

Miscellaneous transportation gross profits consist primarily of customs brokerage fees and transportation management fees. The increase of 17.5 percent to \$41.4 million in 2008 was driven primarily by increases in transportation management business.

Sourcing gross profits increased 11.4 percent to \$111.6 million in 2008. Our Sourcing business is the buying and selling of fresh fruits and vegetables. For several years, we have actively sought to expand our Sourcing customer base, focusing on large retailers, restaurant chains, and foodservice providers. As a result, we continue to see the long-term trend of growth in our integrated relationships and value-added products and an expansion of our services, which have resulted in increased volumes and gross profit margins in 2008.

Information Services is comprised entirely of revenue generated by our subsidiary, T-Chek Systems. For 2008, Information Systems gross profits growth of 11.5 percent to \$50.8 million was driven primarily by volume growth in local fleet card services, some of our carrier compliance services, cash advance services, maintenance fees, and merchant services. Higher fuel prices contributed to some of our growth because with certain merchants our fee is based on a percentage of the sale amount. Volumes in our over-the-road fuel card declined slightly due to the reduction in freight demand in marketplace, resulting in a smaller number of transactions.

Selling, general, and administrative expenses. Personnel expenses increased 6.0 percent to \$601.8 million in 2008, and decreased as a percentage of gross profits to 43.8 percent in 2008 from 45.7 percent in 2007. Personnel expenses account for nearly 75 percent of our total selling, general, and administrative expenses. The increase is largely due to growth in our headcount, which increased by over 600 people, or 8.6 percent in 2008. Expenses related to our restricted stock program and various other incentive plans are variable, based on growth in our earnings. Our slower earnings growth in 2008 compared to 2007 resulted in a decrease in expense related to some of these incentive plans. This contributed to our personnel expenses growing slower than our gross profits.

Other selling, general, and administrative expenses for 2008 were \$201.6 million, an increase of 21.3 percent from \$166.1 million in 2007. The increase in our selling, general, and administrative expenses was driven by several expense categories, including provision for doubtful accounts, occupancy, and claims. As a percentage of gross profits, other selling, general, and administrative expenses increased to 14.6 percent in 2008 compared to 13.4 percent in 2007.

Our total provision for doubtful accounts was \$14.3 million for the year compared to \$6.7 million in 2007. Due to economic conditions, we had a higher level of customer-specific payment issues and bankruptcies than we typically experience. It is very difficult for us to predict whether other accounts will have issues in the future but believe our reserve for doubtful accounts is appropriate.

Our occupancy expense increased faster than our gross profits primarily due to primarily to an increase in office space. Occupancy expense is driven primarily by contractual lease agreements of our branch locations, which are fixed in the short-term and therefore difficult to reduce as our gross profit growth slows.

Income from operations. Income from operations increased 12.1 percent to \$571.6 million for 2008. This increase was primarily driven by the growth in our gross profits. Income from operations as a percentage of gross profits was 41.6 percent and 40.9 percent for 2008 and 2007.

Investment and other income. Investment and other income decreased 50.8 percent to \$6.8 million in 2008. Our investment yield declined significantly from 2007 to 2008 due to changes in the short term high-quality interest rate market. During 2008, nearly all of our investments were in money market funds that generally have a lower yield. During 2007, we were invested in auction rate securities and variable rate demand notes which had a higher investment yield.

Provision for income taxes. Our effective income tax rate was 37.9 percent for 2008 and 38.1 percent for 2007. The effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.

Net income. Net income increased 10.8 percent to \$359.2 million for 2008. Basic net income per share increased 11.6 percent to \$2.12. Diluted income per share increased 11.8 percent to \$2.08 for 2008.

2007 COMPARED TO 2006

Revenues. Gross revenues for 2007 were \$7.32 billion, an increase of 11.6 percent over \$6.56 billion in 2006. Gross profits in 2007 were \$1.24 billion, an increase of 14.9 percent over \$1.08 billion in 2006. This was the result of an increase in our Transportation gross profits of 16.1 percent to \$1.10 billion, an increase in our Sourcing gross profits of 6.4 percent to \$100.2 million, and an increase in our Information Services gross profits of 7.5 percent to \$45.5 million.

During 2007, our gross profit margin, or gross profits as a percentage of gross revenues, increased to 17.0 percent from 16.5 percent in 2006. Transportation gross profit margin increased to 18.4 percent in 2007 from 17.8 percent in 2006. Sourcing gross profit margin decreased to 7.7 percent in 2007 from 7.9 percent in 2006. Information Services is a fee-based business which generates 100 percent gross profit margin.

Transportation gross profits increased 16.1 percent to \$1.10 billion in 2007 from \$946.0 million in 2006. Transportation revenues are generated through several transportation services, including truck, intermodal, ocean, air, and miscellaneous services.

Truck gross profits, including LTL, increased 15.3 percent to \$949.3 million in 2007. This increase was generated by volume growth of over ten percent and increased gross profit margins, partially offset by a rate decline of approximately two percent. This rate decline excludes the impact of higher fuel prices. Despite weakening demand for trucking services in the marketplace, we were able to capture additional market share and grow our volumes with existing customers and gain new customers. Our margins expanded due to more widely available capacity in the marketplace compared to 2006.

Intermodal gross profits increased 6.9 percent to \$38.7 million from \$36.2 million in 2006, due to an increase in volumes. Our volume growth was driven by cross-selling with existing customers and new customer growth.

Our ocean transportation gross profits increased 17.2 percent to \$43.5 million in 2007. Our growth was driven by an increase in volumes and an increase in our gross profit margins. Our volumes grew due to adding new customers and growth with existing customers. Gross profit margins expanded due to more widely available capacity in the marketplace.

Our air transportation gross profits increased 45.4 percent to \$31.3 million in 2007. The increase was driven by significant volume increases partially offset by a decline in our gross profit margins, due to changes in our geographic and cargo consolidation mix. Our air gross profits also included approximately \$2.1 million of domestic air gross profits from our previously-disclosed acquisition of LXXI Services, Inc. on July 13, 2007.

Miscellaneous transportation gross profits consist primarily of customs brokerage fees and transportation management fees. The increase of 25.2 percent to \$35.2 million in 2007 was driven by increases in transportation management business.

Sourcing gross profits increased 6.4 percent to \$100.2 million in 2007, driven by growth in our volumes, partially offset by a decrease in our Sourcing gross profit margins. Our Sourcing business is the buying and selling of fresh fruits and vegetables. For several years, we have actively sought to expand our Sourcing customer base, focusing on large retailers, restaurant chains, and foodservice providers. As a result, we continue to see the long-term trend of increases in volume and gross profits in our integrated relationships with these customers, offset by a decline in our business with produce wholesale customers. Our gross profit margin declined in 2007 primarily because of higher prices for certain commodities, related to weather and higher labor and fuel costs.

Information Services is comprised entirely of revenue generated by our subsidiary, T-Chek Systems. For 2007, Information Systems gross profits growth of 7.5 percent to \$45.5 million was driven primarily by volume growth in our core fuel card and cash advance services. In addition, our gross profit per transaction was up slightly due to the price of fuel. With certain merchants our fee is based on a percentage of the sale amount. Approximately 30 percent of the growth was related to other services, such as fleet card and carrier compliance services.

Selling, general, and administrative expenses. Many of our selling, general, and administrative expenses are variable in relation to gross profits. However, we did gain leverage in certain expenses.

Personnel expenses increased by 10.1 percent to \$568.0 million in 2007, and decreased as a percentage of gross profits to 45.7 percent in 2007 from 47.7 percent in 2006. Personnel expenses account for nearly 80 percent of our total selling, general, and administrative expenses. Expenses related to our restricted stock program and various other incentive plans are variable, based on growth in our earnings. Our slower earnings growth in 2007 compared to 2006 resulted in a decrease in expense related to some of these incentive plans. This contributed to our personnel expenses growing slower than our gross profits.

We focus on keeping personnel expenses as variable as possible while looking for opportunities to be more efficient. Gross profits per employee increased 3.1 percent in 2007 over 2006. This increase was driven primarily by increased productivity and our slower headcount growth, relative to our gross profit growth.

Other selling, general, and administrative expenses for 2007 were \$166.1 million, an increase of 11.7 percent from \$148.8 million in 2006. As a percentage of gross profits, other selling, general, and administrative expenses decreased to 13.4 percent in 2007 compared to 13.7 percent in 2006. We strive to keep our expenses as variable as possible. With our revenue growth in 2007, we did gain leverage in our other selling, general, and administrative expenses.

Income from operations. Income from operations increased 22.0 percent to \$509.7 million for 2007. This increase was primarily driven by the growth in our gross profits. Income from operations as a percentage of gross profits was 40.9 percent and 38.6 percent for 2007 and 2006.

Investment and other income. Investment and other income increased 16.8 percent to \$13.8 million in 2007. Our portfolio yield increased slightly in 2007 from 2006.

Provision for income taxes. Our effective income tax rate was 38.1 percent for 2007 and 37.9 percent for 2006. The effective income tax rate for both periods is greater than the statutory federal income tax rate primarily due to state income taxes, net of federal benefit.

Net income. Net income increased 21.5 percent to \$324.3 million for 2007. Basic net income per share increased 21.8 percent to \$1.90. Diluted income per share increased 21.6 percent to \$1.86 for 2007.

LIQUIDITY AND CAPITAL RESOURCES

We have historically generated substantial cash from operations, which has enabled us to fund our growth while paying cash dividends and repurchasing stock. Cash and cash equivalents totaled \$494.7 million and \$338.9 million as of December 31, 2008 and 2007. Available-for-sale securities, consisting primarily of highly liquid investments, totaled \$2.6 million and \$115.8 million as of December 31, 2008 and 2007. Working capital at December 31, 2008 and 2007 was \$650.2 million and \$631.5 million.

Our first priority for our cash is growing the business, as we require some working capital and a relatively small amount of capital expenditures to grow. We are continually looking for acquisitions to redeploy our cash, but those acquisitions must fit our culture and enhance our growth opportunities.

If our cash balance continues to increase and there are no significant attractive acquisition opportunities, we expect to return more of the cash to our shareholders through future dividends and share repurchases.

Cash from operating activities. We generated \$447.6 million, \$308.4 million, and \$343.4 million of cash flow from operations in 2008, 2007, and 2006. During 2008, our cash flow from operations increased 45.1 percent compared to a 10.8 percent increase in net income. The primary factor that caused this increase in 2008 was the decrease in our accounts receivables balance of 9.1 percent to \$828.9 million in 2008 from \$911.8 million in 2007, as a result of declines in fuel prices and volumes at the end of 2008 compared to 2007.

Cash used for investing activities. We generated \$31.5 million cash in 2008, used cash of \$55.7 million in 2007, and used \$81.2 million cash in 2006 for investing activities. Our investing activities consist primarily of cash paid for acquisitions and our capital expenditures. During 2008, we exited nearly all of our available-for-sale securities, and invested in cash and cash equivalents which generated \$114.1 million of cash from investing activities.

We used cash of \$59.7 million, \$22.2 million, and \$39.7 million for acquisitions in 2008, 2007, and 2006. The amount paid in 2008 included \$50.2 million related to the closing of one acquisition and \$9.5 million related to earn-out payments and holdbacks from prior year acquisitions. The amount paid in 2007 included \$9.8 million related to the closing of one acquisition and \$12.4 million related to earn-out payments and holdbacks from prior year acquisitions. The amount paid in 2006 included \$29.5 million related to the closing of two acquisitions and \$10.2 million related to earn-out payments and holdbacks from prior year acquisitions.

We also used \$23.7 million, \$43.7 million, and \$43.3 million of net capital expenditures in 2008, 2007, and 2006. We spent \$5.6 million, \$21.1 million, and \$20.4 million in 2008, 2007, and 2006 on facilities on our new corporate campus in Eden Prairie, MN. This includes the spending to date on our new data center. The remaining capital expenditures of \$18.1 million, \$22.6 million, and \$22.9 million in 2008, 2007, and 2006 relate primarily to annual investments in information technology equipment to support our operating systems.

Cash used for financing activities. We used \$326.0 million, \$262.1 million, and \$145.8 million of cash flow for financing activities in 2008, 2007, and 2006. This was primarily quarterly dividends and share repurchases.

We used \$151.2 million, \$125.2 million, and \$90.8 million to pay cash dividends in 2008, 2007, and 2006, with the increase in 2008 due to a 22 percent increase in our quarterly dividend rate from \$0.18 per share in 2007 to \$0.22 per share in 2008.

We also used \$200.8 million, \$167.3 million, and \$85.3 million on share repurchases in 2008, 2007, and 2006. The increase in 2008 was due to a 13 percent increase in the number of shares repurchased and an increase in the average price paid per share. We will continue to use share repurchases as a variable way to return excess capital to shareholders. Our Board of