leverage in periods of growth.

Our stock-based compensation expense increased by \$2.7 million to \$12.3 million and accounted for approximately 4.6% of gross profits in the second quarter of 2006 compared to approximately 4.5% of gross profits in the second quarter of 2005. Approximately 80 percent of our stock-based compensation expense is performance-based, and vests based on our financial results.

*Other Selling, General, and Administrative Expenses.* Other selling, general, and administrative expenses for the three months ended June 30, 2006 were \$37.1 million, an increase of 28.1 percent from \$28.9 million for the three months ended June 30, 2005. In the second quarter of 2006 we announced the recovery of \$2.8 million from our insurance companies as a result of a previously disclosed lawsuit to recover a settlement payment made by C.H. Robinson in a prior wrongful death action. Excluding that recovery, our selling, general, and administrative expenses would have increased 16.8 in the second quarter of 2006.

Operating expenses as a percentage of gross profits increased for the second quarter of 2006 to 13.7 percent compared to 13.4 percent in 2005. Excluding the recovery from our insurance companies in the second quarter of 2005, our selling, general, and administrative expenses would have decreased as a percentage of gross profits from 14.7 percent in the second quarter of 2005 to 13.7 percent in the second quarter of 2006. We gain leverage in periods of strong gross profit growth in several categories of our selling, general, and administrative expenses.

*Income from Operations.* Income from operations was \$103.9 million for the three months ended June 30, 2006, an increase of 29.4 percent over \$80.3 million for the three months ended June 30, 2005. The increase was driven by the increase in our gross profits and by gaining leverage in our operating expenses for the same period. Income from operations as a percentage of gross profit was 38.4 percent and 37.3 percent for the three months ended June 30, 2006 and 2005.

*Investment and Other Income.* Investment and other income was \$2.9 million for the three months ended June 30, 2006, compared to \$1.3 million for the three months ended June 30, 2005. This is due to an increase in our cash and investments and an increase in our portfolio yield due to increases in market returns on short-term investments.

*Provision for Income Taxes.* Our effective income tax rates were 37.6 percent and 39.5 percent for the three months ended June 30, 2006 and 2005. 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 and non-deductible expenses attributable to incentive stock options. Our effective income tax rate has become less predictable under SFAS 123(R) due to timing differences between compensation expense related to stock options and the associated tax benefit derived from these instruments. Additionally, our investment portfolio is primarily invested in tax-exempt municipal securities, which drive down our effective income tax rate.

*Net Income.* Net income was \$66.6 million for the three months ended June 30, 2006, an increase of 35.0 percent over \$49.3 million for the three months ended June 30, 2005. Basic net income per share increased 34.5 percent to \$0.39 from \$0.29 per share in 2005. Diluted net income per share increased 35.7 percent to \$0.38 from \$0.28 per share in 2005.

#### **Six Months Ended June 30, 2006 Compared to Six Months Ended June 30, 2005**

*Revenues.* Gross revenues for the six months ended June 30, 2006 were \$3.2 billion, an increase of 22.1 percent over gross revenues of \$2.6 billion for the six months ended June 30, 2005. Gross profits for the six months ended June 30, 2006 were \$525.7 million, an increase of 26.7 percent over gross profits of \$414.8 million for the six months ended June 30, 2005. This was a result of an increase in Transportation gross profits of 27.9 percent to \$455.9 million from \$356.4 million in 2005, an increase in Sourcing gross profits of 22.2 percent to \$49.1 million from \$40.2 million in 2005, and an increase in Information Services gross profits of 13.7 percent to \$20.7 million from \$18.2 million in 2005.

Our gross profit margin for the period increased to 16.4 percent in 2006 from 15.8 percent in 2005. Transportation gross profit margin increased to 17.7 percent from 16.8 percent. Sourcing gross profit margin decreased to 8.2 percent from 8.4 percent. Our Information Services business is a fee-based business, which generates 100 percent profit margin. The increase in our Transportation gross profit margin is primarily the result of the mix of services that comprise this business. Our full truckload services are the largest component in Transportation, and the gross profit margin on this service line increased slightly in 2006 compared to 2005, and within a narrow range of normal gross profit margins historically. The rest of the services in the Transportation business grew faster than truckload services, and several of these services have higher gross profit margins or gross profit margins that are increasing as a result of focusing on higher margin freight opportunities.

Our truck transportation gross profits increase of 25.5 percent in the first six months of 2006 resulted from approximately half transaction volume growth and half pricing increases, with the pricing increases split between freight rate increases and increasing fuel costs.

Intermodal gross profit increased 22.7 percent to \$17.5 million from \$14.3 million in 2005. This was the result of an increase in gross profit margins, offset by a slight decrease in volume. Our gross profit margin expanded due to rate increases and the elimination of some lower margin business.

In our international freight forwarding business, our ocean gross profits increased 47.9 percent to \$17.4 million from \$11.8 million in 2005 and our air gross profits increased 130.2 percent to \$11.5 million from \$5.0 million in 2005. Excluding the impact of the acquisitions of Bussini and Hirdes, we estimate our ocean profits would have increased approximately 30 percent during the six months ended June 30, 2006. Our growth was driven by volumes and expanded margins, due to increased availability of capacity in the marketplace. Excluding the acquisitions, our air gross profits would have increased approximately 35 percent during the six months ended June 30, 2006, due to increased volumes with project-related business and increased volume in the Asia Pacific region.

Miscellaneous transportation gross profits consist of customs brokerage fees, transportation management fees, warehouse and cross-dock services, and other miscellaneous transportation related services. A majority of the services we provide in this category are fee-based, so our gross revenues are equal to our gross profits for these services. The increase of 37.8 percent in the first six months of 2006 compared to 2005 was driven by an increase in transportation management fees and customs brokerage fees. Excluding the impact of the acquisitions of Bussini and Hirdes, we estimate our miscellaneous transportation gross profits increased approximately 30 percent during the six months ended June 30, 2006.

Sourcing gross profits increased 22.2 percent to \$49.1 million in the first six months of 2006 from \$40.2 million in the same period of 2005. Excluding acquisitions that occurred in the first quarter of 2005, our Sourcing gross profits would have increased approximately 14 percent for the first six months of 2006. This increase was due to higher volumes with retail and foodservice customers through integrated programs.

Information Services is comprised entirely of revenue generated by our subsidiary, T-Chek Systems. Information Services gross profit increased 13.7 percent to \$20.7 million in the first six months of 2006 from \$18.2 million in the same period of 2005, primarily due to transaction growth.

*Personnel Expenses.* Personnel expenses for the six months ended June 30, 2006 were \$256.8 million, an increase of 24.0 percent over personnel expenses of \$207.1 million for the six months ended June 30, 2005. For the six months ended June 30, personnel expense as a percentage of gross profit was 48.9 percent in 2006 and 49.9 percent 2005. While many of our personnel expenses are variable, we historically gain leverage in periods of growth.

Our stock-based compensation expense increased accounted for approximately 5.1% of gross profits in the first six months of 2006 compared to approximately 4.6% of gross profits in the first six months of 2005. Approximately 80 percent of our stock-based compensation expense is performance-based, and vests based on our financial results. As we gain leverage in our operating income as a percentage of gross profits, this performance-based compensation expense increases as a percentage of our gross profits.

*Other Selling, General, and Administrative Expenses.* Other selling, general, and administrative expenses for the six months ended June 30, 2006 were \$72.5 million, an increase of 21.6 percent from \$59.6 million for the six months ended June 30, 2005. Excluding the recovery from our insurance companies in the second quarter of 2005, our selling, general, and administrative expenses would have increased 16.2 percent during the six months ended June 30, 2006 compared to 2005.

Operating expenses as a percentage of gross profits decreased slightly for the six months ended June 30, 2006 compared to the same period of 2005. Excluding the recovery from our insurance companies in the second quarter of 2005, our selling, general, and administrative expenses would have decreased as a percentage of gross profits from 15.0 percent during the period ended June 30, 2005 to 13.4 percent during the same period of 2006. We gain leverage in periods of strong gross profit growth in several categories of our selling, general, and administrative expenses.



*Income from Operations.* Income from operations was \$196.4 million for the six months ended June 30, 2006, an increase of 32.6 percent over \$148.1 million for the six months ended June 30, 2005. The increase was driven by the increase in our gross profits for the same period. Income from operations as a percentage of gross profit was 37.4 percent and 35.7 percent for the six months ended June 30, 2006 and 2005.

*Investment and Other Income.* Interest and other income was \$5.5 million for the six months ended June 30, 2006, compared to \$2.4 million for the six months ended June 30, 2005. This is due to an increase in our cash and investments and an increase in our portfolio yield due to increases in market returns on short-term investments.

*Provision for Income Taxes.* Our effective income tax rates were 38.2 percent and 39.5 percent for the six months ended June 30, 2006 and 2005. 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 and non-deductible expenses attributable to incentive stock options. Additionally, our investment portfolio is primarily invested in tax-exempt municipal securities, which drive down our effective income tax rate.

*Net Income.* Net income was \$124.7 million for the six months ended June 30, 2006, an increase of 36.9 percent over \$91.1 million for the six months ended June 30, 2005. Basic net income per share increased by 35.2 percent to \$0.73 from \$0.54 per share in 2005. Diluted net income per share increased 36.5 percent to \$0.71 from \$0.52 per share in 2005.

### **Liquidity and Capital Resources**

We have historically generated substantial cash from operations which has enabled us to fund our growth while paying cash dividends and repurchasing stock. Cash and cash equivalents totaled \$239.4 million and \$230.6 million as of June 30, 2006 and December 31, 2005. We also had available-for-sale securities of \$123.1 million and \$122.6 million on June 30, 2006 and December 31, 2005.

We generated \$115.7 million and \$77.6 million of cash flow from operations for the six months ended June 30, 2006 and 2005. The increase is due to primarily to net income growth and a slight increase in our working capital.

We used \$51.3 million and \$58.5 million of cash and cash equivalents for investing activities for the six months ended June 30, 2006 and 2005. For the six months ended June 30, 2006 and 2005, we purchased \$15.8 million and \$12.5 million of property and equipment. In May 2006, we acquired the ongoing operations of Payne Lynch for \$26.0 million. In March 2006, we used \$8.0 million for the first of three annual earnout payments related to the 2005 acquisition of the FoodSource entities. In February 2005, we used \$42.5 million for the original purchase price of the FoodSource entities.

We used \$57.6 million and \$28.0 million of cash and cash equivalents for financing activities for the six months ended June 30, 2006 and 2005. The net increase in cash used for financing activities of \$29.6 million was the result of increasing our cash dividends, increasing our stock repurchase activity, offset by cash received from option exercises and employees purchasing stock through our employee stock purchase program. We increased our quarterly cash dividend rate from \$0.08 per share in 2005 to \$0.13 per share in 2006, resulting in an increase in cash used for financing activities of \$19.7 million. We also increased our stock repurchase activity to reduce the dilution related to our equity programs and to manage our cash balance. The increase in repurchase activity resulted in a net increase of \$22.4 million of cash used for financing activities. We declared a \$0.13 per share dividend payable to shareholders of record as of June 9, 2006, that was paid on July 3, 2006.

We have 3 million Euros available under a line of credit at an interest rate of Euribor plus 1.25 percent (4.5 percent at June 30, 2006). This discretionary line of credit has no expiration date. As of June 30, 2006 and 2005, we had no outstanding balance on this facility. Our credit agreement contains certain provisions, but does not restrict the payment of dividends.

Assuming no change in our current business plan or a material acquisition, we believe that our available cash, together with expected future cash generated from operations and the amounts available under our line of credit, will be sufficient to satisfy our anticipated needs for working capital, capital expenditures and cash dividends for future periods. We also believe we could obtain additional funds under a line of credit, on short notice, if needed.

### **Critical Accounting Policies**

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, 2005, 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.** Gross revenues consist of the total dollar value of goods and services purchased from us by customers. Gross profits are gross 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 and goods are delivered. At that time, our obligations to the transactions are completed and collection of receivables is reasonably assured. Emerging Issues Task Force Issue No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, establishes the criteria for recognizing revenues on a gross or net basis. Nearly all 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 are a principal to the transaction, we have all credit risk, we maintain substantially all revenue risks and rewards, we have discretion to select the supplier, and we have latitude in pricing decisions. Additionally, in our Sourcing business, we take loss of inventory risk after customer order and during shipment and have general inventory risk. Certain transactions in customs brokerage, transportation management, and all transactions in Information Services 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 \$29.9 million as of June 30, 2006, remained relatively consistent with the allowance of \$29.4 million as of December 31, 2005. Net accounts receivable for that same period increased 10.0 percent. 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 annually evaluating goodwill for impairment on an enterprise wide basis. In the case where we have an acquisition that we feel has not yet become integrated into our branch network component, we will evaluate the impairment of any goodwill related to that specific acquisition and its results.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We had approximately \$362.6 million of cash and investments on June 30, 2006, consisting of \$239.4 million of cash and cash equivalents and \$123.1 million of available-for-sale securities. The cash equivalents are money market securities and high quality bonds from domestic issuers. All of our available-for-sale securities are high-quality bonds. Because of the credit risk criteria of our investment policies, the primary market risk associated with these investments is interest rate risk. 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. We believe a reasonable near-term change in interest rates would not have a material impact on our future earnings due to the short-term nature of our investments.

### **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 in timely alerting them to the material information relating to us (or our consolidated subsidiaries) required to be included in the reports we file or submit under the Exchange Act.

#### **(b) Changes in internal controls over financial reporting.**

There were no changes that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect the Company's internal control over financial reporting except that we have excluded the businesses acquired during the third quarter of 2005.



As previously announced, we acquired Bussini and Hirdes during the third quarter of 2005. We have not fully evaluated any changes in internal control over financial reporting associated with these acquisitions and therefore any material changes that may result from these acquisitions have not been disclosed in this report. We intend to disclose all material changes resulting from these acquisitions within or prior to the time our first annual assessment of internal control over financial reporting that is required to include these entities.

The results reported in this quarterly report include those of Bussini acquired July 31, 2005 and Hirdes acquired September 1, 2005. These acquisitions added less than \$0.01 to our diluted earnings per share for the quarter.

## PART II OTHER INFORMATION

### ITEM 1. Legal Proceedings

As we previously disclosed, during 2002 we were named as a defendant in two lawsuits by a number of present and former employees. The first lawsuit alleged a hostile working environment, unequal pay, promotions, and opportunities for women, and failure to pay overtime. The second lawsuit alleges a failure to pay overtime. The plaintiffs in both lawsuits sought unspecified monetary and non-monetary damages and class action certification.

On March 31, 2005, the judge issued an order denying class certification for the hostile working environment claims, and allowing class certification for certain claims of gender discrimination in pay and promotion. The judge also granted our motions for summary judgment as to the hostile working environment claims of ten of the named plaintiffs, and dismissed those claims.

The gender discrimination class claims and the remaining two hostile work environment claims were settled in principle on April 11, 2006, which was preliminarily approved by the court on June 12, 2006. The settlement consists of \$15 million for all damages, costs, and attorneys fees, to be allocated as determined by the Court. The proposed settlement also includes programmatic relief offered by C.H. Robinson. As a condition of the settlement, we made no admission of liability. The \$15 million is within our insurance coverage limits, and has been fully funded by the insurance carriers. The insurance carriers have reserved the right to seek a court ruling that a portion of that settlement is not covered under the applicable policies but C.H. Robinson will vigorously oppose any such effort. The final approval hearing is scheduled for September 18, 2006.

The settlement proposal does not include the overtime pay lawsuits, or the claims of putative class members who have now filed individual EEOC charges after the denial of class status on March 31, 2005. We continue to deny all allegations and are vigorously defending the remaining charges. Currently, the amount of any loss is not expected to be material to us; however, unfavorable developments could have a material adverse effect on our consolidated financial statements.

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.

### ITEM 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table provides information about purchases by the company during the quarter ended June 30, 2006 of equity securities that are registered by the company pursuant to Section 12 of the Exchange Act:

Period	(a) Total Number of Shares (or Units) Purchased (1)	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs (2)	(d)
				Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
04/01/06-04/30/06				4,850,000

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05/01/06- 05/31/06	270,500	\$	46.52	270,500	4,579,500
06/01/06- 06/30/06	275,000	\$	46.42	275,000	4,304,500
Total:	545,500	\$	46.47	545,500	4,304,500

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- (1) We repurchased an aggregate of 545,500 shares of our common stock pursuant to the repurchase program that was approved by our Board of Directors in February 1999 (the program).
- (2) Our Board of Directors approved a company repurchase of up to an aggregate of 8,000,000 shares of our common stock pursuant to the program. Unless terminated earlier by resolution of our Board of Directors, the program will expire when we have repurchased all shares authorized for repurchase.

ITEM 3. Defaults Upon Senior Securities

None.

ITEM 4. Submission of Matters to a Vote of Security Holders

The Annual Meeting of the Company's stockholders was held on May 18, 2006. At the meeting, stockholders voted on the reelection of three directors for terms expiring at the Annual Meeting of the Company in 2009. Each of the directors was reelected by a vote as follows: Ken Keiser received 160,181,519 votes For and 494,238 votes were Withheld; and Jerry Schwalbach received 159,292,494 votes For and 1,383,263 were Withheld; and John Wiehoff received 160,205,841 votes For and 469,916 were Withheld.

At the meeting, stockholders ratified Deloitte & Touche LLP as the Company's Independent Auditors by a vote as follows: 160,183,857 For , 459,017 votes Against , and 32,883 votes Abstained.

At the meeting, stockholders approved the Amended and Restated 1997 Omnibus Stock Plan by a vote as follows: 115,601,945 votes For , 22,975,209 votes Against , 479,443 votes Abstained , and 21,619,160 Broker Non-Votes.

ITEM 5. Other Information

None.

ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

(b) Reports on Form 8-K

We filed a report on Form 8-K on May 11, 2006; this report provided certain computations with respect to outstanding restricted stock awards and stock options.

We filed a report on Form 8-K on May 18, 2006; this report contained information regarding our announcement that our Board of Directors declared a regular quarterly cash dividend.

We filed a report on Form 8-K on July 25, 2006; this report contained information under Item 12 (Results of Operations and Financial Condition) and included as an exhibit under Item 7 a copy of our earnings release for the quarter ended June 30, 2006.

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.

Date: August 9, 2006

C.H. ROBINSON WORLDWIDE, INC.

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

By /s/ Thomas K. Mahlke  
Thomas K. Mahlke  
Controller (principal accounting officer)