SM Energy Co
Form 424B3
December 12, 2011

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TABLE OF CONTENTS

Table of Contents

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-177997

PROSPECTUS

$350,000,000

SM ENERGY COMPANY

Offer to Exchange

All outstanding 6⁵/₈% senior notes due 2019 (CUSIP Nos. 78454L AA8 and U83067 AA3) for new 6⁵/₈% senior notes due 2019 that have been registered under the Securities Act of 1933

This exchange offer will expire at 5:00 p.m., New York City time, on January 11, 2012, unless extended.

The Exchange Notes:

The terms of the $6^{5}/_{8}$% senior notes due 2019 to be issued in the exchange offer (the "exchange notes") are substantially identical to the terms of the outstanding $6^{5}/_{8}$% senior notes due 2019 (the "outstanding notes"), except for the elimination of some transfer restrictions, registration rights and certain provisions regarding additional interest relating to the outstanding notes.

We are offering the exchange notes pursuant to a registration rights agreement that we entered into in connection with the issuance of the outstanding notes.

Material Terms of the Exchange Offer:

The exchange offer expires at 5:00 p.m., New York City time, on January 11, 2012, unless extended.

Upon expiration of the exchange offer, all outstanding notes that are validly tendered and not validly withdrawn will be exchanged for an equal principal amount of the applicable series of exchange notes.

You may withdraw tendered outstanding notes at any time at or prior to the expiration of the exchange offer.

The exchange notes will be issued in minimum denominations of $2,000 and any integral multiple of $1,000 and the exchange offer is subject to certain other conditions.

The exchange of the exchange notes for outstanding notes should not be a taxable exchange for U.S. federal income tax purposes.

There is no existing public market for the outstanding notes or the exchange notes.

Each broker-dealer that receives exchange notes for its own account in the exchange offer must acknowledge that it acquired the outstanding notes for its own account as a result of market-making or other trading activities and must agree that it will deliver a prospectus meeting the requirements of the Securities Act of 1933, as amended, in connection with any resale of the exchange notes. A participating broker-dealer may use this prospectus, as it may be amended or supplemented from time to time, in connection with resales of exchange notes received in exchange for outstanding notes where such outstanding notes were acquired as a result of market-making activities or other trading activities.

See "*Risk Factors*" beginning on page 17 for a discussion of the factors you should consider in connection with the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 12, 2011.

Table of Contents

TABLE OF CONTENTS

WHERE YOU CAN FIND MORE INFORMATION	ii
INCORPORATION BY REFERENCE	ii
CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS	iii
GLOSSARY OF OIL AND NATURAL GAS TERMS	v
PROSPECTUS SUMMARY	1
SUMMARY OF EXCHANGE OFFER	4
SUMMARY OF THE TERMS OF EXCHANGE NOTES	9
SUMMARY CONDENSED CONSOLIDATED HISTORICAL FINANCIAL DATA	12
SUMMARY RESERVE, PRODUCTION AND OPERATING DATA	14
RATIO OF EARNINGS TO FIXED CHARGES	16
RISK FACTORS	17
USE OF PROCEEDS	37
THE EXCHANGE OFFER	38
DESCRIPTION OF NOTES	45
BOOK-ENTRY; DELIVERY AND FORM	102
MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS	105
PLAN OF DISTRIBUTION	107
LEGAL MATTERS	108
EXPERTS	108

You should rely only on the information contained in this prospectus and the documents incorporated by reference in this prospectus. We and the initial purchasers have not authorized any person to provide you with any information or represent anything about us or this offering that is not contained in this prospectus or incorporated by reference in this prospectus. If given or made, any such other information or representation should not be relied upon as having been authorized by us or the initial purchasers. We are not, and the initial purchasers are not, making an offer to sell the exchange notes in any jurisdiction where an offer or sale is not permitted.

You should not assume that the information contained in this prospectus or in any document incorporated by reference in this prospectus is accurate as of any date other than the date on the front of those documents.

Table of Contents

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act and we file annual, quarterly and other reports and other information with the Securities and Exchange Commission, or the SEC. You may read and copy any document we file with the SEC at the SEC's public reference room at 100 F Street NE, Washington, D.C. 20549-2521. Please call 1-800-732-0330 for further information on the operation of the public reference room. Our SEC filings are also available on the SEC's web site at *http://www.sec.gov*. Unless specifically listed under "Incorporation by Reference" below, the information contained on the SEC web site is not intended to be incorporated by reference in this prospectus and you should not consider that information a part of this prospectus. You can also obtain information about us at the offices of the New York Stock Exchange, 20 Broad Street, 17th Floor, New York, New York 10005.

We make available free of charge on or through our Internet website, *http://sm-energy.com/*, our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Information contained on our Internet website is not part of this prospectus and does not constitute a part of this prospectus.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus. We will provide this information and any and all of the documents referred to herein, including the registration rights agreement and the indenture for the notes, which are summarized in this prospectus, without charge to each person to whom a copy of this prospectus has been delivered, who makes a written or oral request at the following address or telephone number:

Investor Relations
SM Energy Company
1775 Sherman Street, Suite 1200
Denver, Colorado 80203
(303)-861-8140
information@sm-energy.com

In order to ensure timely delivery, you must request the information no later than five business days before the expiration of the exchange offer.

INCORPORATION BY REFERENCE

We "incorporate by reference" in this prospectus the following documents that we have previously filed with the SEC. This means that we are disclosing important information to you without actually including the specific information in this prospectus by referring you to other documents that we have filed separately with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we later provide to the SEC, and which is deemed "filed" with the SEC, will automatically update information that we previously filed with the SEC, and may replace information in this prospectus and information that we previously filed with the SEC:

- our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 25, 2011 (our "2010 10-K");

- the information included in our definitive proxy statement on Schedule 14A filed with the SEC on April 12, 2011, under the headings "Proposal 1 Election of Directors," "Corporate Governance," "Section 16(a) Beneficial Ownership Reporting Compliance," "Executive Compensation," "Director Compensation," "Security Ownership of Certain Beneficial Owners

Table of Contents

and Management," "Certain Relationships and Related Transactions," "Independent Registered Public Accounting Firm" and "Audit Committee Preapproval Policy and Procedures";

our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2011, filed with the SEC on May 3, 2011 (our "2011 First Quarter 10-Q"), June 30, 2011, filed with the SEC on August 3, 2011 (our "2011 Second Quarter 10-Q") and September 30, 2011, filed with the SEC on November 2, 2011 (our "2011 Third Quarter 10-Q," and collectively with our 2011 First Quarter 10-Q and our 2011 Second Quarter 10-Q, our "2011 10-Qs"); and

our Current Reports on Form 8-K filed with the SEC on February 1, 2011, February 10, 2011, March 24, 2011, April 4, 2011, April 11, 2011, May 27, 2011, June 3, 2011, June 14, 2011, July 5, 2011, August 5, 2011, October 3, 2011, October 18, 2011 and November 10, 2011.

We also incorporate by reference each of the documents that we file with the SEC (excluding those filings made under Items 2.02 or 7.01 of Form 8-K and corresponding information furnished under Item 9.01 of Form 8-K or included as an exhibit, or other information furnished to the SEC) under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act on or after the date of the initial registration statement and prior to effectiveness of the registration statement and on or after the date of this prospectus and prior to the completion of the exchange offer. Any statements made in such documents will automatically update and supersede the information contained in this prospectus, and any statements made in this prospectus update and supersede the information contained in past SEC filings incorporated by reference into this prospectus.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The information in this prospectus, including information in documents incorporated by reference, includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "assume," "believe," "budget," "estimate," "expect," "forecast," "intend," "plan," "project," "will," and similar expressions are intended to identify forward-looking statements. Forward-looking statements appear in a number of places and include statements about such matters as:

the amount and nature of future capital expenditures and the availability of liquidity and capital resources to fund capital expenditures;

the drilling of wells and other exploration and development activities and plans, as well as possible future acquisitions;

the possible divestiture or farm-down of, or joint venture relating to, certain properties;

proved reserve estimates and the estimates of both future net revenues and the present value of future net revenues associated with those proved reserve estimates;

future crude oil, natural gas and associated liquids production estimates;

our outlook on future crude oil, natural gas and NGL prices, well costs, and service costs;

cash flows, anticipated liquidity, and the future repayment of debt;

business strategies and other plans and objectives for future operations, including plans for expansion and growth of operations or to defer capital investment, and our outlook on our future financial condition or results of operations; and

Table of Contents

other similar matters such as those discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of our 2010 10-K and our 2011 10-Qs.

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments, and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. These risks are described in this prospectus under "Risk Factors" or incorporated by reference herein and include such factors as:

- the volatility of crude oil, natural gas and NGL prices, and the affect it may have on our profitability, financial condition, cash flows, access to capital, and ability to grow;
- the continued weakness in economic conditions and uncertainty in financial markets;
- our ability to replace reserves in order to sustain production;
- our ability to replace reserves in order to sustain production;
- our ability to raise the substantial amount of capital that is required to replace our reserves;
- our ability to compete against competitors that have greater financial, technical, and human resources;
- the imprecise estimations of our actual quantities and present values of proved crude oil, natural gas, and NGL reserves;
- the uncertainty in evaluating recoverable reserves and other expected benefits or liabilities;
- the possibility that exploration and development drilling may not result in commercially producible reserves;
- the possibility that our planned drilling in existing or emerging resource plays using some of the latest available horizontal drilling and completion techniques is subject to drilling and completion risks and may not meet our expectations for reserves or production;
- the uncertainties associated with our reported anticipated divestiture, joint venture, farm-down, and similar transactions with respect to certain assets, including whether such transactions will be consummated or completed in the form or timing and for the value that we anticipate;
- the uncertainties associated with enhanced recovery methods;
- our hedging activities may result in financial losses or may limit the prices that we receive for oil, natural gas, and NGL sales;

the inability of one or more of our customers or hedge counterparties to meet their obligations;

price declines or unsuccessful exploration efforts result in write-downs of our asset carrying values;

the impact that lower crude oil, natural gas, or NGL prices could have on our ability to borrow under our credit facility;

the possibility that our amount of debt may limit our ability to obtain financing for acquisitions, make us more vulnerable to adverse economic conditions, and make it more difficult for us to make payments on our debt;

operating and environmental risks and hazards that could result in substantial losses;

Table of Contents

complex laws and regulations, including environmental regulations, that result in substantial costs and other risks;

the availability and capacity of gathering, transportation, processing, and/or refining facilities;

our ability to sell and/or receive market prices for our crude oil, natural gas, and NGLs;

new technologies may cause our current exploration and drilling methods to become obsolete; and

litigation, environmental matters, the potential impact of government regulations, and the use of management estimates regarding such matters.

We caution you that forward-looking statements are not guarantees of future performance and that actual results or performance may be materially different from those expressed or implied in the forward-looking statements. The forward-looking statements in this prospectus speak as of the date hereof. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by securities laws.

GLOSSARY OF OIL AND NATURAL GAS TERMS

The oil and natural gas terms defined in this section are used in this prospectus. The definitions of the terms developed reserves, field, proved reserves, and undeveloped reserves have been abbreviated from the respective definitions under Rule 4-10(a) of Regulation S-X promulgated by the SEC. The entire definitions of those terms under Rule 4-10(a) of Regulation S-X can be located through the SEC's website at *http://www.sec.gov*.

Bbl. One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bcf. Billion cubic feet, used in reference to natural gas.

Bcfe. Billion cubic feet of natural gas equivalent. Natural gas equivalents are determined using the ratio of six Mcf of natural gas (including natural gas liquids) to one Bbl of oil.

Btu. One British thermal unit, the quantity of heat required to raise the temperature of a one-pound mass of water by one degree Fahrenheit.

Developed reserves. Reserves that can be expected to be recovered: (i) through existing wells with existing equipment and operating methods or in which the cost of the required equipment is relatively minor compared to the cost of a new well; and (ii) through installed extraction equipment and infrastructure operational at the time of the reserves estimate if the extraction is by means not involving a well.

Development well. A well drilled within the proved area of an oil or natural gas reservoir to the depth of a stratigraphic horizon known to be productive.

Exploratory well. A well drilled to find and produce oil or natural gas in an unproved area, to find a new reservoir in a field previously found to be productive of oil or natural gas in another reservoir, or to extend a known reservoir beyond its known horizon.

Field. An area consisting of a single reservoir or multiple reservoirs all grouped on or related to the same individual geological structural feature or stratigraphic condition.

Formation. A succession of sedimentary beds that were deposited under the same general geologic conditions.

Table of Contents

MBbl. One thousand barrels of oil or other liquid hydrocarbons.

MMBbl. One million barrels of oil or other liquid hydrocarbons.

Mcf. One thousand cubic feet, used in reference to natural gas.

Mcfe. One thousand cubic feet of natural gas equivalent. Natural gas equivalents are determined using the ratio of six Mcf of natural gas (including natural gas liquids) to one Bbl of oil.

MMBtu. One million British thermal units.

MMcf. One thousand Mcf.

MMcfe. One million cubic feet of natural gas equivalent. Natural gas equivalents are determined using the ratio of six Mcf of natural gas (including natural gas liquids) to one Bbl of oil.

NGLs. The combination of ethane, propane, butane and natural gasolines that when removed from natural gas become liquid under various levels of higher pressure and lower temperature.

NYMEX. New York Mercantile Exchange.

PV-10 value. The present value of estimated future gross revenue to be generated from the production of estimated net proved reserves, net of estimated production and future development costs, based on prices used in estimating the proved reserves and costs in effect as of the date indicated (unless such costs are subject to change pursuant to contractual provisions), without giving effect to non-property related expenses such as general and administrative expenses, debt service, future income tax expenses, or depreciation, depletion, and amortization, discounted using an annual discount rate of ten percent. While this measure does not include the effect of income taxes as it would in the use of the standardized measure of discounted future net cash flows calculation, it does provide an indicative representation of the relative value of the Company on a comparative basis to other companies and from period to period.

Proved reserves. Those quantities of oil and gas, which, by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulations prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. Existing economic conditions include prices and costs at which economic producibility from a reservoir is to be determined, and the price to be used is the average price during the 12-month period prior to the ending date of the period covered by the report, determined as an unweighted arithmetic average of the first-day-of-the-month price for each month within such period, unless prices are defined by contractual arrangements, excluding escalations based upon future conditions.

Recompletion. The completion in an existing wellbore in a formation other than that in which the well has previously been completed.

Standardized measure of discounted future net cash flows. The discounted future net cash flows relating to proved reserves based on prices used in estimating the reserves, year-end costs, and statutory tax rates, and a ten percent annual discount rate. The information for this calculation is included in the note regarding disclosures about oil and gas producing activities contained in the Notes to Consolidated Financial Statements included in this prospectus.

Table of Contents

Undeveloped acreage. Lease acreage on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and natural gas, regardless of whether such acreage contains estimated net proved reserves.

Undeveloped reserves. Reserves that are expected to be recovered from new wells on undrilled acreage, or from existing wells where a relatively major expenditure is required for recompletion. The applicable SEC definition of undeveloped reserves provides that undrilled locations can be classified as having undeveloped reserves only if a development plan has been adopted indicating that they are scheduled to be drilled within five years, unless the specific circumstances justify a longer time.

Table of Contents

SUMMARY

This summary represents highlights of information contained elsewhere or incorporated by reference in this prospectus. Because it is a summary, it is not complete and does not contain all the information that is important to you. You should carefully read the entire prospectus, including the "Risk Factors" section included herein, and our consolidated financial statements and related notes incorporated by reference into this prospectus. As used in this prospectus, all references to "SM Energy," "we," "our," "us," and "the Company" and all similar references are to SM Energy Company and its consolidated subsidiaries, unless otherwise noted or the context otherwise requires. Certain oil and natural gas industry terms used in this prospectus are defined in the "Glossary of Oil and Natural Gas Terms" beginning on page v of this prospectus.

Certain information with respect to our estimated proved reserves referred to and incorporated by reference herein is based in part upon engineering reports of Ryder Scott Company, L.P. and Netherland, Sewell & Associates, Inc., each a firm of independent petroleum engineers. Such information is included and incorporated herein in reliance on the authority of such firms as experts in petroleum engineering.

SM Energy Company

We are an independent energy company engaged in the acquisition, exploration, exploitation, development, and production of crude oil, natural gas, and NGLs in onshore North America. Our assets include leading positions in the Eagle Ford shale and Bakken/Three Forks resource plays, as well as meaningful positions in the Granite Wash, Haynesville shale, Niobrara chalk, and Woodford shale resource plays. We have built a portfolio of onshore properties in the contiguous United States primarily through early entrance into existing and emerging resource plays. This portfolio is comprised of properties with established production and reserves, prospective drilling opportunities, and unconventional resource prospects. We believe our strategy allows for stable and predictable production and reserves growth. Furthermore, by entering these plays early, we believe that we can capture larger resource potential at lower costs.

Our operations, production, and proved reserves are focused in five core operating areas in the United States:

- Our Eagle Ford shale program is in our South Texas & Gulf Coast region, which consists primarily of onshore Texas and Louisiana properties. Our operated and non-operated Eagle Ford shale program is our most significant asset and currently our exclusive focus in our South Texas & Gulf Coast region. Our Eagle Ford shale program accounts for approximately 40.9% of our consolidated third quarter 2011 production.

- Our Bakken/Three Forks program is in our Rocky Mountain region, which is comprised primarily of properties in the Williston Basin in eastern Montana and western North Dakota. Our recent activity in this region has focused primarily on the development of assets targeting the Bakken and Three Forks formations, primarily in McKenzie and Divide Counties of North Dakota. Our Bakken and Three Forks program accounts for approximately 7.0% of our consolidated third quarter 2011 production.

- Our Granite Wash program is in our Mid-Continent region, which is comprised of properties in the Anadarko Basin of Oklahoma and the Texas Panhandle. Our current activity in this play is focused on horizontal exploitation of the oilier and richer gas intervals of this multi-pay basin. The Mid-Continent region also manages our Woodford shale program in the Arkoma Basin.

- Our ArkLaTex region spans eastern Texas, northern Louisiana and southern Arkansas. We have exposure to a number of natural gas-focused plays in this region, including the Haynesville shale, the Cotton Valley sandstone, and the James Lime interval. Our focus in recent years has been on the development of our Haynesville shale position in East Texas. Our current plan is to

Table of Contents

achieve held by production status across our acreage position, which we believe we can achieve by the second half of 2012 with a one drilling rig program. This plan will allow us to hold not only our interests in the Haynesville shale, but also the Bossier shale, which we believe could have potential for commercial development.

Our Permian Basin region is comprised of assets in western Texas and eastern New Mexico. The focus in this region recently has been on testing the down spacing potential of our operated Wolfberry assets, and a number of exploration concepts targeting the Mississippian and Wolfcamp intervals in the basin.

Business Strategy

Our business strategy is to increase net asset value through attractive oil and gas investment activities, while maintaining a conservative capital structure and optimizing our capital expenditures. We focus our efforts on the exploration for and development of onshore, lower-risk resource plays in North America. We believe our inventory of resource plays is well suited for lower-risk reserve and production growth due to the more predictable geologic profile of these types of assets. Furthermore, several of our assets produce significant volumes of crude oil and NGLs that limit our exposure to the current low natural gas price environment. Our strategy is based on the following:

- leveraging our core competencies in replicating resource play success in the drilling, completion, and development of crude oil, natural gas, and NGL reserves;
- focusing on resource plays with lower geologic risk and high liquids content;
- exploiting our legacy assets and optimizing our asset base;
- selectively acquiring leasehold positions in new and emerging resource plays; and
- maintaining a strong balance sheet while funding the growth of our business.

Business Strengths

We believe that the following strengths allow us to successfully execute our business strategy:

- *Quality positions in attractive unconventional plays.* We have meaningful acreage positions in attractive unconventional resource plays in North America. Assuming the consummation of our previously announced transaction with Mitsui E&P Texas LP, a subsidiary of Mitsui & Co., Ltd., we would have approximately 196,000 net acres in the Eagle Ford shale play in south Texas, approximately three-quarters of which we operate with a nearly 100% working interest. In the North Dakota portion of the Williston Basin, we have approximately 204,000 net acres that are prospective in the Bakken/Three Forks formations. We believe that these two plays are large enough to allow us to gain economies of scale and improve our operational efficiency. Additionally, we have attractive positions in the Granite Wash play in the Anadarko basin of western Oklahoma and the Texas Panhandle, as well as positions in the Woodford shale, Haynesville shale, and Niobrara chalk. We believe these programs provide us with a large, multi-year inventory of drilling projects with lower geological risk from which we can build development programs that optimize our capital investments.
- *Significant oil and high Btu gas reserves and production.* A large portion of our Eagle Ford shale acreage generates production that contains richer, high Btu natural gas and condensate, which improve the economics of this asset. Additionally, our Bakken/Three Forks assets produce crude oil with some associated natural gas. We also have positions in other liquid-rich plays, such as the Granite Wash in the Anadarko Basin and the Wolfberry tight oil play in the Permian Basin of west Texas.

Table of Contents

Long track record of financial discipline and conservatism. We strive to maintain a strong balance sheet with an appropriate level of liquidity to fund our business. At September 30, 2011, and after giving effect to the issuance and sale on November 8, 2011 of the $350.0 million principal amount of our 6.50% Senior Notes, we would have had approximately $1.4 billion of liquidity in the form of cash and cash equivalents and additional borrowing capacity under our credit facility. We seek to consistently hedge approximately 50% of our expected volumes from estimated proved developed producing reserves to mitigate the effect of volatility of crude oil, gas and NGL prices on our cash flows. We maintain a diversified group of hedge counterparties, all of whom are lenders under our credit facility.

Experienced management team with leading local operations teams. Our executive management team averages over 25 years of experience in the industry. At the operational level, our regional operations are run by individuals who have all worked on large-scale projects at larger exploration and production companies. In order to attempt to maximize local geological knowledge and reduce operational risk, we maintain regional offices in Billings, Montana; Houston, Texas; Midland, Texas; and Tulsa, Oklahoma. Each office is staffed with a full complement of geologists, geophysicists, engineers, and landmen who have extensive experience in the region or basin where they work.

Recent Developments

6.50% Senior Notes. On November 8, 2011, we issued $350.0 million in aggregate principal amount of 6.50% Senior Notes (the "6.50% Senior Notes") in a private placement. These notes were issued at par value and have a maturity date of November 15, 2021. We used the net proceeds from this offering of approximately $343.1 million to repay outstanding borrowings under our credit facility and for general corporate purposes. General corporate purposes may in the future include funding the redemption of $287.5 million principal amount of our 3.50% Senior Convertible Notes, which are able to be redeemed on or after April 6, 2012. However, we may choose to use the proceeds for other corporate purposes depending on market conditions and other factors.

Corporate Information

We were founded in 1908, incorporated in 1915, and have been a publicly-traded entity since our initial public offering in 1992. Our principal executive offices are located at 1775 Sherman Street, Suite 1200, Denver, Colorado 80203. Our telephone number is (303) 861-8140. Our website address is *www.sm-energy.com*. Information included or referred to on our website is not part of this prospectus.

Table of Contents

SUMMARY OF EXCHANGE OFFER

The following is a summary of the principal terms of the exchange offer. A more detailed description is contained in the section "The Exchange Offer." The term "outstanding notes" refers to our outstanding $350 million 6⁵/₈% senior notes due 2019, all of which were issued on February 7, 2011. The term "exchange notes" refers collectively to our $350,000,000 6⁵/₈% senior notes due 2019 offered by this prospectus, which have been registered under the Securities Act of 1933, as amended (the "Securities Act"). The term "notes" refers collectively to the outstanding notes and the exchange notes offered in the exchange offer. The term "indenture" refers to the indenture that governs both the outstanding notes and the exchange notes.

The Exchange Offer	We are offering to exchange $1,000 principal amount of exchange notes, which have been registered under the Securities Act, for each $1,000 principal amount of outstanding notes, subject to a minimum exchange of $2,000. As of the date of this prospectus, $350.0 million aggregate principal amount of the outstanding notes is outstanding. We issued the outstanding notes in a private transaction for resale pursuant to Rule 144A and Regulation S of the Securities Act. The terms of the exchange notes are substantially identical to the terms of the outstanding notes, except that provisions relating to transfer restrictions, registration rights, and rights to increased interest in addition to the stated interest rate on the outstanding notes ("Additional Interest") will not apply to the exchange notes.
	In order to exchange your outstanding notes for exchange notes, you must properly tender them at or before the expiration of the exchange offer.
Expiration Time	The exchange offer will expire at 5:00 p.m., New York City time, on January 11, 2012, unless the exchange offer is extended, in which case the expiration time will be the latest date and time to which the exchange offer is extended. See "The Exchange Offer Terms of the Exchange Offer; Expiration Time."
Conditions to the Exchange Offer	The exchange offer is subject to customary conditions, see "The Exchange Offer Conditions to the Exchange Offer." The exchange offer is not conditioned upon any minimum principal amount of outstanding notes being tendered.

Table of Contents

Procedures for Tendering Outstanding Notes	Unless you comply with the procedures described under the caption "The Exchange Offer Procedures for Tendering Guaranteed Delivery," you must do one of the following on or prior to the expiration of the exchange offer to participate in the exchange offer: tender your outstanding notes by using the book-entry transfer procedures described below and transmitting a properly completed and duly executed letter of transmittal, with any required signature guarantees, or an agent's message instead of the letter of transmittal, to the exchange agent. In order for a book-entry transfer to constitute a valid tender of your outstanding notes in the exchange offer, U.S. Bank National Association, as registrar and exchange agent, must receive a confirmation of book-entry transfer of your outstanding notes into the exchange agent's account at The Depository Trust Company prior to the expiration of the exchange offer. For more information regarding the use of book-entry transfer procedures, including a description of the required agent's message, please read the discussion under the caption "The Exchange Offer Procedures for Tendering Book-Entry Transfer"; or tender your outstanding notes by sending the certificates for your outstanding notes, in proper form for transfer, a properly completed and duly executed letter of transmittal, with any required signature guarantees, and all other documents required by the letter of transmittal, to U.S. Bank National Association, as registrar and exchange agent, at the address listed under the caption "The Exchange Offer Exchange Agent."
Guaranteed Delivery Procedures	If you are a registered holder of the outstanding notes and wish to tender your outstanding notes in the exchange offer, but the outstanding notes are not immediately available, time will not permit your outstanding notes or other required documents to reach the exchange agent before the expiration of the exchange offer, or the procedure for book-entry transfer cannot be completed prior to the expiration of the exchange offer, then you may tender outstanding notes by following the procedures described under the caption "The Exchange Offer Procedures for Tendering Guaranteed Delivery."

Table of Contents

Special Procedures for Beneficial Owners	If you are a beneficial owner whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender your outstanding notes in the exchange offer, you should promptly contact the person in whose name the outstanding notes are registered and instruct that person to tender on your behalf. If you wish to tender in the exchange offer on your own behalf, prior to completing and executing the letter of transmittal and delivering the certificates for your outstanding notes, you must either make appropriate arrangements to register ownership of the outstanding notes in your name or obtain a properly completed bond power from the person in whose name the outstanding notes are registered.
Withdrawal of Tenders	You may withdraw any outstanding notes tendered in the exchange offer at any time prior to 5:00 p.m., New York City time, on January 11, 2012. If we decide for any reason not to accept any outstanding notes tendered for exchange, the outstanding notes will be returned to the registered holder at our expense promptly after the expiration or termination of the exchange offer. In the case of outstanding notes tendered by book-entry transfer into the exchange agent's account at The Depository Trust Company, any withdrawn or unaccepted outstanding notes will be credited to the tendering holder's account at The Depository Trust Company. For further information regarding the withdrawal of tendered outstanding notes, please read "The Exchange Offer Withdrawal Rights."
Acceptance of Outstanding notes and Delivery of Exchange Notes	Upon consummation of the exchange offer, we will accept any and all outstanding notes that are properly tendered in the exchange offer and not withdrawn at or prior to the expiration time. The exchange notes issued pursuant to the exchange offer will be delivered promptly after acceptance of the tendered outstanding notes. See "The Exchange Offer Terms of the Exchange Offer; Expiration Time."
Registration Rights Agreement	We are making the exchange offer pursuant to the registration rights agreement that we entered into on February 7, 2011, with the initial purchasers of the outstanding notes.

Table of Contents

Resales of Exchange Notes

We believe that the exchange notes issued in the exchange offer may be offered for resale, resold, or otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that:

- you are not an "affiliate" of ours;
- the exchange notes you receive pursuant to the exchange offer are being acquired in the ordinary course of your business;
- you have no arrangement or understanding with any person to participate in the distribution of the exchange notes issued to you in the exchange offer;
- if you are not a broker-dealer, you are not engaged in, and do not intend to engage in, a distribution of the exchange notes issued in the exchange offer; and
- if you are a broker-dealer, you will receive the exchange notes for your own account, the outstanding notes were acquired by you as a result of market-making or other trading activities, and you will deliver a prospectus when you resell or transfer any exchange notes issued in the exchange offer. See "Plan of Distribution" for a description of the prospectus delivery obligations of broker-dealers in the exchange offer.

If you do not meet these requirements, your resale of the exchange notes must comply with the registration and prospectus delivery requirements of the Securities Act.

Our belief is based on interpretations by the staff of the SEC, as set forth in no-action letters issued to third parties. The staff of the SEC has not considered this exchange offer in the context of a no-action letter, and we cannot assure you that the staff of the SEC would make a similar determination with respect to this exchange offer.

If our belief is not accurate and you transfer an exchange note without delivering a prospectus meeting the requirements of the federal securities laws or without an exemption from these laws, you may incur liability under the federal securities laws. We do not and will not assume, or indemnify you against, this liability. See "The Exchange Offer Consequences of Exchanging Outstanding Notes."

Table of Contents

Consequences of Failure to Exchange Outstanding Notes	If you do not exchange your outstanding notes in the exchange offer, your outstanding notes will continue to be subject to the restrictions on transfer provided in the outstanding notes and in the indenture. In general, the outstanding notes may not be offered or sold unless registered or sold in a transaction exempt from registration under the Securities Act and applicable state securities laws. If a substantial amount of the outstanding notes is exchanged for a like amount of the exchange notes, the liquidity and the trading market for your untendered outstanding notes could be adversely affected. See "The Exchange Offer Consequences of Failure to Exchange Outstanding Notes."
Exchange Agent	The exchange agent for the exchange offer is U.S. Bank, National Association. For additional information, see "The Exchange Offer The Exchange Agent" and the accompanying letter of transmittal.
Material U.S. Federal Income Tax Considerations	The exchange of your outstanding notes for exchange notes should not be a taxable exchange for United States federal income tax purposes. **You should consult your own tax advisor as to the tax consequences to you of the exchange offer, as well as tax consequences of the ownership and disposition of the exchange notes**. For additional information, see "Material U.S. Federal Income Tax Considerations."

Table of Contents

SUMMARY OF THE TERMS OF EXCHANGE NOTES

The following summary contains basic information about the exchange notes and is not intended to be complete. For a more complete understanding of the notes, please refer to the section entitled "Description of Notes" in this prospectus.

Issuer	SM Energy Company
Exchange Notes	\$350 million aggregate principal amount of 6 5/8% senior notes due 2019
Maturity Date	February 15, 2019
Interest Payment Dates	Interest is payable on the exchange notes on February 15 and August 15 of each year, beginning on February 15, 2012.
Interest	Interest on the exchange notes will accrue at a rate of 6.625% per annum on the principal amount, from the most recent date on which interest was paid on the outstanding notes.
Ranking	The exchange notes will be our senior unsecured obligations and will: rank equally in right of payment with all of our existing and future senior indebtedness; rank senior in right of payment to all of our future subordinated indebtedness; be structurally subordinated in right of payment to all of our existing and future secured indebtedness to the extent of the value of the collateral securing such indebtedness (including all of our borrowings under our credit facility); and be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of our subsidiaries, except to the extent that our subsidiaries guarantee the exchange notes as provided herein. At September 30, 2011, after giving effect to the issuance and sale of our 6.50% Senior Notes and the application of the net proceeds therefrom, we would have had total consolidated indebtedness of \$987.5 million, consisting of \$287.5 million of our outstanding 3.50% Senior Convertible Notes due 2027 (our "3.50% Senior Convertible Notes"); \$350.0 million of our outstanding 6.50% Senior Notes due 2021, and \$350.0 million of the outstanding notes to be exchanged hereunder, and we would have been able to incur an additional \$999.4 million of secured indebtedness under our credit facility.

Table of Contents

Guarantees	The exchange notes initially will not be guaranteed by any of our subsidiaries. Currently, our subsidiaries do not guarantee our indebtedness under our credit facility. Our subsidiaries generated less than 5% of our revenues for the nine months ended September 30, 2011, and held less than 0.5% of our consolidated total assets as of such date. Our subsidiaries may in the future guarantee our obligations under the exchange notes if they guarantee certain of our other indebtedness as set forth under "Description of Notes Certain Covenants Future Subsidiary Guarantors."
Optional Redemption	We will have the option to redeem the exchange notes, in whole or in part, at any time on or after February 15, 2015, in each case at the redemption prices described in this prospectus under the heading "Description of Notes Optional Redemption," together with any accrued and unpaid interest to the date of redemption.
	Prior to February 15, 2015, we may redeem the exchange notes, in whole or in part, at a "make-whole" redemption price described under "Description of Notes Optional Redemption," together with any accrued and unpaid interest to the date of redemption.
	In addition, prior to February 15, 2014, we may, at any time or from time to time, redeem up to 35% of the exchange notes with the proceeds of certain equity offerings at the price described in this prospectus under the heading "Description of Notes Optional Redemption," together with any accrued and unpaid interest to the date of redemption.
Certain Covenants	We will issue the exchange notes under an indenture with U.S. Bank National Association, as trustee. The indenture contains covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: incur additional debt; make certain dividends or pay dividends or distributions on our capital stock or purchase, redeem or retire capital stock; sell assets, including capital stock of our restricted subsidiaries; restrict dividends or other payments of our restricted subsidiaries; create liens that secure debt; enter into transactions with affiliates; and merge or consolidate with another company.
	These covenants are subject to a number of important limitations and exceptions. See "Description of Notes Certain Covenants." However, most of the covenants will terminate if both Standard & Poor's Ratings Services and Moody's Investors Service, Inc. assign the exchange notes an investment grade rating and no default exists with respect to the exchange notes.

Table of Contents

Change of Control Offer	Upon the occurrence of a change of control, holders of the exchange notes will have the right to require us to repurchase all or a portion of the exchange notes at a price equal to 101% of the principal amount, together with any accrued and unpaid interest, if any, to the date of repurchase.
Form and Denominations	The exchange notes will be issued in minimum denominations of $2,000 and any integral multiple of $1,000.
Governing Law	The indenture provides that it and the exchange notes will be governed by, and construed in accordance with, the laws of the State of New York.
Trading	The exchange notes will not be listed on any securities exchange or included in any automated quotation system. The exchange notes will be new securities for which there is currently no public market.
Use of Proceeds	We are making the exchange offer to satisfy our obligations under the registration rights agreement. We will not receive any cash proceeds from the exchange of the exchange notes for the outstanding notes pursuant to the exchange offer. For more information about our use of proceeds, see "Use of Proceeds."
Risk Factors	**See "Risk Factors" and other information included or incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to invest in the exchange notes.**

Table of Contents

SUMMARY CONDENSED CONSOLIDATED HISTORICAL FINANCIAL DATA

We derived the following summary selected historical financial data as of December 31, 2010 and 2009, and for each of the three years in the period ended December 31, 2010, from our audited financial statements, which are incorporated by reference herein and should be read in conjunction with the Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Item 8, "Financial Statements and Supplementary Data" included in our 2010 10-K, which is also incorporated by reference herein. The following financial data at December 31, 2008, 2007, and 2006, and for the years ended December 31, 2007 and 2006 has been prepared from our accounting records. The financial data for the nine months ended September 30, 2010 and 2011, respectively, was derived from our unaudited consolidated financial statements included in our 2011 Third Quarter 10-Q, which is incorporated by reference in this prospectus, and should be read in

Table of Contents

conjunction with Part I, Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Part I, Item 1, "Financial Statements" of the Third Quarter 10-Q.

	As of and for the Years Ended December 31,					As of and for the Nine Months Ended September 30,	
	2006	2007	2008	2009	2010	2010	2011
				(in thousands)			
Operating revenues and other income:							
Oil, gas and NGL production revenue(1)	$ 730,737	$ 912,093	$ 1,259,400	$ 615,953	$ 836,288	$ 586,128	$ 935,478
Realized oil and gas hedge gain (loss)	28,176	24,484	(101,096)	140,648	23,465	20,771	(14,548)
Marketed gas system revenue	20,936	45,149	77,350	58,459	70,110	54,027	56,268
Gain (loss) on divestiture activity	6,910	(367)	63,557	11,444	155,277	132,183	245,662
Other revenue	942	8,735	2,090	5,697	7,694	5,607	916
Total operating revenues and other income	787,701	990,094	1,301,301	832,201	1,092,834	798,716	1,223,776
Operating expenses:							
Oil, gas and NGL production expense	176,590	218,208	271,355	206,800	195,075	138,114	196,907
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	154,522	227,596	314,330	304,201	336,141	241,335	343,805
Exploration	51,889	58,686	60,121	62,235	63,860	42,833	33,587
Impairment of proved properties	7,232		302,230	174,813	6,127		48,525
Abandonment and impairment of unproved properties	4,301	4,756	39,049	45,447	1,986	4,998	4,316
Impairment of materials inventory				14,223			
Impairment of goodwill			9,452				
General and administrative	38,873	60,149	79,503	76,036	106,663	75,103	82,958
Bad debt expense (recovery)			16,735	(5,189)			
Change in Net Profits Plan liability	23,759	50,823	(34,040)	(7,075)	(34,441)	(29,785)	(24,719)
Marketed gas system expense	18,526	42,485	72,159	57,587	66,726	52,550	51,596
Unrealized and realized derivative (gain) loss	7,094	5,458	(11,209)	20,469	8,899	(4,095)	(83,872)
Other expense	2,649	2,522	10,415	13,489	3,027	2,071	6,150
Total operating expenses	485,435	670,683	1,130,100	963,036	754,063	523,124	659,253
	302,266	319,411	171,201	(130,835)	338,771	275,592	564,523

Income (loss) from operations							
Nonoperating income (expense):							
Interest income	1,576	746	485	227	321	268	382
Interest expense	(8,521)	(24,046)	(26,950)	(28,856)	(24,196)	(19,469)	(33,636)
Income (loss) before income taxes	295,321	296,111	144,736	(159,464)	314,896	256,391	531,269
Income tax benefit (expense)	(105,306)	(109,013)	(57,388)	60,094	(118,059)	(96,693)	(195,142)
Net income (loss)	$ 190,015	$ 187,098	$ 87,348	$ (99,370)	$ 196,837	$ 159,698	$ 336,127
Balance Sheet Data (end of period):							
Cash and cash equivalents	$ 1,464	$ 43,510	$ 6,131	$ 10,649	$ 5,077	$ 7,089	$ 29,923
Total assets	1,899,097	2,572,942	2,697,247	2,360,936	2,744,321	2,518,997	3,456,280
Total noncurrent liabilities	951,653	1,307,823	1,238,137	1,090,695	1,023,742	945,492	1,445,001
Total stockholders' equity	743,374	902,574	1,162,509	973,570	1,218,526	1,202,451	1,587,753

(1) Beginning in the first quarter of 2011, we changed our reporting for natural gas volumes to show natural gas and NGL production volumes consistent with title transfer for each product. Prior year NGL production volumes, revenues, and prices have not been reclassified to conform to the current presentation given the immateriality of NGL volumes in prior periods. Please see the additional discussion below under the section entitled "Summary Reserve, Production and Operating Data."

Table of Contents

SUMMARY RESERVE, PRODUCTION AND OPERATING DATA

The following table presents summary data with respect to our estimated net proved crude oil and natural gas reserves as of the dates indicated. Our reserve estimates as of December 31, 2008, 2009 and 2010 are based primarily on reserve reports prepared by SM Energy and audited by Ryder Scott Company, L.P., and, for certain properties we owned in 2008, reserve reports prepared by Netherland, Sewell & Associates, Inc., each of which is a firm of independent reserve engineers. Our estimated proved reserves and related PV-10 value at December 31, 2009 and 2010 were determined in accordance with the new reserve disclosure rules of the SEC using the 12-month unweighted arithmetic average of the first-day-of-the-month price for the period January 2009 through December 2009 and January 2010 through December 2010, respectively, without giving effect to derivative transactions, and were held constant throughout the life of the properties. These prices were $61.18 per Bbl for oil and oil equivalents and $3.87 per MMBTU for natural gas at December 31, 2009, and $79.43 per Bbl for oil and oil equivalents and $4.38 per MMBTU for natural gas at December 31, 2010. Calculations of estimated net proved reserves for the year ended December 31, 2008, have been made in accordance with the rules and regulations of the SEC applicable during that year. For a discussion of the impact of the new reserve disclosure rules on estimated net proved reserves and comparisons with historical estimated net proved reserves, please see Note 1 of the Notes to Consolidated Financial Statements in our 2010 10-K, which is incorporated by reference in this prospectus.

	As of and for the Years Ended December 31,		
	2008	2009	2010
Reserve Information:			
Estimated proved reserves:			
Oil (MBbl)	51,363	53,784	57,412
Natural gas (MMcf)	557,366	449,545	640,047
Natural gas equivalents (MMcfe)	865,544	772,247	984,517
Percentage proved developed	83	82	70
Standardized measure of discounted future net cash flows (in thousands)	$ 1,059,069	$ 1,015,967	$ 1,666,367
PV-10 (in thousands)	$ 1,265,385	$ 1,284,085	$ 2,344,331
Estimated reserve life (in years)	7.6	7.1	8.9
Costs incurred in oil and natural gas producing activities (in thousands)	$ 857,666	$ 418,983	$ 877,380

The following table reconciles the standardized measure of discounted future net cash flows (GAAP) to the PV-10 value (Non-GAAP). The difference has to do with the PV-10 value measure excluding the impact of income taxes. Please see the definitions of standardized measure of discounted future net cash flows and PV-10 value in the Glossary.

	As of and for the Years Ended December 31,		
	2008	2009	2010
		(in thousands)	
Standardized measure of discounted future net cash flows	$ 1,059,069	$ 1,015,967	$ 1,666,367
Add: 10 percent annual discount, net of income taxes	724,840	732,997	1,294,632
Add: future income taxes	419,544	515,953	1,335,576
Undiscounted future net cash flows	$ 2,203,453	$ 2,264,917	$ 4,296,575
Less: 10 percent annual discount without tax effect	(938,068)	(980,832)	(1,952,244)
PV-10 value	$ 1,265,385	$ 1,284,085	$ 2,344,331

Prior to 2011, we reported our natural gas production as a single stream of rich gas measured at the well head. As a result, we historically reported realized prices for our natural gas production for

Table of Contents

periods through December 31, 2010, that were higher than industry benchmarks due to the price uplift associated with incremental value contained in the higher BTU content of our produced gas stream. Beginning in the first quarter of 2011, we changed our reporting for natural gas volumes to show natural gas and NGL production volumes consistent with title transfer for each product. Projected rapid production growth from our rich gas assets with plant product sales contracts necessitated a change in our reporting of production volumes. Prior period production volumes, revenues, and prices have not been reclassified to conform to the current presentation given the immateriality of the NGL volumes produced in prior periods. We sell the majority of our natural gas under contracts that use first-of-the-month index pricing, which means that gas produced in a given month is sold at the first-of-the-month price regardless of the spot price on the day the gas is produced. For assets where high BTU gas is sold at the wellhead, we also receive additional value for the high energy content contained in the gas stream.

	For the Years Ended December 31,			For the Nine Months Ended September 30,	
	2008	2009	2010	2010	2011
Production and operating data:					
Production:					
Oil (MMBbl)	6.6	6.3	6.4	4.5	5.6
Natural gas (Bcf)	74.9	71.1	71.9	51.2	71.5
Natural gas liquids (MMBbl)					2.2
Equivalents (Bcfe)	114.6	109.1	110.0	78.3	118.4
Realized sales prices (before derivative settlements)					
Oil ($/Bbl)	$ 92.99	$ 54.40	$ 72.65	$ 70.70	$ 88.54
Natural gas ($/Mcf)	$ 8.60	$ 3.82	$ 5.21	$ 5.20	$ 4.51
Natural gas liquids ($/Bbl)					$ 52.71
Equivalent ($/Mcfe)	$ 10.99	$ 5.65	$ 7.60	$ 7.48	$ 7.90
Realized sales prices (after impact of derivative settlements)					
Oil ($/Bbl)	$ 75.59	$ 56.74	$ 66.85	$ 65.46	$ 78.13
Natural gas ($/Mcf)	$ 8.79	$ 5.59	$ 6.05	$ 6.07	$ 4.97
Natural gas liquids ($/Bbl)					$ 46.45
Equivalent ($/Mcfe)	$ 10.11	$ 6.94	$ 7.82	$ 7.75	$ 7.57
Average costs per Mcfe					
Production expense	$ 1.65	$ 1.52	$ 1.29	$ 1.30	$ 1.37
Production tax	$ 0.71	$ 0.37	$ 0.48	$ 0.46	$ 0.29
Depreciation, depletion, amortization, and accretion	$ 2.74	$ 2.79	$ 3.06	$ 3.08	$ 2.90
General and administrative	$ 0.69	$ 0.70	$ 0.97	$ 0.96	$ 0.70

Note: Prior year NGL production volumes, revenues, and prices have not been reclassified to conform to the current presentation given the immateriality of the NGL volumes in prior periods. Please refer to additional discussion above.

Table of Contents

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for SM Energy for each of the periods indicated is as follows:

	Nine Months Ended September 30, 2011	**Year Ended December 31,**			
	$ 921,486	$ 185,873	$ 141,185	$ 27,272	$1,275,816
Adjustments	(40)	(268)	—	—	(308)
Translation	(6,305)	(2,301)	(942)	(182)	(9,730)
June 30, 2018 balance	$ 915,141	$ 183,304	$ 140,243	$ 27,090	$ 1,265,778

Goodwill is tested at least annually for impairment on November 30, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We first perform a qualitative assessment to determine whether it is more likely than not that the fair value of our reporting units is less than their respective carrying value ("Step Zero analysis"). If the Step Zero analysis indicates it is more likely than not that the fair value of our reporting units is less than their respective carrying value, an additional impairment assessment is performed ("Step One Analysis"). Refer to Critical Accounting Policies and Estimates.

Table of Contents

Identifiable intangible assets consisted of the following (in thousands):

	June 30, 2018			December 31, 2017		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
Finite-lived intangibles						
Customer relationships	$261,938	$ (142,249)	$119,689	$263,093	$ (122,103)	$140,990
Non-competition agreements	300	(210)	90	300	(180)	120
Total finite-lived intangibles	262,238	(142,459)	119,779	263,393	(122,283)	141,110
Indefinite-lived intangibles						
Trademarks	10,475	—	10,475	10,475	—	10,475
Total intangibles	$272,713	$ (142,459)	$130,254	$273,868	$ (122,283)	$151,585

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Amortization expense	$9,196	$8,843	$18,595	$17,718

Definite-lived intangible assets, by reportable segment, as of June 30, 2018, will be amortized over their remaining lives as follows (in thousands):

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Total
Remainder of 2018	$3,913	$ 14,744	$ —	$ —	$18,657
2019	7,820	29,485	—	—	37,305
2020	260	26,780	—	—	27,040
2021	260	13,260	—	—	13,520
2022	260	13,260	—	—	13,520
Thereafter	354	9,383	—	—	9,737
Total					$119,779

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 assets or liabilities as of and during the periods ended June 30, 2018, and December 31, 2017. There were no transfers between levels during the period.

Table of Contents

NOTE 4. FINANCING ARRANGEMENTS

The components of our short-term and long-term debt and the associated interest rates were as follows (dollars in thousands):

	Average interest rate as of		Maturity	Carrying value as of	
	June 30, 2018	December 31, 2017		June 30, 2018	December 31, 2017
Revolving credit facility	3.68%	2.70%	December 2019	$66,000	$ 715,000
Senior Notes, Series A	3.97%	3.97%	August 2023	175,000	175,000
Senior Notes, Series B	4.26%	4.26%	August 2028	150,000	150,000
Senior Notes, Series C	4.60%	4.60%	August 2033	175,000	175,000
Receivables securitization facility [1]	2.87%	2.00%	April 2019	249,854	250,000
Senior Notes [1]	4.20%	N/A	April 2028	591,200	—
Total debt				1,407,054	1,465,000
Less: Current maturities and short-term borrowing				(66,000)	(715,000)
Long-term debt				$1,341,054	$ 750,000

[1] Net of unamortized discounts and issuance costs.

SENIOR UNSECURED REVOLVING CREDIT FACILITY

We have a senior unsecured revolving credit facility (the "Credit Agreement") with total availability of $900 million. 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 June 30, 2018, the variable rate equaled LIBOR plus 1.13 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 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.

The Credit Agreement contains various restrictions and covenants that require the Company to maintain certain financial ratios, including a maximum leverage ratio of 3.00 to 1.00. The Credit Agreement also contains customary events of default. If an event of default under the Credit Agreement occurs and is continuing, then the administrative agent may declare any outstanding obligations under the Credit Agreement to be immediately due and payable. In addition, if we become the subject of voluntary or involuntary proceedings under any bankruptcy, insolvency, or similar law, then any outstanding obligations under the Credit Agreement will automatically become immediately due and payable.

NOTE PURCHASE AGREEMENT

On August 23, 2013, we entered into a Note Purchase Agreement with certain institutional investors (the “Purchasers”). On August 27, 2013, the Purchasers purchased an aggregate principal amount of $500 million of the Company's Senior Notes, Series A, Senior Notes Series B, and Senior Notes Series C, collectively (the “Notes”). Interest on the Notes is payable semi-annually in arrears. The fair value of the Notes approximated $491.8 million at June 30, 2018. We estimate the fair value of the Notes 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 the Notes were recorded at fair value, they would be classified as Level 2.

The Note Purchase Agreement contains various restrictions and covenants that require the Company to maintain certain financial ratios, including a maximum leverage ratio of 3.00 to 1.00, a minimum interest coverage ratio of 2.00 to 1.00, and a maximum consolidated priority debt to consolidated total asset ratio of 15 percent.

The Note Purchase Agreement provides for customary events of default. 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.

Table of Contents

U.S. TRADE ACCOUNTS RECEIVABLE SECURITIZATION

On April 26, 2017, we entered into a receivables purchase agreement and related transaction documents with The Bank of Tokyo-Mitsubishi UFJ, Ltd., New York Branch and Wells Fargo Bank, National Association to provide a receivables securitization facility (the “Receivables Securitization Facility”). The Receivables Securitization Facility is based on the securitization of our U.S. trade accounts receivable and provides funding of up to $250 million. The interest rate on borrowings under the Receivables Securitization Facility is based on the asset-backed commercial paper rate plus a margin or 30 day LIBOR plus a margin. There is also a commitment fee we are required to pay on any unused portion of the facility. The Receivables Securitization Facility expires on April 26, 2019 unless extended by the parties. The recorded amount of borrowings outstanding on the Receivables Securitization Facility approximates fair value because it can be redeemed on short notice and the interest rate floats, therefore, we consider these borrowings to be a Level 2 financial liability.

The Receivables Securitization Facility contains various customary affirmative and negative covenants, and it also contains customary default and termination provisions which provide for acceleration of amounts owed under the Receivables Securitization Facility upon the occurrence of certain specified events.

SENIOR NOTES

On April 9, 2018, we issued senior unsecured notes ("Senior Notes") through a public offering. The Senior Notes bear an annual interest rate of 4.20 percent payable semi-annually on April 15 and October 15, until maturity on April 15, 2028. The proceeds from the Senior Notes were utilized to pay down the balance on our Credit Agreement. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 4.39 percent per annum. The fair value of the Senior Notes, excluding debt discounts and issuance costs, approximated $585.4 million as of June 30, 2018, based primarily on the market prices quoted from external sources. The carrying value of the Senior Notes was $591.2 million as of June 30, 2018. If the Senior Notes were measured at fair value in the financial statements, they would be classified as Level 2 in the fair value hierarchy.

We may redeem the Senior Notes, in whole or in part, at any time and from time to time prior to their maturity at the applicable redemption prices described in the Senior Notes. Upon the occurrence of a “change of control triggering event” as defined in the Senior Notes (generally, a change of control of us accompanied by a reduction in the credit rating for the Senior Notes), we will generally be required to make an offer to repurchase the Senior Notes from holders at 101 percent of their principal amount plus accrued and unpaid interest to the date of repurchase.

The Senior Notes were issued under an indenture that contains covenants imposing certain limitations on our ability to incur liens, enter into sales and leaseback transactions and consolidate, merge or transfer substantial all of our assets and those of our subsidiaries on a consolidated basis. It also provides for customary events of default (subject in certain cases to customary grace and cure periods), which include among other things nonpayment, breach of covenants in the indenture and certain events of bankruptcy and insolvency. If an event of default occurs and is continuing with respect to the Senior Notes, the trustee or holders of at least 25 percent in principal amount outstanding of the Senior Notes may declare the principal and the accrued and unpaid interest, if any, on all of the outstanding Senior Notes to be due and payable. These covenants and events of default are subject to a number of important qualifications, limitations and exceptions that are described in the indenture. The indenture does not contain any financial ratios or specified levels of net worth or liquidity to which we must adhere.

As of June 30, 2018, we were in compliance with all of the covenants under the Credit Agreement, Note Purchase Agreement, Receivables Securitization Facility, and Senior Notes.

Table of Contents

NOTE 5. INCOME TAXES

C.H. Robinson Worldwide, Inc. and its 80 percent (or more) owned U.S. subsidiaries file a consolidated federal 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 2011. We are currently under an Internal Revenue Service audit for the 2015 tax year.

Our effective tax rate for the three months ended June 30, 2018 and 2017 was 25.6 percent and 35.6 percent, respectively, and our effective tax rate for the six months ended June 30, 2018 and 2017 was 23.6 percent and 33.6 percent, respectively. The effective income tax rate for the three and six months ended June 30, 2018 was higher than the statutory federal income tax rate due to state income taxes, net of federal benefit, and foreign income taxes, but was partially offset by the tax impact of share-based payment awards. The tax impact of share-based payment awards resulted in a decrease in our provision for income taxes for the six months ended June 30, 2018 and 2017 of $7.5 million and $10.6 million, respectively. We have asserted that we will indefinitely reinvest earnings of foreign subsidiaries to support expansion of our international business. If we repatriated all foreign earnings, the estimated effect on income taxes payable would be an increase of approximately $15.0 million as of June 30, 2018.

In connection with our initial analysis of the impact of the Tax Act, we recorded a discrete net tax benefit of $12.1 million in the year ended December 31, 2017. We have not yet completed our accounting for the income tax effects of certain elements of the Tax Act, but we were able to make reasonable estimates for elements in which our analysis is not complete and have therefore recorded provisional adjustments. During the six months ended June 30, 2018 we revised our analysis and recorded an additional net tax expense of $1.0 million related to an increase in 2017 transition taxes, resulting in a revised estimated net tax benefit of $11.1 million.

Further, per FASB guidance, we are allowed to make an accounting policy election of either (1) treating taxes due on future U.S. inclusions in taxable income related to Global Intangible Low-Taxed Income (“GILTI”) as a current-period expense when incurred or (2) factoring such amounts into our measurement of our deferred taxes. We have elected to recognize the tax on GILTI as a current-period expense in the period the tax is incurred.

As of June 30, 2018, we have $36.0 million of unrecognized tax benefits and related interest and penalties. It is possible the amount of unrecognized tax benefit could change in the next 12 months as a result of a lapse of the statute of limitations and settlements with taxing authorities. The total liability for unrecognized tax benefits is expected to decrease by approximately $1.8 million in the next 12 months due to lapsing of statutes.

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 June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Stock options	$7,263	$624	$12,265	$3,626
Stock awards	18,692	3,312	30,904	11,722
Company expense on ESPP discount	615	588	1,535	1,494
Total stock-based compensation expense	$26,570	$4,524	$44,704	$16,842

On May 12, 2016, our shareholders approved an amendment to and restatement of 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 13,041,803 shares can be granted under this plan. Approximately 3,006,181 shares were available for stock awards under the plan as of June 30, 2018. 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.

Table of Contents

Stock Options - We have awarded time-based and 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 or on the employees continued employment. Any options remaining unvested at the end of the five-year vesting period are forfeited to the company. Although participants can exercise options via a stock swap exercise, we do not issue reloads (restoration options) on the grants.

The fair value of these options is established based on the market price on the date of grant, discounted for post-vesting holding restrictions, calculated using the Black-Scholes option pricing model. Changes in measured stock price volatility and interest rates are the primary reasons for changes in the discount. These grants are being expensed based on the terms of the awards. As of June 30, 2018, unrecognized compensation expense related to stock options was $45.9 million. The amount of future expense to be recognized will be based on the passage of time, the company's earnings growth, and certain other conditions.

Full Value Awards - We have awarded performance-based 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 our 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 15 percent to 21 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 time-based 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, discounted for post-vesting holding restrictions 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. 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 June 30, 2018, there was unrecognized compensation expense of $106.9 million related to previously granted full value awards. The amount of future expense to be recognized will be based on the passage of time, the company's earnings growth, and certain other conditions.

Employee Stock Purchase Plan - Our 1997 Employee Stock Purchase Plan ("ESPP") 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 June 30, 2018		
Shares purchased by employees	Aggregate cost to employees	Expense recognized by the company
48,991	$ 3,484	$ 615

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 14 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.

Table of Contents

NOTE 8. ACQUISITIONS

On August 31, 2017, we acquired the outstanding shares of Milgram & Company Ltd. ("Milgram") for the purpose of expanding our global presence and bringing additional capabilities and expertise to our portfolio. Total purchase consideration, net of cash acquired, was $47.3 million, which was paid in cash. We used advances under the Credit Agreement to fund part of the cash consideration.

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

	Estimated Life (years)	
Customer relationships	7	$ 14,004

There was $28.3 million of goodwill recorded related to the acquisition of Milgram. The Milgram goodwill is a result of acquiring and retaining the Milgram existing workforce and expected synergies from integrating its business into ours. Purchase accounting is considered final. The goodwill is not deductible for tax purposes. The results of operations of Milgram have been included in our consolidated financial statements since September 1, 2017.

NOTE 9. SEGMENT REPORTING

Our reportable segments are based on our method of internal reporting, which generally segregates the segments by service line and the primary services they provide to our customers. We identify three reportable segments as follows:

- North American Surface Transportation-NAST provides freight transportation services across North America through a network of offices in the United States, Canada, and Mexico. The primary services provided by NAST include truckload, LTL, and intermodal.
- Global Forwarding-Global Forwarding provides global logistics services through an international network of offices in North America, Asia, Europe, Australia, New Zealand, and South America and also contracts with independent agents worldwide. The primary services provided by Global Forwarding include ocean freight services, airfreight services, and customs brokerage.
- Robinson Fresh-Robinson Fresh provides sourcing services under the trade name of Robinson Fresh. Our sourcing services primarily include the buying, selling, and marketing of fresh fruits, vegetables, and other perishable items. Robinson Fresh sources products from around the world and has a physical presence in North America, Europe, Asia, and South America. This segment often provides the logistics and transportation of the products they sell, in addition to temperature controlled transportation services for its customers.
- All Other and Corporate-All Other and Corporate includes our Managed Services segment, as well as Other Surface Transportation outside of North America and other miscellaneous revenues and unallocated corporate expenses. Managed Services provides Transportation Management Services, or Managed TMS®. Other Surface Transportation revenues are primarily earned by Europe Surface Transportation. Europe Surface Transportation provides services similar to NAST across Europe.

The internal reporting of segments is defined, based in part, on the reporting and review process used by our chief operating decision maker, our Chief Executive Officer. The accounting policies of our reporting segments are the same as those described in the summary of significant accounting policies. Segment information as of, and for the three and six months ended June 30, 2018 and 2017, is as follows (dollars in thousands):

Table of Contents

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Three Months Ended June 30, 2018						
Revenues	$2,878,904	$ 617,597	$621,024	$158,512	$ —	$ 4,276,037
Intersegment revenues[1]	135,317	14,875	50,131	3,891	(204,214)	—
Total revenues	3,014,221	632,472	671,155	162,403	(204,214)	4,276,037
Net revenues	436,813	144,031	55,537	35,102	—	671,483
Income from operations	184,566	29,788	9,232	(4,578)	—	219,008
Depreciation and amortization	6,085	8,753	1,144	8,256	—	24,238
Total assets[2]	2,470,743	861,080	445,926	675,535	—	4,453,284
Average headcount	6,957	4,736	909	2,627	—	15,229

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Three Months Ended June 30, 2017						
Revenues	$2,381,551	$ 528,820	$657,003	$142,644	$ —	$ 3,710,018
Intersegment revenues[1]	112,243	7,440	39,669	3,670	(163,022)	—
Total revenues	2,493,794	536,260	696,672	146,314	(163,022)	3,710,018
Net revenues	359,906	121,023	60,846	32,014	—	573,789
Income from operations	140,284	27,675	14,249	(388)	—	181,820
Depreciation and amortization	5,706	8,099	1,198	7,943	—	22,946
Total assets[2]	2,189,711	741,443	455,214	579,521	—	3,965,889
Average headcount	7,003	4,021	980	2,616	—	14,620

Table of Contents

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Six Months Ended June 30, 2018						
Revenues	$5,541,915	$1,171,351	$1,171,493	$316,605	$ —	$8,201,364
Intersegment revenues[1]	258,862	24,239	98,477	10,190	(391,768)	—
Total Revenues	5,800,777	1,195,590	1,269,970	326,795	(391,768)	8,201,364
Net Revenues	851,582	267,068	109,407	69,351	—	1,297,408
Income from Operations	358,644	38,009	18,539	(4,599)	—	410,593
Depreciation and amortization	12,218	17,662	2,317	16,282	—	48,479
Total assets[2]	2,470,743	861,080	445,926	675,535	—	4,453,284
Average headcount	6,921	4,743	913	2,600	—	15,177

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Six Months Ended June 30, 2017						
Revenues	$4,640,803	$997,608	$1,207,448	$279,284	$ —	$7,125,143
Intersegment revenues[1]	213,397	15,583	73,009	10,548	(312,537)	—
Total Revenues	4,854,200	1,013,191	1,280,457	289,832	(312,537)	7,125,143
Net Revenues	732,346	227,569	117,683	64,757	—	1,142,355
Income from Operations	296,161	43,881	28,901	835	—	369,778
Depreciation and amortization	11,296	16,119	2,344	15,618	—	45,377
Total assets[2]	2,189,711	741,443	455,214	579,521	—	3,965,889
Average headcount	6,926	3,977	971	2,580	—	14,454

(1) Intersegment revenues represent the sales between our segments and are eliminated to reconcile to our consolidated results.
(2) All cash and cash equivalents are included in All Other and Corporate.

Table of Contents

NOTE 10: REVENUE FROM CONTRACTS WITH CUSTOMERS

In 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, which we adopted in the first quarter of 2018. The standard outlines a five-step model whereby revenue is recognized as performance obligations within a customer contract are satisfied. The standard also requires new and expanded disclosures regarding revenue recognition. We adopted the new standard on January 1, 2018, using the modified retrospective transition method. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the January 1, 2018 opening balance of retained earnings. The comparative information for previous periods has not been restated and continues to be reported under the accounting standards in effect for those periods.

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASU 2014-09 were as follows:

	Balance at December 31, 2017	Adjustments	Balance at January 1, 2018
Balance Sheet			
Assets			
Receivables, net of allowance for doubtful accounts	$2,113,930	$(101,718)	$2,012,212
Contract assets	—	147,764	147,764
Prepaid expenses and other	63,116	4,021	67,137
Liabilities			
Accounts payable	1,000,305	(56,493)	943,812
Accrued expenses - transportation expense	—	94,811	94,811
Accrued expenses - compensation	105,316	1,964	107,280
Accrued expenses - other accrued liabilities	58,229	(2,752)	55,477
Deferred tax liabilities	45,355	3,298	48,653
Equity			
Retained earnings	3,437,093	9,239	3,446,332

Table of Contents

The impact of adoption of ASU 2014-09 on our consolidated statements of operations and consolidated balance sheets were as follows. The adoption of ASU 2014-09 did not have a material impact upon our consolidated statements of cash flows.

	Three Months Ended June 30, 2018		
	As reported	Balances without adoption of ASU 2014-09	Effect of Change Higher / (Lower)
Income Statement			
Revenues			
Transportation	$3,953,139	$3,897,434	$55,705
Sourcing [1]	322,898	350,968	(28,070)
Total Revenues	$4,276,037	$4,248,402	$27,635
Costs and expenses			
Purchased transportation and related services	$3,313,196	$3,264,140	$49,056
Purchased products sourced for resale [1]	291,358	319,428	(28,070)
Personnel expenses	340,630	340,153	477
Other selling, general, and administrative expenses	111,845	111,845	—
Total Costs and Expenses	4,057,029	4,035,566	21,463
Income from operations	219,008	212,836	6,172
Interest and other expense	(5,128)	(5,128)	—
Income before provision for income taxes	213,880	207,708	6,172
Provision for income taxes	54,717	53,130	1,587
Net income	$159,163	$154,578	$4,585

	Six Months Ended June 30, 2018		
	As reported	Balances without adoption of ASU 2014-09	Effect of Change Higher / (Lower)
Income Statement			
Revenues			
Transportation	$7,590,779	$7,519,316	$71,463
Sourcing [1]	610,585	665,799	(55,214)
Total Revenues	$8,201,364	$8,185,115	$16,249
Costs and expenses			
Purchased transportation and related services	$6,354,798	$6,292,803	$61,995
Purchased products sourced for resale [1]	549,158	604,372	(55,214)
Personnel expenses	668,927	668,377	550
Other selling, general, and administrative expenses	217,888	217,888	—
Total Costs and Expenses	7,790,771	7,783,440	7,331
Income from operations	410,593	401,675	8,918
Interest and other expense	(15,828)	(15,828)	—
Income before provision for income taxes	394,765	385,847	8,918
Provision for income taxes	93,305	91,032	2,273
Net income	$301,460	$294,815	$6,645

(1) We have identified certain customer contracts in our sourcing managed procurement business that changed from a principal to an agent relationship under the new standard. This change resulted in these contracts being recognized at the net amount we charge our customers but had no impact on income from operations.

17

Table of Contents

	As of June 30, 2018		
	As reported	Balances without adoption of ASU 2014-09	Effect of Change Higher / (Lower)
Balance Sheet			
Assets			
Receivables, net of allowance for doubtful accounts	$2,202,460	$2,268,854	$(66,394)
Contract assets	182,247	—	182,247
Prepaid expenses and other	63,374	62,004	1,370
Liabilities			
Accounts payable	$1,059,669	$1,103,551	$(43,882)
Accrued expenses - transportation expense	140,231	—	140,231
Accrued expenses - compensation	99,279	96,766	2,513
Accrued expenses - other accrued liabilities	66,987	70,054	(3,067)
Deferred tax liabilities	42,779	37,235	5,544
Equity			
Retained earnings	$3,617,324	$3,601,440	$15,884

We typically do not receive consideration from our customer prior to the completion of our performance obligation and as such contract liabilities as of June 30, 2018 and revenue recognized in the three and six months ended June 30, 2018 resulting from contract liabilities were not significant. Contract assets and accrued expenses - transportation expense fluctuate from period to period based upon shipments in-transit at period end.

Table of Contents

A summary of our gross revenues disaggregated by major service line and timing of revenue recognition is presented below for each of our reportable segments for the three and six months ended June 30, 2018 is as follows:

	Three Months Ended June 30, 2018				
	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Total
Major Service Lines					
Transportation and logistics services	$2,878,904	$ 617,597	$298,126	$ 158,512	$3,953,139
Sourcing	—	—	322,898	—	322,898
Total	$2,878,904	$ 617,597	$621,024	$ 158,512	$4,276,037
Timing of Revenue Recognition					
Performance obligations completed over time	$2,878,904	$ 617,597	$298,126	$ 158,512	$3,953,139
Performance obligations completed at a point in time	—	—	322,898	—	322,898
Total	$2,878,904	$ 617,597	$621,024	$ 158,512	$4,276,037

	Six Months Ended June 30, 2018				
	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Total
Major Service Lines					
Transportation and logistics services	$5,541,915	$1,171,351	$560,908	$316,605	$7,590,779
Sourcing	—	—	610,585	—	610,585
Total	$5,541,915	$1,171,351	$1,171,493	$316,605	$8,201,364
Timing of Revenue Recognition					
Performance obligations completed over time	$5,541,915	$1,171,351	$560,908	$316,605	$7,590,779
Performance obligations completed at a point in time	—	—	610,585	—	610,585
Total	$5,541,915	$1,171,351	$1,171,493	$316,605	$8,201,364

Approximately 90 percent and 91 percent, respectively, of our gross revenues for the three and six months ended June 30, 2018 are attributable to arranging for the transportation of our customer's freight for which we transfer control and satisfy our performance obligation over the requisite transit period. A days in transit output method is used to measure the progress of our performance as of the reporting date. We determine the transit period based upon the departure date and the delivery date, which may be estimated if delivery has not occurred as of the reporting date. Determining the transit period and how much of it has been completed as of the reporting date may require management to make judgments that affect the timing of revenue recognized. We have determined that revenue recognition over the transit period provides a faithful depiction of the transfer of goods and services to our customer as our obligation is performed over the transit period. The transaction price for our performance obligation under these arrangements is generally fixed and readily determinable upon contract inception and is not contingent upon the occurrence or non-occurrence of another event.

Approximately eight percent and seven percent, respectively, of our gross revenues for the three and six months ended June 30, 2018 are attributable to buying, selling, and/or marketing of produce including fresh fruits, vegetables, and other value-added perishable items. Of these transactions, nearly all of our gross revenues are recognized at a point in time upon completion of our performance obligation, which is generally when the produce is received by our customer. The transaction price for our performance obligation under these arrangements is generally fixed and readily determinable upon contract inception and is not contingent upon the occurrence or non-occurrence of another event.

Approximately two percent of our gross revenues for both the three and six months ended June 30, 2018 are attributable to value-added logistics services, such as customs brokerage, fee-based managed services, warehousing services, small parcel, and supply chain consulting and optimization services. Of these services, nearly all are recognized over time as we complete our performance obligation. Transaction price is determined and allocated to these performance obligations at their fixed fee or agreed upon rate multiplied by their associated measure of progress, which may be transactional volumes, labor hours, or time elapsed.

Table of Contents

Practical Expedients - Upon the adoption of ASU 2014-09, we have determined that we qualify for certain practical expedients to facilitate the adoption of the standard. We have elected to expense incremental costs of obtaining customer contracts (i.e. sales commissions) due to the short duration of our arrangements as the amortization period of such amounts is expected to be less than one year. These amounts are included within personnel expenses in our consolidated statements of operations and comprehensive income. In addition, we do not disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of the end of the period as our contracts have an expected length of one year or less. Finally, for certain of our performance obligations such as fee-based managed services, supply chain consulting and optimization services, and warehousing services we have recognized revenue in the amount for which we have the right to invoice our customer as we have determined this amount corresponds directly with the value provided to the customer for our performance completed to date.

Critical Accounting Policies and Estimates - We have updated our revenue recognition critical accounting policy to reflect the adoption of ASU 2014-09 below.
REVENUE RECOGNITION. At contract inception, we assess the goods and services promised in our contracts with customers and identify our performance obligations to provide distinct goods and services to our customers. We have determined that the following distinct goods and services represent our primary performance obligations.
Transportation and Logistics Services - As a third party logistics provider, our primary performance obligation under our customer contracts is to utilize our relationships with a wide variety of transportation companies to efficiently and cost-effectively transport our customer's freight. Revenue is recognized for these performance obligations as they are satisfied over the contract term, which generally represents the transit period. The transit period can vary based upon the method of transport, generally a couple days for over-the-road, rail and air transportation, or several weeks in the case of an ocean shipment. When the customer's freight reaches its intended destination our performance obligation is complete. Pricing for our services is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.
We also provide certain value-added logistics services, such as customs brokerage, fee-based managed services, warehousing services, small parcel, and supply chain consulting and optimization services. These services may include one or more performance obligations which are generally satisfied over the service period as we perform our obligations. The service period may be a very short duration, in the case of customs brokerage, or it may be longer in the case of managed services and supply chain consulting and optimization services. Pricing for our services is established in the customer contract and is dependent upon the specific needs of the customer but may be agreed upon at a fixed fee per transaction, labor hour, or service period. Payment is typically due within 30 days upon completion of our performance obligation.
Sourcing services - We contract with grocery retailers, restaurants, foodservice distributors, and produce wholesalers to provide sourcing services under the trade name Robinson Fresh. Our primary service obligation under these contracts is the buying, selling, and/or marketing of produce including fresh fruits, vegetables, and other value-added perishable items. Revenue is recognized when our performance obligations under these contracts is satisfied at a point in time, generally when the produce is received by our customer. Pricing under these contracts is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.
In many cases, as additional performance obligations, we contract to arrange logistics and transportation of the products we buy, sell, and/or market. These performance obligations are satisfied over the contract term consistent with our other transportation and logistics services. The contract period is typically less than one year. Pricing for our services is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.
Total revenues represent the total dollar value of revenue recognized from contracts with customers for the goods and services we provide. Substantially all of our revenue is attributable to contracts with 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. 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 primarily responsible for fulfilling the promise to provide

the specified good or service to our customer and we have discretion in establishing the price for the specified good or service. Additionally, in our sourcing business, in some cases we take inventory risk before the specified good has been transferred to our customer. Customs brokerage, managed services, freight forwarding, and sourcing managed procurement transactions 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.

Table of Contents

NOTE 11. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS
Accumulated other comprehensive loss is included in Stockholders' investment on our condensed consolidated balance sheets. The recorded balance, at June 30, 2018, and December 31, 2017, was $46.5 million and $18.5 million, respectively. Accumulated other comprehensive loss is comprised solely of foreign currency adjustments at June 30, 2018 and December 31, 2017.

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, including uncertain consumer demand; economic recessions; changes in market demand and pressures on the pricing for our services; fuel prices and availability; changes in the availability of equipment and services from third party providers, including the availability of contracted truckload carriers and changes in prices; changes in political and governmental conditions domestically and internationally; catastrophic events such as environmental events or terrorist attacks; failure to retain employees; failure of any of our technology or operating systems, including due to data security breaches or hacking; competition and growth rates within the third party logistics industry; risks associated with our decentralized operations; seasonality in the transportation industry; risks associated with litigation and insurance coverage; risks associated with operations outside of the U.S.; risks associated with the produce industry, including supply, product liability, food safety and contamination issues; risks of unexpected or unanticipated events or opportunities that might require additional capital expenditures; our dependence on our largest customers; risks associated with identifying suitable acquisitions and investments and with integrating acquired companies; risks associated with our long-term grown and profitability; 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, 2017, filed with the Securities and Exchange Commission on February 28, 2018.
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 offices in North America, Europe, Asia, Australia, New Zealand, and South America. As a third party logistics provider, we enter into contractual relationships with a wide variety of transportation companies, and utilize those relationships to efficiently and cost effectively transport our customers’ freight. We utilized approximately 73,000 contracted transportation companies, including motor carriers, railroads (primarily intermodal service providers), and air and ocean carriers in 2017. 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 and provide solutions that optimize service for our customers.
In addition to transportation and logistics services, we also provide sourcing services. Our sourcing business consists of buying, selling, and/or marketing fresh fruits, vegetables, and other value-added perishable items. We supply fresh

produce through a network of independent produce growers and suppliers. Our customers include grocery retailers, restaurants, foodservice distributors, and produce wholesalers. In many cases, as additional performance obligations, we also arrange the logistics and transportation of the products we sell and provide related supply chain services, such as replenishment, category management, and managed procurement services. Transportation revenues generated by Robinson Fresh are included in our transportation service line, but are included in Robinson Fresh.

Table of Contents

Our reportable segments are North American Surface Transportation ("NAST"), Global Forwarding, Robinson Fresh, and All Other and Corporate. The All Other and Corporate segment includes Managed Services, Other Surface Transportation outside of North America, and other miscellaneous revenues and unallocated corporate expenses. We group offices primarily by services they provide. For financial information concerning our reportable segments and geographic regions, refer to Note 9 of our consolidated financial statements.

On August 31, 2017, we acquired Milgram & Company Ltd. ("Milgram"), a provider of freight forwarding, customs brokerage, and surface transportation primarily in Canada. The acquisition strengthens our global forwarding and customs brokerage offerings in Canada.

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. Net revenues are a non-GAAP financial measure calculated as total revenues less the cost of purchased transportation and related services and the cost of purchased products sourced for resale. We believe net revenues are a useful measure of our ability to source, add value, and sell services and products that are provided by third parties, and we consider net revenues to be our primary performance measurement. Accordingly, the discussion of our results of operations often focuses on the changes in our net revenues. The reconciliation of total revenues to net revenues is presented below (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Transportation	$3,953,139	$3,319,995	$7,590,779	$6,422,038
Sourcing	322,898	390,023	610,585	703,105
Total revenues	4,276,037	3,710,018	8,201,364	7,125,143
Costs and expenses:				
Purchased transportation and related services	3,313,196	2,781,355	6,354,798	5,345,240
Purchased products sourced for resale	291,358	354,874	549,158	637,548
Total costs and expenses	3,604,554	3,136,229	6,903,956	5,982,788
Net revenues	$671,483	$573,789	$1,297,408	$1,142,355

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 under various price 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 tied to productivity and performance. Each office is responsible for its hiring and headcount decisions, based on the needs of their office and to balance personnel resources with business requirements. 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 helps us penetrate local markets, provides face-to-face service when needed, and enables us to 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.

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. Compensation programs are mostly performance-based and cash incentives are directly tied to productivity and performance. Most network management compensation is dependent on the profitability of their particular 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.

Table of Contents

Our customers. In 2017, we worked with more than 120,000 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. In 2017, our top 100 customers represented approximately 35 percent of our total revenues and approximately 23 percent of our net revenues. Our largest customer was approximately two percent of our total revenues in 2017.
Our contracted carriers. Our contracted carrier base includes motor carriers, railroads (primarily intermodal service providers), air freight, and ocean carriers. In 2017, we worked with approximately 73,000 transportation providers worldwide, up from approximately 71,000 in 2016. Motor carriers that had fewer than 100 tractors transported approximately 82 percent of our truckload shipments in 2017. In our transportation business, no single contracted carrier represents more than two percent of our contracted carrier capacity.
RESULTS OF OPERATIONS
The following table summarizes our total revenues by services and products (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% change	2018	2017	% change
Transportation	$3,953,139	$3,319,995	19.1 %	$7,590,779	$6,422,038	18.2 %
Sourcing	322,898	390,023	-17.2 %	610,585	703,105	-13.2 %
Total	$4,276,037	$3,710,018	15.3 %	$8,201,364	$7,125,143	15.1 %

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Transportation	16.2%	16.2%	16.3%	16.8%
Sourcing	9.8 %	9.0 %	10.1%	9.3 %
Total	15.7%	15.5%	15.8%	16.0%

The following table summarizes our net revenues by service line. The service line net revenues in the table differ from the segment service line revenues discussed below as our segments have revenues from multiple service lines (in thousands):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	% change	2018	2017	% change
Transportation						
Truckload	$341,442	$282,718	20.8 %	$671,733	$586,840	14.5 %
LTL[1]	119,189	102,213	16.6 %	231,333	199,836	15.8 %
Intermodal	9,181	8,308	10.5 %	15,513	15,800	-1.8 %
Ocean	87,035	73,438	18.5 %	155,879	136,313	14.4 %
Air	30,905	25,820	19.7 %	59,788	47,637	25.5 %
Customs	20,794	16,311	27.5 %	41,449	32,389	28.0 %
Other Logistics Services	31,397	29,832	5.2 %	60,286	57,983	4.0 %
Total Transportation	639,943	538,640	18.8 %	1,235,981	1,076,798	14.8 %
Sourcing	31,540	35,149	-10.3 %	61,427	65,557	-6.3 %
Total	$671,483	$573,789	17.0 %	$1,297,408	$1,142,355	13.6 %

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

23

Table of Contents

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Operating expenses:				
Personnel expenses	50.7 %	49.5 %	51.6 %	50.3 %
Other selling, general, and administrative expenses	16.7 %	18.7 %	16.8 %	17.4 %
Total operating expenses	67.4 %	68.3 %	68.4 %	67.6 %
Income from operations	32.6 %	31.7 %	31.6 %	32.4 %
Interest and other expense	(0.8)%	(1.6)%	(1.2)%	(1.6)%
Income before provision for income taxes	31.9 %	30.1 %	30.4 %	30.7 %
Provision for income taxes	8.1 %	10.7 %	7.2 %	10.3 %
Net income	23.7 %	19.4 %	23.2 %	20.4 %

The following table summarizes our results by reportable segment (dollars in thousands):

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Three Months Ended June 30, 2018						
Revenues	$2,878,904	$ 617,597	$621,024	$158,512	$ —	$ 4,276,037
Intersegment revenues [(1)]	135,317	14,875	50,131	3,891	(204,214)	—
Total revenues	3,014,221	632,472	671,155	162,403	(204,214)	4,276,037
Net revenues	436,813	144,031	55,537	35,102	—	671,483
Income from operations	184,566	29,788	9,232	(4,578)	—	219,008

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Three Months Ended June 30, 2017						
Revenues	$2,381,551	$ 528,820	$657,003	$142,644	$ —	$ 3,710,018
Intersegment revenues [(1)]	112,243	7,440	39,669	3,670	(163,022)	—
Total revenues	2,493,794	536,260	696,672	146,314	(163,022)	3,710,018
Net revenues	359,906	121,023	60,846	32,014	—	573,789
Income from operations	140,284	27,675	14,249	(388)	—	181,820

Table of Contents

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Six Months Ended June 30, 2018						
Revenues	$5,541,915	$1,171,351	$1,171,493	$316,605	$ —	$8,201,364
Intersegment revenues[1]	258,862	24,239	98,477	10,190	(391,768)	—
Total Revenues	5,800,777	1,195,590	1,269,970	326,795	(391,768)	8,201,364
Net Revenues	851,582	267,068	109,407	69,351	—	1,297,408
Income from Operations	358,644	38,009	18,539	(4,599)	—	410,593

	NAST	Global Forwarding	Robinson Fresh	All Other and Corporate	Eliminations	Consolidated
Six Months Ended June 30, 2017						
Revenues	$4,640,803	$997,608	$1,207,448	$279,284	$ —	$7,125,143
Intersegment revenues[1]	213,397	15,583	73,009	10,548	(312,537)	—
Total Revenues	4,854,200	1,013,191	1,280,457	289,832	(312,537)	7,125,143
Net Revenues	732,346	227,569	117,683	64,757	—	1,142,355
Income from Operations	296,161	43,881	28,901	835	—	369,778

(1) Intersegment revenues represent the sales between our segments and are eliminated to reconcile to our consolidated results.

Three Months Ended June 30, 2018 Compared to Three Months Ended June 30, 2017

Total revenues and direct costs. Our consolidated total revenues increased 15.3 percent to $4.3 billion in the second quarter of 2018 compared to $3.7 billion in the second quarter of 2017. Total transportation revenues increased 19.1 percent to $4.0 billion in the second quarter of 2018 compared to $3.3 billion in the second quarter of 2017. The increase was driven by increased pricing, including fuel, and volume growth in most of our transportation services. Total purchased transportation and related services increased 19.1 percent to $3.3 billion in the second quarter of 2018 compared to $2.8 billion the second quarter of 2017. The increase was due to increased cost of transportation, including fuel, and volume growth in most of our transportation services. Our sourcing revenue decreased 17.2 percent to $322.9 million in the second quarter of 2018 from $390.0 million in the second quarter of 2017. Purchased products sourced for resale decreased 17.9 percent in the second quarter of 2018 to $291.4 million from $354.9 million in the second quarter of 2017. Sourcing total revenues and purchased products for resale decreased by $28.1 million as a result of our adoption of ASU 2014-09, Revenue from Contracts with Customers.

Net revenues. Total transportation net revenues increased 18.8 percent to $639.9 million in the second quarter of 2018 from $538.6 million in the second quarter of 2017. Our transportation net revenue margin was 16.2 percent in the second quarter of 2018 and the second quarter of 2017. Sourcing net revenues decreased 10.3 percent to $31.5 million in the second quarter of 2018 from $35.1 million in the second quarter of 2017. Our sourcing net revenue margin increased to 9.8 percent in the second quarter of 2018 from 9.0 percent in the second quarter of 2017 driven by the impact of our adoption of ASU 2014-09.

Operating expenses. Operating expenses increased 15.4 percent to $452.5 million in the second quarter of 2018 from $392.0 million in the second quarter of 2017. Operating expenses as a percentage of net revenues decreased to 67.4 percent in the second quarter of 2018 from 68.3 percent in the second quarter of 2017.

For the second quarter, personnel expenses increased 19.8 percent to $340.6 million in 2018 from $284.2 million in 2017. The increase in personnel expense was due to an increase in variable compensation and an increase of 4.2 percent in average headcount in the second quarter of 2018 compared to the second quarter of 2017.

For the second quarter of 2018, other selling, general, and administrative expenses increased 3.8 percent to $111.8 million in 2018 from $107.7 million in the second quarter of 2017.

25

Table of Contents

Income from operations. Income from operations increased 20.5 percent to $219.0 million in the second quarter of 2018 from $181.8 million in the second quarter of 2017. This increase was primarily driven by an increase in income from operations in NAST and Global Forwarding, partially offset by a decrease in income from operations in Robinson Fresh and All Other and Corporate. Income from operations as a percentage of net revenues increased to 32.6 percent in the second quarter of 2018 from 31.7 percent in the second quarter of 2017.

Interest and other expense. Interest and other expense was $5.1 million in the second quarter of 2018 compared to $9.4 million in the second quarter of 2017. The decrease was due primarily to an $8.0 million favorable impact of currency revaluation, partially offset by increased interest expense from a higher average debt balance during the quarter ended June 30, 2018, compared to the same period ended June 30, 2017.

Provision for income taxes. Our effective income tax rate was 25.6 percent for the second quarter of 2018 and 35.6 percent for the second quarter of 2017. The effective income tax rate for the three months ended June 30, 2018 was higher than the statutory federal income tax rate due to state income taxes, net of federal benefit, and foreign income taxes, but was partially offset by the tax impact of share-based payment awards, which resulted in a decrease in our provision for income taxes for the three months ended June 30, 2018 and 2017 of $1.3 million and $1.2 million, respectively.

Net income. Net income increased 43.3 percent to $159.2 million in the second quarter of 2018 from $111.1 million in the second quarter of 2017. Basic net income per share increased 44.3 percent to $1.14 from $0.79 in the second quarter of 2018 compared to the second quarter of 2017. Diluted net income per share increased 44.9 percent to $1.13 from $0.78 in the second quarter of 2018 compared to the second quarter of 2017.

SEGMENT RESULTS OF OPERATIONS

Three Months Ended June 30, 2018, Compared to Three Months Ended June 30, 2017

North American Surface Transportation. NAST revenues increased 20.9 percent to $2.9 billion in the second quarter of 2018 from $2.4 billion in the second quarter of 2017. This increase was primarily driven by increased pricing, including fuel. NAST cost of transportation and related services increased 20.8 percent to $2.4 billion in the second quarter of 2018 from $2.0 billion in the second quarter of 2017, driven by higher cost per mile, including fuel. NAST net revenues increased 21.4 percent to $436.8 million in the second quarter of 2018 from $359.9 million in the second quarter of 2017. This was primarily driven by an increase in truckload and LTL net revenues, discussed below.

NAST truckload net revenues increased 22.9 percent to $307.2 million in the second quarter of 2018 from $250.0 million in the second quarter of 2017. NAST truckload volumes decreased 4.5 percent in the second quarter of 2018 compared to the second quarter of 2017. NAST truckload net revenue margin was slightly higher in the second quarter of 2018 compared to the second quarter of 2017.

NAST truckload net revenues accounted for approximately 94 percent of our total North American truckload net revenues in the second quarter of 2018 and approximately 92 percent in the second quarter of 2017. The majority of the remaining North American truckload net revenues are included in Robinson Fresh. Excluding the estimated impacts of the increase in fuel costs, our average truckload rate per mile charged to our customers increased approximately 20.5 percent in the second quarter of 2018 compared to the second quarter of 2017. Our truckload transportation costs increased approximately 19.5 percent, excluding the estimated increase in fuel costs. While rapidly rising prices often create incremental spot market activity, they can also create more margin compression on committed pricing arrangements. We experienced both of these impacts in our second quarter results, and expect them to continue for the remainder of 2018.

NAST LTL net revenues increased 17.8 percent to $114.4 million in the second quarter of 2018 from $97.1 million in the second quarter of 2017. This increase was due to increased customer pricing and a volume increase of six percent in the second quarter of 2018 compared to the second quarter of 2017, partially offset by a decrease in net revenue margin resulting from increased purchased transportation costs.

NAST intermodal net revenues increased 17.3 percent to $9.1 million in the second quarter of 2018 from $7.8 million in the second quarter of 2017. NAST intermodal net revenues increased due to increased customer pricing and a volume increase of approximately 3.5 percent, partially offset by a decrease in net revenue margin resulting from increased purchased transportation costs in the second quarter of 2018 compared to the second quarter of 2017.

NAST operating expenses increased 14.9 percent in the second quarter of 2018 to $252.2 million compared to $219.6 million in the second quarter of 2017. This was due to an increase in personnel expenses partially offset by a decrease in selling, general, and administrative expenses. The increase in personnel expense is primarily related to an increase in variable compensation,

26

partially offset by a decrease in average headcount in the second quarter of 2018 compared to the second quarter of 2017. The decrease in selling, general, and administrative expenses is primarily due to a decrease in the provision for bad debt. The operating expenses of NAST and all other segments include allocated corporate expenses.

NAST income from operations increased 31.6 percent to $184.6 million in the second quarter of 2018 from $140.3 million in the second quarter of 2017. This was primarily due to an increase in net revenues.

Global Forwarding. Global Forwarding revenues increased 16.8 percent to $617.6 million in the second quarter of 2018 compared to $528.8 million in the second quarter of 2017. Global Forwarding costs of transportation and related services increased 16.1 percent to $473.6 million in the second quarter of 2018 from $407.8 million in the second quarter of 2017. Global Forwarding net revenues increased 19.0 percent to $144.0 million in the second quarter of 2018 compared to $121.0 million in the second quarter of 2017. The acquisition of Milgram accounted for approximately five percentage points of the net revenue growth in Global Forwarding in the second quarter of 2018.

Global Forwarding ocean transportation net revenues increased 18.5 percent to $86.8 million in the second quarter of 2018 from $73.2 million in the second quarter of 2017, primarily due to volume and pricing increases and approximately two percentage points of growth from Milgram. Ocean transportation volumes increased approximately seven percent in the second quarter of 2018 compared to the same period of 2017.

Global Forwarding air transportation net revenues increased 17.4 percent to $28.7 million in the second quarter of 2018 from $24.5 million in the second quarter of 2017. Air transportation volumes increased approximately nine percent and customer pricing also increased in the second quarter of 2018 compared to the same period of 2017. Milgram contributed approximately two percentage points to the air transportation net revenue growth.

Global Forwarding customs net revenues increased 27.5 percent to $20.8 million in the second quarter of 2018 from $16.3 million in 2017, with Milgram contributing approximately 21 percentage points to the growth. Customs transaction volumes increased approximately 60 percent in the second quarter of 2018 compared to the same period of 2017, with Milgram contributing approximately 50 percentage points to the growth.

Global Forwarding operating expenses increased 22.4 percent in the second quarter of 2018 to $114.2 million from $93.3 million in the second quarter of 2017. This increase was primarily due to an increase in personnel expense, which was driven by an average headcount increase of 17.8 percent and an increase in variable compensation. The acquisition of Milgram added approximately 7.5 percentage points to the Global Forwarding average headcount.

Global Forwarding income from operations increased 7.6 percent to $29.8 million in the second quarter of 2018 from $27.7 million in the second quarter of 2017. This was primarily due to an increase in net revenues, but was largely offset by increased personnel expenses.

Robinson Fresh. Robinson Fresh revenues decreased 5.5 percent to $621.0 million in the second quarter of 2018 from $657.0 million in the second quarter of 2017. Robinson Fresh costs of transportation and related services and purchased products sourced for resale decreased 5.1 percent to $565.5 million in the second quarter of 2018 from $596.2 million in the second quarter of 2017. Robinson Fresh net revenues decreased 8.7 percent to $55.5 million in the second quarter of 2018 from $60.8 million in the second quarter of 2017. Sourcing total revenues and purchased products for resale decreased by $28.1 million as a result of our adoption of ASU 2014-09.

Robinson Fresh net revenues from sourcing services decreased 10.3 percent to $31.5 million in the second quarter of 2018 compared to $35.1 million in the second quarter of 2017 as sourcing case volumes decreased six percent driven by lower levels of customer promotional activity in addition to higher purchased transportation costs.

Robinson Fresh net revenues from transportation services decreased 6.6 percent to $24.0 million in the second quarter of 2018 compared to $25.7 million in the second quarter of 2017. A truckload volume decline of 14.5 percent and margin compression in our committed business were partially offset by an increase in revenue per shipment in transactional business and volume growth in LTL.

Robinson Fresh operating expenses decreased 0.6 percent in the second quarter of 2018 to $46.3 million from $46.6 million in the second quarter of 2017. This was primarily due to a small decrease in selling, general and administrative expenses, partially offset by a small increase in personnel expenses.

Robinson Fresh income from operations decreased 35.2 percent to $9.2 million in the second quarter of 2018 from $14.2 million in the second quarter of 2017. This was primarily due to a decrease in net revenues.

27

Table of Contents

All Other and Corporate. All Other and Corporate includes our Managed Services segment, as well as Other Surface Transportation outside of North America and other miscellaneous revenues and unallocated corporate expenses. Managed Services provides Transportation Management Services, or Managed TMS. Other Surface Transportation revenues are primarily earned by Europe Surface Transportation. Europe Surface Transportation provides services similar to NAST across Europe.

Managed Services net revenues increased 10.5 percent in the second quarter of 2018 to $20.1 million compared to $18.2 million in the second quarter of 2017. This increase was primarily the result of selling additional services to existing customers and new customer wins. Other Surface Transportation net revenues increased 8.5 percent in the second quarter of 2018 to $15.0 million compared to $13.9 million in the second quarter of 2017. This increase was primarily the result of truckload pricing increases in Europe.

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

Total revenues and direct costs. Our consolidated total revenues increased 15.1 percent to $8.2 billion in the six months ended June 30, 2018, compared to $7.1 billion in the six months ended June 30, 2017. Total transportation revenues increased 18.2 percent to $7.6 billion in the six months ended June 30, 2018, from $6.4 billion in the six months ended June 30, 2017. The increase in total transportation revenues was driven by increased pricing and volumes in nearly all of our transportation services. Total purchased transportation and related services increased 18.9 percent in the six months ended June 30, 2018, to $6.4 billion from $5.3 billion in the six months ended June 30, 2017. The increase was due to increased costs of transportation, including fuel, and increased volumes in nearly all of our transportation services. Sourcing revenue decreased 13.2 percent to $610.6 million in the six months ended June 30, 2018 compared to $703.1 million in the six months ended June 30, 2017. Purchased products sourced for resale decreased 13.9 percent to $549.2 million in the six months ended June 30, 2018 compared to $637.5 million in the six months ended June 30, 2017. Sourcing total revenues and purchased products for resale decreased by $55.2 million as a result of our adoption of ASU 2014-09.

Net revenues. Total transportation net revenues increased 14.8 percent to $1.2 billion in the six months ended June 30, 2018 from $1.1 billion in the six months ended June 30, 2017. Our transportation net revenue margin decreased to 16.3 percent in the six months ended June 30, 2018 from 16.8 percent in the six months ended June 30, 2017, primarily due to the cost of transportation increasing at a higher rate than customer pricing, including fuel, in nearly all transportation services. Sourcing net revenues decreased 6.3 percent to $61.4 million in the six months ended June 30, 2018 from $65.6 million in the six months ended June 30, 2017. Our sourcing net revenue margin increased in the six months ended June 30, 2018 to 10.1 percent from 9.3 percent in the six months ended June 30, 2017 driven by the impact of our adoption of ASU 2014-09.

Operating expenses. Operating expenses increased 14.8 percent in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Operating expenses as a percentage of net revenues increased to 68.4 percent in the six months ended June 30, 2018, from 67.6 percent in the six months ended June 30, 2017.

Personnel expenses increased 16.4 percent to $668.9 million in the six months ended June 30, 2018, from $574.7 million in the six months ended June 30, 2017. For the six months ended June 30, 2018, our average headcount increased 5.0 percent compared to the same period ended June 30, 2017. The increase in personnel expense was more than the increase in average headcount due to increased expenses related to variable compensation plans.

Other selling, general, and administrative expenses increased 10.1 percent to $217.9 million in the six months ended June 30, 2018 from $197.9 million in the six months ended June 30, 2017. This increase was primarily driven by claims and occupancy expense increases.

Income from operations. Income from operations increased 11.0 percent to $410.6 million in the six months ended June 30, 2018, from $369.8 million in the six months ended June 30, 2017. Income from operations as a percentage of net revenues decreased to 31.6 percent in the six months ended June 30, 2018, from 32.4 percent in the six months ended June 30, 2017.

Interest and other expense. Interest and other expense decreased to $15.8 million in the six months ended June 30, 2018, from $18.7 million in the six months ended June 30, 2017. The decrease was due primarily to a $7.7 million favorable impact of currency revaluation, partially offset by increased interest expense on a higher average debt balance and higher interest rates during the six months ended June 30, 2018, compared to the same period ended

June 30, 2017.

Provision for income taxes. Our effective income tax rate was 23.6 percent for the six months ended June 30, 2018, and 33.6 percent for the six months ended June 30, 2017. The effective income tax rate for the six months ended June 30, 2018 was higher than the statutory federal income tax rate due to state income taxes, net of federal benefit, and foreign income taxes, but was partially offset by the tax impact of share-based payment awards which resulted in a decrease in our provision for income taxes for the six months ended June 30, 2018 and 2017 of $7.5 million and $10.6 million, respectively.

Table of Contents

Net income. Net income increased 29.3 percent to $301.5 million in the six months ended June 30, 2018, from $233.2 million in the six months ended June 30, 2017. Basic net income per share increased 30.9 percent to $2.16 in the six months ended June 30, 2018 from $1.65 in the six months ended June 30, 2017. Diluted net income per share increased 29.7 percent to $2.14 in the six months ended June 30, 2018 from $1.65 in the six months ended June 30, 2017.

SEGMENT RESULTS OF OPERATIONS

Six Months Ended June 30, 2018 Compared to Six Months Ended June 30, 2017

North American Surface Transportation. NAST revenues increased 19.4 percent to $5.5 billion during the six months ended June 30, 2018 from $4.6 billion during the six months ended June 30, 2017. This increase was driven by pricing increases in all services. NAST cost of transportation and related services increased 20.0 percent to $4.7 billion in the six months ended June 30, 2018 from $3.9 billion in the six months ended June 30, 2017. This was driven by increases in costs of transportation in all services. NAST net revenues increased 16.3 percent to $851.6 million in the six months ended June 30, 2018 from $732.3 million in the six months ended June 30, 2017. This increase was driven primarily by an increase in truckload and LTL net revenues.

NAST truckload net revenues increased 16.3 percent to $602.0 million during the six months ended June 30, 2018 from $517.6 million in the six months ended June 30, 2017. NAST truckload volumes decreased approximately six percent during the six months ended June 30, 2018 compared to the six months ended June 30, 2017. NAST truckload net revenue margin decreased in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due to increased transportation costs, excluding the change in fuel costs.

NAST truckload net revenues accounted for approximately 94 percent of our total North American truckload net revenues in the six months ended June 30, 2018 and 92 percent in the six months ended June 30, 2017. The majority of the remaining North American truckload net revenues are included in Robinson Fresh. Excluding the estimated impacts of the increase in fuel costs, our average truckload rate per mile charged to our customers increased approximately 22 percent in the six months ended June 30, 2018 compared to the six months ended June 30, 2017. Our truckload transportation costs increased 23 percent, excluding the estimated increase in fuel costs.

NAST LTL net revenues increased 16.3 percent to $221.7 million in the six months ended June 30, 2018 from $190.7 million in the six months ended June 30, 2017. This increase was primarily due to an increase in customer pricing and a volume increase of approximately seven percent during the six months ended June 30, 2018 compared to the six months ended June 30, 2017, partially offset by a decrease in net revenue margin.

NAST intermodal net revenues increased 2.4 percent to $15.3 million in the six months ended June 30, 2018 from $14.9 million in the six months ended June 30, 2017. Intermodal pricing and volumes increased in the six months ended June 30, 2018 compared to the six months ended June 30, 2017.

NAST operating expenses increased 13.0 percent during the six months ended June 30, 2018 to $492.9 million compared to $436.2 million during the six months ended June 30, 2017. This increase was driven by increases in personnel expenses and, to a lesser extent, other selling, general, and administrative expenses. The increase in personnel expense is related to an increase in expenses related to variable compensation plans. The increase in selling, general, and administrative expenses was driven by an increase in claims expenses. In the first quarter of 2017, we recorded collection of a previously resolved legal claim of $8.75 million.

NAST income from operations increased 21.1 percent to $358.6 million during the six months ended June 30, 2018 from $296.2 million in the six months ended June 30, 2017. This was primarily due to an increase in truckload and LTL net revenues, partially offset by increased personnel expenses.

Global Forwarding. Global Forwarding total revenues increased 17.4 percent to $1.2 billion in the six months ended June 30, 2018 compared to $997.6 million in the six months ended June 30, 2017. Global Forwarding costs of transportation and related services increased 17.4 percent to $904.3 million in the six months ended June 30, 2018 from $770.0 million in the six months ended June 30, 2017. Global Forwarding net revenues increased 17.4 percent to $267.1 million in the six months ended June 30, 2018 compared to $227.6 million in the six months ended June 30, 2017. The acquisition of Milgram accounted for approximately four percentage points of the net revenue growth in Global Forwarding during the six months ended June 30, 2018.

Global Forwarding ocean transportation net revenues increased 13.8 percent to $155.5 million in the six months ended June 30, 2018 from $136.7 million in the six months ended June 30, 2017, with Milgram contributing approximately two points to the

growth. Ocean transportation volumes increased approximately nine percent and customer pricing also increased during the six months ended June 30, 2018 compared to the same period of 2017.

Global Forwarding air transportation net revenues increased 22.1 percent to $54.8 million in the six months ended June 30, 2018 from $44.9 million in the six months ended June 30, 2017, with Milgram contributing approximately two percentage points to the growth. Air transportation volumes increased approximately 13 percent and customer pricing also increased during the six months ended June 30, 2018 compared to the same period of 2017.

Global Forwarding customs net revenues increased 28.0 percent to $41.4 million in the six months ended June 30, 2018 from $32.4 million in 2017, with Milgram contributing approximately 16 percentage points to the growth. Customs transaction volumes increased approximately 62 percent during the six months ended June 30, 2018 compared to the same period of 2017, with Milgram contributing approximately 50 percentage points to the growth.

Global Forwarding operating expenses increased 24.7 percent in the six months ended June 30, 2018 to $229.1 million from $183.7 million in the six months ended June 30, 2017. This increase was due to increases in both personnel and selling, general, and administrative expenses. The personnel increase was driven by an increase in average headcount of 19.3 percent and increased variable compensation expense. The acquisition of Milgram added approximately 7.5 percentage points to the Global Forwarding average headcount.

Global Forwarding income from operations decreased 13.4 percent to $38.0 million in the six months ended June 30, 2018 from $43.9 million in the six months ended June 30, 2017. This was primarily due to an increase in operating expenses partially offset by an increase in net revenues.

Robinson Fresh. Robinson Fresh total revenues decreased 3.0 percent to $1.17 billion in the six months ended June 30, 2018 compared to $1.21 billion in the six months ended June 30, 2017. Robinson Fresh costs of transportation and related services and purchased products sourced for resale decreased 2.5 percent to $1.06 billion in the six months ended June 30, 2018 from $1.09 billion in the six months ended June 30, 2017. Robinson Fresh net revenues decreased 7.0 percent to $109.4 million in the six months ended June 30, 2018 from $117.7 million in the six months ended June 30, 2017. Sourcing total revenues and purchased products for resale decreased by $55.2 million as a result of our adoption of ASU 2014-09.

Robinson Fresh net revenues from sourcing services decreased 6.3 percent to $61.4 million in the six months ended June 30, 2018 compared to $65.6 million in the six months ended June 30, 2017. This was primarily the result of lower case volumes and lower net revenue per case.

Robinson Fresh net revenues from transportation services decreased 8.0 percent to $48.0 million in the six months ended June 30, 2018 compared to $52.1 million in the six months ended June 30, 2017, primarily due to decreases in truckload net revenue. Robinson Fresh transportation net revenue margin decreased in the six months ended June 30, 2018 compared to the six months ended June 30, 2017, due primarily to increased transportation costs, including fuel. Robinson Fresh truckload volumes decreased approximately 12 percent and LTL volumes increased approximately 28 percent in the six months ended June 30, 2018 compared to the same period of 2017.

Robinson Fresh operating expenses increased 2.3 percent in the six months ended June 30, 2018 to $90.9 million from $88.8 million in the six months ended June 30, 2017. This was primarily due to a slight increase in personnel expenses, partially offset by a decline in selling, general, and administrative expenses.

Robinson Fresh income from operations decreased 35.9 percent to $18.5 million in the six months ended June 30, 2018 from $28.9 million in the six months ended June 30, 2017. This was primarily due to a decrease in net revenues and an increase in operating expenses.

All Other and Corporate. All Other and Corporate includes our Managed Services segment, as well as Other Surface Transportation outside of North America and other miscellaneous revenues and unallocated corporate expenses. Managed Services provides Transportation Management Services, or Managed TMS. Other Surface Transportation revenues are primarily earned by Europe Surface Transportation. Europe Surface Transportation provides services similar to NAST across Europe.

Managed Services net revenues increased 8.6 percent in the six months ended June 30, 2018 to $38.4 million compared to $35.4 million in the six months ended June 30, 2017. This increase was a result of volume growth from both new and existing customers. Other Surface Transportation increased 5.3 percent in the six months ended June 30, 2018 to $31.0 million compared to $29.4 million in the six months ended June 30, 2017, primarily due to increased

customer pricing in Europe Surface Transportation.

Table of Contents

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 addition, we maintain the following debt facilities as described in Note 4 (dollars in thousands):

Description	Carrying Value as of June 30, 2018	Borrowing Capacity	Maturity
Revolving credit facility	$66,000	$900,000	December 2019
Senior Notes, Series A	175,000	175,000	August 2023
Senior Notes, Series B	150,000	150,000	August 2028
Senior Notes, Series C	175,000	175,000	August 2033
Receivables securitization facility [1]	249,854	250,000	April 2019
Senior Notes [1]	591,200	600,000	April 2028
Total debt	$1,407,054	$2,250,000	

[1] Net of unamortized discounts and issuance costs.

We expect to use our current debt facilities 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 $310.6 million as of June 30, 2018, and $333.9 million as of December 31, 2017. Cash and cash equivalents held outside the United States totaled $260.0 million as of June 30, 2018, and $275.3 million as of December 31, 2017. If we repatriated all foreign earnings, the estimated effect on income taxes payable would be an increase of approximately $15.0 million as of June 30, 2018. Working capital at June 30, 2018, was $1.2 billion and at December 31, 2017, was $523.5 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 $308.5 million and $150.0 million of cash flow from operations during the six months ended June 30, 2018 and June 30, 2017, respectively, an increase of $158.5 million compared to the six months ended June 30, 2017. This was a result of increased earnings and improved collections.

Cash used for investing activities. We used $32.9 million and $35.8 million of cash during the six months ended June 30, 2018 and June 30, 2017 for investing activities.

We used $30.1 million and $33.0 million for capital expenditures during the six months ended June 30, 2018 and June 30, 2017. During the six months ended June 30, 2018, our capital expenditures consisted primarily of investments in facilities, office equipment, and information technology, which are intended to improve efficiencies and help grow the business.

During the six months ended June 30, 2017, we used $1.8 million for a post-closing working capital adjustment due to the sellers of APC Logistics ("APC") under the terms of the acquisition agreement.

Cash used for financing activities. We used $291.1 million and $97.1 million of cash flow for financing activities during the six months ended June 30, 2018 and June 30, 2017.

During the six months ended June 30, 2018, we had net short-term repayments of $649.0 million. The outstanding balance on the revolving credit facility was $66.0 million as of June 30, 2018.

During the six months ended June 30, 2018, we had long-term borrowings on Senior Notes of $591.0 million, net of underwriting discounts and issuance costs.

We used $130.6 million and $128.8 million to pay cash dividends during the six months ended June 30, 2018 and June 30, 2017. The increase was primarily due to a $0.01 dividend rate increase in 2018 compared to 2017, partially offset by a decrease in weighted average shares outstanding during the six months ended June 30, 2018, compared to the six months ended June 30, 2017.

We used $119.5 million and $70.5 million on share repurchases during the six months ended June 30, 2018 and June 30, 2017, see Item 2, Part II of this Quarterly Report on Form 10-Q. The change was due to an increase in the number of shares repurchased and the average price of the repurchased shares during the six months ended June 30, 2018, compared to the same period of 2017. In May 2018, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of June 30, 2018, there were 15,651,203 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, other potential uses of our cash, and market conditions.
We used $18.9 million and $19.6 million to acquire shares from employees through their withholding taxes resulting from the delivery of restricted equity during the six months ended June 30, 2018 and June 30, 2017.
Assuming no change in our current business plan, management believes that our available cash, together with expected future cash generated from operations, the amount available under our credit facilities, and credit available in the market will be sufficient to satisfy our anticipated needs for working capital, capital expenditures, and cash dividends for at least the next 12 months. We also believe we could obtain funds under lines of credit or other forms of indebtedness on short notice, if needed.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our condensed consolidated financial statements include accounts of the company and all majority-owned subsidiaries. The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying condensed consolidated financial statements and related footnotes. In preparing our financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We do not believe there is a great likelihood that materially different amounts would be reported related to the accounting policies described below. However, application of these accounting policies involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. Note 1 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2017, includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. We have updated these policies as applicable for the adoption of ASU 2014-09 in the first quarter of 2018. The following is a discussion of our critical accounting policies and estimates.
REVENUE RECOGNITION. At contract inception, we assess the goods and services promised in our contracts with customers and identify our performance obligations to provide distinct goods and services to our customers. We have determined that the following distinct goods and services represent our primary performance obligations.
Transportation and Logistics Services - As a third party logistics provider, our primary performance obligation under our customer contracts is to utilize our relationships with a wide variety of transportation companies to efficiently and cost-effectively transport our customer’s freight. Revenue is recognized for these performance obligations as they are satisfied over the contract term, which generally represents the transit period. The transit period can vary based upon the method of transport, generally a couple days for over-the-road, rail and air transportation, or several weeks in the case of an ocean shipment. When the customer’s freight reaches its intended destination our performance obligation is complete. Pricing for our services is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.
We also provide certain value-added logistics services, such as customs brokerage, fee-based managed services, warehousing services, small parcel, and supply chain consulting and optimization services. These services may include one or more performance obligations which are generally satisfied over the service period as we perform our obligations. The service period may be a very short duration, in the case of customs brokerage, or it may be longer in the case of managed services and supply chain consulting and optimization services. Pricing for our services is established in the customer contract and is dependent upon the specific needs of the customer but may be agreed upon at a fixed fee per transaction, labor hour, or service period. Payment is typically due within 30 days upon completion of our performance obligation.
Sourcing services - We contract with grocery retailers, restaurants, foodservice distributors, and produce wholesalers to provide sourcing services under the trade name Robinson Fresh. Our primary service obligation under these

contracts is the buying, selling, and/or marketing of produce including fresh fruits, vegetables, and other value-added perishable items. Revenue is recognized when our performance obligations under these contracts is satisfied at a point in time, generally when the produce is received by our customer. Pricing under these contracts is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.

In many cases, as additional performance obligations, we contract to arrange logistics and transportation of the produce we buy, sell, and/or market. These performance obligations are satisfied over the contract term consistent with our other transportation and logistics services. Pricing for our services is generally a fixed amount and is typically due within 30 days upon completion of our performance obligation.

Table of Contents

Total revenues represent the total dollar value of revenue recognized from contracts with customers for the goods and services we provide. Substantially all of our revenue is attributable to contracts with 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. 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 primarily responsible for fulfilling the promise to provide the specified good or service to our customer and we have discretion in establishing the price for the specified good or service. Additionally, in our sourcing business, in some cases we take inventory risk before the specified good has been transferred to our customer. Customs brokerage, managed services, freight forwarding, and sourcing managed procurement transactions 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 was $39.4 million as of June 30, 2018 and $42.4 million as of December 31, 2017. 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. Goodwill represents the excess of the cost of acquired businesses over the net of the fair value of identifiable tangible net assets and identifiable intangible assets purchased and liabilities assumed.

Goodwill is tested for impairment annually on November 30, or more frequently if events or changes in circumstances indicate that the asset might be impaired. We first perform a qualitative assessment to determine whether it is more likely than not that the fair value of our reporting units is less than their respective carrying value (“Step Zero Analysis”). If the Step Zero Analysis indicates it is more likely than not that the fair value of our reporting units is less than their respective carrying value, an additional impairment assessment is performed (“Step One Analysis”).

When we perform a Step One Analysis, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit.

In the Step One Analysis, the fair value of each reporting unit is determined using a discounted cash flow analysis and market approach. Projecting discounted future cash flows requires us to make significant estimates regarding future revenues and expenses, projected capital expenditures, changes in working capital, and the appropriate discount rate. Use of the market approach consists of comparisons to comparable publicly-traded companies that are similar in size and industry. Actual results may differ from those used in our valuations when a Step One analysis is performed.

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 15 percent to 21 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.

Table of Contents

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We had $310.6 million of cash and cash equivalents on June 30, 2018. 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 therein. At June 30, 2018, there was $66 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 June 30, 2018, there was $500 million outstanding on the notes.

We are a party to a Receivables Securitization Facility with various lenders and provides funding of up to $250 million. Interest accrues on the facility at variable rates based on the asset-backed commercial paper rate or the 30 day LIBOR plus the applicable add-on percentage as defined therein. At June 30, 2018, there was $250 million outstanding on the securitization facility.

We issued Senior Notes, through a public offering on April 9, 2018. The Senior Notes bear an annual interest rate of 4.20 percent payable semi-annually on April 15 and October 15, until maturity on April 15, 2028. Taking into effect the amortization of the original issue discount and all underwriting and issuance expenses, the Senior Notes have an effective yield to maturity of approximately 4.39 percent per annum. The fair value of the Senior Notes, excluding debt discounts and issuance costs, approximated $585.4 million as of June 30, 2018, based primarily on the market prices quoted from external sources. The carrying value of the Senior Notes was $591.2 million at June 30, 2018.

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.

Foreign Exchange Risk

We operate through a network of offices in North America, Europe, Asia, Australia, New Zealand, and South America. As a result, we frequently transact using currencies other than the U.S. dollar, primarily the Chinese Yuan, Euro, Canadian dollar, and Mexican Peso. This often results in assets and liabilities, including intercompany balances, denominated in a currency other than the local functional currency. In these instances most commonly we have balances denominated in U.S. dollars in regions where the U.S. dollar is not the functional currency. This results in foreign exchange risk.

Foreign exchange risk can be quantified by performing a sensitivity analysis assuming a hypothetical change in the value of the U.S. dollar compared to other currencies in which we transact. All other things being equal, a hypothetical 10 percent weakening of the U.S. dollar during three months ended June 30, 2018, would have a decrease to operating income of approximately $34 million and a hypothetical 10 percent strengthening of the U.S. dollar during the three months ended June 30, 2018, would have an increase to operating income of approximately $28 million. Our use of derivative financial instruments to manage foreign exchange risk is insignificant.

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.

Table of Contents

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, 2017, which could materially affect our business, financial condition, or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, and/or operating results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table provides information about purchases by the company during the quarter ended June 30, 2018, of shares of the company's common stock.

	Total Number of Shares (or Units) Purchased [a]	Average Price Paid Per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs [b]	Maximum Number of Shares (or Units) That May Yet Be Purchased Under the Plans or Programs [b]
April 1, 2018-April 30, 2018	228,377	$ 93.62	224,305	1,210,290
May 1, 2018-May 31, 2018	275,193	87.81	273,285	15,937,005
June 1, 2018-June 30, 2018	288,742	88.15	285,802	15,651,203
Second quarter 2018	792,312	$ 89.61	783,392	15,651,203

(a) The total number of shares purchased includes: (i) 783,392 shares of common stock purchased under the authorization described below; and (ii) 8,920 shares of common stock surrendered to satisfy minimum statutory tax obligations under our stock incentive plans.

(b) In May 2018, the Board of Directors increased the number of shares authorized for repurchase by 15,000,000 shares. As of June 30, 2018, there were 15,651,203 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.

35

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibits filed with, or incorporated by reference into, this report:

4.1	Indenture, dated April 11, 2018, between C.H. Robinson Worldwide, Inc. and U.S. Bank National Association, as Trustee (incorporated by reference to Exhibit 4.1 in C.H. Robinson Worldwide, Inc.'s Current Report on Form 8-K filed on April 11, 2018)
4.2	First Supplemental Indenture, dated April 11, 2018, between C.H. Robinson Worldwide, Inc. and U.S. Bank National Association, as Trustee, relating to the 4.200% Notes due 2028, (incorporated by reference to Exhibit 4.2 in C.H. Robinson Worldwide, Inc.'s Current Report on Form 8-K filed on April 28, 2018)
4.3	Form of Global Note representing the 4.200% Notes due 2028 (included in Exhibit 4.2) (incorporated by reference to Exhibit 4.2 in C.H. Robinson Worldwide, Inc.'s Current Report on Form 8-K filed on April 11, 2018)
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	Financial statements from the Quarterly Report on Form 10-Q of the company for the period ended June 30, 2018 formatted in XBRL

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on August 8, 2018.

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)