

Echo Global Logistics, Inc.
Form 10-K
February 22, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark
one)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2018 or

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____

Commission file number 001-34470

ECHO GLOBAL LOGISTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 20-5001120

(State or Other Jurisdiction of
Incorporation or Organization) (I.R.S. Employer Identification No.)

600 West Chicago Avenue, Suite 725 60654
Chicago, Illinois

(Address of Principal Executive Offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (800) 354-7993

Securities registered pursuant to Section 12(b) of the Act:

Title of each class Name of each exchange on which registered

Common Stock, par value \$0.0001 per share The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2018, the last business day of the registrant's most recent completed second quarter, was \$791,593,598 (based upon closing price of these shares on the Nasdaq Global Select Market).

The number of shares of the registrant's common stock outstanding as of the close of business on February 21, 2019 was 27,818,143.

Documents incorporated by reference:

Portions of the Registrant's Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K, provided that if such Proxy Statement is not filed with the Securities and Exchange Commission (the "SEC") within 120 days after the end of the fiscal year covered by this Form 10-K, an amendment to this Form 10-K shall be filed no later than the end of such 120-day period.

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Part I

Item 1. Business

Unless otherwise indicated or the context otherwise requires, references in this Annual Report on Form 10-K ("Form 10-K") to "Echo Global Logistics," "Echo," the "Company," "we," "us" or "our" are to Echo Global Logistics, Inc., a Delaware corporation, and its subsidiaries.

Certain statements in this Form 10-K are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements involve a number of risks, uncertainties and other factors that could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. Factors which could materially affect such forward-looking statements can be found in Part I, Item 1 "Business," Part I, Item 1A "Risk Factors" and Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in this Form 10-K. Investors are urged to consider these factors carefully in evaluating any forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The forward-looking statements made herein are only made as of the date hereof and we undertake no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Our Company

Echo Global Logistics is a leading provider of technology-enabled transportation and supply chain management solutions. We utilize a proprietary technology platform to compile and analyze data from our multi-modal network of transportation providers to satisfy the transportation and logistics needs of our clients. Our platform enables us to quickly adapt to and offer efficient and cost-effective solutions for our clients' shipping needs. We focus primarily on arranging transportation with truckload ("TL") and less than truckload ("LTL") carriers. We also offer intermodal (which involves moving a shipment by rail and truck), small parcel, domestic air, expedited and international transportation services. Our core logistics services include carrier selection, dispatch, load management and tracking.

The success of our platform and its ability to deliver a competitive value proposition to shippers (our clients) has been the main driver behind our historical growth and we believe will serve as the basis for our continued expansion. Our market share has grown within this market segment in recent years, primarily through organic growth with the addition of new customers, the expansion of relationships with existing customers, the addition of new services, and the development of a training program that enables better client service and the hiring of additional salespeople. We also have supplemented our organic growth through selective acquisitions.

We were formed as a Delaware limited liability company in January 2005 and converted our legal form to a Delaware corporation in June 2006. In October 2009, we completed an initial public offering of our shares of common stock. Our common stock is listed on the Nasdaq Global Select Market under the symbol "ECHO."

Our Clients

We procure transportation and provide logistics services for clients across a wide range of industries, including manufacturing, construction, food and beverage, consumer products and retail. Our clients fall into two categories: Transactional and Managed Transportation.

Transactional Clients

We service Transactional clients on a shipment-by-shipment basis. Transactional clients benefit from access to our capacity, our advanced technology, service quality and competitive pricing. Our sales representatives' objective is to expand client relationships by increasing the shipper's percentage of total freight spend directed to Echo. Transactional clients benefit from access to our advanced technology, service quality and competitive pricing.

Our revenue from Transactional clients was \$1.9 billion in 2018, \$1.5 billion in 2017 and \$1.4 billion in 2016. Revenue from Transactional clients as a percentage of total revenue was 78.5%, 79.2% and 81.3%, in 2018, 2017 and 2016, respectively.

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Managed Transportation Clients

We typically enter into multi-year contracts with our Managed Transportation clients, generally with terms of one to three years, to satisfy some, or substantially all, of their transportation management needs. Each Managed Transportation client is assigned one or more dedicated account executives. In limited instances, a Managed Transportation client will request that its account executives work on-site at the client's location.

Dedicated account executives, together with account management and technology staff from our Solutions and Implementation teams, initiate the on-boarding process for each new Managed Transportation client. These teams review the client's existing business processes, develop a preliminary freight management plan and target a percentage cost savings achievable for the client over the life of the contract. The Implementation team then develops an implementation plan that links the client's back office processes to our proprietary technology platform.

The Managed Transportation relationship is initially predicated on a high level of personalized service, cost savings and the improved efficiency, transparency and reporting achieved through reliance on our systems. Each client's dedicated account team seeks to become more knowledgeable about the client's supply chain operations through an ongoing series of quarterly business reviews. Through this process, additional opportunities for efficiency gains, operating improvements and cost savings are identified and recommended by account managers who generally have significant industry experience.

Managed Transportation contracts often are on an exclusive basis for a certain transportation mode or point of origin and may apply to one or more modes used by the client. These provisions help us secure, but do not guarantee, a significant portion of a Managed Transportation client's transportation spend. While the application of these contractual exclusivity provisions historically has varied, we work closely with our Managed Transportation clients to maintain our status as their exclusive provider of transportation management services for a particular mode or point of origin.

We also provide freight bill payment and audit services, claims processing and small parcel consulting services to a limited number of Managed Transportation clients. Under these arrangements, we review the client's small parcel shipping contracts and shipment data, analyzing their volumes, distribution, rates and savings opportunities, prepare negotiation strategies and directly or indirectly participate in negotiations with carriers to improve the client's rates, charges, services and commitments.

Our revenue from Managed Transportation clients was \$524.1 million in 2018, \$404.3 million in 2017 and \$320.3 million in 2016. Revenue from Managed Transportation clients as a percentage of total revenue was 21.5%, 20.8% and 18.7% in 2018, 2017 and 2016, respectively.

Our Proprietary Technology

Our proprietary technology platform ("Optimizer") is fundamental to our operating system and solutions offering. We run our business on a technology platform engineered and built from the ground up and believe its proprietary nature differentiates us from our competition in a number of critical ways. All participants in each transaction (clients, carriers and Echo employees) are unified on a single platform through access portals customized to each participant's needs. We believe such integration yields critical synergies throughout our organization as well as with our clients and carriers. Equally important, internal integration ensures speed and accuracy of data capture, information exchange, shipment execution and back-end reporting capabilities.

As our business has grown, our technology platform has continued to evolve in order to incorporate new multi-modal capabilities and integrate with new technology partners. We branded our next generation architecture ("EchoAccelerator") to focus on driving development, automation and speed to market through all of the processes that we manage across modes. The four key areas of emphasis are: 1) quoting and pricing; 2) carrier selection, load-matching, and booking; 3) in-transit visibility, monitoring, and notifications; and 4) settlement. We believe the agility of EchoAccelerator is essential to keep pace with the changing needs of our business and offers us a critical advantage in the competitive transportation marketplace. In 2018, 2017 and 2016, we spent approximately \$18.2 million, \$19.0 million and \$14.6 million, respectively, on the development of Optimizer, EchoAccelerator, and related technologies.

Each mode involves different vendors exchanging unique order and price data that must be shared with multiple parties to any given transaction. Our integration layer ("EchoConnect") enables us to connect to thousands of shippers and carriers via Application Programming Interface ("API") and Electronic Data Interchange ("EDI"). Our technology engineers build mode-specific requirements into our system that support our ability to sell and service that particular mode on an enterprise-wide basis.

When communicating their transportation needs to us, clients have the flexibility to do so electronically through our web portals, ("EchoShip") and ("EchoTrak"), by API/EDI integration via EchoConnect or by email/phone. Our system generates

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price and carrier options for our clients based on either rates pre-negotiated with preferred carriers or historical price and capacity data stored in our system. If a client enters its own shipment through EchoShip or EchoTrak, these interfaces automatically alert the appropriate account executive. Once the carrier is selected, the client's account executive uses our system to manage all aspects of the shipping process through the life-cycle of the shipment. Our clients use Optimizer's "track and trace" tools to monitor shipment status through both EchoShip and EchoTrak. In order to streamline communication and electronic tracking during the lifecycle of a load, we launched our carrier portal and mobile app ("EchoDrive"), which provides carriers with more flexibility, transparency and control. With EchoDrive, drivers receive fewer update phone calls, and dispatchers have a more efficient way to manage their drivers.

We believe our web-based suite of applications connects clients with every function required to run an efficient transportation and logistics program. Transportation solutions developed for Managed Transportation clients often involve back-end systems integration, and both the solution and the specific integration requirements vary by client. Optimizer affords us the flexibility to support the supply chain needs of each client, regardless of specifications of the client's own system.

We rely primarily on a combination of copyright, trademark and trade secret laws, license agreements and other contractual provisions to protect our intellectual property and other proprietary rights. Some of our intellectual property rights relate to proprietary business process enhancements. It is our practice to enter into confidentiality and invention assignment agreements with all of our employees and independent contractors. Such agreements include a confidentiality undertaking by the employee or independent contractor; ensure that all new intellectual property developed in the course of our relationship with employees or independent contractors is assigned to us; and require the employee or independent contractor to cooperate with us to protect our intellectual property during and after his or her relationship with us.

Our Transportation Solutions

We satisfy the market demand for freight transportation solutions by delivering a competitive value proposition that combines advanced technology, exceptional client service, competitive pricing and highly customized transportation solutions to businesses seeking external transportation management expertise. As a non-asset based provider of technology-enabled transportation and logistics services, our solutions offerings take many forms, including multi-modal transportation brokerage and logistics services.

Mode-Specific Offerings

For our Transactional clients, Echo offers a wide array of shipping options from which to choose:

Truckload. We provide TL service across all TL segments, including dry van, temperature-controlled and flatbed trucks. Our Truckload Quoting Tool technology uses our predictive pricing algorithms, industry relationships and historical lane-specific price and capacity data to quickly satisfy our clients' TL needs.

Less than Truckload. We maintain relationships with, and utilize the vast majority of, LTL carriers in the market. Using our innovative RateIQ 2.0, EchoShip and EchoTrak technology, we obtain real-time price and transit time information for every LTL shipment we broker.

Small Parcel. We provide small parcel services for packages of all sizes. Using our EchoPak technology, we often are able to deliver cost saving opportunities to those clients with significant small parcel freight spend.

Intermodal. Intermodal transportation is the shipping of freight by multiple modes. We offer intermodal transportation services for our clients that utilize a combination of truck and rail. Our dedicated intermodal team can select the combination of truck and rail services that best satisfies each client's individual price and shipment criteria.

Domestic Air and Expedited Services. We provide domestic air and expedited shipment services for our clients whose delivery requirements cannot be satisfied by traditional over-the-road service.

International. For clients seeking the ease of a comprehensive international delivery option, we provide air and ocean transportation services. Dedicated account teams are able to consolidate shipments, coordinate routing, prearrange custom clearance and organize local pick-up and delivery, all in an effort to minimize the time and economic burdens associated with international shipping.

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Logistics Services Offerings

Many clients, often in our Managed Transportation group, prefer a comprehensive and customized freight management solution that maximizes system-wide efficiencies as well as cost savings. In these instances, clients outsource their freight management needs to us, and we develop a plan involving a wide range of multi-modal brokerage and transportation management services that often includes the redesign and reengineering of distribution networks that connect a client to its suppliers and customers.

Transportation management and logistics services that we provide to such clients can include:

Rate negotiation;

Procurement of transportation, both contractually and in the spot market;

Shipment execution and tracking;

Carrier management, selection, reporting and compliance;

Executive dashboard presentations and detailed shipment reports;

Freight bill payment and audit;

Claims processing and service refund management;

Design and management of inbound client freight programs;

Individually configured web portals and self-service data warehouses;

Enterprise resource planning ("ERP") integration with transactional shipment data;

Integration of shipping applications into client e-commerce sites; and

Back-end reports customized to the internal reporting needs of the client's business.

Our Employees

As of December 31, 2018, Echo had 2,595 employees, of which 1,716 were sales representatives and agents.

Our sales representatives and agents are located in more than 30 offices throughout the United States. Sales representatives are employees focused on identifying and growing relationships with shippers and carriers. Sales agents work independently or in station offices and generally are experienced industry sales professionals managing their own client relationships. Both sales representatives and agents are primarily responsible for managing and servicing the client and carrier relationships whose business they secure.

Candidates for employment are identified and screened through traditional means, such as career fairs, search firms, job postings, advertisements in industry publications and referrals. The majority of hires within our sales and service organization are recent college graduates. We invest extensively in their training and ongoing development to ensure their long-term success as a part of our organization. Employees who join Echo as a result of an acquisition also participate in training tailored to their needs. We are confident that our employee training and development efforts contribute to longer tenure, increased productivity and a greater commitment to client satisfaction. None of our employees are subject to collective bargaining agreements. We consider our relationships with our employees to be good.

Our Carrier Network

In 2018, we continued to enhance our vast carrier network of motor, rail, air and ocean freight transportation providers. We select our carriers on the basis of their capabilities, geographic coverage, quality of service and price. Carriers selected to join our network provide physical transportation services to our clients. In our capacity as intermediary, we track our clients' shipments from origin to destination. Since we do not own any transportation equipment and do not employ those directly involved in the delivery of our clients' shipments, the nature of our carrier relationships is essential to our success.

We believe we provide value to our carriers through our proprietary technology (EchoDrive), which gives our carriers the flexibility to simplify load management, manage drivers and review invoice status. Our carriers benefit by gaining access to our clients and our carrier communication tools, which allow us to match our clients' freight with our carriers' excess capacity.

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We maintain the quality of our carrier network by obtaining documentation from each carrier that ensures the carrier is properly licensed and insured, and satisfies our safety requirements. Additionally, we continuously monitor data from our network on capacity, price trends, reliability, quality control standards and overall client service. We believe this quality control program helps to ensure shippers are provided the highest quality service, regardless of the specific carrier selected for an individual shipment.

The carriers in our network range in size from large national trucking companies to owner-operators of single trucks. We are not dependent on any one or a limited number of carriers. Our largest carrier accounted for less than 5% of our total 2018 transportation costs.

Competition

We operate in the highly competitive and fragmented market for commercial freight transportation and third-party logistics services. Primary competitors to our services include other national non-asset based third-party logistics companies, as well as regional or niche freight brokerages, asset-based carriers offering brokerage and/or logistics services, wholesale intermodal transportation service providers and rail carriers. In addition, we may from time to time compete against carriers' internal sales forces or shippers' internal transportation departments. We also buy transportation services from, and sell services to, some of the companies with which we compete.

We believe we compete for business on the basis of service, reliability and price. Some of our competitors may have more clients, larger clients, more resources, and possibly greater expertise in a single transportation mode than we do. We compete successfully with these companies by delivering a multi-modal solution using advanced technology combined with excellent client service, competitive pricing and highly customized transportation solutions.

Our clients may choose not to outsource their transportation business to us in the future by performing formerly outsourced services for themselves, either in-house or through external partnerships or other arrangements. We believe our key advantage over clients' in-house operations is our ability to simplify the transportation process by delivering volume-based pricing and service superior to what our clients can secure independent of Echo. In short, we provide our clients the opportunity to focus on their core operations by providing our transportation buying power and expertise.

Government Regulation

We are licensed by the U.S. Department of Transportation as a broker authorized to arrange for the transportation of general commodities by motor vehicle. Subject to applicable federal and state regulation, we arrange for the transportation of most types of freight to and from any point in the United States. We arrange transportation for United States domestic shipments by land that are mostly governed by federal regulation, such as the Federal Motor Carrier Safety Administration (the "FMCSA"), which is an agency of the Department of Transportation; some shipments are also regulated by various state agencies. The FMCSA has broad regulatory powers in areas such as safety and insurance relating to interstate motor-carrier and property broker operations. The transportation industry is generally subject to possible changes in the governing law (such as the possibility of more stringent environmental or safety regulations, or limits on vehicle weight and size) that could impact the economics of the industry.

Our international operations are impacted by a wide variety of United States regulations from various government agencies, along with foreign regulatory authorities. Regulations set by these departments may cover matters such as the type of commodities that may be shipped and how certain commodities may be shipped. These departments also issue regulations regarding unfair international trade practices and limitations on entities with which we may engage in business.

We contract with indirect air carriers who have been approved by the Transportation Security Administration (the "TSA") and the Department of Transportation to arrange for transportation by air for our clients. The air freight industry is generally subject to regulatory and legislative changes that could affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to clients.

Our ocean transportation business in the United States is subject to regulation by the Federal Maritime Commission (the "FMC"). We are not licensed as an ocean freight forwarder or a non-vessel operating common carrier operator. However, we do engage in business with entities who are licensed in ocean transportation so that we may arrange for transportation by sea for our clients.

Although Congress enacted legislation in 1994 that substantially preempts the authority of states to exercise economic regulation of motor-carriers and property brokers, some intrastate shipments for which we arrange transportation may be subject to additional licensing registration or permit requirements. Generally, we contractually require the carrier transporting the shipment to ensure compliance with these types of requirements. Although compliance with the regulations governing

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licenses in these areas has not had a material adverse effect on our operations or financial condition in the past, there can be no assurance that such regulations or changes will not adversely impact our operations in the future. Violation of these regulations could also subject us to fines as well as increased claims liability.

Risk Management and Insurance

If a client's shipment is damaged during the delivery process, our customer may file a claim for the damaged shipment with us, which we will pursue directly with the carrier on our client's behalf. In the cases where we have agreed (either contractually or otherwise) to pay for claims for damage to freight while in transit, we may pay the claim to our client while we independently pursue reimbursement from the carrier. If we are unable to recover all or any portion of the claim amount from our carrier, or our carrier's insurance, we may bear the financial loss of such claim. We mitigate this risk by using our quality control program to carefully select carriers with adequate insurance, quality control procedures and safety ratings. We also take steps to ensure that the coverage we provide to our clients for damaged shipments is substantially similar to the coverage that our carriers provide.

We require all motor carriers we work with to carry at least \$1 million in automobile liability insurance and \$0.1 million in cargo insurance. We also maintain a broad cargo liability insurance policy to protect us against cargo damages that may not be recovered from the responsible motor-carrier. We carry various liability insurance policies, including automobile and general liability. Our contingent automobile liability coverage has a retention of \$10 million per incident.

We extend credit to certain clients as part of our business model. These clients are subject to an approval process prior to any extension of credit or increase in their current credit limit. Our accounting department reviews each credit request and considers, among other factors, payment history, current billing status, recommendations by various rating agencies and capitalization. Clients that satisfy our credit review may receive a line of credit or an increase in their existing credit amount. We believe this review and approval process helps mitigate the risk of client defaults on extensions of credit and any related bad debt expense. Additionally, the Company maintains a credit insurance policy for certain accounts.

Our Website

Our website is <http://www.echo.com>. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including exhibits and any amendments to those reports, filed with or furnished to the Securities and Exchange Commission (the "SEC"). We make these reports available through our website as soon as reasonably practical after our electronic filing of such materials with, or the furnishing of them to, the SEC. The information contained on our website is not a part of this Form 10-K and shall not be deemed incorporated by reference into this Form 10-K or any other public filing made by us with the SEC. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

Item 1A. Risk Factors

Set forth below are certain risk factors that could harm our business, results of operations and financial condition. You should carefully read the following risk factors, together with the financial statements, related notes and other information contained in this Form 10-K. Our business, financial condition and operating results may suffer if any of the following risks are realized. If any of these risks or uncertainties occur, the trading price of our common stock could decline and you might lose all or part of your investment. This Form 10-K contains forward-looking statements that contain risks and uncertainties. Please refer to the discussion of "Forward-Looking Statements" on page three of this Form 10-K in connection with your consideration of the risk factors and other important factors that may affect future results described below.

Risks Related to Our Business

We operate in a highly competitive industry, and if we are unable to address competitive pressures and developments that may adversely affect our operating results, it could substantially impair our business. The transportation services industry is highly competitive. We compete against other national non-asset based third-party logistics companies, as well as regional or niche freight brokerages, asset-based carriers offering brokerage and/or logistics services, wholesale intermodal transportation service providers and rail carriers. In addition, we may from time to time compete against carriers' internal sales forces or clients' internal transportation departments. At times, we buy transportation services from, and sell services to, our competitors. Historically, competition has created a downward pressure on freight rates and continuation of this rate pressure may adversely affect our revenue and income from operations.

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In addition, a software platform and database similar to Optimizer could be created over time by a competitor with sufficient financial resources and comparable experience in the transportation services industry. If our competitors are able to offer comparable services, we could lose clients, and our market share and profit margin could decline. Our competitors may also establish cooperative relationships to increase their ability to address client needs. Increased competition may lead to revenue reductions, reduced profit margins or loss of market share, any one of which could harm our business.

A decrease in levels of excess capacity in the U.S. transportation services industry could have an adverse impact on our business.

We believe that, historically, the U.S. transportation services industry has experienced significant levels of excess capacity. Our business seeks to capitalize on imbalances between supply and demand in the transportation services industry by obtaining favorable pricing terms from carriers in our network through a competitive bid process. Reduced excess capacity in the transportation services industry generally, and in our carrier network specifically, could have an adverse impact on our ability to execute our business strategy and on our business results and growth prospects.

A decrease in the number of carriers participating in our network could adversely affect our business.

In 2018, we continued to enhance our sizable carrier network of motor, rail, air and ocean freight transportation providers. We expect to continue to rely on these carriers to fulfill our clients' shipping orders in the future. However, these carriers are not contractually required to continue to accept orders from us. If shipping capacity tightens or the transportation industry experiences further consolidation among carriers, our ability to serve our clients on competitive terms could be significantly limited. In addition, we rely on price bids provided by our carriers to populate our database. If the number of our carriers decreases significantly, we may be unable to obtain sufficient pricing information to effectively utilize Optimizer, which could affect our ability to obtain favorable pricing for our clients.

If our carriers do not meet our transportation, or information reporting, needs or expectations, or those of our clients, our business could suffer.

The success of our business depends to a large extent on our relationships with our clients and our reputation for providing high-quality technology-enabled transportation and logistics services. We do not own or control the transportation assets that deliver our clients' freight, and we do not employ the people directly involved in delivering the freight. We rely on independent third parties to provide TL, LTL, small parcel, intermodal, domestic air, expedited and international carrier services and to report certain information to us, including information relating to delivery status and freight claims. This reliance could cause delays in providing our clients with important service data and in the financial reporting of certain events, including recognizing revenue and recording claims. If we are unable to secure sufficient transportation services to meet our commitments to our clients, our operating results could be adversely affected, and our clients could utilize the services of our competitors temporarily or permanently. Many of these risks are beyond our control and difficult to anticipate, including:

- changes in rates charged by transportation providers;
- supply shortages in the transportation industry, particularly among TL carriers;
- interruptions in service or stoppages in transportation as a result of labor disputes; and
- changes in regulations impacting transportation.

If any of the third parties we rely on do not meet our needs or expectations, or those of our clients, our professional reputation may be damaged and our business could suffer.

Higher carrier prices may result in decreased net revenue margin.

Carriers may charge higher prices if market conditions warrant, or to cover higher operating expenses. Our net revenues and income from operations may decrease if we are unable to correspondingly increase our pricing to our customers. Increased market demand for TL services and pending changes in regulations may reduce available capacity and increase carrier pricing. Net revenue is a non-GAAP measure calculated as revenue minus transportation costs.

Changes in fuel prices may change carrier prices, and volatility in fuel prices may make it more difficult to pass through increased costs to our clients, which may impair our operating results.

Fuel prices can be volatile and difficult to predict. Fuel prices have fluctuated significantly over the last five years. Our clients expect fuel savings to be passed along through lower prices. If carriers do not lower their prices to reflect declines in

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fuel costs, this could negatively impact our shipment volume, as our clients could seek other shipping options. This decrease in volume would negatively impact our gross profits and income from operations.

In the event of rising fuel prices, carriers can be expected to charge higher prices to cover higher operating expenses, and our gross profits and income from operations may decrease if we are unable to continue to pass through to our clients the full amount of these increased costs. Higher fuel costs could also cause material shifts in the percentage of our revenue by transportation mode, as our clients may elect to utilize alternative transportation modes. Any material shifts to transportation modes with respect to which we realize lower gross profit margins could impair our operating results.

Our obligation to pay our carriers is not contingent upon receipt of payment from our clients, and we extend credit to certain clients as part of our business model, which exposes us to additional credit risk.

In most cases, we take full risk of credit loss for the transportation services we procure from carriers. Our obligation to pay our carriers is not contingent upon receipt of payment from our clients. If any of our key clients fail to pay for our services, our profitability would be negatively impacted.

We extend credit to certain clients in the ordinary course of business as part of our business model. By extending credit, we increase our exposure to uncollected receivables. A deterioration in the global or domestic economy could drive an increase in business failures, downsizing and delinquencies, which could cause an increase in our credit risk. If we fail to monitor and manage effectively our credit risks, our immediate and long-term liquidity may be adversely affected.

We are reliant on technology to operate our business and our continued success is dependent on our systems continuing to provide the necessary support to service our clients effectively.

We rely heavily on Optimizer to track and store externally and internally generated market data, analyze the capabilities of our carrier network and recommend cost-effective carriers in the appropriate transportation mode. To keep pace with changing technologies and client demands, we must correctly interpret and address market trends and enhance the features and functionality of our Optimizer platform in response to these trends, which may lead to significant ongoing research and development costs. We may be unable to accurately determine the needs of our clients and the trends in the transportation services industry or to design and implement the appropriate features and functionality of our Optimizer platform in a timely and cost-effective manner, which could result in decreased demand for our services and a corresponding decrease in our revenue. Despite testing, we may be unable to detect defects in existing or new versions of our proprietary software, or errors may arise in our software. Any failure to identify and address such defects or errors could result in loss of revenue or market share, liability to clients or others, diversion of resources, injury to our reputation, and increased service and maintenance costs. Correction of such errors could prove to be impossible or very costly, and responding to resulting claims or liability could similarly involve substantial cost. The success of our business depends upon our ability to deliver time-sensitive, up-to-date data and information. We rely on our Internet access, computer equipment, software applications, database storage facilities and other office equipment, which are primarily located in our Chicago headquarters. Our operations and those of our carriers and clients are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, computer viruses, hackers, cyber-attacks, equipment failure, physical break-ins and other events beyond our control, including disasters affecting Chicago. We attempt to mitigate these risks through various means, including system backup and security measures, but our precautions will not protect against all potential problems. We maintain fully redundant off-site backup facilities for our Internet access, computer equipment, software applications, database storage and network equipment, but these facilities could be subject to the same interruptions that could affect our headquarters. If we suffer a database or network facility outage, our business could experience disruption, possibly resulting in reduced revenue and the loss of clients.

Our ability to deliver our services depends upon the capacity, reliability and security of services provided to us by our telecommunication service providers, our electronic delivery systems and the Internet. We have no control over the operation, quality or maintenance of these services or whether the vendors will improve their services or continue to provide services that are essential to our business. In addition, our telecommunication service providers may increase the prices at which they provide services, which would increase our costs. If our telecommunication service providers were to cease to provide essential services or to significantly increase their prices, we could be required to find

alternative vendors for these services. With a limited number of vendors, we could experience significant delays in obtaining new or replacement services, which could significantly harm our reputation and could cause us to lose clients and revenue. Moreover, our ability to deliver information using the Internet may be impaired because of infrastructure failures, service outages at third-party Internet providers or increased government regulation. If disruptions, failures or slowdowns of our electronic delivery systems or the Internet occur, our ability to effectively provide technology-enabled transportation and supply chain management services and to serve our clients may be impaired.

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Breaches in data security could adversely affect our business.

Failure to prevent or mitigate data loss, or system intrusions, from cyber-attacks or other security breaches could expose us, our vendors, or our customers to a risk of loss or misuse of such information, adversely affecting our operating results, or result in litigation or potential liability for our business. Likewise, data privacy breaches by employees or others accessing our systems may pose a risk that sensitive vendor or customer data may be exposed to unauthorized persons or to the public, adversely impacting our customer service, employee relationships and reputation. While we believe that we have taken appropriate security measures to protect our data and information technology systems, and to prevent data loss, our precautions may not protect against all potential breakdowns or breaches in our systems that could have an adverse affect on our business.

We have not registered any patents, and only a limited number of trademarks with respect to our proprietary technology to date, and our inability to protect our intellectual property rights may impair our competitive position. Our failure to adequately protect our intellectual property and other proprietary rights could harm our competitive position. We rely on a combination of copyright, trademark and trade secret laws, as well as license agreements and other contractual provisions to protect our intellectual property and other proprietary rights. In addition, we attempt to protect our intellectual property and proprietary information by requiring all of our employees and independent contractors to enter into confidentiality and invention assignment agreements. To date, we have not pursued patent protection for our technology. We currently have ten registered trademarks to protect our brands and certain of our proprietary technology. We cannot be certain that the steps we have taken to protect our intellectual property rights will be adequate or will prevent third parties from infringing or misappropriating our rights, imitating or duplicating our technology, services or methodologies, including Optimizer, or using trademarks similar to ours. Should we need to resort to litigation to enforce our intellectual property rights or to determine the validity and scope of the rights of others, such litigation could be time-consuming and costly, and the result of any litigation is subject to uncertainty. In addition, Optimizer incorporates open source software components that are licensed to us under various public domain licenses. Although we believe that we have complied with our obligations under the various applicable licenses for the open source software that we use, there is little or no legal precedent governing the interpretation of many of the terms of these licenses, and the potential impact of such terms on our business is, therefore, difficult to predict.

We may not be able to identify suitable acquisition candidates, effectively integrate acquired businesses or achieve expected profitability from acquisitions.

Part of our growth strategy is to increase our revenue and the market regions that we serve through the acquisition of complementary businesses. There can be no assurance that suitable candidates for acquisitions can be identified or, if suitable candidates are identified, that acquisitions can be completed on acceptable terms, if at all. Even if suitable candidates are acquired, they may entail a number of risks that could adversely affect our business and the market price of our common stock, including the integration of the acquired operations, diversion of management's attention, risks of entering new market regions in which we have limited experience, adverse short-term effects on our reported operating results, the potential loss of key employees of acquired businesses and risks associated with unanticipated liabilities.

We may use our common stock to pay for acquisitions. If the owners of potential acquisition candidates are not willing to receive our common stock in exchange for their businesses, our acquisition prospects could be limited. Future acquisitions could also result in accounting charges, potentially dilutive issuances of equity securities and increased debt and contingent liabilities, including liabilities related to unknown or undisclosed circumstances, any of which could have a material adverse effect on our business and the market price of our common stock.

Our clients may terminate their relationships with us on short notice with limited or no penalties, and our clients are generally not obligated to spend a minimum amount with us.

Our Transactional clients, which accounted for 78.5% and 79.2% of our revenue in 2018 and 2017, respectively, use our services on a shipment-by-shipment basis rather than under long-term contracts. These clients have no obligation to continue using our services and may stop using them at any time without penalty or with only limited penalties. Our contracts with Managed Transportation clients typically have terms of one to three years and are subject to termination provisions negotiated on a contract-by-contract basis. If we fail to adhere to the terms of the contract, the client can terminate the relationship. Managed Transportation contracts accounting for 6.1% and 7.7% of our total 2018 revenue

are scheduled to expire (subject to possible renewal) in 2019 and 2020, respectively.

The volume and type of services we provide each client may vary from year to year and could be reduced if the client were to change its outsourcing or shipping strategy. Our Managed Transportation clients generally are not obligated to spend any particular amount with us, although our Managed Transportation contracts are typically exclusive with respect to point of origin or one or more modes of transportation, meaning that the client is obligated to use us if it ships from the point of origin or uses those modes. These contractual exclusivity provisions help ensure, but do not guarantee, we receive a significant portion of the

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amount that our Managed Transportation clients spend on transportation in the applicable mode or modes or from the applicable point of origin. In our experience, compliance with such exclusivity provisions varies from client to client and over time. Our clients' failure to comply with these exclusivity provisions may adversely affect our revenue. If a significant number of our Transactional or Managed Transportation clients elect to terminate or not renew their engagements with us, or if the shipping volume of a significant number of our clients decreases, our business, operating results and financial condition could suffer. If we are unable to renew our Managed Transportation contracts at favorable rates, our revenue may decline.

We have extensive selling and implementation cycles to secure a new Managed Transportation contract, which require significant investments of resources by us and by our clients.

In the course of acquiring a Managed Transportation customer, we typically face extensive selling and implementation cycles to secure a new Managed Transportation contract, which requires significant investment of resources and time by both our clients and us. Before committing to use our services, potential Managed Transportation clients require us to spend time and resources educating them on the value of our services and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them.

Therefore, our Managed Transportation selling cycle is subject to many risks and delays over which we have little control, including our clients' decisions to choose alternatives to our services and the timing of our clients' budget cycles and approval processes.

Implementing our Managed Transportation services, which can take from one to six months, involves a significant commitment of resources over an extended period of time from both our clients and us. Depending on the scope and complexity of the processes being implemented, these time periods may be significantly longer. Our current and future clients may not be willing or able to invest the time and resources necessary to implement our services, and we may fail to close sales with potential clients to which we have devoted significant time and resources. This could have a material adverse effect on our business, results of operations, financial condition and cash flows, as we do not recognize significant revenue until after we have completed the implementation phase.

Economic recessions could have a significant, adverse impact on our business.

The transportation and supply chain industry historically has experienced cyclical fluctuations in financial results due to economic recession, downturns in business cycles of industry clients, interest rate fluctuations, and other economic factors beyond our control. Deterioration in the economic environment subjects our business to various risks, which may have a material and adverse impact on our operating results and cause us to not reach our long-term growth goals:

Decrease in volumes: A reduction in overall freight volumes in the marketplace reduces our opportunities for growth. A significant portion of our freight is transactional or "spot" market opportunities. The transactional market may be more impacted than the freight market by overall economic conditions. In addition, if a downturn in our clients' business cycles causes a reduction in the volume of freight they ship, particularly among certain national retailers or in the food, beverage, retail, manufacturing, paper, or printing industries, our operating results could be adversely affected.

Credit risk and working capital: Some of our clients may face economic difficulties and may not be able to pay us, and some may go out of business. In addition, some clients may not pay us as quickly as they have in the past, causing our working capital needs to increase.

Transportation carrier failures: A significant number of our transportation carriers may go out of business and we may be unable to secure sufficient equipment or other transportation services to meet our commitments to our clients.

Expense management: We may not be able to appropriately adjust our expenses to changing market demands. In order to maintain high variability in our business model, it is necessary to adjust staffing levels to changing market demands. In periods of rapid change, it is more difficult to match our staffing levels to our business needs. In addition, we have other expenses that are fixed for a period of time, and we may not be able to adequately adjust them in a period of rapid change in market demand.

Our industry is subject to seasonal sales fluctuations. If our business experiences unusual or otherwise unanticipated seasonality, it could have an adverse effect on our operating results and financial condition.

Our industry is subject to seasonal sales fluctuations as shipments generally are lower during and after the winter holiday season because many of our retail clients ship goods and stock inventories prior to the winter holiday season. If we were to experience lower than expected revenue during any such period, whether from a general decline in economic conditions or

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other factors beyond our control, our expenses may not be sufficiently offset, which would have a disproportionately adverse impact on our operating results and financial condition for that period.

Our ability to appropriately staff and retain sales representatives and agents is important to our business, and the cost of enforcing non-compete agreements with former employees may be substantial.

Our ability to expand our business will depend, in part, on our ability to attract additional sales representatives and agents with established client relationships. Competition for qualified and successful sales representatives and agents can be intense, and we may be unable to hire such persons. Any difficulties we experience in expanding the number of our sales representatives and agents could have a negative impact on our ability to expand our client base, increase our revenue and continue our growth.

In addition, we must retain our current sales representatives and agents and properly incentivize them to obtain new clients and maintain existing client relationships. If a significant number of our sales representatives and agents leave us, our revenue could be negatively impacted. We have entered into agreements with our sales representatives and agents that contain non-compete provisions to mitigate this risk, but we may need to litigate to enforce our rights under these agreements, which could be time-consuming, expensive and ineffective. A significant increase in the turnover rate among our current sales representatives and agents could also increase our recruiting costs and lead to a decline in the demand for our services.

We are subject to loss, accident and other liability claims arising from our transportation operations.

We use the services of thousands of transportation companies and their drivers in connection with our transportation operations. From time to time, these drivers are involved in accidents, or goods carried by these drivers are lost or damaged and the carriers may not have adequate insurance coverage. Although these drivers are not our employees and all of these drivers are employees of, or independent contractors working for, carriers, or are owner-operators, claims may be asserted against us for their actions or for our actions in retaining them. Claims against us may exceed the amount of our insurance coverage, or may not be covered by insurance at all. If a shipment is lost or damaged during the delivery process, a client may file a claim for the damaged shipment with us and we may bear the risk of recovering the claim amount from the carrier. If we are unable to recover all or any portion of the claim amount from the carrier, or the carrier's insurance, and to the extent each claim exceeds the amount which may be recovered from our own insurance, we will bear the financial loss. A material increase in the frequency or severity of accidents, claims for lost or damaged goods, liability claims or workers' compensation claims, or unfavorable resolutions of claims, could adversely affect our operating results. Significant increases in insurance costs or the inability to purchase insurance as a result of these claims could also reduce our profitability.

Our insurance coverage and self-insurance reserves may not cover future claims.

We maintain various insurance policies for employee health, worker's compensation, general liability, property damage and automobile liability. We use a combination of insurance and self-insurance policies for our employee health plans.

For policies under which we are responsible for losses, we record a liability that represents our estimated cost of claims incurred and unpaid as of the balance sheet date. Our estimated liability is not discounted and is based on a number of assumptions and factors, including historical trends, actuarial assumptions and economic conditions, and is closely monitored and adjusted when warranted by changing circumstances. Our history of claims experience is short and our significant growth rate could affect the accuracy of estimates based on historical experience. If a greater amount of claims occurs compared to what we estimated, or if medical costs exceed what we expected, our accrued liabilities might not be sufficient and we may be required to record additional expense. In addition, unanticipated changes may produce materially different amounts of expense than reported under these programs, which could adversely impact our results of operations.

Laws and regulations in the U.S. and abroad that apply to us, our clients or our vendors may expose us to liability, cause us to incur significant expense, affect our ability to compete in certain markets, or limit the profitability of or demand for our solutions and services. If these laws and regulations require us to change our solutions and services, it could adversely affect our business and results of operations. New legislation or regulations, or changes to existing

laws and regulations, may also negatively impact our business and increase our costs of doing business.

International and domestic transportation of goods is subject to a number of governmental regulations, including licensing and financial security requirements, import and export regulations, security requirements, packaging regulations and notification requirements. These regulations and requirements are subject to change based on new legislation and regulatory initiatives, which could affect the economics of the transportation industry by requiring changes in operating practices or influencing the demand for, and the cost of providing, transportation services.

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We are licensed by the U.S. Department of Transportation as a broker authorized to arrange for the transportation of general commodities by motor vehicle. We must comply with certain insurance and surety bond requirements to act in this capacity.

We are currently providing customs broker services through contracts with licensed customs brokers. We contract with indirect air carriers that have been approved by the TSA, and are required to comply with air security regulations imposed by the TSA. In addition, our ocean transportation business is subject to regulation by the FMC.

We may experience an increase in operating costs, such as security costs, as a result of governmental regulations that have been and will be adopted in response to criminal, terrorist and potential terrorist activities. No assurances can be given that we will be able to pass any or all of these increased costs on to our clients in the form of rate increases or surcharges.

From time to time, we arrange for the movement of hazardous materials at the request of our clients. As a result, we are subject to various environmental laws and regulations relating to the handling, transport and disposal of hazardous materials. If our clients or carriers are involved in a spill or other accident involving hazardous materials, or if we are found to be in violation of applicable laws or regulations, we could be subject to substantial fines or penalties, response or remediation costs and civil and criminal liability, any of which could have an adverse effect on our business and results of operations. In addition, current and future national laws and multilateral agreements relating to carbon emissions and the effects of global warming could have a significant impact on the transportation sector, including the operations and profitability of our carriers, which could adversely affect our business and results of operations.

The comprehensive U.S. tax reform bill that was enacted in 2017 could adversely affect our financial performance.

In December 2017, the Tax Cuts and Jobs Act (the "Act" or "TCJA") was signed into law and significantly revised the Internal Revenue Code of 1986, as amended. This legislation, among other things, contains significant changes to corporate taxation, including the reduction of the corporate income tax rate from 35% to 21% beginning in 2018, immediate deductions for certain new investments and the modification or repeal of many business deductions and credits. Notwithstanding the reduction in the corporate income tax rate, we are continuing to examine the long-term impact of the Act. During 2018, the Department of the Treasury issued certain guidance in the form of notices and proposed regulations with respect to several provisions of the Act. It is anticipated that final regulations or other guidance may be issued with respect to the Act in 2019 and subsequent years. We can provide no assurances that the final regulations will not adversely affect our financial performance. In addition, it is uncertain if, and to what extent, various states will conform to the new tax law and foreign countries will react to the new tax law by adopting tax legislation or taking other actions that could adversely affect our business.

Uncertainty about the future of the London Interbank Offer Rate ("LIBOR") may adversely affect our business and financial results.

Advances under our senior secured revolving credit facility entered into in June 2015 (the "ABL Facility") generally bear interest based on one of the following, at our election, plus an applicable margin (1) the federal funds rate, (2) the base commercial lending rate of PNC Bank, or (3) LIBOR. On July 27, 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced that it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021 and it is unclear whether new methods of calculating LIBOR will be established. If LIBOR ceases to exist after 2021, the interest rates under our ABL Facility will be based on the federal funds rate or the PNC Bank base rate, which may result in higher interest rates. To the extent that these interest rates increase, our interest expense will increase, which could adversely affect our financial condition, operating results and cash flows.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

In the future, we may be required to raise capital through public, private or other financing arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our common stockholders, and debt financing, if available, may involve restrictive covenants.

Risks Related to Ownership of Our Common Stock

The trading price of our common stock has been and may continue to be volatile.

Since our initial public offering in October 2009 through February 21, 2019, the closing sale price of our common stock as reported by the Nasdaq Global Select Market has ranged from a low of \$10.04 on November 11, 2010 to a high of \$36.65 on September 10, 2018.

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Certain factors may cause the market price of our common stock to fluctuate, including:

- fluctuations in our quarterly financial results or the quarterly financial results of companies with which we compete or which are perceived to be similar to us;
- changes in market valuations of similar companies;
- success of competitors' products or services;
- changes in our capital structure, such as future issuances of debt or equity securities;
- announcements by us, our competitors, our clients or our suppliers of significant products or services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States or foreign countries;
- litigation involving our company, our general industry or both;
- additions or departures of key personnel;
- investors' general perception of us;
- changes in general economic, industry and market conditions; and
- the impact of our common stock and convertible note repurchase programs.

In addition, if the stock market experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, operating results or financial condition. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and distracting to management. As a result, you could lose all or part of your investment.

Our quarterly results are difficult to predict and may vary from quarter to quarter, which may result in our failure to meet the expectations of investors and increased volatility of our stock price.

The degree to which our clients continue to use our services depends in part on the business activities of our clients and our ability to continue to meet their cost saving and efficiency needs. A significant percentage of our revenue is subject to the discretion of our Transactional clients, who may stop using our services at any time. In addition, the transportation industry in which we operate is subject to seasonal sales fluctuation, as shipments generally are lower during and after the winter holiday season because many of our retail clients ship goods and stock inventories prior to the winter holiday season. Therefore, the number, size and profitability to us of our clients' shipments may vary significantly from quarter to quarter. As a result, our quarterly operating results are difficult to predict and may fall below the expectations of current or potential investors in future quarters, which could lead to a significant decline in the market price of our stock and increased volatility in our stock price.

We do not currently intend to pay dividends, which may limit the return on stockholder investment in us.

We currently intend to retain all available funds and any future earnings for use in the operation and expansion of our business and do not anticipate paying any cash dividends in the foreseeable future.

If our Board of Directors authorizes the issuance of preferred stock, holders of our common stock could be diluted and harmed.

Our Board of Directors has the authority to issue up to 2,500,000 shares of preferred stock in one or more series and to establish the preferred stock's voting powers, preferences and other rights and qualifications without any further vote or action by the stockholders. It is possible that we may need, or find it advantageous, to raise capital through the sale of preferred stock in the future. The issuance of preferred stock could adversely affect the voting power and dividend liquidation rights of the holders of common stock. In addition, the issuance of preferred stock could have the effect of making it more difficult for a third-party to acquire, or discourage a third-party from acquiring, a majority of our outstanding voting stock or otherwise adversely affect the market price of our common stock.

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We may not have the ability to raise the funds necessary to settle conversions of our 2.50% convertible notes due 2020 (the "Notes") or to repurchase the Notes upon a fundamental change, and our future debt may contain limitations on our ability to pay cash upon conversion or repurchase of the Notes.

Holders of our Notes have the right to require us to repurchase their Notes upon the occurrence of a fundamental change at a fundamental change repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest, if any. In addition, upon conversion of our Notes, unless we elect to deliver solely shares of our common stock to settle such conversion (other than paying cash in lieu of delivering any fractional share), we will be required to make cash payments in respect of the Notes being converted. However, we may not have enough available cash or be able to obtain sufficient financing to fund required repurchases of Notes surrendered therefor or to pay cash for the Notes upon conversion. In addition, our ability to repurchase the Notes or to pay cash upon conversions of the Notes may be limited by law, by regulatory authority or by agreements governing our future indebtedness. Our failure to repurchase Notes at a time when the repurchase is required by the related indenture or to pay any cash payable on future conversions of the Notes as required by the related indenture would constitute a default under such indenture. A default under the indenture or the fundamental change itself could also lead to a default under agreements governing our current and future indebtedness. If the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay the indebtedness and repurchase the Notes or make cash payments upon conversions thereof.

The conditional conversion feature of the Notes, if triggered, may adversely affect our financial condition and operating results.

In the event certain conversion features of the Notes are triggered, holders of the Notes will be entitled to convert the Notes at any time during specified periods at their option. If one or more holders elect to convert their Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. In addition, even if holders do not elect to convert their Notes, we could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the Notes as a current rather than long-term liability, which would result in a material reduction of our net working capital.

The fundamental change repurchase feature of the Notes may delay or prevent an otherwise beneficial attempt to takeover the Company.

The terms of the Notes require us to repurchase the Notes in the event of a fundamental change. A takeover of our Company would trigger options by the respective holders of the applicable Notes to require us to repurchase such Notes. This may have the effect of delaying or preventing a takeover of our Company that would otherwise be beneficial to our stockholders.

Item 1B. Unresolved Staff Comments
None.

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Item 2. Properties

Our corporate headquarters is located in Chicago, Illinois. As of December 31, 2018, we leased approximately 225,000 square feet for our corporate headquarters. Up until December 2016, we also leased space in Skokie, Illinois, the former headquarters of Command Transportation, LLC ("Command"), totaling approximately 25,000 square feet. The lease of the former Command headquarters in Skokie terminated on December 20, 2016.

As of December 31, 2018, we also operated over 30 branch sales offices and two data centers located across the contiguous United States. All of these facilities are leased, and none is larger than 20,000 square feet. See Note 11 to the accompanying consolidated financial statements for information regarding our obligations under leases.

We consider these properties to be in good condition. We believe that our facilities are adequate for our operations and provide sufficient capacity to meet our anticipated requirements.

Item 3. Legal Proceedings

In the normal course of business, we are subject to potential claims and disputes related to our business, including claims for freight lost or damaged in transit. Some of these matters may be covered by our insurance and risk management programs or may result in claims or adjustments with our carriers.

Management does not believe that the outcome of any of the legal proceedings to which we are a party will have a material adverse effect on our financial position or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol "ECHO."

Holder

As of February 21, 2019, there were five individual holders of record of our common stock. Holders of our common stock are entitled to one vote per share.

Dividends

We currently do not intend to pay any dividends on our common stock in the foreseeable future. We intend to retain all available funds and any future earnings for use in the operation and the expansion of our business. Any determination in the future to pay dividends will depend on our financial condition, capital requirements, operating results and other factors deemed relevant by our Board of Directors, including any contractual or statutory restrictions on our ability to pay dividends.

Issuer Purchases of Equity Securities

The table below gives information on a monthly basis regarding purchases made by us of our common stock and the number of shares delivered to us by employees to satisfy the mandatory tax withholding requirement upon vesting of restricted stock during the fourth quarter of 2018.

Date	Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program ⁽¹⁾	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
10/1/18-10/31/18	21,752	\$ 26.28	19,283	\$ 21,896,477
11/1/18-11/30/18	147,361	\$ 25.36	147,361	\$ 56,598,115
12/1/18-12/31/18	261,131	\$ 21.67	253,946	\$ 33,063,360
Total	430,244	\$ 23.17	420,590	

On May 1, 2017, the Board of Directors authorized a repurchase program for up to an aggregate of \$50 million of the Company's outstanding common stock and Notes prior to its expiration on April 30, 2019. On November 1,

⁽¹⁾ 2018, the Board of Directors amended the repurchase program to add an additional \$50.0 million of capacity and extend the expiration date to October 31, 2020. The timing and amount of any repurchases will be determined based on market conditions and other factors, and the program may be discontinued or suspended at any time.

Securities Authorized For Issuance Under Equity Compensation Plan

Plan Category	(a) Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))	
Equity compensation plans approved by security holders ⁽¹⁾	46,589	\$ 12.42	1,353,187	(2)

Equity compensation plans not approved by security holders ⁽³⁾	—	\$ —	—
Total	46,589	12.42	1,353,187

(1) Includes our 2005 Stock Option Plan, which was merged with our Amended and Restated 2008 Stock Incentive Plan.

(2) Includes shares remaining available for future issuance under our Amended and Restated 2008 Stock Incentive Plan.

(3) In connection with the Command acquisition, on June 1, 2015, the Company adopted the 2015 Inducement and Retention Stock Plan for Command Employees pursuant to NASDAQ Stock Market Listing Rule 5635(c)(4), which provides an exception to the NASDAQ shareholder approval requirements for the issuance of securities with regard to grants to prospective employees of the Company, including without limitation grants to prospective employees in connection with a merger or other acquisition (the "Inducement Plan"). As of December 31, 2018, 2017 and 2016, there were no securities available for future issuance under the Inducement Plan.

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Item 6. Selected Financial Data

The following tables present selected consolidated financial and other data as of and for the periods indicated. You should read the following information together with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the accompanying notes included elsewhere in this Form 10-K.

	Year ended December 31,				
	2018	2017 ⁽¹⁾	2016	2015	2014
	(in thousands, except per share data)				
Consolidated statements of operations data:					
Revenue	\$2,439,701	\$1,943,086	\$1,716,152	\$1,512,299	\$1,173,383
Transportation costs	2,019,337	1,604,046	1,397,578	1,222,035	965,165
Net revenue ⁽²⁾	420,363	339,041	318,574	290,264	208,218
Operating expenses:					
Commissions	126,822	103,088	95,631	85,957	57,678
Selling, general and administrative expenses	202,928	183,149	175,302	157,056	106,974
Contingent consideration expense (benefit)	410	991	(108)	) 201	2,160
Depreciation and amortization	36,638	32,728	32,138	24,143	13,876
Total operating expenses	366,798	319,955	302,963	267,357	180,688
Income from operations	53,566	19,085	15,611	22,907	27,530
Interest expense	(15,546)	) (14,768)	) (14,227)	) (11,276)	) (106)
Interest income and other expense	0	32	—	(103)	) (144)
Income before provision for income taxes	38,020	4,350	1,384	11,528	27,280
Income tax (expense) benefit	(9,296)	) 8,273	206	(3,682)	) (10,492)
Net income	28,723	12,623	1,590	7,846	16,788
Net income applicable to common stockholders	\$28,723	\$12,623	\$1,590	\$7,846	\$16,788
Earnings per common share:					
Basic	\$1.04	\$0.46	\$0.06	\$0.29	\$0.73
Diluted	\$1.03	\$0.45	\$0.05	\$0.28	\$0.71
Shares used in per share calculations (in thousands):					
Basic	27,598	27,715	28,715	27,473	23,044
Diluted	27,922	28,023	29,302	28,110	23,634

Note: Amounts may not foot due to rounding.

⁽¹⁾ 2017 results included a tax benefit of \$8.9 million resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the "Act" or "TCJA").

⁽²⁾ Net revenue is a non-GAAP measure calculated as revenue less transportation costs. We believe net revenue information is useful to investors because it provides information about the financial performance of our ongoing business, and is one of the primary operational and financial measures used by management to evaluate our business. Net revenue may be different than similarly titled measures used by other companies, and is not intended to be considered in isolation or as a substitute for any measures presented in accordance with GAAP. The following table presents a reconciliation of net revenue to revenue, the most comparable GAAP measure:

	Year ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Revenue	\$2,439,701	\$1,943,086	\$1,716,152	\$1,512,299	\$1,173,383
Transportation costs	2,019,337	1,604,046	1,397,578	1,222,035	965,165
Net revenue	\$420,363	\$339,041	\$318,574	\$290,264	\$208,218

Note: Amounts may not foot due to rounding.

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Employee Count

The number of employees on the last day of the applicable period were as follows:

	Year ended December 31,				
	2018	2017	2016	2015	2014
Total employees	2,595	2,453	2,350	2,335	1,734

	As of December 31,				
	2018	2017	2016	2015	2014
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	\$40,281	\$23,515	\$16,646	\$56,522	\$32,542
Working capital	126,825	113,973	100,360	123,432	58,421
Total assets	878,325	838,079	766,768	746,510	316,044
Total liabilities	488,394	479,207	408,618	351,260	134,170
Total stockholders' equity	\$389,932	\$358,872	\$358,150	\$395,250	\$181,874

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading provider of technology-enabled transportation and supply chain management solutions. We utilize a proprietary technology platform to compile and analyze data from our multi-modal network of transportation providers to satisfy the transportation and logistics needs of our clients. This model enables us to quickly adapt to and offer efficient and cost-effective solutions for our clients' shipping needs. We focus primarily on arranging transportation by truckload ("TL") and less than truckload ("LTL") carriers. We also offer intermodal (which involves moving a shipment by rail and truck), small parcel, domestic air, expedited and international transportation services. Our core logistics services include carrier selection, dispatch, load management and tracking.

We procure transportation and provide logistics services for clients across a wide range of industries, such as manufacturing, construction, food and beverage, consumer products and retail. Our clients fall into two categories, Transactional and Managed Transportation. We provide brokerage and transportation management services to our Transactional clients on a shipment-by-shipment basis, typically with individual, or spot market, pricing. We typically enter into multi-year contracts with our Managed Transportation clients, which are often on an exclusive basis for a specific transportation mode or point of origin. As part of our value proposition, we also provide core logistics services to these clients.

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Results of Operations

The following table represents certain results of operations data:

	Year Ended December 31,		
	2018	2017 ⁽¹⁾	2016
	(in thousands, except per share data)		
Consolidated statements of operations data:			
Revenue	\$2,439,701	\$1,943,086	\$1,716,152
Transportation costs	2,019,337	1,604,046	1,397,578
Net revenue ⁽²⁾	420,363	339,041	318,574
Operating expenses:			
Commissions	126,822	103,088	95,631
Selling, general and administrative expenses	202,928	183,149	175,302
Contingent consideration expense (benefit)	410	991	(108)
Depreciation and amortization	36,638	32,728	32,138
Total operating expenses	366,798	319,955	302,963
Income from operations	53,566	19,085	15,611
Interest expense	(15,546)	(14,768)	(14,227)
Interest income and other expense	0	32	—
Income before provision for income taxes	38,020	4,350	1,384
Income tax (expense) benefit	(9,296)	8,273	206
Net income	\$28,723	\$12,623	\$1,590
Stated as a percentage of net revenue:			
Net revenue ⁽²⁾	100.0	% 100.0	% 100.0
Operating expenses:			
Commissions	30.2	% 30.4	% 30.0
Selling, general and administrative expenses	48.3	% 54.0	% 55.0
Contingent consideration expense (benefit)	0.1	% 0.3	% (0.0)
Depreciation and amortization	8.7	% 9.7	% 10.1
Total operating expenses	87.3	% 94.4	% 95.1
Income from operations	12.7	% 5.6	% 4.9
Earnings per common share:			
Basic	\$1.04	\$0.46	\$0.06
Diluted	\$1.03	\$0.45	\$0.05
Shares used in per share calculations (in thousands):			
Basic	27,598	27,715	28,715
Diluted	27,922	28,023	29,302

Note: Amounts may not foot due to rounding.

⁽¹⁾ 2017 results included a tax benefit of \$8.9 million resulting from the enactment of the Tax Cuts and Jobs Act of 2017 (the "Act" or "TCJA").

⁽²⁾ Net revenue is a non-GAAP measure calculated as revenue less transportation costs. See Item 6, "Selected Financial Data" of this Form 10-K, for a reconciliation of net revenue to revenue, the most comparable GAAP measure.

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Revenue

We generate revenue through the sale of brokerage and transportation management services to our clients. For our brokerage and transportation management services, revenue is recognized as the client's shipment travels from origin to destination by a third-party carrier. Our revenue was \$2.4 billion, \$1.9 billion and \$1.7 billion for the years ended December 31, 2018, 2017 and 2016, respectively, reflecting growth rates of 25.6% and 13.2% in 2018 and 2017, respectively, compared to the corresponding prior year.

Our revenue is generated from two different types of clients: Transactional and Managed Transportation. Most of our clients are categorized as Transactional. We provide services to our Transactional clients on a shipment-by-shipment basis. We categorize a client as a Managed Transportation client if we have a contract with the client for the provision of services on a recurring basis. Our contracts with Managed Transportation clients typically have a multi-year term and are often on an exclusive basis for a specific transportation mode or point of origin. In several cases, we provide substantially all of a client's transportation and logistics requirements. Our Managed Transportation accounts typically generate higher dollar amounts and volume than our Transactional relationships. In 2018, 2017 and 2016, Transactional clients accounted for 78.5%, 79.2% and 81.3% of our revenue, respectively, and Managed Transportation clients accounted for 21.5%, 20.8% and 18.7% of our revenue, respectively. We expect to continue to expand both our Transactional and Managed Transportation client base in the future, although the rate of growth for each type of client will vary depending on opportunities in the marketplace.

Revenue recognized per shipment will vary depending on the transportation mode, fuel prices, shipment weight, density and mileage of the product shipped. The primary shipment modes that we transact in are TL and LTL. Other transportation modes include intermodal, small parcel, domestic air, expedited and international. Material shifts in the percentage of our revenue by transportation mode could have a significant impact on our revenue growth. In 2018, TL accounted for 69.1% of our revenue, LTL accounted for 26.2% of our revenue and other transportation modes accounted for 4.7% of our revenue. In 2017, TL accounted for 68.1% of our revenue, LTL accounted for 26.8% of our revenue and other transportation modes accounted for 5.1% of our revenue. In 2016, TL accounted for 67.6% of our revenue, LTL accounted for 26.4% of our revenue and other transportation modes accounted for 6.0% of our revenue.

The transportation industry has historically been subject to seasonal sales fluctuations as shipments generally are lower during and after the winter holiday season because many companies ship goods and stock inventories prior to the winter holiday season. While we experience some seasonality, differences in our revenue between periods have been driven primarily by growth in our client base.

Transportation costs and net revenue

We act primarily as a service provider to add value and expertise in the procurement and execution of brokerage and transportation management services for our clients. Our pricing structure is primarily variable, although we have entered into a limited number of fixed-fee arrangements that represent an insignificant portion of our revenue. Net revenue is a non-GAAP measure equal to revenue minus transportation costs. Our transportation costs consist primarily of the direct cost of transportation paid to the carrier.

Net revenue is considered by management to be an important measurement of our success in the marketplace. Our transportation costs are typically lower for an LTL shipment than for a TL shipment. In turn, our net revenue margin is typically higher for an LTL shipment than for a TL shipment. Material shifts in the percentage of our revenue by transportation mode could have a significant impact on our net revenue. The discussion of our results of operations below focuses on changes in our expenses as a percentage of net revenue. In 2018, 2017 and 2016, our net revenue was \$420.4 million, \$339.0 million and \$318.6 million, respectively, reflecting growth rates of 24.0% and 6.4% in

2018 and 2017, respectively, compared to the corresponding prior year.

Operating expenses

Our costs and expenses, excluding transportation costs, consist of commissions paid to our sales personnel, general and administrative expenses to run our business, changes in our contingent consideration, acquisition-related transaction costs, and depreciation and amortization.

Commissions paid to our sales personnel, including employees and agents, are a significant component of our operating expenses. These commissions are based on the net revenue we collect from the clients for which the sales personnel have primary responsibility. In 2018, 2017 and 2016, commission expense was \$126.8 million, \$103.1 million and \$95.6 million,

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respectively. In 2018, 2017 and 2016, commission expense as a percentage of net revenue was 30.2%, 30.4% and 30.0%, respectively. TL shipments typically have higher commission percentages than other modes. The percentage of net revenue paid as commissions varies depending on the type of client, composition of the sales team and mode of transportation. Commission expense, stated as a percentage of net revenue, could increase or decrease in the future depending on the composition and sources of our revenue growth.

We accrue for commission expense when we recognize the related revenue. Some of our sales personnel receive a monthly advance to provide them with a more consistent income stream. Cash paid to our sales personnel in advance of commissions earned is recorded as a prepaid expense. As our sales personnel earn commissions, a portion of their commission payment is withheld and offset against their prepaid commission balance, if any.

Selling, general and administrative expenses, excluding commission expense and changes to contingent consideration relating to acquired businesses, consist of compensation costs for our sales, operations, information systems, finance and administrative support employees as well as occupancy costs, professional fees, acquisition-related transaction costs, and other general and administrative expenses. In 2018, 2017 and 2016, our selling, general and administrative expenses were \$202.9 million, \$183.1 million and \$175.3 million, respectively. In 2018, 2017 and 2016, selling, general and administrative expenses as a percentage of net revenue were 48.3%, 54.0% and 55.0%, respectively.

Our contingent consideration expense or benefit relates to acquired businesses and is the change in the fair value of our contingent consideration assets and liabilities. The contingent consideration assets and liabilities presented on our consolidated balance sheets reflect the fair value of expected earn-out payments that may be paid to or received from the sellers of certain acquired businesses upon the achievement of certain performance measures. The fair value of the contingent consideration assets and liabilities are evaluated on a quarterly basis, and the change in fair value is included in selling, general and administrative expenses in our consolidated statements of operations. In 2018 and 2017, we recorded charges of \$0.4 million and \$1.0 million compared to a benefit of \$0.1 million in 2016 due to fair value adjustments to our contingent consideration assets and liabilities.

Our depreciation expense is primarily attributable to our depreciation of computer hardware and software, equipment, leasehold improvements, furniture and fixtures, and internally developed software. In 2018, 2017 and 2016, depreciation expense was \$23.6 million, \$18.5 million and \$16.3 million, respectively.

Our amortization expense is attributable to our amortization of intangible assets acquired from business combinations, including customer and carrier relationships, trade names and non-compete agreements. In 2018, 2017 and 2016, amortization expense was \$13.0 million, \$14.2 million and \$15.8 million, respectively.

Interest expense

The interest expense included in our consolidated statements of operations consists of interest expense related to our convertible senior notes due 2020 issued in May 2015 (the "Notes"). As of December 31, 2018, we had an aggregate principal amount of \$192.6 million of these 2.50% convertible senior notes. Interest expense included in our consolidated statements of operations also consists of the recognized loss on extinguishment of debt upon our repurchase of the Notes, and interest expense related to our ABL Facility. In October 2018, we entered into Amendment No. 2 to the ABL Facility (the "Amended ABL Facility") which provides for a senior secured revolving credit facility in an initial aggregate principal amount of up to \$350 million. We amortize the debt discount and issuance costs related to the Notes over the 5 year life of the Notes using the effective interest method. We amortize the issuance costs related to our ABL Facility and the Amended ABL Facility over the remaining 5 year life of the Amended ABL facility using straight-line amortization, as the amount drawn on the line (and thus the interest rate and commitment fee paid by Echo) will fluctuate from period to period. Interest expense was \$15.5 million, \$14.8 million and \$14.2 million for 2018, 2017 and 2016, respectively.

Critical Accounting Policies

Revenue Recognition

We adopted Accounting Standards Codification ("ASC") Topic 606 Revenue from Contracts with Customers ("ASC Topic 606") on January 1, 2018. Results for reporting periods beginning on or after January 1, 2018 are presented under ASC Topic 606, of which prior amounts are not adjusted and continue to be in accordance with the accounting standards in effect for those periods. Under ASC Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to receive in exchange for services. We generate revenue from two different client types: Transactional and Managed Transportation. Most clients are categorized as Transactional

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clients. For our Transactional business, we provide brokerage and transportation management services on a shipment-by-shipment basis. Carrier selection, dispatch, load management and tracking are integrated services that occur within the brokerage and transportation management performance obligation. For the brokerage and transportation management services performance obligation, revenue is recognized as the client's shipment travels from origin to destination by a third-party carrier. We are the principal in these transactions and recognize revenue on a gross and relative transit time basis. We categorize a client as a Managed Transportation client if there is an agreement with the client for the provision of services, typically for a multi-year term. Brokerage and transportation management services is typically the performance obligation for our Managed Transportation clients. Other performance obligations for Managed Transportation clients may include transportation management services, which includes the integrated services of dispatch, tracking and carrier payment. For these types of transactions, revenue is recorded on a net basis as we do not have latitude in carrier selection or establish rates with the carrier. We also perform project-based services, such as compliance management, customized re-billing services and freight studies for certain Managed Transportation clients.

Our 2017 and 2016 revenue was recognized in accordance with ASC Topic 605-20 Revenue Recognition - Services, transportation revenue and related transportation costs were recognized when the shipment was delivered by a third-party carrier. Fee for service revenue was recognized when the services were rendered. At the time of delivery or rendering of services, as applicable, our obligation to fulfill a transaction was complete and collection of revenue was reasonably assured. In accordance with ASC Topic 605-45 Revenue Recognition - Principal Agent Considerations, we generally recognized revenue on a gross basis, as opposed to a net basis similar to a commission arrangement, because we undertook the risks and benefits associated with revenue-generated activities by, among other things: (1) acting as a principal in the transaction; (2) establishing prices; (3) managing all aspects of the shipping process, including selection of the carrier; and (4) taking the risk of loss for collection, delivery, and returns. Certain transactions to provide specific services were recorded at the net amount charged to the client due to the following key factors: (a) we did not have latitude in carrier selection; (b) we did not establish rates with the carrier; and (c) we had credit risk for only the net revenue earned from our client while the carrier has credit risk for the transportation costs. Net revenue equals revenue minus transportation costs.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are uncollateralized customer obligations due under normal trade terms. We extend credit to certain clients in the ordinary course of business based on the clients' credit history. Invoices require payment within 30 to 90 days from the invoice date. Accounts receivable are stated at the amount billed to the client. Client account balances with invoices past due 90 days are considered delinquent. We generally do not charge interest on past due amounts.

The carrying amount of accounts receivable is reduced by an allowance for doubtful accounts that reflects management's best estimate of amounts that will not be collected. The allowance is based on historical loss experience and any specific risks identified in client collection matters. Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable is uncollectible.

Goodwill and Other Intangibles

Goodwill represents the excess of consideration transferred over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC Topic 350 Intangibles - Goodwill and Other: Testing Goodwill for Impairment, goodwill is not amortized, but instead is tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist. Absent any special circumstances that could require an interim test, we have elected to test for goodwill impairment during the fourth quarter of each year.

We manage the business as one operating segment and one reporting unit pursuant to the provisions of ASC Topic 280 Segment Reporting, which established accounting standards for segment reporting. In September 2011, the Financial Accounting Standards Board ("FASB") approved Accounting Standards Update ("ASU") No. 2011-08, "Intangibles - Goodwill and Other: Testing Goodwill for Impairment." This ASU permits an entity to first assess qualitative factors to determine whether it is more likely than not (a likelihood of more than 50 percent) that the fair value of a reporting unit is less than its carrying amount. After assessing qualitative factors, if an entity determines that it is more likely than not that the fair value of the reporting unit is greater than its carrying amount, no further

testing is necessary. In October 2018, we performed a qualitative goodwill impairment assessment of the reporting unit in accordance with ASC Topic 350. As part of the qualitative assessment, we compared our current results to the forecasted expectations of our most recent quantitative analysis, along with analyzing macroeconomic conditions and industry trends. We concluded that it was more likely than not that the fair value of the reporting unit exceeded its carrying amount.

ASC Topic 350 also requires that intangible assets with finite lives be amortized over their respective estimated useful lives and reviewed for impairment whenever impairment indicators exist in accordance with ASC Topic 360 Property, Plant and Equipment. Our intangible assets consist of customer relationships, carrier relationships, non-compete agreements and trade

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names, which are being amortized over their estimated weighted average useful lives of 14.8 years, 17.0 years, 6.7 years and 4.0 years, respectively. Customer relationships are being amortized using an accelerated method, while carrier relationships, trade names and non-compete agreements are being amortized using the straight-line method. Refer to Note 8 to the consolidated financial statements included in this Form 10-K.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC Topic 718 Compensation - Stock Compensation which requires all share-based payments to employees, including grants of stock options, to be recognized in the income statement based upon their fair values. Share-based employee compensation costs are recognized as a component of selling, general and administrative expenses in the consolidated statements of operations. For more information about our stock-based compensation programs, see Note 15 to the consolidated financial statements included in this Form 10-K.

Income Taxes

We account for income taxes in accordance with ASC Topic 740 Income Taxes, under which deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. A valuation allowance is established to reduce the carrying value of deferred tax assets if it is considered more likely than not that such assets will not be realized. Any change in the valuation allowance would be charged to income in the period such determination was made.

We recognize the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon settlement.

On December 22, 2017, the Act was signed into legislation. The Act reduced the federal corporate tax rate from 35% to 21%, and imposed a one-time transition tax on certain foreign earnings, effective January 1, 2018. At December 31, 2017, we recorded a decrease in our net deferred tax liability of \$8.9 million, with a corresponding net adjustment to deferred income tax benefit. No transition tax was recorded as we do not have any foreign subsidiaries. Our 2018 tax provision was recorded in accordance with the Act and the updated guidance within ASC 740, Income Taxes.

Comparison of years ended December 31, 2018 and 2017

Revenue

Revenue was \$2.4 billion in 2018, an increase of 25.6% from \$1.9 billion in 2017. The increase in revenue was attributable to a 15.9% increase in revenue per shipment driven by an increase in our carrier rates per shipment, along with an 8.4% increase in volume. Included in this increase was \$9.7 million of revenue from the acquisition of Freight Management Plus, Inc. ("Freight Management," or "FMP").

Revenue from Transactional clients was \$1.9 billion in 2018, an increase of 24.5% from \$1.5 billion in 2017. The increase in Transactional revenue was driven by an increase in volume and an increase in revenue per shipment driven by an increase in our TL and LTL rates. Our percentage of revenue from Transactional clients was 78.5% in 2018, a decrease from 79.2% in 2017. The decrease in Transactional revenue as a percent of total revenue was driven by an increase in Managed Transportation volume.

Revenue from Managed Transportation clients was \$524.1 million in 2018, an increase of 29.6% from \$404.3 million in 2017. This increase was driven by an increase in revenue from existing clients, along with the addition of new clients. In 2018, 21.5% of our revenue was generated from Managed Transportation clients, an increase from 20.8% in 2017.

Transportation costs

Transportation costs were \$2.0 billion in 2018, an increase of 25.9% from \$1.6 billion in 2017. The 8.4% growth in the total number of shipments and the 16.2% increase in carrier rates per shipment drove the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue increased to 82.8% in 2018 from 82.6% in 2017 due to slight margin compression resulting from higher carrier rates.

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Net revenue

Net revenue was \$420.4 million in 2018, an increase of 24.0% from \$339.0 million in 2017. The increase in net revenue was driven by the 15.9% increase in revenue per shipment and the 8.4% growth in the total number of shipments. Net revenue margins decreased to 17.2% in 2018 from 17.4% in 2017. The decline in margin was due to a change in mode mix, higher growth in our Managed Transportation business, and the 16.2% increase in carrier rates per shipment, partially offset by increasing customer rates.

Operating expenses

Commission expense was \$126.8 million in 2018, an increase of 23.0% from \$103.1 million in 2017. This increase was primarily attributable to the increase in net revenue for 2018. For 2018 and 2017, commission expense was 30.2% and 30.4%, respectively, of our net revenue. The modest decrease in commission expense in 2018 as a percentage of net revenue was due to the fluctuations in the composition of our net revenue by sales channel type.

Selling, general and administrative expenses were \$202.9 million in 2018, an increase of 10.8% from \$183.1 million in 2017, due to our increased investment in technology, the growth of our sales force and operating personnel, and acquisition-related transaction costs. As a percentage of net revenue, selling, general and administrative expenses decreased to 48.3% in 2018 from 54.0% in 2017, due to higher net revenue.

The contingent consideration fair value adjustment resulted in a net expense of \$0.4 million and \$1.0 million in 2018 and 2017, respectively. The expense for 2018 was the result of adjustments made to the fair value of the contingent liabilities, primarily due to financial performance of previously acquired businesses and the time value of money. The net expense for 2017 is the result of adjustments made to the fair value of the contingent assets and liabilities due to financial performance of previously acquired businesses, time value of money and the satisfaction of applicable employee retention criteria. The fair value of the contingent consideration liabilities reflects the updated probabilities and assumptions as of December 31, 2018.

Depreciation expense was \$23.6 million in 2018, an increase of 27.8% from \$18.5 million in 2017. The increase in depreciation expense was primarily attributable to the depreciation of internally developed software and computer equipment.

Amortization expense in 2018 was \$13.0 million, a decrease of 8.6% from \$14.2 million in 2017, primarily attributable to the accelerated method of amortization of our acquired customer relationships, along with the complete amortization of previously acquired intangible assets.

Income from operations

Income from operations was \$53.6 million in 2018, an increase of 180.7% from \$19.1 million in 2017. The increase in income from operations was attributable to higher net revenue.

Interest expense

Interest expense was \$15.5 million in 2018, an increase from \$14.8 million in 2017, due to the loss on extinguishment of debt recognized upon our repurchase in 2018 for a portion of our outstanding Notes and increased expense related to the discount on the Notes, offset by a decrease in the amortization of issuance costs and cash interest related to the Amended ABL Facility, and cash interest related to the Notes.

Income tax (expense) benefit

We recognized income tax expense of \$9.3 million and income tax benefit of \$8.3 million for the years ended December 31, 2018 and 2017, respectively. Our effective tax rate for the year ended December 31, 2018 was 24.5%, compared to an effective tax rate of (190.2)% in the comparable period of 2017. The difference in our effective tax rate for the year ended December 31, 2018 from our statutory federal tax rate of 21% was primarily due to share-based payment awards recognized as income tax expense, state income taxes, and deferred tax liabilities adjustments, offset in part by the research and development tax credit.

Net Income

Net income was \$28.7 million in 2018, compared to \$12.6 million in 2017 as a result of the items previously discussed.

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Comparison of years ended December 31, 2017 and 2016

Revenue

Revenue was \$1.9 billion in 2017, an increase of 13.2% from \$1.7 billion in 2016. The increase in revenue was attributable to a 5.4% increase in shipment volume and a 7.4% increase in revenue per shipment driven by an increase in TL rates.

Revenue from Transactional clients was \$1.5 billion in 2017, an increase of 10.2% from \$1.4 billion in 2016. The increase in Transactional revenue was driven by an increase in volume and an increase in revenue per shipment driven by an increase in TL rates. Our percentage of revenue from Transactional clients was 79.2% in 2017, a decrease from 81.3% in 2016. The decrease in Transactional revenue as a percent of total revenue was driven by an increase in Managed Transportation volume.

Revenue from Managed Transportation clients was \$404.3 million in 2017, an increase of 26.2% from \$320.3 million in 2016. This increase was driven by the addition of new clients, along with an increase in revenue from existing clients. In 2017, 20.8% of our revenue was generated from Managed Transportation clients, an increase from 18.7% in 2016.

Transportation costs

Transportation costs were \$1.6 billion in 2017, an increase of 14.8% from \$1.4 billion in 2016. The 5.4% growth in the total number of shipments and the 8.9% increase in carrier rates per load drove the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue increased to 82.6% in 2017 from 81.4% in 2016 due to margin compression resulting from higher carrier rates.

Net revenue

Net revenue was \$339.0 million in 2017, an increase of 6.4% from \$318.6 million in 2016. The growth in the total number of shipments accounted for most of the increase in our net revenue during this period. Net revenue margins decreased to 17.4% in 2017 from 18.6% in 2016. The decline in both TL and LTL margins, primarily due to higher carrier rates, accounted for most of the decrease in our net revenue margin during the period.

Operating expenses

Commission expense was \$103.1 million in 2017, an increase of 7.8% from \$95.6 million in 2016. This increase was primarily attributable to the increase in net revenue. For 2017 and 2016, commission expense was 30.4% and 30.0%, respectively, of our net revenue. The modest increase in commission expense as a percentage of net revenue was due to the fluctuation in the composition of our net revenue by mode, as TL shipments typically have higher commission percentages than other modes.

Selling, general and administrative expenses were \$183.1 million in 2017, an increase of 4.5% from \$175.3 million in 2016, due to an increased investment in our sales force and operating personnel. As a percentage of net revenue, selling, general and administrative expenses decreased to 54.0% in 2017 from 55.0% in 2016, due to higher net revenue.

The contingent consideration fair value adjustment resulted in a net expense of \$1.0 million and net benefit of \$0.1 million in 2017 and 2016, respectively. The expense for 2017 was the result of adjustments made to the fair value of the contingent assets and liabilities, primarily due to financial performance of previously acquired businesses and the

time value of money. The fair value of the contingent consideration obligation for each acquisition reflects updated probabilities as of December 31, 2017.

Depreciation expense was \$18.5 million in 2017, an increase of 13.2% from \$16.3 million in 2016. The increase in depreciation expense was primarily attributable to the depreciation of additional leasehold improvements, furniture and computer equipment for the new Chicago expansion space added in the fourth quarter of 2016.

Amortization expense in 2017 was \$14.2 million, a decrease of 9.9% from \$15.8 million in 2016, primarily attributable to the accelerated method of amortization of our acquired customer relationships along with the complete amortization of previously acquired intangible assets.

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Income from operations

Income from operations was \$19.1 million in 2017, an increase of 22.3% from \$15.6 million in 2016. The increase in income from operations was attributable to the increase in net revenue in excess of the increase in operating expenses.

Interest expense

Interest expense was \$14.8 million in 2017, an increase from \$14.2 million in 2016. The interest expense in both years primarily related to our Notes and the ABL Facility.

Income tax benefit

We recognized income tax benefits of \$8.3 million and \$0.2 million for the years ended December 31, 2017 and 2016, respectively. Our effective tax rate for the year ended December 31, 2017 was (190.2)%, compared to an effective tax rate of (14.9)% in the comparable period of 2016. The difference in our effective tax rate for the year ended December 31, 2017 from our statutory federal tax rate of 35% was primarily due to the favorable impact of the federal rate change, as a result of the Act, and the related re-measurement of deferred tax liabilities, along with the favorable effects of a state tax credit and amended returns to claim domestic production tax deductions. These favorable items were partially offset by the share-based payment awards recognized as income tax expense, and higher pre-tax income.

Net Income

Net income was \$12.6 million in 2017, compared to \$1.6 million in 2016 as a result of the items previously discussed.

Quarterly Results of Operations

The following table represents our unaudited results of operations data for our most recent eight fiscal quarters. You should read the following table in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Form 10-K. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period.

	Three Months Ended							
	Dec. 31, 2018	Sept. 30, 2018	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017 ⁽¹⁾	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017
	(in thousands, except per share data) (unaudited)							
Revenue	\$582,978	\$644,821	\$634,811	\$577,091	\$547,718	\$509,531	\$470,086	\$415,752
Net revenue ⁽²⁾	102,431	111,220	106,789	99,923	96,229	86,701	81,613	74,498
Operating income (loss)	13,673	16,281	13,112	10,500	10,132	6,293	3,439	(777)
Net income (loss)	6,935	9,383	7,678	4,727	13,349	2,392	(245)	(2,872)
Earnings (Loss) per common share:								
Basic	\$0.25	\$0.34	\$0.28	\$0.17	\$0.49	\$0.09	\$(0.01)	\$(0.10)
Diluted	\$0.25	\$0.33	\$0.28	\$0.17	\$0.48	\$0.09	\$(0.01)	\$(0.10)

Note: Amounts may not foot due to rounding.

⁽¹⁾Fourth quarter 2017 results included a tax benefit of \$8.9 million resulting from the enactment of the Act.

⁽²⁾Net revenue is a non-GAAP measure calculated as revenue less transportation costs. See Item 6, "Selected Financial Data" of this Form 10-K, for a reconciliation of net revenue to revenue, the most comparable GAAP measure.

Liquidity and Capital Resources

As of December 31, 2018, we had \$40.3 million in cash and cash equivalents, \$126.8 million in working capital and \$248.6 million available under our ABL Facility.

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Cash provided by operating activities

For the year ended December 31, 2018, \$94.2 million of cash was provided by operating activities. This was an increase from \$48.7 million in 2017 and \$59.7 million in 2016. In 2018, we generated \$91.3 million in cash from net income, adjusted for noncash operating items, an increase from \$59.3 million in 2017 and \$58.9 million in 2016. Changes in working capital primarily relate to changes in accounts receivable, accounts payable and accrued expense balances.

Cash used in investing activities

Cash used in investing activities was \$31.8 million, \$20.7 million and \$46.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. In 2018, the primary investing activities were capital expenditures, including internal use software, investments, and the acquisition of FMP. In 2017 and 2016, the primary investing activities were capital expenditures.

Our capital expenditures were \$24.1 million, \$20.7 million and \$46.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. Our capital expenditures increased in 2018 as compared to 2017 due to the internal development of computer software and the purchases of property and equipment. Our capital expenditures decreased in 2017 due to the 2016 expansion of our office space at our Chicago headquarters, which included the purchases of computer equipment, software, including internal use software, furniture, fixtures and office equipment, and leasehold improvements.

Cash used in financing activities

Cash used in financing activities was \$45.7 million, \$21.1 million and \$52.7 million in 2018, 2017 and 2016, respectively.

In 2018, the primary financing activities were the purchases of \$37.2 million of Notes (described in Note 10 to our audited consolidated financial statements appearing elsewhere in this Form 10-K) and \$9.5 million of our common stock as part of the repurchase program (described in Note 13 to our audited consolidated financial statements appearing elsewhere in this Form 10-K), the \$0.6 million payments of contingent consideration, and the \$2.6 million use of cash to satisfy employee tax withholdings upon the vesting of restricted stock. These outflows were offset by the \$4.2 million of proceeds from exercise of stock options. We also drew \$12.0 million on our ABL Facility (all of which was repaid as of December 31, 2018).

In 2017, the primary financing activities were the purchases of \$20.7 million of our common stock as part of the repurchase program (described in Note 13 to our audited consolidated financial statements appearing elsewhere in this Form 10-K), the \$0.7 million payments of contingent consideration, and the \$1.8 million use of cash to satisfy employee tax withholdings upon the vesting of restricted stock. We also drew \$84 million on our ABL Facility (all of which was repaid as of December 31, 2017).

In 2016, the primary financing activities were the purchases of \$49.1 million of our common stock as part of the share repurchase program (described in Note 13 to our audited consolidated financial statements appearing elsewhere in this Form 10-K), the \$2.3 million payments of contingent consideration, and the \$4.9 million use of cash to satisfy employee tax withholdings upon the vesting of restricted stock. We also drew \$48.5 million on our ABL Facility (all of which was repaid as of December 31, 2016).

ABL Facility

On October 23, 2018, we entered into Amendment No. 2 to its Revolving Credit and Security Agreement, which amended the terms of its Revolving Credit and Security Agreement, dated as of June 1, 2015, as amended, by and among the Company, the lenders party thereto, and PNC Bank, National Association, as administrative agent (as amended, restated or otherwise modified the "Amended Credit Agreement"). The Amended Credit Agreement provides for a senior secured revolving credit facility in an initial aggregate principal amount of up to \$350 million (the "Amended ABL Facility"), and a maturity date of October 23, 2023. The initial aggregate principal amount under the Amended ABL Facility may be increased from time to time by an additional \$150 million to a maximum aggregate principal amount of \$500 million; provided that certain requirements are satisfied. Our obligations under the Amended ABL Facility are secured, on a first lien priority basis, by certain of our working capital assets.

At December 31, 2018, there was no outstanding balance on the Amended ABL Facility. The issuance of letters of credit under the ABL Facility also reduces available borrowings. At December 31, 2018, there were \$0.7 million of letters of credit outstanding. The total draw allowed under the Amended ABL Facility at December 31, 2018, as determined by the working capital assets pledged as collateral, was \$249.3 million. After adjusting for the letters of credit, our remaining availability for borrowing under the Amended ABL Facility at December 31, 2018 was \$248.6 million.

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Anticipated uses of cash

Our priority is to continue to grow our revenue and net revenue. We anticipate that our operating expenses and planned expenditures will constitute material uses of cash, and we expect to use available cash to expand our sales force, to enhance our technology, to acquire or make strategic investments in complementary businesses, and for working capital and other general corporate purposes.

In 2019, we expect to use available cash to make approximately \$2.3 million of potential contingent earn-out payments, as well as \$4.8 million to satisfy the semi-annual Note coupon payments due May 1, 2019 and November 1, 2019. In addition, we currently expect to use approximately \$25 million to \$30 million for capital expenditures in 2019.

As discussed in Note 13 to our audited consolidated financial statements appearing elsewhere in this Form 10-K, we may also opt to use cash to repurchase up to \$33.1 million of our common stock or Notes under the remaining authority under our 2017 repurchase program that was most recently amended in November 2018. The timing and amount of any common stock or convertible notes repurchases will be determined based on market conditions and other factors. We expect our use of cash for working capital purposes and other purposes to be offset by the cash flow generated from operating activities during the same period.

Historically, our average accounts receivable life-cycle has been longer than our average accounts payable life-cycle, meaning that we have used cash to pay carriers in advance of collecting from our clients. We elect to provide this benefit to foster strong relationships with our clients and carriers. As our business grows, we expect this use of cash to continue. The amount of cash we use for these purposes will depend on the growth of our business.

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Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

Contractual Obligations

On February 17, 2016, we signed an 11-year lease for an additional 132,000 square feet at our Chicago, Illinois headquarters, bringing our total leased square footage at our headquarters to 224,678 square feet. As of December 31, 2018, we continue to also lease over 30 branch sales offices, with average lease terms between 3-5 years.

As of December 31, 2018, we had the following contractual obligations (in thousands):

	Total	Within 1 year	2-3 years	4-5 years	More than 5 years
Operating leases	\$54,970	\$8,466	\$13,798	\$11,935	\$20,772
Senior convertible notes, including interest	199,807	4,815	194,992	—	—
Contingent consideration obligations ⁽¹⁾	4,210	2,303	1,907	—	—
Total	\$258,987	\$15,584	\$210,697	\$11,935	\$20,772

This represents the maximum undiscounted contingent consideration obligations that may become payable in each period. The actual payouts will be determined at the end of the applicable performance periods based on the

⁽¹⁾ acquired entities' achievement of the targets specified in the purchase agreements. See Note 6 in the notes to the consolidated financial statements included elsewhere in this Form 10-K for a discussion of the fair values of these contingent consideration obligations as of December 31, 2018.

Recent Accounting Pronouncements

Recently adopted accounting pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, to clarify the principles used to recognize revenue for all entities. This new standard requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled for those goods or services. In addition, the new standard requires enhanced qualitative and quantitative disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

We adopted this standard on January 1, 2018 using the modified retrospective approach. As a result of using this approach, we recognized the cumulative effect adjustment to the opening balance of retained earnings. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods.

The adoption of this new standard adjusted the revenue recognition timing of our brokerage and transportation management services performance obligation from point in time to over time on a relative transit time basis, which resulted in a cumulative transition adjustment to the opening balance of retained earnings, on January 1, 2018, of \$1.1 million, net of tax, and a decrease of \$1.0 million to revenue for the year ended December 31, 2018. While adoption of this standard also effects the corresponding direct costs of revenue, including commission expense, this change did not have a material impact on our consolidated financial statements due to the short term nature of its performance obligations. We fully describe the adoption and impact of this standard in Note 5 to the consolidated financial statements. As part of the adoption of this standard, we implemented changes to our accounting policies, practices and internal controls over financial reporting.

In March 2018, the FASB issued ASU 2018-05, Income Taxes, to clarify the accounting implications of Staff Accounting Bulletin No. 118 ("SAB 118"). SAB 118 provided a measurement period that did not extend beyond one year from December 22, 2017, the date of the enactment of the Tax Cuts and Jobs Act (the "Act"), to complete the

accounting under ASC 740, Income Taxes. As of December 31, 2018, we completed our accounting under this standard and recorded \$8.9 million as a decrease to net deferred tax liability, with a corresponding net adjustment to deferred income tax benefit. No transition tax was recorded as we do not have any foreign subsidiaries. Our 2018 tax provision was recorded in accordance with The Act and the updated guidance within ASC 740, Income Taxes.

In May 2017, the FASB issued ASU 2017-09, Compensation - Stock Compensation, to provide guidance regarding which changes to a share-based payment award require modification accounting in Topic 718. We adopted this standard prospectively

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on January 1, 2018. The impact of this new standard is dependent on future modifications, if any, to our share-based payment awards. The adoption of this standard did not have an impact on the consolidated financial statements. In January 2017, the FASB issued ASU 2017-01, Business Combinations: Clarifying the Definition of a Business, to clarify the definition of a business to assist entities when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted this standard prospectively on January 1, 2018. During 2018, we acquired FMP as a business combination in accordance with this updated guidance as further discussed in Note 4 to the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows, to clarify the classification of certain cash receipts and cash payments in the statement of cash flows, including debt prepayment or extinguishment costs and settlement of contingent consideration arising from an acquisition. We adopted this standard retrospectively, and the adoption did not have a material impact on the consolidated financial statements.

Recently issued accounting pronouncements not yet adopted

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement, which modifies the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This new accounting standard will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. We are evaluating the effects that the adoption of this guidance will have on our disclosures.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation, which expands the scope of Topic 718 to include all share-based payment transactions for acquiring goods and services from non-employees. The amendments in this update will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. Our current share-based payment awards to non-employees consist only of grants made to our non-employee Directors as compensation solely relates to each individual's role as a non-employee Director. As such, in accordance with ASC 718, we account for these share-based payment awards to our non-employee Directors in the same manner as share-based payment awards for our employees. We adopted this standard on January 1, 2019, and the amendments in this guidance do not have a material effect on the accounting for our share-based payment awards to our non-employee Directors, and will not have a material effect on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, to simplify the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. This new accounting standard will be effective for annual periods beginning after December 15, 2019. Early adoption is permitted. We are evaluating the effects that the adoption of this guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326), which replaces the incurred loss methodology previously employed to measure credit losses for most financial assets and requires the use of a forward-looking expected loss model. Current accounting delays the recognition of credit losses until it is probable a loss has been incurred, while the update will require financial assets to be measured at amortized costs less a reserve and equal to the net amount expected to be collected. This standard will be effective for annual periods beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. We are evaluating the effects that the adoption of this guidance will have on our consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases, requiring a lessee to record, on the balance sheet, the assets and liabilities for the right-of-use assets and lease obligations created by leases. This new accounting standard will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. In July 2018, the FASB issued ASU 2018-11, which added amendments to create an optional transition method that companies may elect to use the effective date of ASC 842, Leases, as the date of initial

application of the transition.

We adopted this standard on January 1, 2019 using the modified retrospective approach. Upon adoption, we made the accounting policy election to adopt the short-term lease recognition exemption. We also elected to use the package of practical expedients that allows us to (i) not reassess whether an arrangement contains a lease, (ii) carry forward our lease classification of existing leases as operating or capital leases and (iii) not reassess previously recorded initial direct costs. In addition, we elected the practical expedient to not separate lease and non-lease components whereby both components are accounted for and recognized as lease components. We do not intend to elect the hindsight practical expedient. As a result of using this approach, we will recognize right-of-use assets and additional lease liabilities in a range of approximately \$19.0 million to \$23.0 million as of January 1, 2019 to the existing deferred rent balance. The standard will not affect our consolidated statement of operations or our consolidated statement of cash flows. As we continue our assessment of these matters, we are preparing to implement

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changes to our accounting policies, practices and internal controls over financial reporting to support the new standard. In addition, the new standard will expand our existing lease liability disclosures based on the new qualitative and quantitative disclosure requirements upon adoption.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Commodity Risk

We generally pass through fluctuations in fuel prices to our clients. As a result, we believe that there is no material risk exposure to our earnings due to fluctuations in fuel prices.

Interest Rate Risk

We have exposure to changes in interest rates under our ABL Facility. Borrowings bear interest at one of the following, plus an applicable margin: (1) the federal funds rate, (2) the base commercial lending rate of PNC Bank, or (3) the LIBOR rate, based on the Company's election for each tranche of borrowing. The interest rate on our line of credit fluctuates based on the rates described above. Assuming the \$350 million ABL Facility was fully drawn, a 1.0% increase in the interest rate selected would increase our annual interest expense by \$3.5 million.

Our interest income is sensitive to changes in the general level of U.S. interest rates, in particular because all of our investments are in cash equivalents. Due to the short-term nature of our investments, we believe that there is no material risk exposure.

We do not use derivative financial instruments for speculative trading purposes.

Impact of Inflation

We believe that our results of operations are not materially impacted by moderate changes in the inflation rate. Inflation and changing prices did not have a material impact on our operations in 2018, 2017 and 2016.

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Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA

ECHO GLOBAL LOGISTICS, INC. and Subsidiaries:

<u>Management's Assessment of Internal Control over Financial Reporting</u>	<u>36</u>
<u>Reports of Independent Registered Public Accounting Firm</u>	<u>37</u>
<u>Consolidated Balance Sheets</u>	<u>39</u>
<u>Consolidated Statements of Operations</u>	<u>40</u>
<u>Consolidated Statements of Stockholders' Equity</u>	<u>41</u>
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Management's Assessment of
Internal Control Over Financial Reporting

The Company's management is responsible for the preparation, integrity and objectivity of the financial statements and other financial information presented in this Annual Report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States and reflect the effects of certain estimates and judgments made by management.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company conducted an evaluation of the effectiveness of its internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework).

The Company acquired Freight Management Plus, Inc. ("Freight Management," or "FMP") on July 6, 2018. Management did not include FMP in its annual evaluation of internal control over financial reporting as of December 31, 2018. The Company will incorporate FMP into its annual evaluation of internal control over financial reporting for the year ended December 31, 2019. FMP constituted 1.5% of the Company's total assets as of December 31, 2018, including the goodwill and intangible assets recorded as part of the purchase accounting, and 0.4% and 0.6% of the Company's revenues and net income, respectively, for the year then ended.

Based on the Company's evaluation under the framework in Internal Control - Integrated Framework, management concluded that internal control over financial reporting was effective as of December 31, 2018. The effectiveness of internal control over financial reporting as of December 31, 2018 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their attestation report, which is included herein.

Echo Global Logistics, Inc.
February 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of
Echo Global Logistics, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited Echo Global Logistics, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Echo Global Logistics, Inc. and Subsidiaries (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Assessment of Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Freight Management, which is included in the 2018 consolidated financial statements of the Company and constituted 1.5% of total assets as of December 31, 2018 and 0.4% and 0.6% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Freight Management.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the 2018 consolidated financial statements of the Company and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois
February 22, 2019

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of
Echo Global Logistics, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Echo Global Logistics, Inc. and Subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders’ equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Adoption of New Accounting Standard

As discussed in Note 5 to the consolidated financial statements, the Company changed its method of accounting for revenue as a result of the adoption of Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), and related amendments effective January 1, 2018.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2007.

Chicago, Illinois
February 22, 2019

Table of ContentsEcho Global Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

	December 31,	
(In thousands, except share data)	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$40,281	\$23,515
Accounts receivable, net of allowance for doubtful accounts of \$4,618 and \$3,745 at December 31, 2018 and 2017, respectively	337,426	309,733
Income taxes receivable	2,805	5,101
Prepaid expenses	9,048	6,191
Other current assets	4,172	3,760
Total current assets	393,732	348,301
Noncurrent assets:		
Property and equipment, net of accumulated depreciation of \$110,010 and \$86,549 at December 31, 2018 and 2017, respectively	61,955	63,062
Goodwill	309,589	307,314
Intangible assets, net of accumulated amortization of \$69,855 and \$56,834 at December 31, 2018 and 2017, respectively	109,563	117,484
Other noncurrent assets	3,485	1,918
Total noncurrent assets	484,593	489,778
Total assets	\$878,325	\$838,079
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	\$216,280	\$193,749
Due to seller, current	2,243	919
Accrued expenses	48,129	39,660
Other current liabilities	255	—
Total current liabilities	266,907	234,328
Noncurrent liabilities:		
Convertible notes, net	183,168	210,919
Due to seller, noncurrent	717	1,156
Other noncurrent liabilities	18,369	20,301
Deferred income taxes	19,233	12,503
Total noncurrent liabilities	221,487	244,879
Total liabilities	488,394	479,207
Stockholders' equity:		
Common stock, par value \$0.0001 per share, 100,000,000 shares authorized; 31,345,220 shares issued and 27,397,760 shares outstanding at December 31, 2018; 30,768,050 shares issued and 27,241,180 shares outstanding at December 31, 2017	3	3
Treasury stock, 3,947,460 and 3,526,870 shares at December 31, 2018 and 2017, respectively	(79,571)	(69,818)
Additional paid-in capital	348,397	337,445
Retained earnings	121,102	91,242
Total stockholders' equity	389,932	358,872
Total liabilities and stockholders' equity	\$878,325	\$838,079

Note: Amounts may not foot due to rounding.

See accompanying notes.

Table of ContentsEcho Global Logistics, Inc. and Subsidiaries
Consolidated Statements of Operations

(In thousands, except per share data)	Year Ended December 31,		
	2018	2017	2016
Revenue	\$2,439,701	\$1,943,086	\$1,716,152
Costs and expenses:			
Transportation costs	2,019,337	1,604,046	1,397,578
Selling, general and administrative expenses	330,160	287,227	270,826
Depreciation and amortization	36,638	32,728	32,138
Income from operations	53,566	19,085	15,611
Interest income	0	32	—
Interest expense	(15,546)	(14,768)	(14,227)
Interest expense, net	(15,546)	(14,736)	(14,227)
Income before provision for income taxes	38,020	4,350	1,384
Income tax (expense) benefit	(9,296)	8,273	206
Net income	\$28,723	\$12,623	\$1,590
Earnings per common share:			
Basic	\$1.04	\$0.46	\$0.06
Diluted	\$1.03	\$0.45	\$0.05

Note: Amounts may not foot due to rounding.

See accompanying notes.

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Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2018, 2017 and 2016

(In thousands, except share data)	Common Stock		Treasury Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount	Shares	Amount			
Balance at January 1, 2016	29,765,525	\$ 3	(37,937)	\$ (785)	\$319,002	\$77,029	\$395,250
Share compensation expense	—	—	—	—	13,134	—	13,134
Exercise of stock options	191,237	0	—	—	1,157	—	1,157
Common stock issued for vesting of restricted stock	638,003	0	—	—	(0)	—	—
Common stock issued for vesting of performance shares	37,547	0	—	—	(0)	—	—
Common shares withheld and retired to satisfy employee tax withholding obligations upon vesting of restricted stock	(211,039)	(0)	—	—	(4,869)	—	(4,869)
Tax benefit from exercise of stock options	—	—	—	—	252	—	252
Purchases of treasury stock	—	—	(2,251,857)	(48,364)	—	—	(48,364)
Net income	—	—	—	—	—	1,590	1,590
Balance at December 31, 2016	30,421,273	3	(2,289,794)	(49,149)	328,677	78,619	358,150
Share compensation expense	—	—	—	—	9,022	—	9,022
Exercise of stock options	146,950	0	—	—	1,539	—	1,539
Common stock issued for vesting of restricted stock	256,851	0	—	—	(0)	—	—
Common stock issued for vesting of performance shares	28,804	0	—	—	(0)	—	—
Common shares withheld and retired to satisfy employee tax withholding obligations upon vesting of restricted stock	(85,828)	(0)	—	—	(1,793)	—	(1,793)
Purchases of treasury stock	—	—	(1,237,076)	(20,669)	—	—	(20,669)
Net income	—	—	—	—	—	12,623	12,623
Balance at December 31, 2017	30,768,050	3	(3,526,870)	(69,818)	337,445	91,242	358,872
Share compensation expense	—	—	—	—	9,289	—	9,289
Exercise of stock options	384,092	0	—	—	4,230	—	4,230
Common stock issued for vesting of restricted stock	221,291	0	—	—	(0)	—	—
Common stock issued for vesting of performance shares	40,868	0	—	—	(0)	—	—
Common shares withheld and retired to satisfy employee tax withholding obligations upon vesting of restricted stock	(94,304)	(0)	—	—	(2,623)	—	(2,623)
Common shares issued for acquisition	25,223	0	—	—	693	—	693
Repurchase of convertible notes, net of deferred taxes	—	—	—	—	(637)	—	(637)
Purchases of treasury stock	—	—	(420,590)	(9,752)	—	—	(9,752)

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Cumulative effect of accounting change	—	—	—	—	—	1,136	1,136
Net income	—	—	—	—	—		