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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended December 31, 2018  
Commission File Number 001-34734**

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**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**

(Exact Name of Registrant as Specified in Its Charter)

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<p style="text-align:center"><b>Delaware</b> (State or Other Jurisdiction of Incorporation or Organization)</p> <p style="text-align:center"><b>1431 Opus Place, Suite 530</b> <b>Downers Grove, Illinois</b> (Address of Principal Executive Offices)</p>	<p><b>20-2454942</b> (I.R.S. Employer Identification No.)</p> <p><b>60515</b> (Zip Code)</p> <p><b>(414) 615-1500</b> (Registrant's telephone number, including area code)</p>
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**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 \$.01 per share

The New York Stock Exchange

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

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

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

Indicate by check mark 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 (§ 229.405 of this chapter) 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, a 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

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 Act). Yes  No

As of June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the registrant's voting common stock held by non-affiliates of the registrant was approximately \$56.9 million based on the closing price of such stock as reported on The New York Stock Exchange on such date.

As of March 5, 2019, there were outstanding 939,038,286 shares of the registrant's Common Stock, par value \$.01 per share.

Portions of the registrant's definitive Proxy Statement for its 2019 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. Such Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2018.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**

**ANNUAL REPORT ON FORM 10-K**

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## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

*This Annual Report on Form 10-K ("Form 10-K") contains 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"). All statements, other than statements of historical fact, contained in this Form 10-K are forward-looking statements, including, but not limited to, statements regarding our strategy, prospects, plans, objectives, future operations, future revenue and earnings, projected margins and expenses, markets for our services, potential acquisitions or strategic alliances, financial position, and liquidity and anticipated cash needs and availability. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions or the negatives thereof are intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements represent our current reasonable expectations and involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance and achievements, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. We cannot guarantee the accuracy of the forward-looking statements, and you should be aware that results and events could differ materially and adversely from those contained in the forward-looking statements due to a number of factors including, but not limited to, those described in the section entitled "Risk Factors" included in this Form 10-K. Furthermore, such forward-looking statements speak only as of the date of this Form 10-K. Except as required by law, we do not undertake publicly to update or revise these statements, even if experience or future changes make it clear that any projected results expressed in this Form 10-K or future quarterly reports, press releases or company statements will not be realized. In addition, the inclusion of any statement in this Form 10-K does not constitute an admission by us that the events or circumstances described in such statement are material. We qualify all of our forward-looking statements by these cautionary statements. In addition, the industry in which we operate is subject to a high degree of uncertainty and risk due to a variety of factors including those described in the section entitled "Risk Factors." These and other factors could cause our results to differ materially from those expressed in this Form 10-K.*

*Unless otherwise indicated, information contained in this Form 10-K concerning our industry and the markets in which we operate, including our general expectations and market position, market opportunity, and market size, is based on information from various sources, on assumptions that we have made that are based on those data and other similar sources, and on our knowledge of the markets for our services. This information includes a number of assumptions and limitations, and you are cautioned not to give undue weight to such information. In addition, projections, assumptions, and estimates of our future performance and the future performance of the industry in which we operate are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in the section entitled "Risk Factors" and elsewhere in this Form 10-K. These and other factors could cause results to differ materially from those expressed in the estimates made by third parties and by us.*

*Unless otherwise indicated or unless the context requires otherwise, all references in this document to "RRTS," "our company," "we," "us," "our," and similar names refer to Roadrunner Transportation Systems, Inc. and, where appropriate, its subsidiaries.*

*"Roadrunner Transportation Systems," our logo, and other trade names, trademarks, and service marks of Roadrunner Transportation Systems appearing in this Form 10-K are the property of Roadrunner Transportation Systems. Other trade names, trademarks, and service marks appearing in this Form 10-K are the property of their respective holders.*

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## PART I

### ITEM 1. BUSINESS

#### Overview

We are a leading asset-right transportation and asset-light logistics service provider offering a full suite of solutions under the Roadrunner, Active On-Demand and Ascent Global Logistics brands. The Roadrunner brand offers less-than-truckload, temperature controlled and intermodal services. Active On-Demand offers premium mission critical air and ground transportation solutions. Ascent Global Logistics offers domestic freight management and brokerage, warehousing and retail consolidation, international freight forwarding, and customs brokerage. We serve a diverse customer base in terms of end-market focus and annual freight expenditures. We are headquartered in Downers Grove, Illinois with operations primarily in the United States.

Effective January 1, 2018, we changed our segment reporting when we integrated our truckload brokerage business into our Ascent domestic freight management business. Segment information for prior periods has been revised to align with the new segment structure. Our three segments are as follows:

*Truckload & Express Services.* Within our Truckload & Express Services (“TES”) segment we serve customers throughout North America. We provide air and ground expedite services, scheduled truckload services, intermodal services, temperature-controlled truckload services, and other truckload and logistics services. We specialize in the transport of automotive and industrial parts, frozen and refrigerated foods including dairy, poultry and meat, and consumer products including foods and beverages. Our Active On-Demand ground and air expedited services business features proprietary bid technology supported by our fleets of ground and air assets. Roadrunner Intermodal Services and Roadrunner Temperature Controlled businesses provide specialized truckload services to beneficial cargo owners and freight management partners and brokers. We believe this array of technology, services, and specialization best serves our customers and provides us with more consistent shipping volumes in any given year.

*Less-than-Truckload.* Our Less-than-Truckload (“LTL”) segment involves the pickup, consolidation, linehaul, deconsolidation, and delivery of LTL shipments throughout the United States and parts of Canada. With a large network of LTL service centers and third-party pick-up and delivery agents, we are designed to provide customers with high reliability at an economical cost. We generally employ a point-to-point LTL model that we believe serves as a competitive advantage over the traditional hub and spoke LTL model in terms of lower incidence of damage and reduced fuel consumption.

*Ascent Global Logistics.* Within our Ascent Global Logistics (“Ascent”) segment, we offer a full portfolio of domestic and international transportation and logistics solutions, including access to cost-effective and time-sensitive modes of transportation within our broad network. Ascent provides domestic freight management solutions including asset-backed truckload brokerage, specialized/heavy haul, LTL shipment execution, LTL carrier rate negotiations, access to our Transportation Management System (“TMS”) and freight audit/payment. Ascent also provides clients with international freight forwarding, customs brokerage, regulatory compliance services and project management. We also specialize in retail consolidation, with approximately 2.3 million square feet of our own food-grade warehousing space (both dry and temperature controlled) and full truckload consolidation to retailers to improve On Time in Full (“OTIF”) compliance. Ascent serves its customers through either its direct sales force or through a network of independent agents. Our customized Ascent offerings are designed to allow our customers to reduce operating costs, redirect resources to core competencies, improve supply chain efficiency, and enhance customer service.

#### Our Industry

##### *Over-the-Road Freight*

The over-the-road freight sector includes both private fleets (Company drivers) and “for-hire” carriers. According to the American Trucking Associations (“ATA”), the U.S. freight sector represented revenue of approximately \$967.9 billion in 2018 and accounted for approximately 80% of domestic freight transportation spend. The ATA estimates that U.S. freight transportation will increase to over \$1.7 trillion by 2029. Private fleets consist of tractors and trailers owned and operated by shippers that move their own goods and, according to the ATA, accounted for revenue of approximately \$351.7 billion in 2018. For-hire carriers transport truckload and LTL freight belonging to others and, according to the ATA, accounted for revenue of approximately \$417.4 billion in 2018.

Truckload carriers generally dedicate an entire trailer to one shipper from origin to destination and are categorized by the type of equipment they use to haul a shipper’s freight, such as temperature-controlled, dry van, tank, or flatbed trailers. According to the ATA, excluding private fleets, revenue in the U.S. Truckload market was approximately \$356.4 billion in 2018.

LTL carriers specialize in consolidating shipments from multiple shippers into truckload quantities for delivery to multiple destinations. LTL carriers are traditionally divided into two categories — national and regional. National carriers typically focus on

two-day or longer service across distances greater than 1,000 miles and often operate without time-definite delivery, while regional carriers typically offer time-definite delivery in less than two days. According to the ATA, the U.S. LTL market generated revenue of approximately \$61.0 billion in 2018.

#### *On Demand Air Charter*

On-demand air charter is the segment of the air cargo industry focused on the time critical movement of goods that requires the timely launch of an aircraft to move freight. These critical movements of freight are typically necessary to prevent a disruption in the supply chain due to lack of components. There are approximately 50 certified airlines providing this on-demand service in North America. The primary users of on-demand air charter services are auto manufacturers, component manufacturers, and other heavy equipment makers or just-in-time manufacturers.

#### *Third-Party Logistics*

Third-party logistics (“3PL”) providers offer transportation management solutions and distribution services, including the movement and storage of freight and the assembly of inventory. The U.S. 3PL sector revenue increased from approximately \$103.7 billion in 2005 to approximately \$184.3 billion in 2017 (and experienced growth each year during such period other than from 2008 to 2009), according to Armstrong & Associates, Inc., a leading supply chain market research firm. In addition, only 11.6% of logistics expenditures by U.S. businesses were outsourced in 2017, according to Armstrong & Associates. In fiscal 2017, U.S. 3PL sector revenues were approximately \$184.3 billion, a 10.5% increase from approximately \$166.8 billion in 2016. We believe that the market penetration of 3PL providers will expand in the future as companies increasingly redirect their resources to core competencies and outsource their transportation and logistics requirements as they realize the cost-effectiveness of 3PL providers.

#### **Factors Important to Our Business**

Our success principally depends on our ability to generate revenues through our dedicated sales personnel, long-standing Company relationships, and independent agent network and to deliver freight in all modes safely, on time, and cost-effectively through a suite of solutions tailored to the needs of each customer. Customer shipping demand, over-the-road freight tonnage levels, events leading to expedited shipping requirements, and equipment capacity ultimately drive increases or decreases in our revenues. Our ability to operate profitably and generate cash is also impacted by purchased transportation costs, personnel and related benefits costs, fuel costs, pricing dynamics, customer mix, and our ability to manage costs effectively.

*Sales Personnel and Agent Network.* In our TES business, we arrange the pickup and delivery of freight either through our direct sales force or other Company relationships including management, dispatchers, or customer service representatives. In our LTL business, we market and sell our LTL services through a sales force of approximately 80 people, consisting of account executives, sales managers, inside sales representatives, and commissioned sales representatives. In our Ascent business, we have approximately 60 direct salespeople located in 25 Company offices, commissioned sales representatives, and a network of approximately 50 independent agents. Agents complement our Company sales force by bringing pre-existing customer relationships, new customer prospects, and/or access to new geographic markets. Furthermore, agents typically provide immediate revenue and do not require us to invest in incremental overhead. Agents own or lease their own office space and pay for other costs associated with running their operations.

*Tonnage Levels and Capacity.* Competition intensifies in the transportation industry as tonnage levels decrease and equipment capacity increases. Our ability to maintain or grow existing tonnage levels is impacted by overall economic conditions, shipping demand, over-the-road freight capacity in North America, and capacity in domestic air freight, as well as by our ability to compete effectively in terms of pricing, safety, and on-time delivery. We do business with a broad base of third-party carriers, including independent contractors (“ICs”) and purchased power providers, together with a blend of our own ground and air capacity, which reduces the impact of tightening capacity on our business.

*Purchased Transportation Costs.* Purchased transportation costs within our TES business are generally based either on negotiated rates for each load hauled or spot market rates for ground and air services. Purchased transportation costs within our LTL business represent payments to ICs, over-the-road purchased power providers, intermodal service providers, brokers and agents, based on a combination of contractually agreed-upon and spot market rates. Within our Ascent business, purchased transportation costs represent payments made to ground, ocean, and air carriers, ICs, brokers and agents, based on a combination of contractually agreed-upon and spot market rates. Purchased transportation costs are the largest component of our cost structure. Our purchased transportation costs typically increase or decrease in proportion to revenues.

*Personnel and Related Benefits.* Personnel and related benefits costs are a large component of our overall cost structure. We employ approximately 1,400 Company drivers who are paid either per mile or at an hourly rate. In addition, we employ approximately 800 dock and warehouse workers and approximately 2,400 operations and other administrative personnel to support our day-to-day business activities. Personnel and related benefits costs could vary significantly as we may be required to adjust staffing levels to match our business needs.

*Fuel.* The transportation industry is dependent upon the availability of adequate fuel supplies and the price of fuel. Fuel prices have fluctuated dramatically over recent years. Within our TES and Ascent businesses, we generally pass fuel costs through to our customers. As a result, our operating income in these businesses is less impacted by rises in fuel prices. Within our LTL business, our ICs and purchased power providers pass along the cost of diesel fuel to us, and we in turn attempt to pass along some or all of these costs to our customers through fuel surcharge revenue programs. Although revenues from fuel surcharges generally offset increases in fuel costs, other operating costs have been, and may continue to be, impacted by fluctuating fuel prices. The total impact of higher energy prices on other nonfuel-related expenses is difficult to ascertain. We cannot predict future fuel price fluctuations, the impact of higher energy prices on other cost elements, recoverability of higher fuel costs through fuel surcharges, and the effect of fuel surcharges on our overall rate structure or the total price that we will receive from our customers. Depending on the changes in the fuel rates and the impact on costs in other fuel- and energy-related areas, our operating margins could be impacted.

*Pricing.* The pricing environment in the transportation industry also impacts our operating performance. Within our TES business, we typically charge a flat rate negotiated on each load hauled. Pricing within our TES business is typically driven by shipment frequency and consistency, length of haul, and customer and geographic mix, but generally has fewer influential factors than pricing within our LTL business. Within our LTL business, we typically generate revenues by charging our customers a rate based on shipment weight, distance hauled, and commodity type. This amount is comprised of a base rate, a fuel surcharge, and any applicable accessorial fees and surcharges. Our LTL pricing is dictated primarily by factors such as shipment size, shipment frequency, length of haul, freight density, customer requirements and geographical location. Within our Ascent business, we typically charge a variable rate on each shipment in addition to transaction or service fees appropriate for the solution we have provided to meet a specific customer's needs. Since we offer both truckload and LTL shipping as part of our Ascent offering, pricing within our Ascent business is impacted by similar factors. The pricing environment for all of our operations generally becomes more competitive during periods of lower industry tonnage levels and/or increased capacity within the over-the-road freight sector. In addition, when we provide international freight forwarding services in our Ascent business, we also contract with airlines, ocean carriers, and agents as needed. The international shipping markets are very dynamic and we must therefore adjust rates regularly based on market conditions.

## **Our Strategy**

Our goal is to be the leading asset-right transportation and asset-light logistics service provider in North America. Our strategy includes continuing to:

*Generate Free Cash Flows.* Our scalable business model and low capital expenditures (as a percentage of our revenues) enhance our ability to generate strong free cash flows and returns on our invested capital and assets.

*Gain New Customers.* We continue to expand our customer base, and we will continue to pursue increased market share in the TES, LTL, and Ascent markets. Our expansive geographic reach and broad service offering provides us with the ability to add new customers seeking transportation and logistics solutions. We also believe the pool of potential new customers will grow as the benefits of third-party transportation management solutions continue to be embraced.

*Increase Penetration with Existing Customers.* With our comprehensive service offering and large global network, we have substantial cross-selling opportunities and the potential to capture a greater share of existing customers' annual transportation and logistics expenditures.

*Increase Levels of Integration.* We adopted a long-term brand and go-to-market service offering plan in the fourth quarter of 2016. Over the next three years, in order to implement this plan, we expect to increase the level of integration within each of our three segments in order to improve our ability to serve customers. For example, in November of 2016, we re-branded our Roadrunner LTL business as Roadrunner Freight and in January of 2017, we re-branded our Global Solutions business as Ascent Global Logistics. In the first quarter of 2018, we announced the integration and rebranding of several operating companies, including Roadrunner Truckload Plus, into Ascent Global Logistics and in the second quarter of 2018, we restructured our temperature-controlled truckload business by completing the integration of multiple operating companies into one operating unit. These are first steps in the implementation of our long-term brand and go-to-market service offering plan.

## **Our Services**

We are a leading asset-right transportation and asset-light logistics service provider offering a full suite of solutions. In each of our service offerings, we utilize a blend of Company-owned and third-party owned equipment to provide the most cost-effective service for our customers. Because of this blend, we are able to focus primarily on providing quality service rather than on asset utilization. Our customers generally communicate their freight needs to one of our transportation specialists on a shipment-by-shipment basis via telephone, fax, Internet, e-mail, or electronic data interchange ("EDI"). We leverage a diverse group of third-party carriers and ICs to provide scalable capacity and reliable service to our extensive customer base in North America.

### *Truckload & Express Services*

We provide a comprehensive range of TES solutions for our customers by leveraging our Company drivers, ICs, and a broad base of third-party carriers who operate dry van, temperature-controlled, and/or flatbed capacity. We arrange the pickup and delivery of TES freight through our 35 TES service centers located throughout the United States. We provide a variety of transportation solutions for dry goods ranging from paper products to steel, refrigerated foods like meat, poultry and beverages, as well as flatbed service for larger industrial load requirements. Our intermodal capabilities include drayage, which is the transport of freight between ocean ports or rail ramps and shipping docks. We also have a strong presence in TES expedited services for our customers with just-in-time and time critical transportation needs. Expedited offerings include ground and air cargo services which are spot bid by qualified and certified ground or air cargo asset-based carriers including our fleet of over 900 trucks and 12 cargo jets. In addition to our spot bid model for expedited offerings, we also offer direct services utilizing our trucks. In either case, we track all shipments using our proprietary technology and our dedicated service team. This hybrid solution provides a unique business model ensuring customers a competitive price, expanded coverage and on-time delivery.

*Company Salespeople.* Internal sales personnel are responsible for managing existing customer relationships and generating new customer relationships. Because the performance of these individuals is essential to our success, we offer attractive incentive-based compensation packages that we believe keep our sales force motivated, focused, and service-oriented. We supplement our internal salespeople with direct customer relationships from our management, dispatchers, or customer service representatives.

### *Less-than-Truckload*

Based on our industry knowledge, we believe we are one of the largest asset-light providers of LTL transportation services in North America in terms of revenue. We provide LTL service originating from points within approximately 150 miles of our service centers to most destinations throughout the United States and parts of Canada. Within the United States, we offer national, long-haul service (1,000 miles or greater), inter-regional service (between 500 and 1,000 miles), and regional service (500 miles or less). We serve a diverse group of customers within a variety of industries, including retail, industrial, paper goods, manufacturing, food and beverage, health care, chemicals, computer hardware, and general commodities.

We use approximately 150 third-party LTL delivery agents to complement our service center footprint and to provide cost-effective full state, national, and North American delivery coverage. Delivery agents also enhance our ability to handle special needs of the final consignee, such as scheduled deliveries and specialized delivery equipment.

We generally utilize a point-to-point LTL model that is differentiated from the traditional, asset-based hub and spoke LTL model. Our model does not require intermediate handling at a break-bulk hub (a large terminal where freight is offloaded, sorted, and reloaded), which we believe represents a competitive advantage.

Key aspects of our LTL service offering include the following:

- *Pickup.* In order to stay as close as possible to our customers, we prefer to directly pick up freight whenever cost-effective. We generally directly pick up freight within 150 miles of one of our service centers, primarily utilizing local ICs. Although we generally do not own the tractors or other powered transportation equipment used to transport our customers' freight, we own or lease trailers for use in local city pickup and delivery. In 2018, we picked up approximately 79% of our customers' LTL shipments. The remainder was handled by agents with whom we generally have long-standing relationships.
- *Consolidation at Service Centers.* Key to our model are our 40 LTL service centers that we lease in strategic markets throughout the United States. At these service centers, numerous smaller LTL shipments are unloaded, consolidated into truckload shipments, and loaded onto a linehaul unit scheduled for a destination city. In order to continuously emphasize optimal load building and enhance operating margins, dock managers review every load before it is dispatched from one of our service centers.
- *Linehaul.* Linehaul is the longest leg of the LTL shipment process. In dispatching a load, a linehaul coordinator uses our technology system to optimize cost-efficiency and service by assigning the load to the appropriate IC, Company driver, or purchased power. In 2018, approximately 53% of our linehaul shipments were handled by over 420 ICs with the remainder shipped via Company driver, purchased power, or rail.
- *De-consolidation and Delivery.* Within our unique model, linehaul shipments are transported to our service centers, delivery agents, or direct to end users without stopping at a break-bulk hub, as is often necessary under the traditional, asset-based hub and spoke LTL model. This generally reduces physical handling and damage claims. In 2018, we delivered approximately 41% of LTL shipments through our service centers and approximately 59% through our delivery agents.

- *Benefits of a Delivery Agent Network.* While many national asset-based LTL providers are encumbered by the fixed overhead associated with owning or leasing most or all of their de-consolidation and delivery facilities, we maintain our variable cost structure through the extensive use of delivery agents.

#### *Ascent Global Logistics*

Ascent provides domestic freight management, international freight forwarding, and retail consolidation services. We provide the necessary operational expertise, information technology capabilities, and relationships with third-party transportation providers to meet the unique needs of our customers. For customers that require the most comprehensive service plans, we complement their internal logistics and transportation management personnel and operations, enabling them to redirect resources to core competencies, reduce internal transportation management personnel costs, and, in many cases, achieve substantial annual freight savings. Key aspects of our Ascent capabilities include the following:

- *Sales.* We have Company brokers that not only engage in the routing and selection of our transportation providers, but also supplement our internal Ascent sales force. Company brokers are responsible for managing existing customer relationships and generating new customer relationships. We also maintain a network of independent brokerage agents, who primarily focus on truckload shipments, which complement our network of Company brokers by bringing pre-existing customer relationships, new customer prospects, and/or access to new geographic markets. Furthermore, they typically provide immediate revenue and do not require us to invest in incremental overhead. Brokerage agents own or lease their own office space and pay for their own communications equipment, insurance, and any other costs associated with running their operation. We only invest in the working capital required to execute our quick pay strategy and generally pay a commission to our brokerage agents of the margin we earn on an Ascent shipment. Similar to Company brokers, our brokerage agents engage in the routing and selection of transportation providers for our customer base and perform sales and customer service functions on our behalf. We believe we offer brokerage agents a very attractive partnership opportunity as we offer access to our reliable network of purchased power providers and we invest in the working capital required to pay these carriers promptly and assume collection responsibility. As of December 31, 2018, our brokerage agent network consisted of over 50 agents. Additionally, 23 of our brokerage agents generated more than \$1 million in revenue in 2018. We believe our increased development efforts and attractive value proposition will allow us to further expand our brokerage agent network and enhance the growth of our Ascent business.
- *Procurement.* After an in-depth consultation and analysis with our customer to identify cost savings opportunities, we develop an estimate of our customer's potential savings and design a plan for implementation. If necessary, we manage a targeted bid process based on the customer's traffic lanes, shipment volumes, and product characteristics, and negotiate rates with reputable carriers. In addition to a cost-efficient rate, the customer receives a summary of projected savings as well as our carrier recommendation.
- *Shipment Planning.* Utilizing our technology systems and an expansive multi-modal network of third-party transportation providers, we determine the appropriate mode of transportation and select the ideal provider. In addition, we provide load optimization services based on freight patterns and consolidation opportunities. We also provide rating and routing services, either on-site with one of our transportation specialists, off-site through our centralized truckload pricing, or online through our website. Finally, we offer merge-in-transit coordination to synchronize the arrival and pre-consolidation of high-value components integral to a customer's production process, enabling them to achieve reduced cycle times, lower inventory holding costs, and improved supply chain visibility.
- *Customs Brokerage Services.* We provide customs brokerage services to clients importing goods. Our team of highly knowledgeable professionals assist importers in meeting all requirements governing imports by maintaining a detailed knowledge of all customs regulations, tariff schedules, proper classifications, dutiable values, quotas, and other admissibility requirements with other government agency requirements such as the U.S. Food and Drug Administration ("FDA"), Environmental Protection Agency, U.S. Department of Agriculture ("USDA"), and U.S. Fish and Wildlife Services ("FWS"). We submit all required documentation and make appropriate payments to the Bureau of Customs and Border Protection ("CBP") on behalf of our clients and charge them a fee for this service. We also can provide foreign-trade zone entries/withdrawals and facilitate all in-bond entry types. In addition to processing documents for import clearance and payment of duties, our knowledgeable staff can assist with customs compliance issues, provide information on C-TPAT certification, assist with import bonds, and provide duty drawback services.
- *International Freight Forwarding.* We provide comprehensive air (import/export) and ocean (import/export) freight forwarding solutions. For customers requiring ocean freight solutions, we are an Ocean Transportation Intermediary acting as either an ocean freight forwarder (arranging ocean shipments on our client's behalf on their ocean contracts) or a non-vessel-operating common carrier (moving shipments on our ocean carrier contracts). We provide full-container-load, less-than-container-load, charters, bulk, refrigerated service, or other unique solutions based on our customers' requirements.



For customers requiring air freight solutions, we can provide express, standard and deferred air freight service. We arrange airport-to-airport, airport-to-door, door-to-airport, or door-to-door shipments. We are well-versed in the many technical aspects of government regulations, state and commerce department licensing requirements, foreign government forms, transportation documents, and international collection and banking procedures. We are an authorized International Air Transport Association (“IATA”) agent and also an Indirect Air Carrier authorized by the Transportation Security Administration (“TSA”). We also provide clients a robust Order Management Solution that includes Vendor Compliance/Education, Purchase Order Management, Regulatory Compliance Management, Origin Logistics, Transportation Management (Origin/Destination), and Global Information Management.

- *Shipment Execution.* Our transportation specialists are adept at managing all types of shipments (full truckload, LTL, partial truckload, expedited, and specialized). With our technology and large carrier base, we are able to provide our clients with route, rate, and mode optimization to reduce their costs and meet their pickup and delivery requirements. We also provide the ability to track and trace shipments either online or by phone through one of our transportation specialists.
- *Audit and Payment Services.* We capture and consolidate our customers’ entire shipping activity and offer weekly electronic billing. We also provide freight bill audit and payment services designed to eliminate excessive or incorrect charges from our customers’ bills.
- *Performance Reporting and Improvement Analysis.* Customers utilizing our web reporting system have the ability to review freight bills, develop customized reports online, and access data to assist in financial and operational reporting and planning. Our specialists are also actively driving process improvement by continuously using our technology to identify incremental savings opportunities and efficiencies for our customers.
- *Retail Consolidation Solutions.* We have five Company-operated facilities with approximately 2.3 million square feet of warehousing space strategically located in the United States. All of our facilities are authorized Food Grade Warehouses with both dry and refrigerated storage. We have “Superior” ratings with the American Institute of Baking and are cGMP Certified. Retail suppliers ship their inventory to our warehouses for storage. Supplier orders are received and consolidated with other supplier orders based on the retailer’s order write. Consolidated orders are then moved by full truckload to the retailer within the OTIF requirements. By having access to multiple locations to hold inventory and moving orders by truckload versus less-than-truckload, suppliers are able to shorten lead times, reduce their outbound miles, significantly lower their transportation costs, reduce damage, and increase their fill rates thereby improving their ability to meet retailers on shelf availability requirements. We believe we operate best in class warehouse management systems and transportation management systems, which also provides customers with complete online visibility to inventory and receiving/shipping historical activity, along with customized reporting capabilities. We also have an experienced service assurance team that helps clients improve retail compliance by conducting detailed forensic analysis into OTIF, looking at root causes to any failures- late, early or unfilled. The team monitors all agreed upon key performance indicators and creates trend analysis by customer, pool, carrier and lane, reviewing all opportunities for improvement.

With a broad Ascent offering, we believe we can accommodate a shipper’s unique needs with any combination of services along our entire spectrum, and cater to their preferred means of shipment processing and communication.

We believe our comprehensive service approach and focus on building long-term customer relationships lead to greater retention of existing business compared to a more short-term gain sharing model employed by many 3PL providers. Before becoming fully operational with a customer, we conduct thorough feasibility and cost savings analyses and collaborate with the customer to create a project scope and timeline with measurable milestones. We believe this approach enables us to identify any potential issues, ensure a smooth integration process, and set the stage for long-term customer satisfaction. Within our Ascent operation, we have consistently met customer implementation deadlines and achieved anticipated levels of freight savings.

## **Capacity**

We offer scalable capacity and reliable service to our extensive customer base in North America through a diverse third-party network of transportation providers and Company drivers and pilots. Our various transportation modes include Truckload, LTL, intermodal, and domestic and international air. Only one third-party carrier accounted for more than 2% of our 2018 purchased transportation costs. We ensure that each carrier is properly licensed and we regularly monitor each carrier’s capacity, reliability, and pricing trends. Enhanced visibility provided by our technology systems allows us to leverage the competitive dynamics within our network to renegotiate freight rates and provide our customers with more cost-effective transportation solutions while enhancing our operating margins.

We continuously focus on building and enhancing our relationships with reliable transportation providers to ensure that we not only secure competitive rates, but that we also gain access to consistent capacity. These relationships are critical to our success based on our asset-right transportation and asset-light logistics service provider business model. We typically pay our third-party

carriers either a contracted per mile rate or the cost of a shipment less our contractually agreed-upon commission, and generally pay within seven to ten days from the date the shipment is delivered. We pay our third-party carriers promptly in order to drive loyalty and reliable capacity.

Our network of transportation providers can be divided into the following groups:

*Independent Contractors.* ICs are a key part of our long-term strategy to maintain service and provide cost stability. As of December 31, 2018, we had over 1,900 ICs, which consisted of over 1,500 linehaul, truckload, and intermodal services ICs and over 400 local delivery ICs. In selecting our ICs, we adhere to specific screening guidelines in terms of safety records, length of driving experience, and evaluations. In the event of tightening of over-the-road freight capacity, we believe we are well positioned to increase our utilization of ICs as a cost-effective and reliable solution.

To enhance our relationship with our ICs, we offer per mile rates that we believe are highly competitive and often above prevailing market rates. In addition, we focus on keeping our ICs fully utilized in order to limit the number of “empty” miles they drive. We regularly communicate with our ICs and seek new ways to enhance their quality of life. We believe our efforts increase IC retention, which we believe ultimately leads to better service for our customers.

*Purchased Power Providers.* In addition to our large base of ICs, we have access to a broad base of purchased power providers. We have established relationships with carriers of all sizes, including large national trucking companies and small to mid-size regional fleets. With the exception of safety incentives, purchased power providers are generally paid under a similar structure as ICs within our LTL and TES businesses. In contrast to contracts established with our ICs, who operate under one of our DOT authorities, we do not cover the cost of liability insurance for our purchased power providers.

*Company Drivers.* We employ approximately 1,400 drivers across our businesses.

*Delivery Agents.* For the de-consolidation and delivery stages of our LTL shipment process, our 40 LTL service centers are complemented by approximately 150 third-party delivery agents. The use of delivery agents is also a key part of our long-term strategy to maintain a variable cost and scalable operating model with minimal overhead.

*Flight Operations.* We support air freight services, including expedited delivery, with 12 cargo jets, 68 flight operations personnel, including pilots, ground crew, and flight coordinators, and a network of third party air cargo providers.

*Ground Expedite.* We utilize proprietary bid technology supported by our logistics personnel and our network of Company drivers, ICs and purchased power providers.

## **Customers**

Our goal is to establish long-term customer relationships and achieve year-over-year growth in recurring business by providing reliable, timely, and cost-effective transportation and logistics solutions. We possess the scale, operational expertise, and capabilities to serve shippers of all sizes. We serve an extensive customer base within a variety of end markets, with one direct customer, General Motors, accounting for approximately 12% of our 2018 revenue. Our diverse customer base reduces our exposure to a decline in shipping demand from any one customer and a cyclical downturn within any particular end market.

## **Sales and Marketing**

We currently market and sell our transportation and logistics solutions through sales personnel located throughout the United States. We are focused on actively expanding our sales force to new geographic markets where we lack a strong presence.

We have a sales team consisting of both sales managers and inside sales representatives. We believe that this sales structure enables our salespeople to better serve our customers by developing an understanding of local, regional, national and international market conditions, as well as the specific transportation and logistics issues facing individual customers. Our sales team seeks additional business from existing customers and pursues new customers based on this knowledge and an understanding of the value proposition we can provide.

As of December 31, 2018, our sales force extends into each segment as follows:

- *Truckload and Express Services.* We arrange the pickup and delivery of freight either through our direct sales force or other Company relationships including management, dispatchers, or customer service representatives.
- *Less-than-Truckload.* Our LTL sales team of over 80 people consists of account executives, sales managers, inside sales representatives, and commissioned sales representatives.
- *Ascent Global Logistics.* We have approximately 60 direct salespeople, Company brokers, and approximately 50 independent brokerage agents, commissioned sales representatives, and agents.

## Competition

We compete in the North American transportation and logistics services sector. Our marketplace is extremely competitive and highly fragmented. We compete with a large number of other asset-light logistics companies, asset-based carriers, integrated logistics companies, and third-party freight brokers, many of whom have larger customer bases and more resources than we do.

In our markets, we compete with global asset-based integrated logistics companies such as FedEx Corporation, United Parcel Service, Inc., and XPO Logistics, Inc., against whom we compete in all of our service lines; asset-based freight haulers, such as Arkansas Best Corporation, Old Dominion Freight Line Inc., Daseke, Inc., Werner Enterprises, Inc., and YRC Worldwide, Inc., against whom we compete in our core TES and LTL service offerings; non-asset based and asset-light freight brokerage companies, such as C.H. Robinson Worldwide, Inc., Echo Global Logistics, Inc., Hub Group, Inc., Forward Air Corporation, and Landstar System, Inc., against whom we compete in all of our service offerings; 3PL providers that offer comprehensive transportation management solutions, such as Schneider Logistics, Inc. and Transplace, Inc., against whom we compete in our Ascent offering; and smaller, niche transportation and logistics companies that provide services within a specific geographic region or end market. In our international freight forwarding business, we compete with a large number of service providers. Depending on the trade lane and solution, these competitors include large multi-national providers, such as Expeditors International of Washington, Inc., Kuehne & Nagel International AG / ADR, and DHL Global Supply Chain; regional providers, such as Mallory Alexander International Logistics and Laufer Group International; and local or niche providers. As a result, our focus remains on continuing to provide our customers with exceptional service.

We believe we compete favorably by offering shippers attractive transportation and logistics solutions designed to deliver the optimal combination of cost and service. To that end, we believe our most significant competitive advantages include:

- our comprehensive suite of transportation and logistics services, which allows us to offer à la carte or a full portfolio value proposition to shippers of varying sizes and to accommodate their diverse needs and preferred means of processing and communication;
- our asset-right transportation and asset-light logistics service provider, variable cost business model, which allows us to generate strong free cash flows and focus greater attention on providing optimal customer service than on asset utilization;
- our technology systems, which allow us to provide scalable capacity and a high level of customer service across a variety of transportation modes; and
- our knowledgeable management team with experience leading high-growth logistics companies and/or business units, which allows us to benefit from a collective entrepreneurial culture focused on growth.

## Seasonality

Our operations are subject to seasonal trends that have been common in the North American over-the-road, ocean, and air freight sectors for many years. Our results of operations for the quarter ending in March are on average lower than the quarters ending in June, September, and December. Typically, this pattern has been the result of factors such as inclement weather, national holidays, customer demand, and economic conditions.

## Technology

We believe the continued development and innovation of our technology systems is important to providing our customers with the most cost-effective, timely, and reliable transportation and logistics solutions. Our objective is to allow our customers and vendors to easily do business with us via technology. Our customers have the ability, through a paperless process, to receive immediate pricing, place orders, track shipments, process remittance, receive updates, and review historical shipping data through a variety of reports over the Internet. We provide flexibility for customers and vendors by utilizing multiple technologies, including web, mobile, workflow and EDI.

Our TES operations teams use technology to dispatch or broker our customers' freight. Our software enhances our ability to track Company and third-party drivers, tractors, and trailers, which provides customers with visibility into their supply chains. Additionally, our systems allow us to operate as a paperless environment through electronic order entry, resource planning, and dispatch. Our TES expedited air and ground operations utilize proprietary bid technology, which provides customers with real-time market pricing and logistics options for time sensitive shipments, supported by our fleets of ground and air assets.

Our LTL operation utilizes a web-based system with our transportation management applications. Additionally, we make use of EDI and API's to allow our service centers to communicate electronically with our carriers' and customers' internal systems. We offer our customers a paperless process, including document imaging and shipment tracking and tracing.

Our Ascent operation uses a variety of software applications and systems customized to meet the unique needs of our customers. We continuously enhance our applications and systems to help improve our productivity, increase customer visibility, and improve

collaboration with our service providers, all while offering customizable content for our customers. Our web-based technology approach allows our Ascent operation to process and service customer orders, track shipments in real time, select optimal modes of transportation, execute customer billing, provide carrier rates, establish customer-specific profiles, and retain critical information for analysis while providing a Company branded solution. We utilize this approach to maximize supply chain efficiency through mode, carrier, and route optimization.

## **Employees**

As of December 31, 2018, we employed approximately 4,600 full-time and part-time personnel, which included drivers, pilots, and warehouse, dock and maintenance workers as well as personnel in our management, sales and marketing, brokerage, logistics, customer service, operations, finance, information technology and human resources functions. None of our employees are covered by a collective bargaining agreement and we consider relations with our employees to be good.

## **Regulation**

The federal government substantially deregulated the provision of ground transportation and logistics services via the enactment of the Motor Carrier Act of 1980, the Trucking Industry Regulatory Reform Act of 1994, the Federal Aviation Administration Authorization Act of 1994, and the ICC Termination Act of 1995. Prices and services are now largely free of regulatory controls, although states have the right to require compliance with safety and insurance requirements, and interstate motor carriers remain subject to regulatory controls imposed by the U.S. Department of Transportation (“DOT”) and its agencies, such as the Federal Motor Carrier Safety Administration (“FMCSA”). Motor carrier, freight forwarding, and freight brokerage operations are subject to safety, insurance, and bonding requirements prescribed by the DOT and various state agencies. Any air freight business is subject to commercial standards set forth by the IATA and federal regulations issued by the TSA.

We are also subject to the Compliance, Safety, and Accountability Program (“CSA”), which is the FMCSA safety program designed to improve large truck and bus safety and ultimately reduce crashes. CSA is an enforcement and compliance model that involves assessments of a motor carrier's on-road performance and investigation results for a 24-month period using roadside stops and inspections, resulting in safety performance in the following categories: unsafe driving; hours-of-service compliance; driver fitness; controlled substances/alcohol; vehicle maintenance; hazardous material compliance; and crash indicator. The evaluations are then used by the FMCSA to select carriers for audit and other interventions.

We own USA Jet Airlines (“USA Jet”), which holds certificates of public convenience and necessity issued by the DOT pursuant to 49 U.S.C. § 41102 and an air carrier certificate granted by the Federal Aviation Administration (“FAA”) pursuant to Part 119 of the federal aviation regulations. The DOT, the FAA, and the U.S. Department of Homeland Security (“DHS”), through the TSA, have regulatory authority over USA Jet’s air transportation services. The Federal Aviation Act of 1958, as amended, is the statutory basis for DOT and the FAA authority and the Aviation and Transportation Security Act of 2001, as amended, is the basis for TSA aviation security authority.

The FAA’s authority relates primarily to operational aspects of air transportation, including aircraft standards and maintenance, as well as personnel and ground facilities, which may from time to time affect the ability of USA Jet to operate its aircraft in the most efficient manner. The air carrier certificate granted to USA Jet by the FAA remains in effect so long as we meet the safety and operational requirements of the applicable FAA regulations.

The DOT’s authority relates primarily to economic licensing aspects of air transportation. The DOT’s jurisdiction extends to authorized types of operations and aviation route authority and to other regulatory matters, including the transfer of route authority between carriers. USA Jet holds various certificates issued by the DOT, including a domestic certificate authorizing USA Jet to engage in U.S. air transportation and a foreign certificate authorizing international air transportation of property. In addition, USA Jet is subject to non-U.S. government regulation of aviation rights involving non-U.S. jurisdictions, and non-U.S. customs regulation.

The TSA has responsibility for aviation security. The TSA continues to require USA Jet to comply with a Full All-Cargo Aircraft Operator Standard Security Program and the Twelve-Five Standard Security Program, which contain evolving and strict security requirements. These requirements are not static, but change periodically as the result of regulatory and legislative requirements, imposing additional security costs and creating a level of uncertainty for our operations.

We are also subject to various environmental and safety requirements, including those governing the handling, disposal, and release of hazardous materials, which we may be asked to transport in the course of our operations. If hazardous materials are released into the environment while being transported, we may be required to participate in, or may have liability for response costs and the remediation of such a release. In such a case, we also may be subject to claims for personal injury, property damage, and damage to natural resources. Our business is also subject to changes in legislation and regulations, which can affect our operations and those of our competitors. For example, new laws and initiatives to reduce and mitigate the effects of greenhouse gas emissions could significantly impact the transportation industry. Future environmental laws in this area could adversely affect our ICs’ costs and practices and, consequently, our operations.

We are also subject to regulations to combat terrorism that the DHS and other agencies impose.

The international freight forwarding and customs brokerage services provided by our Ascent business are regulated by a variety of regulatory agencies and bodies including, but not limited to: the U.S. Federal Maritime Commission (“FMC”), the CBP and the TSA within the DHS (customs brokerage and security issues); the IATA; the DOT; the FDA; the USDA; the FWS; the Bureau of Alcohol, Tobacco Products and Firearms (“BATF”); the U.S. Census Bureau; and other agencies or world governing bodies regulating international trade and compliance. Regulations and requirements must be strictly adhered to and can change periodically. Additionally, our Ascent business manages customer activities in numerous countries. As such, there may be risk associated with sudden fluctuations in currency, changes in economic policy, political unrest, changes to tariffs and trade policies/restrictions that are all outside of our control. Compliance with these changes may have a material impact on our operations and may increase our costs to service our customers.

### **Insurance**

We insure our ICs and Company drivers against third-party claims for accidents or damaged shipments and we bear the risk of such claims. We maintain insurance for auto liability, general liability, and cargo damage claims. We maintain an aggregate of \$100 million of auto liability and general liability insurance. We maintain auto liability insurance coverage for claims in excess of \$1.0 million per occurrence and cargo coverage for claims in excess of \$100,000 per occurrence. Because we maintain insurance for our ICs, if our insurance does not cover all or any portion of the claim amount, we may be forced to bear the financial loss. We attempt to mitigate this risk by carefully selecting carriers with quality control procedures and safety ratings.

In addition to auto liability, general liability, and cargo claim coverage, our insurance policies also cover other standard industry risks related to workers’ compensation and other property and casualty risks. We are self-insured up to \$1.0 million per occurrence for workers compensation. We believe our insurance coverage is comparable in terms and amount of coverage to other companies in our industry. We establish insurance reserves for anticipated losses and expenses and periodically evaluate and adjust the reserves to reflect our experience.

### **Financial Information About Segments**

See Note 15 “Segment Reporting” to the consolidated financial statements in this Form 10-K for financial information about our segments. Effective January 1, 2018, we changed our segment reporting when we integrated our truckload brokerage business into our Ascent domestic freight management business. Segment information for prior periods has been revised to align with the new segment structure.

### **2019 Developments**

#### *Rights Offering*

On February 26, 2019, we closed our previously announced fully backstopped \$450 million rights offering, pursuant to which we issued and sold an aggregate of 900 million new shares of our common stock at the subscription price of \$0.50 per share. An aggregate of 177,676,223 shares of our common stock were purchased pursuant to the exercise of basic subscription rights and over-subscription rights from stockholders of record during the subscription period, including from the exercise of basic subscription rights by stockholders who are affiliates of Elliott Management Corporation (“Elliott”). In addition, Elliott purchased an aggregate of 722,323,777 additional shares pursuant to the previously announced commitment from Elliott to purchase all unsubscribed shares of our common stock in the rights offering pursuant to a standby purchase agreement (the “Standby Purchase Agreement”) that we entered into with Elliott dated November 8, 2018, as amended (the “backstop commitment”). Overall, Elliott purchased a total of 843,632,693 shares of our common stock in the rights offering between its basic subscription rights and the backstop commitment, and following the closing of the rights offering beneficially owned approximately 90.4% of our common stock.

The net proceeds from the rights offering and backstop commitment were used to fully redeem the outstanding shares of our preferred stock and to pay related accrued and unpaid dividends. Proceeds were also used to pay fees and expenses in connection with the rights offering and backstop commitment. We retained in excess of \$30 million of net cash proceeds to be used for general corporate purposes. The purpose of the rights offering was to improve and simplify our capital structure in a manner that gave our existing stockholders the opportunity to participate on a pro rata basis.

#### *Stockholders’ Agreement*

On February 26, 2019, we entered into a Stockholders’ Agreement with Elliott (the “Stockholders’ Agreement”). Our execution and delivery of the Stockholders’ Agreement was a condition to Elliott’s backstop commitment. Pursuant to the Stockholders’ Agreement, we granted Elliott the right to designate nominees to our board of directors and access to available financial information.

#### *Amended and Restated Registration Rights Agreement*

On February 26, 2019, we entered into an Amended and Restated Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners (the “A&R Registration Rights Agreement”), which amended and restated the Registration Rights Agreement (the “Registration Rights Agreement”), dated as of May 2, 2017, between our Company and the parties thereto. Our execution and delivery of the A&R Registration Rights Agreement was a condition to Elliott’s backstop commitment. The A&R Registration Rights Agreement amended the Registration Rights Agreement to provide the Elliott Stockholders (as defined therein) and the HCI Stockholders (as defined therein) with unlimited Form S-1 registration rights in connection with Company securities owned by them.

#### *Asset-Based Lending Credit Agreement*

On February 28, 2019, we and our direct and indirect domestic subsidiaries entered into a credit agreement (the “ABL Credit Agreement”) with BMO Harris Bank N.A., as Administrative Agent, Lender, Letter of Credit Issuer and Swing Line Lender, Wells Fargo Bank, National Association and Bank of America, National Association, as Lenders, and the Joint Lead Arrangers and Joint Book Runners party thereto (the “ABL Credit Facility”). We used the initial proceeds from the ABL Credit Facility for working capital purposes and to repay in full our existing credit facility.

The ABL Credit Facility consists of a \$200.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million may be used for FILO Loans (as defined in the ABL Credit Agreement), (ii) \$20.0 million may be used for Swing Line Loans (as defined in the ABL Credit Agreement), and (iii) \$30.0 million may be used for letters of credit. The ABL Credit Agreement provides that the revolving line of credit may be increased by up to an additional \$100.0 million under certain circumstances. The ABL Credit Facility matures on February 28, 2024. Advances under the ABL Credit Facility bear interest at either: (a) the LIBOR Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 1.50% to 2.00% for the non-FILO Loans and 2.50% to 3.00 for the FILO Loans; or (b) the Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 0.50% to 1.00% for the non-FILO Loans and 1.50% to 2.00% for the FILO Loans.

#### *Term Loan Credit Agreement*

On February 28, 2019, we and our direct and indirect domestic subsidiaries entered into a credit agreement (the “Term Loan Credit Agreement”) with BMO Harris Bank N.A., as Administrative Agent and Lender, Elliott Associates, L.P. and Elliott International, L.P. as Lenders, and BMO Capital Markets Corp., as Lead Arranger and Book Runner (the “Term Loan Credit Facility”). We used the initial proceeds from the Term Loan Credit Facility for working capital purposes and to repay in full our existing credit facility.

The Term Loan Credit Facility consists of an approximately \$61.1 million term loan facility, consisting of (i) approximately \$40.3 million of Tranche A Term Loans (as defined in the Term Loan Credit Agreement), (ii) approximately \$2.5 million of Tranche A FILO Term Loans (as defined in the Term Loan Credit Agreement), (iii) approximately \$8.3 million of Tranche B Term Loans (as defined in the Term Loan Credit Agreement), and (iv) a \$10.0 million asset-based facility available to finance future capital expenditures. The Term Loan Credit Facility matures on February 28, 2024. Principal on each of the Tranche A Term Loans and the Tranche B Term Loans is due in quarterly installments based upon a 4.5-year amortization schedule (i.e. each installment is 1/18th of the original principal amount of the Tranche A Term Loans and the Tranche B Term Loans), commencing on September 1, 2019. Principal on the Tranche A FILO Term Loans is due on the maturity date of the Term Loan Credit Facility, unless earlier accelerated thereunder. Principal on each draw under the capital expenditure facility is due in quarterly installments based upon a five-year amortization schedule (i.e. each installment shall be 1/20th of the original principal amount of any capital expenditure loan), commencing on the first day of the first full fiscal quarter immediately following the making of each such capital expenditure loan. The loans under the Term Loan Credit Facility bear interest at either: (a) the LIBOR rate (as defined in the Term Loan Credit Agreement), plus an applicable margin of 7.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 8.50% for Tranche A FILO Term Loans; or (b) the Base Rate (as defined in the Term Loan Credit Agreement), plus an applicable margin of 6.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 7.50% for Tranche A FILO Term Loans.

**Available Information**

Our principal executive offices are located at 1431 Opus Place, Suite 530, Downers Grove, Illinois 60515, and our telephone number is (414) 615-1500. Our website address is *www.rrts.com*. The information contained on our website or that can be accessed through our website is not part of, and is not incorporated by reference into, this Form 10-K or in any other report or document we file with the Securities and Exchange Commission (“SEC”).

We file reports with the SEC, including Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any other filings required by the SEC. Through our website, we make available free of charge our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

The SEC maintains an Internet site (*www.sec.gov*) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

You should carefully consider the risk factors set forth below as well as the other information contained in this Form 10-K, including our consolidated financial statements and related notes. Any of the following risks could materially and adversely affect our business, financial condition, or results of operations. In such a case, you may lose all or part of your investment. The risks described below are not the only risks facing us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial may also materially adversely affect our business, financial condition, or results of operations.

***We have identified material weaknesses in our internal control over financial reporting which could, if not remediated, adversely affect our ability to report our financial condition and results of operations in a timely and accurate manner, investor confidence in our Company, and the value of our common stock.***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and based upon the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework"). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and preparation of our financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"). Management is also responsible for reporting on the effectiveness of internal control over financial reporting.

We have not maintained an effective control environment based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the control environment of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) our commitment to integrity and ethical values, (ii) the ability of our board of directors to effectively exercise oversight of the development and performance of internal control, as a result of failure to communicate relevant information within our organization and, in some cases, withholding information, (iii) appropriate organizational structure, reporting lines, and authority and responsibilities in pursuit of objectives, (iv) our commitment to attract, develop, and retain competent individuals, and (v) holding individuals accountable for their internal control related responsibilities. These material weaknesses resulted in material accounting errors.

We have not maintained an effective control environment to enable the identification and mitigation of risks of material accounting errors, based on the contributing factors to material weakness in the control environment, including:

- The tone from former executive management was insufficient to create the proper environment for effective internal control over financial reporting and to ensure that (i) there were adequate processes for oversight, (ii) there was accountability for the performance of internal control over financial reporting responsibilities, (iii) identified issues and concerns were raised to appropriate levels within our organization, (iv) corrective activities were appropriately applied, prioritized, and implemented in a timely manner, and (v) relevant information was communicated within our organization and not withheld from our independent directors, our Audit Committee, and our independent auditors.
- In certain operating companies and at our corporate headquarters there were inconsistent accounting systems, policies, and procedures. Additionally, in certain locations we did not attract, develop, and retain competent management, accounting, financial reporting, internal audit, and information systems personnel or resources to ensure that internal control responsibilities were performed and that information systems were aligned with internal control objectives.
- Our oversight processes and procedures that guide individuals in applying internal control over financial reporting were not adequate in preventing or detecting material accounting errors, or omissions due to inadequate information and, in certain instances, management override of internal controls, including recording improper accounting entries, recording accounting entries that were inconsistent with information known by management at the time, not communicating relevant information within our organization and, in some cases, withholding information from our independent directors, our Audit Committee, and our independent auditors.

Additionally, we have identified control deficiencies that constituted material weaknesses in the principles associated with the risk assessment, control activities, information and communication and monitoring activities components of the COSO framework. Refer to Item 9A. "Controls and Procedures" of this Form 10-K for more information.

As a result of such material weaknesses, our management concluded that our disclosure controls and procedures and internal control over financial reporting were not effective as of December 31, 2018.

A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. We are actively engaged in developing and implementing a remediation plan designed to address these material weaknesses, but our remediation efforts are not complete and are ongoing. Although we are working to remedy the ineffectiveness of our internal control over financial reporting, there can be no assurance as to when the remediation



plan will be fully developed or implemented, the effectiveness of the remediation plan, when it will be fully implemented, or the aggregate cost of implementation. Until our remediation plan is fully implemented, our management will continue to devote significant time and attention to these efforts. If we do not complete our remediation in a timely fashion, or at all, or if our remediation plan is inadequate, there will continue to be an increased risk that we will be unable to timely file future periodic reports with the SEC and that our future consolidated financial statements could contain errors that will be undetected. If we are unable to report our results in a timely and accurate manner, we may not be able to comply with the applicable covenants in our financing arrangements, and may be required to seek additional amendments or waivers under these financing arrangements, which could adversely impact our liquidity and financial condition. Further and continued determinations that there are material weaknesses in the effectiveness of our internal control over financial reporting could reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures of both money and our management's time to comply with applicable requirements.

Any failure to implement or maintain required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses or material misstatements in our consolidated financial statements. Any new misstatement could result in a further restatement of our consolidated financial statements, cause us to fail to meet our reporting obligations, reduce our ability to obtain financing, increase the cost of the financing we obtain, or cause investors to lose confidence in our reported financial information, leading to a decline in our stock price. We cannot assure you that we will not discover additional weaknesses in our internal control over financial reporting.

Further, we may be the subject of negative publicity focusing on the restatement of our previously issued financial results and related matters, and may be adversely impacted by negative reactions from our stockholders, creditors, or others with which we do business. This negative publicity may impact our ability to attract and retain customers, employees, drivers, and vendors. The occurrence of any of the foregoing could harm our business and reputation and cause the price of our securities to decline.

***The restatement of our previously issued financial results has resulted in private litigation, derivative lawsuits, and government agency investigations and actions, and could result in additional litigation, government agency investigations, and enforcement actions.***

Following our press release on January 30, 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against us and our former officers, Mark A. DiBlasi and Peter R. Ambruster. On May 19, 2017, the Court consolidated the actions under the caption *In re Roadrunner Transportation Systems, Inc. Securities Litigation* (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed a Consolidated Amended Complaint ("CAC") on behalf of a class of persons who purchased our common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC alleges (i) we and Messrs. DiBlasi and Ambruster violated Section 10(b) of the Exchange Act and Rule 10b-5, and (ii) Messrs. DiBlasi and Ambruster, our former Chairman Scott Rued, HCI Equity Partners, L.L.C., and HCI Equity Management, L.P. violated Section 20(a) of the Exchange Act, by making or causing to be made materially false or misleading statements, or failing to disclose material facts, regarding (a) the accuracy of our financial statements; (b) our true earnings and expenses; (c) the effectiveness of our disclosure controls and controls over financial reporting; (d) the true nature and depth of financial risk associated with our tractor lease guaranty program; (e) our leverage ratios and compliance with our credit facilities; and (f) the value of the goodwill we carried on our balance sheet. The CAC seeks certification as a class action, compensatory damages, and attorney's fees and costs. On November 19, 2018, the parties entered into a binding term sheet agreeing to settle the action for \$20 million, \$17.9 million of which will be funded by our D&O carriers (\$4.8 million of which is by way of a pass through of the D&O carriers' payment to us in connection with the settlement of the Federal Derivative Action described below). The parties are finalizing the Stipulation of Settlement. The settlement is conditioned on a settlement of the Federal Derivative Action described below, dismissal of the State Derivative Action described below, and final court approval of the settlements in this action and in the Federal Derivative Action.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on our behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi, Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vijums, Michael Ward, Chad Utrup, Ivor Evans, Peter Ambruster, and Brian van Helden (the "State Derivative Action"). Count I of the complaint alleges the Director Defendants breached their fiduciary duties by "knowingly failing to ensure that the Company implemented and maintained adequate internal controls over its accounting and financial reporting functions," and seeks unspecified damages. Count II of the complaint alleges the Officer Defendants DiBlasi, Ambruster, and van Helden received substantial performance-based compensation and bonuses for fiscal year 2014 that should be disgorged. The action has been stayed pending the District Court's approval of the proposed settlement of the Federal Derivative Action, following which the defendants would move to dismiss this action as moot. While the case was stayed, the plaintiff obtained permission to file an amended complaint adding claims against two former Company employees: Bret Naggs and Mark Wogsland.

On June 28, 2017, Jesse Kent filed a complaint alleging derivative claims on our behalf and class action claims in the United States District Court for the Eastern District of Wisconsin. On December 22, 2017, Chester County Employees Retirement Fund

filed a complaint alleging derivative claims on our behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption *Kent v. Stoelting et al* (Case No. 17-cv-00893) (the “Federal Derivative Action”). On March 28, 2018, plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on our behalf against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vjums, and Michael Ward. Count I alleges that several of the defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 based upon alleged misrepresentations and omissions in several of our proxy statements. Count II alleges that all the defendants breached their fiduciary duty. Count III alleges that all the defendants wasted corporate assets. Count IV alleges that certain of the defendants were unjustly enriched. The Complaint seeks monetary damages, improvements to our corporate governance and internal procedures, an accounting from defendants of the damages allegedly caused by them and the improper amounts the defendants allegedly obtained, and punitive damages. The parties are currently finalizing the terms of a Stipulation of Settlement, which provides for certain corporate governance changes and a \$6.9 million payment, \$4.8 million of which will be paid by our D&O carriers into an escrow account to be used by us to settle the class action described above and \$2.1 million of which will be paid by our D&O carriers to cover plaintiffs attorney’s fees and expenses, subject to court approval.

Given the status of the matters above, we concluded in 2018 that a liability is probable and recorded the estimated loss of \$22 million and a corresponding insurance reimbursement receivable of \$20 million.

In addition, subsequent to our announcement that certain previously filed financial statements should not be relied upon, we were contacted by the SEC, the Financial Industry Regulatory Authority, Inc. (“FINRA”), and the Department of Justice (“DOJ”). The DOJ and Division of Enforcement of the SEC have commenced investigations into the events giving rise to the restatement. We have received formal requests for documents and other information. In addition, in June 2018 two of our former employees were indicted on charges of conspiracy, securities fraud, and wire fraud as part of the ongoing DOJ and SEC investigation. We are cooperating fully with the joint DOJ and SEC investigation. Given the status of this matter, we are unable to reasonably estimate the potential costs or range of costs at this time.

We cannot predict the outcome of these matters, or whether any other actions or proceedings will be filed against us in the future, and the cost of defending such actions or proceedings could be material. Furthermore, defending such actions or proceedings could divert our management and key personnel from our business operations. If we are found liable in any actions or proceedings, we may have to pay substantial damages or change the way we conduct our business, either of which may have a material adverse effect on our business, operating results, financial condition, and prospects. There may also be negative publicity associated with litigation or regulatory proceedings that could harm our business and reputation and cause the price of our securities to decline.

***The restatement of our previously issued financial statements was time-consuming and expensive and could expose us to additional risks that could adversely affect our financial position, results of operations, and cash flows.***

As described in Amendment No. 1 to our Annual Report on Form 10-K/A for the year ended December 31, 2015, Amendment No. 1 to our Quarterly Reports on Form 10-Q/A for the quarters ended March 31, 2016, June 30, 2016, and September 30, 2016, and Note 15 “Restatement of Previously Issued Financial Statements” to the consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2016, we restated our previously issued consolidated financial statements for the years ended December 31, 2015, 2014, and 2013, and each of the quarters ended March 31, 2016, June 30, 2016, and September 30, 2016, as well as the quarters in the years ended December 31, 2015 and 2014. The restatement was time-consuming and expensive and could expose us to a number of additional risks that could adversely affect our financial position, results of operations, and cash flows.

In particular, we have incurred significant expense, including audit, legal, consulting, and other professional fees, as well as fees related to amendments to our prior senior credit facilities, the 2017 Investment Agreement (defined below), the Series E-1 Investment Agreement (defined below) and the Prior ABL Facility (defined below), in connection with the restatement of our previously issued consolidated financial statements and the ongoing remediation of material weaknesses in our internal control over financial reporting. We have taken a number of steps, including both adding internal personnel and hiring outside consultants, and intend to continue to take appropriate and reasonable steps to strengthen our accounting function and reduce the risk of additional misstatements in our financial statements. For more details about our remediation plan, see Item 9A. “Controls and Procedures” of this Form 10-K. To the extent these steps are not successful, we may have to incur additional time and expense. Our management’s attention has also been, and may further be, diverted from the operation of our business in connection with the restatement and ongoing remediation of material weaknesses in our internal controls.

We are also subject to claims, investigations, and proceedings arising out of the errors in our previously issued financial statements, including securities class action litigation, derivative lawsuits, and government agency investigations.

***One or more significant claims or the cost of maintaining our insurance could have an adverse effect on our results of operations.***

We employ approximately 1,400 drivers and use the services of thousands of ICs and transportation companies and their drivers in connection with our transportation operations. We also provide air freight services with our fleet of 12 cargo jets. From time to time, these drivers or pilots are, or may be, involved in accidents which may cause injuries and in which goods carried by them are lost or damaged. Such accidents usually result in equipment damage and, unfortunately, can also result in injuries or death. Although most of these drivers are ICs or work for third-party carriers, from time to time 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. Our involvement in the transportation of certain goods, including, but not limited to, hazardous materials, could also increase our exposure in the event of an accident resulting in injuries or contamination. The resulting types and/or amounts of damages may under any of these circumstances be excluded by or exceed the amount of our insurance coverage or the insurance coverage maintained by the contracted carrier. A material increase in the frequency or severity of accidents, claims for lost or damaged goods, liability claims, workers' compensation claims, or unfavorable resolutions of any such claims could adversely affect our results of operations to the extent claims are not covered by our insurance or such losses exceed our reserves. Significant increases in insurance costs or the inability to purchase insurance as a result of these claims could also reduce our profitability and have an adverse effect on our results of operations. The timing of the incurrence of these costs could also significantly and adversely impact our operating results compared to prior periods.

***Increased insurance premium costs could have an adverse effect on our results of operations.***

Insurance carriers may increase premiums for transportation companies generally. We could also experience additional increases in our insurance premiums in the future if our claims experience worsens. If our insurance or claims expense increases and we are unable to offset the increase with higher freight rates, our results of operations could be adversely affected. Furthermore, we may not be able to maintain or obtain sufficient or desired levels of insurance at reasonable rates. In some instances, certain insurance could become unavailable or available only for reduced amounts of coverage. If we were to incur a significant liability for which we were not fully insured, it could have an adverse effect on our results of operations and financial position.

***The cost of compliance with, liability for violations of, or modifications to existing or future governmental laws and regulations could adversely affect our business and results of operations.***

Our operations are regulated and licensed by various federal and state agencies in the United States and similar governmental agencies in foreign countries in which we operate. These regulatory agencies have authority and oversight of domestic and international transportation services and related activities, licensure, motor carrier operations, safety and security, and other matters. We must comply with various insurance and surety bond requirements to act in the capacities for which we are licensed. Our subsidiaries and ICs must also comply with applicable regulations and requirements of such agencies.

Through our subsidiaries, we hold various licenses required to carry out our domestic and international services. These licenses permit us to provide services as a motor carrier, property broker, air carrier, indirect air carrier, ocean transportation intermediary, non-vessel operating common carrier, freight forwarder, and ocean freight forwarder. We also are subject to regulations and requirements promulgated by, among others, the DOT, FMCSA, DHS, CBP, TSA, FMC, IATA, USDA, FDA, FWS, BATF, FAA and various other international, domestic, state, and local agencies and port authorities. Our failure to maintain our required licenses, or to comply with applicable regulations, could materially and adversely affect our business, results of operations, or financial condition. See the section entitled "Regulation" in Item 1 of this Form 10-K for more information.

In addition, DHS regulations applicable to our customers who import goods into the United States and our contracted ocean carriers may impact our ability to provide and/or receive services with and from these parties. Enforcement measures related to violations of these regulations can slow and/or prevent the delivery of shipments, which may negatively impact our operations.

We incur significant costs to operate our business and monitor our compliance with applicable laws and regulations. The regulatory requirements governing our operations 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. We cannot predict what impact future regulations may have on our business. Compliance with existing, new, or more stringent measures could disrupt or impede the timing of our deliveries and our ability to satisfy the needs of our customers. We have adopted various policies and procedures intended to ensure our compliance with regulatory requirements. We cannot provide assurance that these policies and procedures will be adequate or effective. Additionally, we are also subject to the risk that our employees may inadvertently or deliberately circumvent established controls. The financial and reputational impact of control failures could be significant.

In addition, 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 terrorist activities and potential terrorist activities. The cost of compliance with existing or future measures could adversely affect our results of operations. Further, we could become subject to liabilities as a result of a failure to comply with applicable regulations.

We are subject to various income and other taxes, primarily in the U.S. and its political subdivisions. Compliance with ever-changing tax statutes and regulations is complex, time-consuming, and subject to examination by taxing authorities. On December 22, 2017, the Tax Cuts and Jobs Act (the “Tax Reform Act”) was signed into United States law, and most changes became effective as of January 1, 2018. Overall, we expect that the Tax Reform Act will be financially and cash flow beneficial to us. The corporate income tax rate was reduced from 35% to 21%, the corporate alternative minimum tax system was eliminated, and net operating losses carry forward indefinitely. The ability to accelerate depreciation deductions provides us flexibility with respect to the timing of deductions related to capital expenditures. Though interest expense deductions may be limited annually, any disallowed interest expense carries forward indefinitely. Future changes to current tax laws could adversely affect our business, results of operations, and financial condition.

Jeffrey Cox and David Chidester filed a complaint against certain of our subsidiaries in state court in California in a post-acquisition dispute (the “Central Cal Matter”). The complaint alleges contract, statutory and tort-based claims arising out of the Stock Purchase Agreement, dated November 2, 2012, between the defendants, as buyers, and the plaintiffs, as sellers, for the purchase of the shares of Central Cal Transportation, Inc. and Double C Transportation, Inc. (the “Central Cal Agreement”). The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California’s Labor Code related to the plaintiffs’ respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted our motion to compel arbitration of all non-employment claims alleged in the complaint. The parties selected a settlement accountant to determine the contingent purchase obligation pursuant to the Central Cal Agreement. The settlement accountant provided a final determination that a contingent purchase obligation of \$2.1 million is due to the plaintiffs. It is our position that this contingent purchase obligation is subject to offset for certain indemnification claims owed to us by the plaintiffs ranging from approximately \$0.3 million to \$1.0 million. Accordingly, we have recorded a contingent purchase obligation liability of \$1.8 million in accrued expenses and other current liabilities. We intend to pursue indemnification and other claims as it relates to the Central Cal Matter and other related matters involving these plaintiffs. In February 2018, Plaintiff David Chidester agreed to dismiss his employment-related claims from the Los Angeles Superior Court matter, while Plaintiff Jeffrey Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. The parties are proceeding with discovery and the consolidated case is currently set for trial on November 5, 2019.

In addition to the legal proceeding described above, we are a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against us alleging that we violated various California labor laws. In 2017 and 2018, we reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of December 31, 2018 and 2017, we recorded a liability for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter and the Warren Matter (defined below) of approximately \$10.8 million and \$13.2 million, respectively, which are recorded in accrued expenses and other current liabilities.

In December 2018, a class action lawsuit was brought against us in the Superior Court of the State of California by Fernando Gomez, on behalf of himself and other similarly situated persons, alleging violation of California labor laws. This is a new lawsuit and we are currently determining its effects. We intend to vigorously defend against such claims; however, there can be no assurance that we will be able to prevail. In light of the relatively early stage of the proceedings, we are unable to predict the potential costs or range of costs at this time.

***Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.***

From time to time, we arrange for the movement of hazardous materials at the request of our customers. As a result, we are subject to various environmental laws and regulations relating to the handling, transport, and disposal of hazardous materials. If our customers or carriers are involved in an 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, remediation costs, or civil and criminal liability, any of which could have an adverse effect on our business and results of operations. In addition, current and future laws and regulations relating to carbon emissions and the effects of global warming can be expected to have a significant impact on the transportation sector generally and the operations and profitability of some of our carriers in particular, which could adversely affect our business and results of operations.

***A decrease in levels of capacity in the over-the-road freight sector could have an adverse impact on our business.***

The current operating environment in the over-the-road freight sector resulting from fluctuating fuel costs, industry-specific regulations (such as the CSA and hours-of-service rules and the changes implemented under Moving Ahead for Progress in the 21st Century (“MAP-21”)), a shortage of qualified drivers, and other economic factors are causing a tightening of capacity in the sector generally, and in our carrier network specifically, which could have an adverse impact on our ability to execute our business strategy and on our business.

***We have not successfully managed, and may not in the future manage, our growth or operations.***

We have grown substantially, including by expanding our internal resources, making acquisitions, and entering into new markets. We have experienced, and may in the future experience, difficulties and higher-than-expected expenses in executing this strategy as a result of unfamiliarity with new markets, change in revenue and business models, and entering into new geographic areas. For example, as described in Part II, Item 9A. “Controls and Procedures” of this Form 10-K, based on the Audit Committee Investigation, current management determined that there were deficiencies in the design and/or execution of internal controls that constituted material weaknesses, with one of the contributing factors being the increased size and complexity of our Company arising from the acquisition of 25 non-public companies between February 2011 and September 2015.

In 2018, we devised strategies to improve our operational performance, integrate and expand certain of our segments, invest in the long-term recovery of our business and position our business for long-term growth and shareholder value creation. We have, and may in the future, experience delay in the implementation and realization of these strategies. The success of our strategies depends on many factors, some of which are out of our control. There is no assurance that we will be able to successfully implement these strategies or that these strategies will be successful.

Our growth has placed, and will in the future place, a significant strain on our management and our operational and financial resources. We need to continually improve existing procedures and controls as well as implement new transaction processing, operational and financial systems, and procedures and controls to expand, train, and manage our employee base. Our working capital needs have increased substantially as our operations have grown. Failure to manage growth effectively, or obtain necessary working capital, has in the past had, and could in the future have, a material adverse effect on our business, results of operations, financial position, and cash flows.

***Our outstanding debt and preferred stock could adversely affect our business and limit our ability to expand our business or respond to changes, and we may be unable to generate sufficient cash flow to satisfy our debt service and preferred stock obligations.***

As of December 31, 2018, we had debt of \$171.9 million and preferred stock of \$402.9 million, which is classified as a liability on the consolidated financial statements. See Note 5 “Debt” and Note 6 “Preferred Stock” to the consolidated financial statements in this Form 10-K for further information. On May 1, 2017, we entered into an Investment Agreement (the “2017 Investment Agreement”) with Elliott, pursuant to which we issued and sold shares of our preferred stock and issued warrants for an aggregate purchase price of \$540.5 million. On March 1, 2018, we entered into a Series E-1 Preferred Stock Investment Agreement (as amended, the “Series E-1 Investment Agreement”) with Elliott, pursuant to which we agreed to issue and sell to Elliott from time to time until July 30, 2018, an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series E-1 Preferred Stock”), at a purchase price of \$1,000 per share for the first 17,500 shares of Series E-1 Preferred Stock, \$960 per share for the next 18,228 shares of Series E-1 Preferred Stock, and \$920 per share for the final 19,022 shares of Series E-1 Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which we issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. On April 24, 2018, the parties held a closing pursuant to the Series E-1 Investment Agreement, pursuant to which we issued and sold to Elliott 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of approximately \$17.5 million. On February 26, 2019, we closed our previously announced fully backstopped \$450 million rights offering, pursuant to which we issued and sold an aggregate of 900 million new shares of our common stock at the subscription price of \$0.50 per share. The net proceeds from the rights offering and backstop commitment were used to fully redeem the outstanding shares of our preferred stock and to pay related accrued and unpaid dividends. Proceeds were also used to pay fees and expenses in connection with the rights offering and backstop commitment. We retained in excess of \$30 million of net cash proceeds to be used for general corporate purposes.

On July 21, 2017, we entered into an Asset-Based Lending Facility with BMO Harris Bank, N.A. and certain other lenders (as amended, the “Prior ABL Facility”). On February 28, 2019, we entered into the ABL Credit Facility and the Term Loan Credit Facility, which replaced the Prior ABL Facility.

We may incur additional indebtedness in the future, including any additional borrowings available under the ABL Credit Facility and Term Loan Credit Facility. Any substantial debt and the fact that a substantial portion of our cash flow from operating activities could be needed to make payments on our debt could have adverse consequences, including the following:

- reducing the availability of our cash flow for our operations, capital expenditures, future business opportunities, and other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate, which would place us at a competitive disadvantage compared to our competitors that may have less debt;
- limiting our ability to borrow additional funds; and

- increasing our vulnerability to general adverse economic and industry conditions.

Our ability to borrow any funds needed to operate and expand our business will depend in part on our ability to generate cash. Our ability to generate cash is subject to the performance of our business as well as general economic, financial, competitive, legislative, regulatory, and other factors that are beyond our control. If our business does not generate sufficient cash flow from operating activities or if future borrowings are not available to us under our ABL Credit Facility and/or Term Loan Credit Facility or otherwise in amounts sufficient to enable us to fund our liquidity needs, our operating results, financial condition, and ability to maintain or expand our business may be adversely affected. Moreover, our inability to make scheduled payments on our debt obligations in the future would require us to refinance all or a portion of our debt on or before maturity, sell assets, delay capital expenditures, or seek additional equity.

***We have had, and may have in the future, difficulties integrating acquired companies.***

For acquisitions, success is also dependent upon efficiently integrating the acquired business into our existing operations. We are required to integrate these businesses into our internal control environment, which may present challenges that are different than those presented by organic growth and that may be difficult to manage. For example, as described in Part II, Item 9A. "Controls and Procedures" of this Form 10-K, based on the Audit Committee Investigation, current management determined that there were deficiencies in the design and/or execution of internal controls that constituted material weaknesses, with one of the contributing factors being the increased size and complexity of our Company arising from the acquisition of 25 non-public companies between February 2011 and September 2015. The possible difficulties of integration include, among others: retention of customers and key employees; unanticipated issues in the assimilation and consolidation of information, communications, technology, and other systems; inefficiencies and difficulties that arise because of unfamiliarity with potentially new geographic areas and new assets and the businesses associated with them; consolidation of corporate and administrative infrastructures; the diversion of management's attention from ongoing business concerns; the effect on internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002; and unanticipated issues, expenses, and liabilities. The diversion of management's attention from our current operations to the acquired operations and any difficulties encountered in combining operations has prevented us, and could in the future prevent us, from realizing the full benefits anticipated to result from the acquisitions and has adversely impacted, and could in the future adversely impact, our results of operations and financial condition.

Also, following an acquisition, we may discover previously unknown liabilities associated with the acquired business for which we have no recourse under applicable indemnification provisions. In addition, the former owners of the businesses we acquire may seek additional consideration under contingent purchase obligations resulting in increased purchase prices. See "-The cost of compliance with, liability for violations of, or modifications to existing or future governmental laws and regulations could adversely affect our business and results of operations." If we are unable to successfully integrate and grow these acquisitions and to realize contemplated revenue synergies and cost savings, our business, prospects, results of operations, financial position, and cash flows could be materially and adversely affected.

***Any acquisitions that we undertake could be difficult to integrate, disrupt our business, dilute stockholder value, and adversely affect our results of operations.***

We may seek to increase our revenue and expand our offerings in the market regions that we serve through the acquisition of complementary businesses. We cannot guarantee that we will be able to identify suitable acquisitions or investment candidates. Even if we identify suitable candidates, we cannot guarantee that we will make acquisitions or investments on commercially acceptable terms, if at all. In addition, we may incur debt or be required to issue equity securities to pay for future acquisitions or investments. The issuance of any equity securities could be dilutive to our stockholders.

Strategic acquisitions involve numerous risks, including the following:

- failure of the acquired company to achieve anticipated revenues, earnings, or cash flows;
- assumption of liabilities that were not disclosed to us or that exceed our estimates;
- problems integrating the purchased operations with our own, which could result in substantial costs and delays or other operational, technical, or financial problems;
- potential compliance issues with regard to acquired companies that did not have adequate internal controls;
- diversion of management's attention or other resources from our existing business;
- risks associated with entering markets in which we have limited prior experience; and
- potential loss of key employees and customers of the acquired company.

***Our ABL Credit Agreement and Term Loan Credit Agreement contain financial and other restrictive covenants with which we may be unable to comply. A default under these financing arrangements could cause a material adverse effect on our liquidity, financial condition, and results of operations.***

The obligations under the ABL Credit Agreement are guaranteed by each of our domestic subsidiaries pursuant to a guaranty included in the ABL Credit Agreement. As security for our and our subsidiaries' obligations under the ABL Credit Agreement, we and each of our domestic subsidiaries have granted: (i) a first priority lien on substantially all of our domestic subsidiaries' tangible and intangible personal property (other than the assets described in the following clause (ii)), including the capital stock of certain of our direct and indirect subsidiaries; and (ii) a second-priority lien on our and our domestic subsidiaries' equipment (including, without limitation, rolling stock, aircraft, aircraft engines and aircraft parts) and proceeds and accounts related thereto. The priority of the liens is described in an intercreditor agreement between BMO Harris Bank N.A. as ABL Agent and BMO Harris Bank N.A. as Term Loan Agent. The ABL Credit Agreement contains a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability falls below a specified amount. In addition, the ABL Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The ABL Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the ABL Credit Agreement to be in full force and effect, and a change of control of our business.

The obligations under our Term Loan Credit Agreement are guaranteed by each of our domestic subsidiaries pursuant to a guaranty included in the Term Loan Credit Agreement. As security for our and our subsidiaries' obligations under the Term Loan Credit Agreement, we and each of our domestic subsidiaries have granted: (i) a first priority lien on our equipment (including, without limitation, rolling stock, aircraft, aircraft engines and aircraft parts) and proceeds and accounts related thereto, and (ii) a second priority lien on substantially all of our and our domestic subsidiaries' other tangible and intangible personal property, including the capital stock of certain of our direct and indirect subsidiaries. The priority of the liens is described in an intercreditor agreement between BMO Harris Bank N.A. as ABL Agent and BMO Harris Bank N.A. as Term Loan Agent. The Term Loan Credit Agreement contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Term Loan Credit Agreement also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Term Loan Credit Agreement to be in full force and effect, and a change of control of our business.

If we incur defaults under the terms of the ABL Credit Agreement or the Term Loan Credit Agreement and fail to obtain appropriate amendments to or waivers under the applicable financing arrangement, our borrowings against these facilities could be immediately declared due and payable. If we fail to pay the amount due, the lenders could proceed against the collateral by which our loans are secured, our borrowing capacity may be limited, or the facilities could be terminated. If acceleration of outstanding borrowings occurs or if the facilities are terminated, we may have difficulty borrowing additional funds sufficient to refinance the accelerated debt or entering into new credit or debt arrangements, and, if available, the terms of the financing may not be acceptable. A default under our ABL Credit Facility and/or Term Loan Credit Facility could have a material adverse effect on our liquidity and financial condition.

***Fluctuations in the price or availability of fuel and limitations on our ability to collect fuel surcharges may adversely affect our results of operations.***

We are subject to risks associated with fuel charges from our ICs, purchased power providers, and aircraft in our TES and LTL businesses. The availability and price of fuel are subject to political, economic, and market factors that are outside of our control. Fuel prices have fluctuated dramatically over recent years. Over time we have been able to mitigate the impact of the fluctuations through our fuel surcharges which are closely linked to the market price for fuel. There can be no assurance that our fuel surcharge revenue programs will be effective in the future. Market pressures may limit our ability to assess our fuel surcharges. At the request of our customers, we have at times temporarily capped the fuel surcharges at a fixed percentage pursuant to contractual arrangements that vary by customer. Currently, a minimal number of our customers have contractual arrangements with varying levels of capped fuel surcharges. If fuel surcharge revenue programs, base freight rate increases, or other cost-recovery mechanisms do not offset our exposure to rising fuel costs, our results of operations could be adversely affected.

***A significant or prolonged economic downturn in the transportation industry, or a substantial downturn in our customers' business, could adversely affect our revenue and results of operations.***

The transportation industry has historically experienced cyclical fluctuations in financial results due to, among other things, economic recession, downturns in business cycles, increasing costs and taxes, fluctuations in energy prices, price increases by carriers, changes in regulatory standards, license and registration fees, interest rate fluctuations, and other economic factors beyond

our control. All of these factors could increase the operating costs of a vehicle and impact capacity levels in the transportation industry. Our ICs or purchased power providers may charge higher prices to cover higher operating expenses, and our operating income may decrease if we are unable to pass through to our customers the full amount of higher purchased transportation costs. Additionally, economic conditions may adversely affect our customers, their need for our services, or their ability to pay for our services.

***We operate in a highly competitive industry and, if we are unable to adequately address factors that may adversely affect our revenue and costs, our business could suffer.***

Competition in the transportation services industry is intense. We face significant competition in local, regional, national, and international markets. Increased competition may lead to revenue reductions, reduced profit margins, or a loss of market share, any one of which could harm our business. There are many factors that could impair our ability to maintain our current profitability, including the following:

- competition with other transportation services companies, some of which have a broader coverage network, a wider range of services, and greater capital resources than we do;
- reduction by our competitors of their freight rates to gain business, especially during times of declining growth rates in the economy, which reductions may limit our ability to maintain or increase freight rates, maintain our operating margins, or maintain significant growth in our business;
- solicitation by shippers of bids from multiple carriers for their shipping needs and the resulting depression of freight rates or loss of business to competitors;
- development of a technology system similar to ours by a competitor with sufficient financial resources and comparable experience in the transportation services industry; and
- establishment by our competitors of cooperative relationships to increase their ability to address shipper needs.

***We have experienced significant turnover in our executive leadership team. If we fail to effectively integrate and retain these new executives, we may not be able to accomplish our growth strategy and our financial performance may suffer.***

Since the beginning of 2017, we have experienced significant turnover in our senior management ranks, including the appointment of our new Chief Executive Officer and President and Chief Operating Officer and the hiring of our new Chief Financial Officer. In April 2017, Curtis W. Stoelting was appointed our Chief Executive Officer and Michael L. Gettle was appointed our President and Chief Operating Officer. In May 2017, Terence R. Rogers was appointed our Chief Financial Officer. We also hired a new Corporate Controller, Vice President of Finance and Treasurer, and Director of Internal Audit. In addition, during 2018, our Chief Information Officer resigned and we hired a new Chief Information Officer. This lack of management continuity could adversely affect our ability to successfully execute our growth strategy, as well as result in operational and administrative inefficiencies and added costs, and may make recruiting for future management positions more difficult.

In addition, we must successfully integrate any new management personnel into our organization in order to achieve our operating objectives, and changes in other key management positions may affect our financial performance and results of operations while new management becomes familiar with our business. Accordingly, our future financial performance will depend to a significant extent on our ability to motivate and retain key management personnel. Competition for senior management is intense, and we may not be able to retain our management team or attract additional qualified personnel. The loss of a member of senior management would require our remaining executive officers to divert immediate and substantial attention to fulfilling the duties of the departing executive and to seeking a replacement. The inability to adequately fill vacancies in our senior executive positions on a timely basis could negatively affect our ability to implement our business strategy, which could adversely impact our results of operations.

***Our business will be adversely impacted if we fail to develop, implement, maintain, upgrade, enhance, protect, and integrate our information technology systems.***

We rely heavily on our information technology systems to efficiently run our business, and they are a key component of our customer-facing and internal growth strategy. In general, we expect our customers to continue to demand more sophisticated, fully integrated information systems from their transportation and logistics providers. To keep pace with changing technologies and customer demands, we must correctly interpret and address market trends and enhance the features and functionality of our technology systems in response to these trends. This process of continuous enhancement may lead to significant ongoing technology development costs which will continue to increase if we pursue new acquisitions of companies and their current systems. In addition, we may fail to accurately determine the needs of our customers or trends in the transportation services and logistics industries or we may fail to design and implement the appropriate responsive features and functionality for our technology systems in a timely



and cost-effective manner. Any such failures could result in decreased demand for our services and a corresponding decrease in our revenues.

We must maintain and enhance the reliability and speed of our information technology systems to remain competitive and effectively handle higher volumes of freight through our network and the various service modes we offer. If our information technology systems are unable to manage additional volume for our operations as our business grows, or if such systems are not suited to manage the various service modes we offer, our service levels and operating efficiency could decline. In addition, if we fail to hire and retain qualified personnel to implement, protect, and maintain our information technology systems or if we fail to upgrade our systems to meet our customers' demands, our business and results of operations could be harmed. This could result in a loss of customers or a decline in the volume of freight we receive from customers.

***A failure of our information technology infrastructure or a breach of our information security systems, networks or processes may materially adversely affect our business.***

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our sales and marketing, accounting and financial and legal and compliance functions, communications, supply chain, order entry, and fulfillment and other business processes. We also rely on third parties and virtualized infrastructure to operate and support our information technology systems. Despite testing, external and internal risks, such as malware, code anomalies, "Acts of God," data leakage, and human error pose a direct threat to the stability or effectiveness of our information technology systems and operations. The failure of our information technology systems to perform as we anticipate has in the past, and could in the future, adversely affect our business through transaction errors, billing and invoicing errors, internal recordkeeping and reporting errors, processing inefficiencies and loss of sales, receivables collection and customers, in each case, which could result in harm to our reputation and have an ongoing adverse impact on our business, results of operations and financial condition, including after the underlying failures have been remedied.

We have been, and in the future may be, subject to cybersecurity attacks and other intentional hacking. Any failure to identify and address such defects or errors or prevent a cyber-attack could result in service interruptions, operational difficulties, loss of revenues or market share, liability to our customers or others, the diversion of corporate resources, injury to our reputation and increased service and maintenance costs. On May 30, 2018, we became aware of unauthorized access into our information technology systems, and on July 2, 2018, we became aware of additional unauthorized access, each as a result of a phishing campaign attack upon our employees. After an investigation conducted by third party forensic investigators, we discovered a significant breach and loss of information regarding a substantial portion of our ICs and employees, including, but not limited to, their names, addresses, Social Security numbers, financial account information, medical information, insurance information, and other types of identifying or sensitive information. On November 7, 2018, we were sued in a class action in the United States District Court for the Northern District of Illinois in connection with the foregoing cybersecurity attacks, alleging we failed to adequately safeguard and secure the identifying information of our employees and failed to provide timely notice as to how and when sensitive information regarding our employees had been given to unknown persons. We have referred this claim to our cybersecurity insurance provider and have obtained counsel to defend us in this suit. While we do not expect our exposure under this matter to be material, we cannot guarantee that this matter will not have a material adverse effect on our liquidity, financial condition, and results of operations.

On other occasions, we have experienced other phishing attacks, social engineering and wire fraud affecting our employees and suppliers, which has resulted in leakage of personally identifiable information and loss of funds. Addressing such issues could prove to be impossible or very costly and responding to resulting claims or liability could similarly involve substantial cost. In addition, recently, there has also been heightened regulatory and enforcement focus on data protection in the United States and abroad, and failure to comply with applicable U.S. or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties, which could harm our reputation and adversely impact our business, results of operations and financial condition.

We have invested and continue to invest in technology security initiatives, employee training, information technology risk management and disaster recovery plans. The development and maintenance of these measures is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become increasingly more sophisticated. Despite our efforts, we are not fully insulated from data breaches, technology disruptions or data loss, which could adversely impact our competitiveness and results of operations.

***Our reliance on ICs to provide transportation services to our customers could impact our operations and ability to expand.***

Our transportation services are conducted in part by ICs, who are generally responsible for paying for their own equipment, fuel, and other operating costs. Our ICs are responsible for providing the tractors and generally the trailers they use related to our business. Certain factors such as increases in fuel costs, insurance costs and the cost of new and used tractors, reduced financing sources available to ICs for the purchase of equipment, or the impact of CSA and hours-of-service rules could create a difficult operating environment for ICs. Turnover and bankruptcy among ICs in the over-the-road freight sector often limit the pool of

qualified ICs and increase the competition among carriers for their services. If we are required to increase the amounts paid to ICs in order to obtain their services, our results of operations could be adversely affected to the extent increased expenses are not offset by higher freight rates. Additionally, our agreements with our ICs are terminable by either party upon short notice and without penalty. Consequently, we regularly need to recruit qualified ICs to replace those who have left our pool. If we are unable to retain our existing ICs or recruit new ICs, our results of operations and ability to expand our business could be adversely affected.

***Our third-party carriers must meet our needs and expectations, and those of our customers, and their inability to do so could adversely affect our results of operations.***

Our business depends to a large extent on our ability to provide consistent, high quality, technology-enabled transportation and logistics solutions. We generally do not own or control the transportation assets that deliver our customers' freight, and we generally do not employ the people directly involved in delivering the freight. We rely on third parties to provide less-than-truckload, truckload and intermodal brokerage, and domestic and international air 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 customers with timely delivery of freight and important service data, as well as in the financial reporting of certain events, including recognizing revenue and recording claims. Carrier bankruptcy may also disrupt our business by delaying movement of the cargo, creating an inability to get access to equipment, and increasing our rates. If we are unable to secure sufficient transportation services to meet our customer commitments, or if any of the third parties we rely on do not meet our needs or expectations, or those of our customers, our results of operations could be adversely affected, and our customers could switch to our competitors temporarily or permanently.

***If our ICs are deemed to be employees, our business and results of operations could be adversely affected.***

We are a defendant in various purported class-action lawsuits alleging violations of various labor laws. We are a defendant in a number of purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against us alleging that we violated various California labor laws. In 2017 and 2018, we reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of December 31, 2018 and 2017, we recorded a liability for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter, and the Warren Matter (defined below) of approximately \$10.8 million and \$13.2 million, respectively, which are recorded in accrued expenses and other current liabilities.

In addition, tax and other regulatory authorities have in the past sought to assert that independent contractors in the trucking industry are employees rather than independent contractors. There can be no assurance that these authorities will not successfully assert this position against us or that tax and other laws that currently consider these persons ICs will not change. If our ICs are determined to be our employees, we would incur additional exposure under federal and state tax, workers' compensation, unemployment benefits, labor, employment, and tort laws, including for prior periods, as well as potential liability for employee benefits, tax withholdings, and penalties and interest. Our business model relies on the fact that our ICs are independent contractors and not deemed to be our employees, and exposure to any of the above factors could have an adverse effect on our business and results of operations.

California continues to present potential reclassification exposure to our Company's operations in that state, especially in light of the recent California Supreme Court decision in *Dynamix Operations West, Inc. v. Lee*, which found that the defendant's independent contractors were properly classified as employees using the ABC test. Under the ABC test, a worker is presumed to be an employee unless the business proves that (A) the worker is free from the control and direction of the hirer in connection with the performance of the work, both under the contract for the performance of such work and in fact; (B) the worker performs work that is outside the usual course of the hiring entity's business; and (C) the worker is customarily engaged in an independently established trade, occupation, or business of the same nature as the work performed for the hiring entity. However, as noted by the Court in *Dynamix*, any reclassification analysis under the ABC test is subject to the unique facts of each case and thus does not necessarily mean that our contractors in California would be reclassified as employees under California law.

If California interprets individual owner-operators to be in the same business as motor carriers, the individual owner-operators under lease to our companies would be considered employees for purposes of claims governed by wage order number 9, including minimum wage, overtime, meal and rest breaks, and wage statements. We have approximately 300 non-employee drivers in California that may be impacted by this interpretation.

***Our financial results may be adversely impacted by potential future changes in accounting practices.***

Future changes in accounting standards or practices, and related legal and regulatory interpretations of those changes, may adversely impact public companies in general, the transportation industry, or our operations specifically. New accounting standards or requirements could change the way we record revenues, expenses, assets, and/or liabilities or could be costly to implement. These types of regulations could have a negative impact on our financial position, liquidity, results of operations, and/or access to capital.

***Seasonal sales fluctuations and weather conditions could have an adverse impact on our results of operations.***

The transportation industry is subject to seasonal sales fluctuations as shipments are generally lower during and after the winter holiday season. The productivity of our carriers historically decreases during the winter season because companies have the tendency to reduce their shipments during that time and inclement weather can impede operations. At the same time, our operating expenses could increase because harsh weather can lead to increased accident frequency rates and increased claims, as well as reduced commodity production (i.e. poultry, beef, fruit, produce). These commodities and other products we transport are also subject to disease, crop failure, reduction in production quantities or adjustments to automotive model changeovers. Any of the fluctuations could have an adverse effect on our revenues. If we were to experience lower-than-expected revenue during any such period, our expenses may not be offset, which could have an adverse impact on our results of operations.

***Terrorist attacks, anti-terrorism measures, and war could have broad detrimental effects on our business operations.***

As a result of the potential for terrorist attacks, federal, state, and municipal authorities have implemented and continue to follow various security measures, including checkpoints and travel restrictions on large trucks. Such measures may reduce the productivity of our ICs or increase the costs associated with their operations, which we could be forced to bear. For example, security measures imposed at bridges, tunnels, border crossings, and other points on key trucking routes may cause delays and increase the non-driving time of our ICs, which could have an adverse effect on our results of operations. War, risk of war, or a terrorist attack also may have an adverse effect on the economy. A decline in economic activity could adversely affect our revenues or restrict our future growth. Instability in the financial markets as a result of terrorism or war also could impact our ability to raise capital. In addition, the insurance premiums charged for some or all of the coverage currently maintained by us could increase dramatically or such coverage could be unavailable in the future.

***Our Ascent business derives a portion of its revenues from inventory management, the loss of which could have a negative impact on our financial condition, results of operations, and cash flows.***

A portion of our Ascent business is involved with inventory and freight management for customers whose products are shipped to a limited number of big box retailers. Should these big box retailers change their supply chain practices and direct our customers to deliver product via another source, such change could have a negative impact on our Ascent business.

***Our international operations subject us to operational and financial risks.***

We provide transportation and logistics services to and from international locations and are, therefore, subject to risks of international business, including, but not limited to, the following:

- changes in tariffs, trade restrictions, trade agreements, and taxations;
- difficulties in managing or overseeing foreign operations and agents;
- limitations on the repatriation of funds because of foreign exchange controls;
- different liability standards; and
- intellectual property laws of countries which do not protect our rights in our intellectual property, including, but not limited to, our proprietary information systems, to the same extent as the laws of the United States.

We are also subject to compliance with the Foreign Corrupt Practices Act (“FCPA”), any sanctions administered or enforced by the Office of Foreign Assets Control of the U.S. Department of the Treasury (“OFAC”), and applicable money laundering statutes, rules, and regulations. Failure to comply with the FCPA, OFAC sanctions, money laundering statutes, and local regulations in the conduct of our international business operations may result in legal claims against us.

The occurrence or consequences of any of these factors may restrict our ability to operate in the affected region and/or decrease the profitability of our operations in that region.

As we expand our business in foreign countries, we will be exposed to increased risk of loss from foreign currency fluctuations and exchange controls as well as longer accounts receivable payment cycles. We have limited control over these risks, and if we do not correctly anticipate changes in international economic and political conditions, we may not alter our business practices in time to avoid adverse effects.

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

We may in the future be required to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, due to general economic conditions, our capital structure, any operations

difficulties which we may face, and other factors, and our failure to raise capital when needed could harm our business. Additional equity financing may dilute the interests of our stockholders, and debt financing, if available, may involve restrictive covenants and could reduce our profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures. Our ability to raise capital in the future may also be limited if our common stock were delisted from the New York Stock Exchange ("NYSE"). See "-- The NYSE could commence procedures to delist our common stock, in which case the market price of our shares might decline and become more volatile and our stockholders' ability to trade in our stock could be adversely affected."

***Our total assets include goodwill, intangibles and other long-lived assets. If we determine that these items have become impaired in the future, our earnings could be adversely affected.***

As of December 31, 2018, we had recorded goodwill of \$264.8 million and other intangible assets, net of accumulated amortization, of \$42.5 million. Goodwill represents the excess of purchase price over the estimated fair value assigned to the net tangible and identifiable intangible assets of a business acquired. Goodwill is evaluated for impairment annually or more frequently, if indicators of impairment exist. If the impairment evaluations for goodwill indicate the carrying amount exceeds the estimated fair value, an impairment loss is recognized in an amount equal to that excess. Our annual impairment evaluations of goodwill are performed at least annually as of July 1 and periodically if indicators of impairment are present.

We changed our segment reporting effective January 1, 2018 when we integrated our truckload brokerage business into the Ascent domestic freight management business. In connection with the change in segments, we conducted an impairment analysis as of January 1, 2018 and determined there was no impairment. We conducted our annual goodwill impairment analysis for each of our four reporting units as of July 1, 2018 and determined that the fair values of the TES, Domestic and International Logistics, and Warehousing & Consolidation reporting units exceeded their respective carrying values by 5.1%, 12.8%, and 112.2%, respectively; thus no impairment was indicated for these reporting units. The LTL reporting unit had no remaining goodwill as of July 1, 2018.

The sale of our wholly owned subsidiary Unitrans, Inc. ("Unitrans"), which was included in the Ascent reporting unit, resulted in an incremental impairment analysis on the remaining net assets of the Ascent reporting unit. We evaluated the remaining carrying value of the Ascent reporting unit and compared it to the fair value of the remaining businesses in the Ascent reporting unit. As a result of this evaluation, we determined the carrying value exceeded the fair value and recorded a \$4.4 million impairment charge in the third quarter of 2017.

As a result of the first step of our goodwill impairment analysis as of July 1, 2016, we determined that the fair value of the Domestic and International Logistics reporting unit exceeded its carrying value by 8.4%; thus, no impairment was indicated for this reporting unit. However, resulting from a combination of the weakened environment, the inability to meet forecast results, and the lower share price, we determined that the fair value of the TES, LTL, and Warehousing & Consolidation reporting units were less than their respective carrying values, requiring us to perform the second step of the goodwill impairment analysis for our TES, LTL, and Warehousing & Consolidation reporting units. We completed the second step of the goodwill impairment analysis for our TES, LTL, and Warehousing & Consolidation reporting units and recorded in the third quarter of 2016 non-cash goodwill impairment charges of \$132.4 million, \$197.3 million, and \$42.4 million for our TES, LTL, and Warehousing & Consolidation reporting units, respectively.

In addition, throughout the year we may update our assumptions used in the calculation of the fair value of each reporting unit. Changes to our forecasts or the discount rate and/or growth rate assumptions based on current market conditions could affect the fair value of the reporting units and result in an indication of impairment for one or more of our reporting units. If we determine that our goodwill and intangible assets in any reporting units have become impaired in the future, our results of operations could be adversely affected.

***If we are unable to expand the number of our sales representatives, or if a significant number of our existing sales representatives leave us, our ability to increase our revenue could be negatively impacted.***

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

In addition, we must retain our current sales representatives and properly incentivize them to obtain new customers and maintain existing customer relationships. If a significant number of our sales representatives leave us, our revenue could be negatively impacted. A significant increase in the turnover rate among our current sales representatives could also increase our recruiting costs and decrease our operating efficiency.

***Changes in our relationships with our significant customers, including the loss or reduction in business from one or more of them, could have an adverse impact on us.***

We had one direct customer that accounted for approximately 12% of our 2018 revenue. Our contractual relationships with customers generally are terminable at will by the customers on short notice and do not require the customer to provide any minimum commitment. Our customers could choose to divert all or a portion of their business with us to one of our competitors, demand rate reductions for our services, require us to assume greater liability that increases our costs, or develop their own logistics capabilities. Failure to retain our existing customers or enter into relationships with new customers could materially impact the growth in our business and the ability to meet our current and long-term financial forecasts.

***We are a smaller reporting company and may elect to comply with reduced public company reporting requirements applicable to smaller reporting companies, which could make our common stock less attractive to investors.***

We are a “smaller reporting company” as defined in Rule 12b-2 of the Exchange Act. As a “smaller reporting company,” we are subject to reduced disclosure obligations in our filings with the SEC compared to other issuers, including with respect to disclosure obligations regarding executive compensation in our periodic reports and proxy statements. Until such time as we cease to be a “smaller reporting company,” such reduced disclosure in our filings with the SEC may make it harder for investors to analyze our operating results and financial prospects.

If some investors find our common stock less attractive as a result of any choices to reduce future disclosure we may make, there may be a less active trading market for our common stock and our stock price may be more volatile.

***The market value of our common stock may fluctuate and could be substantially affected by various factors.***

The price of our common stock on the NYSE constantly changes and has recently experienced a general decline. We expect that the market price of our common stock will continue to fluctuate or may decline further. Our share price may fluctuate or decline as a result of a variety of factors, many of which are beyond our control. These factors include, among others:

- actual or anticipated variations in earnings, financial or operating performance, or liquidity;
- changes in analysts' recommendations or projections;
- failure to meet analysts' projections;
- general economic and capital market conditions;
- announcements of developments related to our business;
- operating and stock performance of other companies deemed to be peers;
- actions by government regulators;
- news reports of trends, concerns, and other issues related to us or our industry, including changes in regulations; and
- other factors described in this “Risk Factors” section.

Additionally, on December 27, 2018, we filed a registration statement on Form S-1 for the offer and sale of up to 7,810,625 shares of our common stock by investment funds affiliated with HCI Equity Partners (“HCI”). The sale of our common stock by HCI could impact the market price of our common stock.

Our common stock price may fluctuate or decline significantly in the future, and these changes may be unrelated to our performance. General market price declines or market volatility in the future could adversely affect the price of our common stock, and the current market price of our common stock may not be indicative of future market prices.

***The NYSE could commence procedures to delist our common stock, in which case the market price of our shares might decline and become more volatile and our stockholders' ability to trade in our stock could be adversely affected.***

The continued listing of our common stock on the NYSE is subject to our compliance with a number of quantitative listing standards, including market capitalization criteria and price per share criteria. On October 4, 2018, we received notice from the NYSE that we were not in compliance with respect to the applicable listing standard set forth in Section 802.01B of the NYSE Listed Company Manual (“Section 802.01B”), because our average global market capitalization over a consecutive 30 trading-day period was less than \$50,000,000, and at the same time stockholders' investment was less than \$50,000,000. We timely notified the NYSE that we would submit a plan within 45 calendar days from receipt of the notice, advising the NYSE of definitive action we are taking that will bring us into compliance with Section 802.01B within 18 months from receipt of the notice. We timely submitted our plan which was subsequently accepted by the NYSE. There can be no guarantee that we will regain compliance

within the 18-month cure period. If we are unable to regain compliance within the 18-month cure period, we will be subject to suspension and delisting procedures.

On October 12, 2018, we receive an additional notice from the NYSE that we were not in compliance with respect to the listing standard set forth in Section 802.01C of the NYSE Listed Company Manual (“Section 802.01C”) because the average closing price of our common stock over the previous 30 consecutive trading-day period had fallen below \$1.00 per share. We timely notified the NYSE that we intended to cure the deficiency and regain compliance with Section 802.01C within the 6-month cure period. There can be no guarantee that we will be able to regain compliance within the 6-month cure period. If we do not regain compliance with Section 802.01C, we will be subject to suspension and delisting procedures.

In addition to the above continued listing standards, if our average global market capitalization over any consecutive 30 trading-day period is less than \$15 million, the NYSE may promptly initiate procedures to suspend and delist our common stock from trading on the NYSE. As of March 5, 2019, our global market capitalization was approximately \$432 million.

If our common stock were delisted, there could be no assurance whether or when it would again be listed for trading on NYSE or any other exchange. A delisting of our common stock could negatively impact us by, among other things: reducing the liquidity and market price and increasing the volatility of our common stock, which may adversely affect the ability of stockholders to trade in our common stock; reducing the number of investors, including institutional investors, willing to hold or acquire our common stock, including institutions whose charters do not allow them to hold securities in unlisted companies, which might sell our shares, perhaps very promptly, which could negatively impact our ability to raise equity financing and have a further adverse effect on the price of our stock; decreasing the amount of news and analyst coverage of us; limiting our ability to issue additional securities, obtain additional financing or pursue strategic restructuring, refinancing or other transactions; impairing our ability to provide equity incentives to our employees; and impacting our reputation and, as a consequence, our ability to attract new business.

***Following the closing of our rights offering, Elliott beneficially owns approximately 90.4% of our common stock. As a result, our stockholders have become minority stockholders in a company controlled by Elliott. There may be very limited liquidity for our common stock, and there may be more limited opportunities for our stockholders to realize a control premium.***

On February 26, 2019, we closed our previously announced fully backstopped \$450 million rights offering, pursuant to which we issued and sold an aggregate of 900 million new shares of our common stock at the subscription price of \$0.50 per share. Elliott purchased a total of 843,632,693 shares of our common stock in the rights offering between its basic subscription rights and the backstop commitment, and following the closing of the rights offering beneficially owned approximately 90.4% of our common stock. As a result, Elliott is able to exercise substantial control over all matters requiring stockholder approval, including the election of directors, mergers, consolidations and acquisitions, the sale of all or substantially all of our assets and other decisions affecting our capital structure, the amendment of our certificate of incorporation and bylaws, and our winding up and dissolution. In addition, our stockholders approved certain corporate governance proposals at our 2018 Annual Meeting of Stockholders held on December 19, 2018. The corporate governance changes resulting from such approvals are beneficial to Elliott as such changes allow any controlling stockholder to exercise greater control over our Company than it otherwise would have. The interests of our stockholders may differ from the interests of Elliott.

Elliott is not subject to any lock-up with respect to its shares of our common stock. Elliott therefore has the ability to sell its controlling position in a privately negotiated transaction and realize a control premium for the shares of our common stock held by it if it is able to find a buyer that is willing to pay such a premium. Our stockholders should not assume that in connection with such a sale of control by Elliott there would be a concurrent offer for the shares held by other stockholders or that our stockholders would otherwise be able to realize any control premium for their shares. Additionally, if Elliott privately sells a significant equity interest in us, we may become subject to the control of a presently unknown third party. Such third party may have conflicts of interest with the interests of other stockholders.

In addition, we expect that a significant portion of the shares of our common stock held by Elliott may be pledged as part of the collateral securing certain of Elliott’s secured borrowing arrangements. Upon certain events of default, the secured lenders under these arrangements may take possession, hold, collect, sell, lease, deliver, grant options to purchase or otherwise retain, liquidate or dispose of all or any portion of the collateral. Any such enforcement action by Elliott’s secured lenders may result in a change in control of our Company. In addition, upon such events of default, the registration rights we granted to Elliott will immediately and automatically be assigned in full to the secured lenders with respect to any registrable securities held by such secured lenders. We have no obligation to maintain Elliott’s financial viability and Elliott may not remain current on its obligations under its secured borrowing arrangements.

Since Elliott now owns a significant majority of our outstanding common stock following the closing of the rights offering, the liquidity for our common stock may be adversely affected. Elliott is not required to cause the Company to maintain the listing of our common stock on the NYSE. If we were to decide to discontinue the listing of our common stock, this may further adversely affect the liquidity in our common stock. Any such reduced liquidity is likely to materially and adversely affect the trading price

for our common stock. Other actions that we may take now that we are controlled by Elliott could have additional material and adverse effects on the liquidity in our common stock and our stock price.

***We are a “controlled company” within the meaning of the NYSE listing standards. Consequently, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance rules and requirements.***

Following the closing of our rights offering, Elliott beneficially owned approximately 90.4% of our common stock. As a result, we are a controlled company within the meaning of the NYSE listing standards. Under the NYSE listing standards, a controlled company may elect to not comply with certain NYSE corporate governance standards, including the requirements that (i) a majority of the board of directors consist of independent directors, (ii) it maintain a nominating and corporate governance committee that is composed entirely of independent directors with a written charter address addressing the committee’s purpose and responsibilities, (iii) it have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee’s purpose and responsibilities, and (iv) it have an annual performance evaluation of the nominating and corporate governance and compensation committees. Although Elliott has indicated that we will not utilize these exemptions and others afforded to controlled companies, Elliott could change its intention and take advantage of the controlled company standards. Consequently, our stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the NYSE corporate governance rules and requirements. In addition, our status as a controlled company could make our common stock less attractive to some investors or otherwise harm our stock price.

***Since Elliott owns greater than 35% of our common stock after the closing of the rights offering, the acquisition of shares by Elliott in the rights offering was deemed a change in control under certain management compensation plans and agreements, which could cause a material adverse effect on our liquidity, financial condition, and results of operations. In addition, the ownership by Elliott of a substantial percentage of our common stock after the closing of the rights offering may be deemed a change in control under certain of our other arrangements and agreements with customers, suppliers, or other parties, which could cause a material adverse effect on our liquidity, financial condition, and results of operations.***

Following the closing of our rights offering, Elliott beneficially owned approximately 90.4% of our common stock, which was deemed a change in control under certain management compensation plans and agreements. A change in control under certain of our management compensation plans and agreements requires the accelerated vesting of all outstanding and unvested equity awards. In addition, upon such change in control, certain members of management are now entitled to cash-based severance payments, health and welfare benefits, and bonus payments if such members of senior management are terminated without cause or for good reason (each as defined in their respective employment agreements) within twenty-four months following the change in control. Such cash payments and benefits would be difficult for us to make given our current liquidity constraints and would further constrain our liquidity. While we have obtained waivers to these provisions from members of our senior management and directors, we have not obtained waivers from other employees and plan participants. If we are required to make any payments due to a change in control, such payments and provision of benefits could have a material adverse effect on our liquidity and financial condition.

In addition, the ownership by Elliott of a substantial percentage of our common stock after the closing of the rights offering may be deemed a change in control under certain of our other arrangements and agreements with customers, suppliers, or other parties, which could cause a material adverse effect on our liquidity, financial condition, and results of operations. We are continuing to analyze the effects, if any, such a change in control may have on any such arrangements or agreements.

***Provisions in our certificate of incorporation, our bylaws, and Delaware law could make it more difficult for a third party to acquire us, discourage a takeover, and adversely affect existing stockholders.***

Our certificate of incorporation, our bylaws, and the Delaware General Corporation Law contain provisions that may make it more difficult or delay attempts by others to obtain control of our Company, even when these attempts may be in the best interests of our stockholders. These include provisions limiting the stockholders' powers to remove directors or take action by written consent instead of at a stockholders' meeting. Our certificate of incorporation also authorizes our board of directors, without stockholder approval, to issue one or more series of preferred stock, which could have voting and conversion rights that adversely affect or dilute the voting power of the holders of common stock. On May 2, 2017, we issued shares of our preferred stock to affiliates of Elliott pursuant to the 2017 Investment Agreement. On March 1 and April 24, 2018 we issued additional shares of our preferred stock to affiliates of Elliott pursuant to the Series E-1 Investment Agreement. See Note 6 “Preferred Stock” to the consolidated financial statements in this Form 10-K for further information. In addition, our certificate of incorporation provides for our board to be divided into three classes, serving staggered terms. The classified board provision could have the effect of discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us. Delaware law also imposes conditions on the voting of “control shares” and on certain business combination transactions with “interested stockholders.”

These provisions and others that could be adopted in the future could deter unsolicited takeovers or delay or prevent changes in our control or management, including transactions in which stockholders might otherwise receive a premium for their shares over then-current market prices. These provisions may also limit the ability of stockholders to approve transactions that they may deem to be in their best interests. Further, our stockholders approved the Corporate Governance Proposals at the 2018 Annual Meeting of Stockholders held on December 19, 2018. Such provisions could make it more difficult for a third party to acquire us, discourage a takeover, and could adversely affect existing stockholders.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.



## **ITEM 2. PROPERTIES**

We lease space for our corporate headquarters in Downers Grove, Illinois, which provides our executive management team and LTL management team a central location for easier travel to both customers and geographically dispersed business locations. We also lease space in Cudahy, Wisconsin to house key business and support functions.

For our TES business, we own two and lease eight Company dispatch offices and lease five cross-dock and drop yard locations throughout the United States and Canada. We own four and lease 31 TES service centers, and own one and lease seven warehouses throughout the United States. For our LTL business, we lease 29 service centers throughout the United States. Each service center manages and is responsible for the freight that originates and delivers in its service area, and the typical service center is configured to perform origin consolidation and cross-dock functions. For our Ascent business, we own two and lease 14 locations to support our international freight forwarding and domestic 3PL business. We also lease six distribution facilities used to support our warehousing and consolidation business.

We believe that our current facilities are in good working order and are capable of supporting our operations for the foreseeable future; however, we will continue to evaluate leasing additional space as needed to accommodate our growth.

## **ITEM 3. LEGAL PROCEEDINGS**

### *Auto, Workers Compensation and General Liability Reserves*

In the ordinary course of business, we are a defendant in several legal proceedings arising out of the conduct of our business. These proceedings include claims for property damage or personal injury incurred in connection with our services. Although there can be no assurance as to the ultimate disposition of these proceedings, we do not believe, based upon the information available at this time, that these property damage or personal injury claims, in the aggregate, will have a material impact on our consolidated financial statements. We maintain insurance for auto liability, general liability, and cargo damage claims. We maintain an aggregate of \$100 million of auto liability and general liability insurance. We maintain auto liability insurance coverage for claims in excess of \$1.0 million per occurrence and cargo coverage for claims in excess of \$100,000 per occurrence. We are self-insured up to \$1.0 million per occurrence for workers compensation. We believe we have adequate insurance to cover losses in excess of our self-insured and deductible amount. As of December 31, 2018 and 2017, we had reserves for estimated uninsured losses of \$26.8 million and \$28.4 million, respectively, included in accrued expenses and other current liabilities on the consolidated balance sheets.

### *General Litigation Proceedings*

Jeffrey Cox and David Chidester filed a complaint against certain of our subsidiaries in state court in California in a post-acquisition dispute. The complaint alleges contract, statutory and tort-based claims arising out of the Central Cal Agreement. The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California's Labor Code related to the plaintiffs' respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted our motion to compel arbitration of all non-employment claims alleged in the complaint. The parties selected a settlement accountant to determine the contingent purchase obligation pursuant to the Central Cal Agreement. The settlement accountant provided a final determination that a contingent purchase obligation of \$2.1 million is due to the plaintiffs. It is our position that this contingent purchase obligation is subject to offset for certain indemnification claims owed to us by the plaintiffs ranging from approximately \$0.3 million to \$1.0 million. Accordingly, we have recorded a contingent purchase obligation liability of \$1.8 million in accrued expenses and other current liabilities. We intend to pursue indemnification and other claims as it relates to the Central Cal Matter and other related matters involving these plaintiffs. In February 2018, Plaintiff David Chidester agreed to dismiss his employment-related claims from the Los Angeles Superior Court matter, while Plaintiff Jeffrey Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. The parties are proceeding with discovery and the consolidated case is currently set for trial on November 5, 2019.

We received a letter dated April 17, 2018 from legal counsel representing Warren Communications News, Inc. ("Warren") in which Warren made certain allegations against us of copyright infringement concerning an electronic newsletter published by Warren (the "Warren Matter"). Specifically, Warren alleged that an employee of ours had, for several years, forwarded that electronic newsletter to third parties in violation of corresponding subscription agreements. After discussions with Warren, we received a second letter dated July 30, 2018 in which counsel for Warren offered to settle its claim for a monetary payment by us. We subsequently sent a counter-offer to Warren, which was rejected.

In addition to the legal proceeding described above, we are a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions

against us alleging that we violated various California labor laws. In 2017 and 2018, we reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of December 31, 2018 and 2017, we recorded a liability for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter and the Warren Matter of \$10.8 million and \$13.2 million, respectively, which are recorded in accrued expenses and other current liabilities on the consolidated balance sheets.

In December 2018, a class action lawsuit was brought against us in the Superior Court of the State of California by Fernando Gomez, on behalf of himself and other similarly situated persons, alleging violation of California labor laws. This is a new lawsuit and we are currently determining its effects. We intend to vigorously defend against such claims; however, there can be no assurance that we will be able to prevail. In light of the relatively early stage of the proceedings, we are unable to predict the potential costs or range of costs at this time.

#### *Securities Litigation Proceedings*

Following our press release on January 30, 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against us and our former officers, Mark A. DiBlasi and Peter R. Armbruster. On May 19, 2017, the Court consolidated the actions under the caption *In re Roadrunner Transportation Systems, Inc. Securities Litigation* (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed the CAC on behalf of a class of persons who purchased our common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC alleges (i) we and Messrs. DiBlasi and Armbruster violated Section 10(b) of the Exchange Act and Rule 10b-5, and (ii) Messrs. DiBlasi and Armbruster, our former Chairman Scott Rued, HCI Equity Partners, L.L.C., and HCI Equity Management, L.P. violated Section 20(a) of the Exchange Act, by making or causing to be made materially false or misleading statements, or failing to disclose material facts, regarding (a) the accuracy of our financial statements; (b) our true earnings and expenses; (c) the effectiveness of our disclosure controls and controls over financial reporting; (d) the true nature and depth of financial risk associated with our tractor lease guaranty program; (e) our leverage ratios and compliance with our credit facilities; and (f) the value of the goodwill we carried on our balance sheet. The CAC seeks certification as a class action, compensatory damages, and attorney's fees and costs. On November 19, 2018, the parties entered into a binding term sheet agreeing to settle the action for \$20 million, \$17.9 million of which will be funded by our D&O carriers (\$4.8 million of which is by way of a pass through of the D&O carriers' payment to us in connection with the settlement of the Federal Derivative Action described below). The parties are finalizing the Stipulation of Settlement. The settlement is conditioned on a settlement of the Federal Derivative Action described below, dismissal of the State Derivative Action described below, and final court approval of the settlements in this action and in the Federal Derivative Action.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on our behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi, Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vijums, Michael Ward, Chad Utrup, Ivor Evans, Peter Armbruster, and Brian van Helden (the "State Derivative Action"). Count I of the complaint alleges the Director Defendants breached their fiduciary duties by "knowingly failing to ensure that the Company implemented and maintained adequate internal controls over its accounting and financial reporting functions," and seeks unspecified damages. Count II of the complaint alleges the Officer Defendants DiBlasi, Armbruster, and van Helden received substantial performance-based compensation and bonuses for fiscal year 2014 that should be disgorged. The action has been stayed pending the District Court's approval of the proposed settlement of the Federal Derivative Action, following which the defendants would move to dismiss this action as moot. While the case was stayed, the plaintiff obtained permission to file an amended complaint adding claims against two former Company employees: Bret Naggs and Mark Wogsland.

On June 28, 2017, Jesse Kent filed a complaint alleging derivative claims on our behalf and class action claims in the United States District Court for the Eastern District of Wisconsin. On December 22, 2017, Chester County Employees Retirement Fund filed a complaint alleging derivative claims on our behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption *Kent v. Stoelting et al* (Case No. 17-cv-00893) (the "Federal Derivative Action"). On March 28, 2018, plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on our behalf against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vijums, and Michael Ward. Count I alleges that several of the defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 based upon alleged misrepresentations and omissions in several of our proxy statements. Count II alleges that all the defendants breached their fiduciary duty. Count III alleges that all the defendants wasted corporate assets. Count IV alleges that certain of the defendants were unjustly enriched. The complaint seeks monetary damages, improvements to our corporate governance and internal procedures, an accounting from defendants of the damages allegedly caused by them and the improper amounts the Defendants allegedly obtained, and punitive damages. The parties are currently finalizing the terms of a Stipulation of Settlement, which provides for certain corporate governance changes and a \$6.9 million payment, \$4.8 million of which will be paid by our D&O carriers into an escrow account to be used by us to settle the class action described above and \$2.1 million of which will be paid by our D&O carriers to cover plaintiffs attorney's fees and expenses, subject to court approval.

Given the status of the matters above, we concluded in 2018 that a liability is probable and recorded the estimate loss of \$22 million and a corresponding insurance reimbursement receivable of \$20 million.

In addition, subsequent to our announcement that certain previously filed financial statements should not be relied upon, we were contacted by the SEC, FINRA, and the DOJ. The DOJ and Division of Enforcement of the SEC have commenced investigations into the events giving rise to the restatement. We have received formal requests for documents and other information. In addition, in June 2018 two of our former employees were indicted on charges of conspiracy, securities fraud, and wire fraud as part of the ongoing DOJ and SEC investigation. We are cooperating fully with the joint DOJ and SEC investigation. Given the status of this matter, we are unable to reasonably estimate the potential costs or range of costs at this time.

**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 on Common Stock

Our common stock has been trading on the NYSE under the symbol "RRTS" since May 13, 2010. Prior to that time, there was no public market for our common stock.

The continued listing of our common stock on the NYSE is subject to our compliance with a number of quantitative listing standards, including market capitalization criteria and price per share criteria.

On October 4, 2018, we received notice from the NYSE that we were not in compliance because our average global market capitalization over a consecutive 30 trading-day period was less than \$50,000,000, and at the same time stockholders' investment was less than \$50,000,000. We timely notified the NYSE that we would submit a plan within 45 calendar days from receipt of the notice, advising the NYSE of definitive action we are taking that will bring us into compliance within 18 months from receipt of the notice. We timely submitted our plan which was subsequently accepted by the NYSE. There can be no guarantee that we will regain compliance within the 18-month cure period. If we are unable to regain compliance within the 18-month cure period, we will be subject to suspension and delisting procedures.

On October 12, 2018, we received an additional notice from the NYSE that we were not in compliance because the average closing price of our common stock over the previous 30 consecutive trading-day period had fallen below \$1.00 per share. We timely notified the NYSE that we intended to cure the deficiency and regain compliance within the 6-month cure period. There can be no guarantee that we will be able to regain compliance within the 6-month cure period. If we do not regain compliance, we will be subject to suspension and delisting procedures. In addition to the above continued listing standards, if our average global market capitalization over any consecutive 30 trading-day period is less than \$15 million, the NYSE may promptly initiate procedures to suspend and delist our common stock from trading on the NYSE.

#### Stockholders

As of March 5, 2019, there were 127 holders of record of our common stock and the closing price of our common stock as reported on the NYSE was \$0.46 per share.

#### Unregistered Sales of Equity Securities

From October 1, 2018 to December 31, 2018, we issued and sold 379,572 shares of common stock that were not registered under the Securities Act pursuant to the exercise of warrants to purchase common stock at an exercise price of \$0.01, for an aggregate amount of \$3,796. The issuance and sale of these shares was exempt from registration under the Securities Act in reliance upon Section 4(a)(2) of the Securities Act (or Regulation D promulgated thereunder) as a transaction by an issuer not involving any public offering.

#### Dividends

We have never declared or paid cash dividends on our common stock. We currently plan to retain any earnings to finance the growth of our business rather than to pay cash dividends on our common stock. Payments of any cash dividends on our common stock in the future will depend on our financial condition, results of operations, and capital requirements, as well as other factors deemed relevant by our board of directors. Our ABL Credit Facility and Term Loan Credit Facility restrict us from paying dividends on our common stock unless certain payment conditions are satisfied.

#### Equity Compensation Plan Information

For equity compensation plan information, refer to Item 12 in Part III of this Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA**

The following tables present selected financial data for each fiscal year in the five-year period ended December 31, 2018. The selected financial data below should be read in conjunction with Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” and our consolidated financial statements and related notes contained elsewhere in this Form 10-K, including Note 3 “Acquisitions and Divestitures” thereto. The consolidated statement of operations data includes the results of operations of our divested companies through the date of divestiture.

We have derived the consolidated statements of operations and other data for the years ended December 31, 2018, 2017, and 2016 and the consolidated balance sheet data as of December 31, 2018 and 2017 from our audited consolidated financial statements included elsewhere in this Form 10-K. We have derived the consolidated statements of operations data and other data for the years ended December 31, 2015 and 2014 and the consolidated balance sheet data as of December 31, 2016, 2015, and 2014 from our Annual Report on Form 10-K for the year ended December 31, 2017. Our historical results are not necessarily indicative of the results that should be expected in the future and the selected financial data is not intended to replace the consolidated financial statements and related notes included elsewhere in this Form 10-K.

**CONSOLIDATED STATEMENTS OF OPERATIONS DATA**

(In thousands, except per share amounts)

	Year Ended December 31,				
	2018	2017	2016	2015	2014
<b>Consolidated Statement of Operations Data:</b>					
Revenues	\$ 2,216,141	\$ 2,091,291	\$ 2,033,200	\$ 1,992,166	\$ 1,872,470
Purchased transportation costs	1,518,415	1,430,378	1,364,055	1,310,396	1,294,724
Personnel and related benefits	309,753	296,925	286,134	263,254	213,661
Other operating expenses	397,468	393,731	374,979	323,955	271,210
Depreciation and amortization	42,767	37,747	38,145	31,626	24,254
Impairment charges	1,582	4,402	373,661	—	—
Gain on sale of Unitrans	—	(35,440)	—	—	—
Acquisition transaction expenses	—	—	—	564	2,305
Operations restructuring costs	4,655	—	—	—	—
Operating (loss) income	(58,499)	(36,452)	(403,774)	62,371	66,316
Interest on debt	11,224	14,345	22,827	19,439	13,363
Interest on preferred stock	105,688	49,704	—	—	—
Loss on debt extinguishment	—	15,876	—	—	—
(Loss) income before (benefit from) provision for income taxes	(175,411)	(116,377)	(426,601)	42,932	52,953
(Benefit from) provision for income taxes	(9,814)	(25,191)	(66,281)	17,312	20,243
Net (loss) income	\$ (165,597)	\$ (91,186)	\$ (360,320)	\$ 25,620	\$ 32,710
<b>(Loss) earnings per share:</b>					
Basic	\$ (4.30)	\$ (2.37)	\$ (9.40)	\$ 0.67	\$ 0.86
Diluted	\$ (4.30)	\$ (2.37)	\$ (9.40)	\$ 0.65	\$ 0.83
<b>Weighted average common stock outstanding:</b>					
Basic	38,552	38,405	38,318	38,179	37,852
Diluted	38,552	38,405	38,318	39,180	39,259

## CONSOLIDATED BALANCE SHEET DATA

(in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Total assets	\$ 853,457	\$ 876,043	\$ 933,554	\$ 1,307,753	\$ 1,250,638
Adjusted working capital <sup>(1)</sup>	79,853	123,469	138,692	153,626	155,950
Total debt (including current maturities)	168,767	199,410	445,589	432,830	423,945
Preferred stock	402,884	263,317	—	—	—
Capital lease obligation	50,966	9,565	6,245	12,464	1,730
Total stockholders' (deficit) investment	(52,155)	110,847	197,468	556,439	524,287

<sup>(1)</sup> Adjusted working capital, calculated as current assets less current liabilities, excluding current maturities of debt and short-term capital lease obligations, is not a financial measure presented in accordance with GAAP. Our management uses adjusted working capital to evaluate how well short-term assets and liabilities are being utilized to run our operations. Our calculation of adjusted working capital excludes current maturities of debt and short-term capital lease obligations (i.e. financing items) from the traditional measure of working capital. Management believes adjusted working capital provides useful supplemental information for investors since it relates purely to the operational aspects of our business. The following is a reconciliation of adjusted working capital from current assets:

(in thousands)

	December 31,				
	2018	2017	2016	2015	2014
Current assets	\$ 351,038	\$ 398,386	\$ 374,487	\$ 346,564	\$ 349,139
Less: Current liabilities	297,585	287,264	684,037	630,918	617,367
Plus: Short-term capital lease obligation	13,229	2,397	2,653	5,150	233
Plus: Current maturities of debt	13,171	9,950	445,589	432,830	423,945
Adjusted working capital	<u>\$ 79,853</u>	<u>\$ 123,469</u>	<u>\$ 138,692</u>	<u>\$ 153,626</u>	<u>\$ 155,950</u>

### ADJUSTED EBITDA

The following is a reconciliation of Adjusted EBITDA from net (loss) income:

	Year Ended December 31,				
	2018	2017 <sup>(1)</sup>	2016 <sup>(1)</sup>	2015 <sup>(1)</sup>	2014 <sup>(1)</sup>
Net (loss) income	\$ (165,597)	\$ (91,186)	\$ (360,320)	\$ 25,620	\$ 32,710
Plus: Total interest expense	116,912	64,049	22,827	19,439	13,363
Plus: (Benefit from) provision for income taxes	(9,814)	(25,191)	(66,281)	17,312	20,243
Plus: Depreciation and amortization	42,767	37,747	38,145	31,626	24,254
Plus: Impairment charges	1,582	4,402	373,661	—	—
Plus: Long-term incentive compensation expenses	2,696	2,450	2,232	2,500	2,255
Plus: Gain on sale of Unitrans	—	(35,440)	—	—	—
Plus: Loss on debt extinguishments	—	15,876	—	—	—
Plus: Corporate restructuring and restatement costs	22,224	32,321	—	—	—
Plus: Operations restructuring costs	4,655	—	—	—	—
Plus: Adjustments for contingent purchase obligations	1,840	—	(2,458)	(2,931)	(1,722)
Adjusted EBITDA <sup>(2)</sup>	<u>\$ 17,265</u>	<u>\$ 5,028</u>	<u>\$ 7,806</u>	<u>\$ 93,566</u>	<u>\$ 91,103</u>

<sup>(1)</sup> Adjusted EBITDA for the years ended December 31, 2017, 2016, 2015 and 2014 included Adjusted EBITDA from Unitrans, which was divested in September of 2017, of \$6.6 million, \$9.3 million, \$9.8 million, \$7.7 million, respectively.

<sup>(2)</sup> EBITDA represents earnings before interest, taxes, depreciation and amortization. We use Adjusted EBITDA, which excludes impairment and other non-cash gains and losses, long-term incentive compensation expenses, losses from debt extinguishments, corporate restructuring and restatement costs associated with legal matters (including our internal investigation, SEC compliance, and debt restructuring costs), operations restructuring costs, and adjustments to contingent purchase obligations, as a supplemental measure in evaluating our operating performance and when determining executive incentive compensation. We believe Adjusted EBITDA is useful to investors in evaluating our performance compared to other companies in our industry because it assists in analyzing and benchmarking the performance and value of a business. The calculation of Adjusted EBITDA eliminates the effects of financing, income taxes, impairments, and the accounting effects of capital spending. These items may vary for different companies for reasons unrelated to the overall operating performance of a company's business. Adjusted EBITDA is not a financial measure presented in accordance with GAAP. Although our management uses Adjusted EBITDA as a financial measure to assess the performance of our business compared to that of others in our industry, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, future requirements for capital expenditures, or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt or dividend payments on our preferred stock;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our results of operations under GAAP. See the consolidated statements of operations included in our consolidated financial statements included elsewhere in this Form 10-K.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis presents our operating results for each of our three most recent fiscal years and our financial condition as of December 31, 2018. You should read the following discussion and analysis in conjunction with "Selected Financial Data" and our consolidated financial statements and related notes contained elsewhere in this Form 10-K. This discussion and analysis of our financial condition and results of operations also contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those set forth under Item 1A. "Risk Factors."

### Overview

We are a leading asset-right transportation and asset-light logistics service provider offering a full suite of solutions under the Roadrunner, Active On-Demand and Ascent Global Logistics brands. The Roadrunner brand offers less-than-truckload, temperature controlled and intermodal services. Active On-Demand offers premium mission critical air and ground transportation solutions. Ascent Global Logistics offers domestic freight management and brokerage, warehousing and retail consolidation, international freight forwarding, and customs brokerage. We serve a diverse customer base in terms of end-market focus and annual freight expenditures. We are headquartered in Downers Grove, Illinois with operations primarily in the United States.

Effective January 1, 2018, we changed our segment reporting when we integrated our truckload brokerage business into our Ascent domestic freight management business. Segment information for prior periods has been revised to align with the new segment structure. Our three segments are as follows:

*Truckload & Express Services.* Within our TES segment we serve customers throughout North America. We provide air and ground expedite services, scheduled truckload services, intermodal services, temperature-controlled truckload services, and other truckload and logistics operations services. We specialize in the transport of automotive and industrial parts, frozen and refrigerated foods including dairy, poultry and meat, and consumer products including foods and beverages. Our Active On-Demand ground and air expedited services business features proprietary bid technology supported by our fleets of ground and air assets. Roadrunner Intermodal Services and Roadrunner Temperature Controlled businesses provide specialized truckload services to beneficial cargo owners and freight management partners and brokers. We believe this array of technology, services, and specialization best serves our customers and provides us with more consistent shipping volumes in any given year.

*Less-than-Truckload.* Our LTL segment involves the pickup, consolidation, linehaul, deconsolidation, and delivery of LTL shipments throughout the United States and parts of Canada. With a large network of LTL service centers and third-party pick-up and delivery agents, we are designed to provide customers with high reliability at an economical cost. We generally employ a point-to-point LTL model that we believe serves as a competitive advantage over the traditional hub and spoke LTL model in terms of lower incidence of damage and reduced fuel consumption.

*Ascent Global Logistics.* Within our Ascent segment, we offer a full portfolio of domestic and international transportation and logistics solutions, including access to cost-effective and time-sensitive modes of transportation within our broad network. Ascent provides domestic freight management solutions including asset-backed truckload brokerage, specialized/heavy haul, LTL shipment execution, LTL carrier rate negotiations, access to our TMS and freight audit/payment. Ascent also provides clients with international freight forwarding, customs brokerage, regulatory compliance services and project management. We also specialize in retail consolidation, with approximately 2.3 million square feet of our own food-grade warehousing space (both dry and temperature controlled) and full truckload consolidation to retailers to improve OTIF compliance. We serve our customers through either our direct sales force or through a network of independent agents. Our customized Ascent offerings are designed to allow our customers to reduce operating costs, redirect resources to core competencies, improve supply chain efficiency, and enhance customer service.

### Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires that we make estimates and assumptions. In certain circumstances, those estimates and assumptions can affect amounts reported in the accompanying consolidated financial statements and notes. In preparing our financial statements, we have made our best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable. Application of the accounting policies described below involves the exercise of judgment and use of assumptions as to future uncertainties and, as a result, actual results could differ from these estimates. The following is a brief discussion of our critical accounting policies and estimates.



## Goodwill and Other Intangibles

Goodwill represents the excess of the purchase price of all acquisitions over the estimated fair value of the net assets acquired. We evaluate goodwill and intangible assets for impairment at least annually on July 1st or more frequently whenever events or changes in circumstances indicate that the asset may be impaired, or in the case of goodwill, the fair value of the reporting unit is below its carrying amount. The analysis of potential impairment of goodwill requires us to compare the estimated fair value at each of its reporting units to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds the estimated fair value of the reporting unit, a non-cash goodwill impairment loss is recognized as an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

For purposes of the impairment analysis, the fair value of our reporting units is estimated based upon an average of the market approach and the income approach, both of which incorporate numerous assumptions and estimates such as company forecasts, discount rates and growth rates, among others. The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires us to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums appropriate for acquisitions in the industries in which we compete, the discount rate, terminal growth rates, and forecasts of revenue, operating income, and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships and property and equipment. Although we believe our estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of our stock may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

We have four reporting units for our three segments: one reporting unit for our TES segment; one reporting unit for our LTL segment; and two reporting units for our Ascent segment, which are the Domestic and International Logistics reporting unit and the Warehousing & Consolidation reporting unit.

In connection with the change in segments, we conducted an impairment analysis as of January 1, 2018 and determined there was no impairment. We also conducted our annual goodwill impairment analysis for each of our four reporting units as of July 1, 2018 and determined that the fair values of the TES, Domestic and International Logistics, and Warehousing & Consolidation reporting units exceeded their respective carrying values by 5.1%, 12.8%, and 112.2%, respectively; thus no impairment was indicated for these reporting units. The LTL reporting unit had no remaining goodwill as of July 1, 2018.

The table below provides a sensitivity analysis for the TES, Domestic and International Logistics, and Warehousing & Consolidation reporting units, which shows the estimated fair value impacts related to a 50-basis point increase or decrease in the discount and long-term growth rates used in the valuation as of July 1, 2018.

	Approximate Percent Change in Estimated Fair Value	
	+/- 50 bps Discount Rate	+/- 50bps Growth Rate
TES reporting unit	(5.4%) / 5.0%	3.6% / (3.2%)
Domestic and International Logistics reporting unit	(5.6%) / 4.9%	3.5% / (2.8%)
Warehousing & Consolidation reporting unit	(4.3%) / 4.3%	3.1% / (3.1%)

The sale of Unitrans, which was included in the Domestic and International Logistics reporting unit, resulted in an incremental impairment analysis on the remaining net assets of the Domestic and International Logistics reporting unit. We evaluated the remaining carrying value of the Domestic and International Logistics reporting unit and compared it to the fair value of the remaining businesses in the Domestic and International Logistics reporting unit. As a result of this evaluation, we determined the carrying value exceeded the fair value and recorded a \$4.4 million impairment charge in the third quarter of 2017 within our Ascent segment.

As a result of the first step of our goodwill impairment analysis as of July 1, 2016, we determined that the fair value of the Domestic and International Logistics reporting unit exceeded its carrying value by 8.4%; thus, no impairment was indicated for this reporting unit. However, resulting from a combination of the weakened environment, the inability to meet forecast results, and the lower share price, we determined that the fair value of the TES, LTL, and Warehousing & Consolidation reporting units were less than their respective carrying values, requiring us to perform the second step of the goodwill impairment analysis for our TES, LTL, and Warehousing & Consolidation reporting units. We completed the second step of the goodwill impairment analysis for our TES, LTL, and Warehousing & Consolidation reporting units and recorded in the third quarter of 2016 non-cash goodwill impairment

charges of \$132.4 million, \$197.3 million, and \$42.4 million for our TES, LTL, and Warehousing & Consolidation reporting units, respectively.

Other intangible assets recorded consist primarily of definite lived customer relationships. We evaluate our other intangible assets for impairment when current facts or circumstances indicate that the carrying value of the assets to be held and used may not be recoverable. Indicators of impairment were identified in connection with the shut-down of one of our business operations within the TES segment and as a result, \$1.6 million of non-cash impairment charges were recorded in the fourth quarter of 2016. We identified indicators of impairment with certain other business operations and performed the required impairment analysis, but no impairment was identified.

#### *Revenue Recognition (effective January 1, 2018)*

Our revenues are primarily derived from transportation services which includes providing freight and carrier services both domestically and internationally via land, air, and sea. We disaggregate revenue among our three segments, TES, LTL and Ascent, as presented in Note 15, Segment Reporting, to our consolidated financial statements.

**Performance Obligations** - A performance obligation is created once a customer agreement with an agreed upon transaction price exists. The terms and conditions of our agreements with customers are generally consistent within each segment. The transaction price is typically fixed and determinable and is not contingent upon the occurrence or non-occurrence of any other event. The transaction price is generally due 30 to 60 days from the date of invoice. Our transportation service is a promise to move freight to a customer's destination, with the transit period typically being less than one week. We view the transportation service we provide to our customers as a single performance obligation. This performance obligation is satisfied and recognized in revenue over the requisite transit period as the customer's goods move from origin to destination. We determine the period to recognize revenue in transit based upon the departure date and the delivery date, which may be estimated if delivery has not occurred as of the reporting date. Determining the transit period and the percentage of completion as of the reporting date requires management to make judgments that affect the timing of revenue recognized. We have determined that revenue recognition over the transit period provides a reasonable estimate of the transfer of goods and services to our customers as our obligation is performed over the transit period.

**Principal vs. Agent Considerations** - We utilize independent contractors and third-party carriers in the performance of some transportation services. We evaluate whether our performance obligation is a promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. Our evaluation determined that we are in control of establishing the transaction price, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on our evaluation of the control model, we determined that all of our major businesses act as the principal rather than the agent within their revenue arrangements and such revenues are reported on a gross basis.

**Contract Balances and Costs** - We apply the practical expedient in Topic 606 that permits us to not disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of the end of the period as our contracts have an expected length of one year or less. We also apply the practical expedient in Topic 606 that permits the recognition of incremental costs of obtaining contracts as an expense when incurred if the amortization period of such costs is one year or less. These costs are included in purchased transportation costs in the consolidated financial statements.

#### *Self-Insurance Accruals*

We use a combination of purchased insurance and self-insurance programs to provide for the cost of auto liability, cargo damage, workers' compensation claims, and benefits paid under employee health care programs. Insurance reserves are established for estimates of the loss that we will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported. Recorded balances are based on reserve levels, which incorporate historical loss experience and judgments about the present and expected levels of cost per claim. We believe our estimated reserves for such claims are adequate, but actual experience in claim frequency and/or severity could materially differ from our estimates and affect our results of operations. We have engaged a third-party actuary to review our incurred but not yet reported reserves and development factors to ensure they are appropriate.

A number of factors can affect the actual cost of a claim, including the length of time the claim remains open, trends in health care costs, accident frequency and severity, and the results of related litigation. Furthermore, claims may emerge in future years for events that occurred in a prior year at a rate that differs from previous projections. All of these factors can result in revisions to prior projections and produce a material difference between estimated and actual costs.

### *Accounts Receivable and Related Reserves*

Accounts receivable are uncollateralized customer obligations due under normal trade terms. We extend credit to certain customers in the ordinary course of business based on the customer's credit history. 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 customer collection matters. Accounts receivable are charged off against the allowance for doubtful accounts when it is determined that the receivable is uncollectible.

### *Preferred Stock*

We have elected to measure our preferred stock at fair value pursuant to ASC 820, Fair Value Measurement. The fair value of the preferred stock is the estimated amount that would be paid to redeem the liability in an orderly transaction between market participants at the measurement date. We calculate the fair value of:

- the Series B Preferred Stock using a lattice model that takes into consideration our call right on the instrument based on simulated future interest rates;
- the Series C Preferred Stock using a lattice model that takes into consideration the future redemption value on the instrument, which is tied to our stock price;
- the Series D Preferred Stock using a static discounted cash flow approach, where the expected redemption value of the instrument is based on the value of our stock as of the measurement date grown at the risk-free rate; and
- the Series E and E-1 Preferred Stock via application of both (i) a static discounted cash flow approach and (ii) a lattice model that takes into consideration our call right on this instrument based on simulated future interest rates.

These valuations are considered to be Level 3 fair value measurements as the significant inputs are unobservable and require significant management judgment or estimation. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, our estimates are not necessarily indicative of the amounts that we, or holders of the instruments, could realize in a current market exchange. Significant assumptions used in the fair value models include: the estimates of the redemption dates; credit spreads; dividend payments; and the market price of our common stock. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

### **Rights Offering**

On February 26, 2019, we closed our previously announced fully backstopped \$450 million rights offering, pursuant to which we issued and sold an aggregate of 900 million new shares of our common stock at the subscription price of \$0.50 per share. The net proceeds from the rights offering and backstop commitment were used to, among other things, fully redeem the outstanding shares of our preferred stock and to pay related accrued and unpaid dividends. See Note 17 to our consolidated financial statements included elsewhere in this Form 10-K for additional information

### **Sale of Unitrans**

On September 15, 2017, we completed the sale of Unitrans. We received net proceeds of \$88.5 million and recognized a gain of \$35.4 million. Proceeds from the sale were used primarily to redeem a portion of the Series E Preferred Stock and to provide funding for operations. The results of operations and financial condition of Unitrans have been included in our consolidated financial statements within our Ascent segment until the date of sale.

## Results of Operations

The following tables set forth, for the periods indicated, summary TES, LTL, Ascent, corporate, and consolidated statement of operations data. Such revenue data for our TES, LTL, and Ascent segments are expressed as a percentage of consolidated revenues. Other statement of operations data for our TES, LTL, and Ascent segments are expressed as a percentage of segment revenues. We have also provided a reconciliation of net loss to Adjusted EBITDA and provided Adjusted EBITDA for TES, LTL, Ascent, and corporate for the periods indicated.

(In thousands, except for %'s)

	Year ended December 31, 2018							
	TES	%	LTL	%	Ascent	%	Corporate/ Eliminations	Total
<b>Revenues</b>	\$ 1,207,677	54.5%	\$ 452,281	20.4 %	\$ 573,072	25.9%	\$ (16,889)	\$ 2,216,141
<b>Operating expenses:</b>								
Purchased transportation costs	791,237	65.5%	323,019	71.4 %	421,048	73.5%	(16,889)	1,518,415
Personnel and related benefits	160,547	13.3%	70,551	15.6 %	52,273	9.1%	26,382	309,753
Other operating expenses <sup>(1)</sup>	223,407	18.5%	81,749	18.1 %	66,237	11.6%	30,730	402,123
Depreciation and amortization	28,807	2.4%	3,854	0.9 %	5,049	0.9%	5,057	42,767
Impairment charges	1,582	0.1%	—	— %	—	—%	—	1,582
Total operating expenses	1,205,580	99.8%	479,173	105.9 %	544,607	95.0%	45,280	2,274,640
<b>Operating income (loss)</b>	2,097	0.2%	(26,892)	(5.9)%	28,465	5.0%	(62,169)	(58,499)
Total interest expense								116,912
Loss before income taxes								(175,411)
<b>Benefit from income taxes</b>								(9,814)
Net loss								\$ (165,597)

(In thousands)

	Year ended December 31, 2018				
	TES	LTL	Ascent	Corporate/ Eliminations	Total
Net (loss) income	\$ 1,782	\$ (27,009)	\$ 28,226	\$ (168,596)	\$ (165,597)
Plus: Total interest expense	315	117	108	116,372	116,912
Plus: Benefit from income taxes	—	—	131	(9,945)	(9,814)
Plus: Depreciation and amortization	28,807	3,854	5,049	5,057	42,767
Plus: Fleet impairment charges	1,582	—	—	—	1,582
Plus: Long-term incentive compensation expenses	—	—	—	2,696	2,696
Plus: Operations restructuring costs	4,655	—	—	—	4,655
Plus: Corporate restructuring and restatement costs	—	—	—	22,224	22,224
Plus: Adjustments for contingent purchase obligation	—	—	—	1,840	1,840
Adjusted EBITDA <sup>(3)</sup>	\$ 37,141	\$ (23,038)	\$ 33,514	\$ (30,352)	\$ 17,265

(In thousands, except for %'s)

Year ended December 31, 2017

	TES	%	LTL	%	Ascent	%	Corporate/ Eliminations	Total
<b>Revenues</b>	\$ 1,067,145	51.0%	\$ 463,519	22.2 %	\$ 570,223	27.3%	\$ (9,596)	\$ 2,091,291
<b>Operating expenses:</b>								
Purchased transportation costs	690,620	64.7%	331,177	71.4 %	418,170	73.3%	(9,589)	1,430,378
Personnel and related benefits	150,581	14.1%	70,521	15.2 %	58,196	10.2%	17,627	296,925
Other operating expenses <sup>(2)</sup>	194,420	18.2%	83,851	18.1 %	60,997	10.7%	19,023	358,291
Depreciation and amortization	25,535	2.4%	4,353	0.9 %	5,965	1.0%	1,894	37,747
Impairment charges	—	—%	—	—%	4,402	0.8%	—	4,402
Total operating expenses	1,061,156	99.4%	489,902	105.7 %	547,730	96.1%	28,955	2,127,743
<b>Operating income (loss)</b>	5,989	0.6%	(26,383)	(5.7)%	22,493	3.9%	(38,551)	(36,452)
Total interest expense								64,049
Loss on early extinguishment of debt								15,876
Loss before income taxes								(116,377)
<b>Benefit from income taxes</b>								(25,191)
Net loss								\$ (91,186)

(In thousands)

Year ended December 31, 2017

	TES	LTL	Ascent	Corporate/ Eliminations	Total	Less: Unitrans	Total w/o Unitrans
Net (loss) income	\$ 6,033	\$ (26,578)	\$ 22,350	\$ (92,991)	\$ (91,186)	\$ 3,497	\$ (94,683)
Plus: Total interest expense	(44)	195	143	63,755	64,049	—	64,049
Plus: Benefit from income taxes	—	—	—	(25,191)	(25,191)	2,295	(27,486)
Plus: Depreciation and amortization	25,535	4,353	5,965	1,894	37,747	819	36,928
Plus: Impairment charges	—	—	4,402	—	4,402	—	4,402
Plus: Long-term incentive compensation expenses	—	—	—	2,450	2,450	—	2,450
Plus: Gain on sale of Unitrans	—	—	—	(35,440)	(35,440)	—	(35,440)
Plus: Loss on debt extinguishments	—	—	—	15,876	15,876	—	15,876
Plus: Corporate restructuring and restatement costs	—	—	—	32,321	32,321	—	32,321
Adjusted EBITDA <sup>(3)</sup>	\$ 31,524	\$ (22,030)	\$ 32,860	\$ (37,326)	\$ 5,028	\$ 6,611	\$ (1,583)

Note: Adjusted EBITDA for the Ascent segment for the year ended December 31, 2017, excluding Unitrans, was \$26.2 million.

(In thousands, except for %'s)

Year ended December 31, 2016

	TES	%	LTL	%	Ascent	%	Corporate/ Eliminations	Total
<b>Revenues</b>	\$ 990,665	48.7 %	\$ 461,540	22.7 %	\$ 597,159	29.4%	\$ (16,164)	\$ 2,033,200
<b>Operating expenses:</b>								
Purchased transportation costs	613,847	62.0 %	320,439	69.4 %	445,935	74.7%	(16,166)	1,364,055
Personnel and related benefits	146,494	14.8 %	67,663	14.7 %	59,648	10.0%	12,329	286,134
Other operating expenses	187,009	18.9 %	75,674	16.4 %	70,675	11.8%	41,621	374,979
Depreciation and amortization	25,872	2.6 %	4,052	0.9 %	6,688	1.1%	1,533	38,145
Impairment charges	133,988	13.5 %	197,312	42.8 %	42,361	7.1%	—	373,661
Total operating expenses	1,107,210	111.8 %	665,140	144.1 %	625,307	104.7%	39,317	2,436,974
<b>Operating income (loss)</b>	(116,545)	(0.3)%	(203,600)	(4.4)%	(28,148)	5.1%	(55,481)	(403,774)
Total interest expense								22,827
Loss before income taxes								(426,601)
<b>Benefit from income taxes</b>								(66,281)
Net loss								\$ (360,320)

(In thousands)

Year ended December 31, 2016

	TES	LTL	Ascent	Corporate/ Eliminations	Total	Less: Unitrans	Total w/o Unitrans
Net (loss) income	\$ (116,482)	\$ (203,882)	\$ (28,300)	\$ (11,656)	\$ (360,320)	\$ 5,025	\$ (365,345)
Plus: Total interest expense	(63)	282	152	22,456	22,827	—	22,827
Plus: (Benefit from) provision for income taxes	—	—	—	(66,281)	(66,281)	3,106	(69,387)
Plus: Depreciation and amortization	25,872	4,052	6,688	1,533	38,145	1,150	36,995
Plus: Impairment charges	133,988	197,312	42,361	—	373,661	—	373,661
Plus: Long-term incentive compensation expenses	—	—	—	2,232	2,232	—	2,232
Plus: Adjustments for contingent purchase obligation	(2,458)	—	—	—	(2,458)	—	(2,458)
Adjusted EBITDA <sup>(3)</sup>	\$ 40,857	\$ (2,236)	\$ 20,901	\$ (51,716)	\$ 7,806	\$ 9,281	\$ (1,475)

Note: Adjusted EBITDA for the Ascent segment for the year ended December 31, 2016, excluding Unitrans, was \$11.6 million.

(1) Operations restructuring costs of \$4.7 million are included in other operating expenses within the TES segment. See Note 16 to our consolidated financial statements included elsewhere in this Form 10-K for additional information.

(2) The gain from sale of Unitrans of \$35.4 million is included in other operating expenses within Corporate. See Note 3 to our consolidated financial statements included elsewhere in this Form 10-K for additional information.

<sup>(3)</sup> EBITDA represents earnings before interest, taxes, depreciation and amortization. We calculate Adjusted EBITDA as EBITDA excluding impairment and other non-cash gains and losses, other long-term incentive compensation expenses, losses from debt extinguishments, corporate restructuring and restatement costs associated with legal matters (including our internal investigation, SEC compliance, and debt restructuring costs), operations restructuring costs, and adjustments to contingent purchase obligations. We use Adjusted EBITDA as a supplemental measure in evaluating our operating performance and when determining executive incentive compensation. We believe Adjusted EBITDA is useful to investors in evaluating our performance compared to other companies in our industry because it assists in analyzing and benchmarking the performance and value of a business. The calculation of Adjusted EBITDA eliminates the effects of financing, income taxes, and the accounting effects of capital spending. These items may vary for different companies for reasons unrelated to the overall operating performance of a company's business. Adjusted EBITDA is not a financial measure presented in accordance with GAAP. Although our management uses Adjusted EBITDA as a financial measure to assess the performance of our business compared to that of others in our industry, Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect our cash expenditures, future requirements for capital expenditures, or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt or dividend payments on our preferred stock;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and
- Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, Adjusted EBITDA should not be considered a measure of discretionary cash available to us to invest in the growth of our business. We compensate for these limitations by relying primarily on our results of operations under GAAP. See the consolidated statements of operations included in our consolidated financial statements included elsewhere in this Form 10-K.

A summary of operating statistics for our LTL segment for the years ended December 31 is shown below:

	<b>2018</b>	<b>2017</b>	<b>% Change</b>
Revenue	\$ 452,281	\$ 463,519	(2.4)%
Less: Backhaul Revenue	(7,336)	—	
Less: Eliminations	—	243	
Adjusted Revenue <sup>(1)</sup>	444,945	463,762	(4.1)%
Adjusted Revenue excluding fuel <sup>(1)</sup>	390,224	409,333	(4.7)%
Adjusted Revenue per hundredweight (incl. fuel)	\$ 21.33	\$ 20.02	6.6%
Adjusted Revenue per hundredweight (excl. fuel)	\$ 18.71	\$ 17.67	5.9%
Adjusted Revenue per shipment (incl. fuel)	\$ 243.69	\$ 217.31	12.1%
Adjusted Revenue per shipment (excl. fuel)	\$ 213.74	\$ 191.80	11.4%
Weight per shipment (lbs.)	1,143	1,086	5.3%
Shipments per day	7,159	8,369	(14.5)%

(1) Our management uses Adjusted Revenue and Adjusted Revenue excluding fuel to calculate the above statistics as they believe it is a more useful measure to investors since backhaul revenue and eliminations are not included in our LTL standard pricing model which is based on weights and shipments.



## Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

### *Consolidated Results*

Our consolidated revenues increased to \$2,216.1 million in 2018 compared to \$2,091.3 million in 2017. Higher revenues in the TES and Ascent segments contributed to the increase, which were partially offset by lower revenue in the LTL segment. Unitrans contributed revenue of \$67.6 million to the Ascent segment in 2017.

Our consolidated operating loss increased to \$58.5 million in 2018 compared to \$36.5 million in 2017. The operating loss in 2018 included operations restructuring costs of \$4.7 million related to the restructuring of our temperature-controlled truckload business and asset impairment charges of \$1.6 million. The operating loss in 2017 included a \$35.4 million gain on the sale of Unitrans and goodwill impairment charges of \$4.4 million. Lower consolidated operating results in 2018 were attributable higher corporate expenses and lower results in our TES and LTL segments, partially offset by an improvement in operating results within our Ascent segment. Unitrans contributed operating income of \$5.8 million to the Ascent segment in 2017.

Our consolidated net loss was \$165.6 million in 2018 compared to \$91.2 million in 2017. In addition to the operating results within our segments and corporate, our net loss was impacted by higher interest expense of \$52.9 million, partially offset by the absence of a loss from debt extinguishment of \$15.9 million in 2017.

Interest expense increased to \$116.9 million in 2018 from \$64.0 million in 2017 due to higher interest expense from our preferred stock, partially offset by lower interest expense on debt attributable to a lower principal balance. Included in interest expense from preferred stock was higher expense of \$86.2 million due to the change in the fair value of the preferred stock, partially offset by \$15.0 million of lower interest expense from preferred stock issuance costs.

Income tax benefit was \$9.8 million in 2018 compared to \$25.2 million in 2017. The effective tax rate was 5.6% in 2018 and 21.6% in 2017. The annual effective income tax rate varies from the federal statutory rate of 21.0% and 35.0%, respectively, primarily due to state income taxes (net of federal tax effect), adjustments for permanent differences (primarily the non-deductible interest expense associated with our preferred stock), and adjustments to the valuation allowance. Additionally, for 2017, our income tax benefit and effective tax rate were impacted by a basis difference related to the sale of Unitrans, a one-time tax benefit recorded as a result of recalculating the carrying value of our deferred tax assets and liabilities to reflect the reduced 21% U.S. federal corporate tax rate effective January 1, 2018 pursuant to the Tax Reform Act, and non-deductible goodwill impairment charges.

The rest of our discussion will focus on the operating results of our three segments:

### *Truckload & Express Services*

Operating results in our TES segment declined to operating income of \$2.1 million in 2018 compared to \$6.0 million in 2017. TES revenues increased \$140.5 million while purchased transportation costs increased \$100.6 million. TES revenues were higher due primarily to increased ground and air expedited freight and related brokerage coupled with a strong demand environment which drove higher rates across most of the segment. Purchased transportation costs and yield were negatively impacted by capacity reductions in intermodal services and over-the-road operations, including dry van and temperature controlled. Operating results in 2018 included the restructuring of our temperature-controlled truckload business, which resulted in operations restructuring costs of \$4.7 million related to fleet and facilities right-sizing and relocation costs, severance costs, and the write-down of assets to fair market value. Also included in TES operating results for 2018 was an asset impairment charge of \$1.6 million related to tractors that were classified as "held for sale." TES personnel and related benefits increased \$10.0 million due primarily to higher driver wages, while other operating expenses increased \$29.0 million. The increase in TES operating expenses was due to increased equipment lease and maintenance costs of \$8.9 million, higher IT costs of \$5.3 million, the previously mentioned operations restructuring costs of \$4.7 million, and higher fuel costs of \$4.0 million.

### *Less-than-Truckload*

Operating results in our LTL segment declined slightly to an operating loss of \$26.9 million in 2018 compared to an operating loss of \$26.4 million in 2017. LTL revenues decreased \$11.2 million due to a decrease in shipping volumes and a reduction in selected service areas in order to eliminate unprofitable freight and focus on key lanes, partially offset by higher rates and fuel surcharge revenue. Purchased transportation costs decreased \$8.2 million, which were driven by a decrease in shipping volumes, partially offset by market conditions resulting in rate increases from purchase power providers and higher spot prices paid to brokers which negatively impacted linehaul expense. LTL personnel and related benefits were flat year over year while other operating expenses decreased \$2.1 million primarily due to lower cargo claims and bad debt expense, partially offset by increased equipment lease costs.

### *Ascent Global Logistics*

Operating results improved in our Ascent segment as operating income was \$28.5 million in 2018 compared to \$22.5 million in 2017. Operating results in 2017 included \$5.8 million of operating income from Unitrans which was sold in the third quarter of

2017 and a goodwill impairment charge of \$4.4 million which resulted from comparing the remaining carrying value of goodwill for the Domestic and International Logistics reporting unit after the sale of Unitrans. Excluding Unitrans and the impact of the goodwill impairment charge, improved Ascent operating results were driven by growth in our retail consolidation business and our domestic freight management business, partially offset by a slight decline in international freight forwarding. Ascent revenues increased \$2.8 million in 2018 compared to 2017 due to higher revenue from domestic freight management (truckload and LTL brokerage) and retail consolidation (growth from existing and new customers). Included in Ascent revenue in 2017 was \$67.6 million of revenue from Unitrans. Ascent personnel and related benefits decreased \$5.9 million primarily due to the absence of Unitrans in 2018. Excluding the impact of Unitrans, personnel and related benefits increased \$3.9 million. Other operating expenses increased \$5.2 million primarily due to increased IT costs of \$4.1 million and higher commissions of \$2.2 million, partially offset by lower bad debt expense of \$1.8 million.

*Other Operating Expenses*

Other operating expenses that were not allocated to our TES, LTL, or Ascent segments increased to \$30.7 million in 2018 compared to \$19.0 million in 2017, primarily due to a \$35.4 million gain on the sale of Unitrans in September of 2017. Also included in other operating expenses are corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, and SEC and accounting compliance of \$22.2 million and \$32.3 million in 2018 and 2017, respectively. Also impacting 2018 were lower insurance claims reserves of \$7.6 million and lower legal settlements of \$5.2 million.

## Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

### *Consolidated Results*

Our consolidated revenues increased to \$2,091.3 million in 2017 compared to \$2,033.2 million in 2016. Higher revenues in the TES and LTL segments contributed to the increase, which were partially offset by lower revenue in the Ascent segment. Excluding the revenue from Unitrans of \$67.6 million in 2017, revenue increased in the Ascent segment.

Consolidated operating results improved to an operating loss of \$36.5 million in 2017 from an operating loss of \$403.8 million in 2016. Operating loss in 2017 included a \$35.4 million gain on the sale of Unitrans and impairment charges of \$4.4 million, while the operating loss in 2016 included impairment charges of \$373.7 million. In 2017 and 2016, we recorded total impairment charges of \$4.4 million and \$373.7 million, respectively. The impairment charge recognized in 2017 was attributable to our Ascent reporting unit and was the result of evaluating the remaining carrying value of goodwill for the Ascent reporting unit after the sale of Unitrans. As a result of this evaluation, we determined the remaining carrying value exceeded the fair value and recorded a \$4.4 million non-cash goodwill impairment charge in the third quarter of 2017. As a result of the goodwill impairment analysis performed during 2016, non-cash goodwill impairment charges of \$132.4 million, \$197.3 million, and \$42.4 million were recognized for our TES, LTL, and Warehousing & Consolidation reporting units, respectively. Other intangible assets consist primarily of definite lived customer relationships. Indicators of impairment were identified in connection with the shut-down of one of our business operations, and as a result, a non-cash impairment charge for the customer relationship intangible of \$1.6 million was recorded in 2016 for our TES segment.

Our consolidated net loss was \$91.2 million in 2017 and \$360.3 million in 2016 resulting from the factors described above. In addition to the items previously discussed, net loss in 2017 was also impacted by a \$15.9 million loss from debt extinguishment associated with the repayment of our prior senior credit facility and the payment of early redemption premiums on our preferred stock.

Interest expense increased to \$64.0 million in 2017 from \$22.8 million in 2016, primarily as a result of the change in fair value of the preferred stock of \$18.4 million and \$16.1 million of preferred stock issuance costs. We account for the preferred stock issued in May 2017 at fair value and changes in fair value are recorded in interest expense.

Income tax benefit was \$25.2 million in 2017 compared to \$66.3 million in 2016. The effective tax rate was 21.6% in 2017 compared to 15.5% in 2016. The effective income tax rate varies from the federal statutory rate of 35.0% primarily due to state income taxes as well as the impact of items causing permanent differences. Significant permanent differences for 2017 include non-deductible interest expense associated with the preferred stock, non-deductible preferred stock issuance costs, non-deductible loss on partial redemption of preferred stock, and basis difference related to the sale of Unitrans. A one-time tax benefit was recorded in 2017 as a result of recalculating the carrying value of our deferred tax assets and liabilities to reflect the reduced 21% U.S. federal corporate tax rate effective January 1, 2018 pursuant to the Tax Reform Act. Additionally, goodwill impairment charges are primarily non-deductible and affected the effective income tax rate and benefit from income taxes for both 2017 and 2016.

The rest of our discussion will focus on the operating results of our three segments:

### *Truckload & Express Services*

Operating results in our TES segment improved to operating income of \$6.0 million in 2017 from an operating loss of \$116.5 million in 2016. TES operating loss in 2016 included impairment charges of \$134.0 million. TES revenues increased by \$76.4 million primarily due to an increase in ground and air expedited freight, partially offset by lower revenues from temperature control and intermodal customers. Purchased transportation costs increased by \$76.8 million primarily due to an increase in ground and air expedited freight costs. TES personnel and related benefits increased \$4.1 million due primarily to higher driver wages, while other operating expenses increased by \$7.4 million primarily due to increased fuel costs of \$9.3 million and higher claims expense of \$9.2 million, partially offset by a decrease in bad debt expense of \$6.7 million.

### *Less-than-Truckload*

Operating results in our LTL segment improved to an operating loss of \$26.4 million in 2017 from an operating loss of \$203.6 million in 2016. LTL operating loss in 2016 included impairment charges of \$197.3 million. LTL revenues increased by \$2.0 million in 2017 when compared to 2016. LTL revenues were favorably impacted by revenue from new customers, partially offset by lower volumes across our customer base. Purchased transportation costs increased by \$10.8 million due to higher purchased power spot prices, which negatively impacted linehaul expense, partially offset by lower volumes. LTL personnel and related benefits increased \$2.9 million while other operating expenses increased \$8.2 million primarily due to increased bad debt expense of \$3.4 million and equipment lease and maintenance costs of \$1.7 million.

### *Ascent Global Logistics*

Operating results improved in our Ascent segment as operating income increased to \$22.5 million in 2017 from an operating loss of \$28.1 million in 2016. Ascent operating loss in 2016 included impairment charges of \$42.4 million. Ascent revenues decreased by \$27.0 million in 2017 compared to 2016 while purchased transportation costs decreased by \$27.7 million. Both decreases were primarily due to the absence of revenue and purchased transportation costs in the fourth quarter of 2017 associated with Unitrans, which was sold in the third quarter of 2017, partially offset by an increase in volumes from international freight forwarding customers. The absence of Unitrans in the fourth quarter of 2017 also contributed to lower personnel and related benefits of \$1.5 million and lower other operating expenses of \$9.7 million. Also impacting lower other operating expenses were lower losses from the sale of property and equipment of \$2.8 million and lower bad debt expense of \$1.9 million.

*Other Operating Expenses*

Other operating expenses that were not allocated to our TES, LTL, or Ascent segments decreased \$22.6 million in 2017, primarily due to a \$35.4 million gain on the sale of Unitrans in September 2017 and lower equipment lease expense of \$14.0 million, partially offset by restructuring and restatement costs of \$32.3 million incurred in 2017 associated with legal, consulting and accounting matters, including internal and external investigations, SEC and accounting compliance, and restructuring.

## Liquidity and Capital Resources

Our primary sources of cash have been borrowings under our credit facilities, the issuance of preferred stock, and cash flows from operations. Our primary cash needs are and have been to fund normal working capital requirements, repay our indebtedness and finance capital expenditures. As of December 31, 2018, we had \$11.2 million in cash and cash equivalents. Our ability to access our cash may be limited from time to time if doing so would result in a default under our credit facilities, as was the case in September 2018, when our lenders agreed to waive the resulting default as reported in our Current Report on Form 8-K filed on September 20, 2018. We may also decide to divest business units to further reduce our indebtedness, and/or reinvest in our business. Further, depending on market conditions, we may from time to time issue new equity or debt, in private or public offerings, to finance acquisitions, strengthen our balance sheet, reduce our cost of capital or fund capital expenditures.

On May 1, 2017, we entered into the Investment Agreement with Elliott, pursuant to which we issued and sold shares of our preferred stock and issued warrants for an aggregate purchase price of \$540.5 million. The proceeds from the sale of the preferred stock were used to pay off and terminate our prior senior credit facility and to provide working capital to support our current operations and future growth.

On March 1, 2018, we entered into the Series E-1 Investment Agreement with Elliott, pursuant to which we agreed to issue and sell to Elliott from time to time until July 30, 2018, an aggregate of up to 54,750 shares of Series E-1 Preferred Stock at a purchase price of \$1,000 per share for the first 17,500 shares of Series E-1 Preferred Stock, \$960 per share for the next 18,228 shares of Series E-1 Preferred Stock, and \$920 per share for the final 19,022 shares of Series E-1 Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which we issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. The proceeds of the sale of such shares of Series E-1 Preferred Stock were used to provide working capital to support our current operations and future growth and to repay a portion of the indebtedness under the Prior ABL Facility as required by the credit agreement governing that facility.

On April 24, 2018, the parties held a closing pursuant to the Series E-1 Investment Agreement, pursuant to which we issued and sold to Elliott 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of approximately \$17.5 million. The proceeds of the sale of such shares of Series E-1 Preferred Stock were used to provide working capital to support our current operations and future growth and to repay a portion of the indebtedness under the Prior ABL Facility as required by the credit agreement governing that facility.

On August 3, 2018, September 19, 2018, November 8, 2018, and January 9, 2019, we entered into amendments to the Series E-1 Investment Agreement, which, among other things, (i) extended the termination date thereunder from July 30, 2018 to March 2, 2019 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million, and (ii) provided that if the Series E-1 Investment Agreement was not already terminated, the Series E-1 Investment Agreement would automatically terminate upon the Rights Offering Effective Date (as defined in the Prior ABL Facility). Upon the closing of the rights offering described elsewhere in this Form 10-K, the Series E-1 Investment Agreement was automatically terminated.

Certain terms of the outstanding preferred stock as of December 31, 2018 are as follows:

	Series B	Series C	Series D	Series E	Series E-1
<b>Shares at \$0.01 Par Value at Issuance</b>	155,000	55,000	100	90,000	35,728
<b>Shares Outstanding at December 31, 2018</b>	155,000	55,000	100	37,500	35,728
<b>Price / Share</b>	\$1,000	\$1,000	\$1.00	\$1,000	\$1,000/\$960
<b>Dividend Rate</b>	Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events.	Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events.	Right to participate equally and ratably in all cash dividends paid on common stock.	Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events.	Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events.
<b>Dividend Rate at December 31, 2018</b>	17.780%	17.780%	N/A	16.030%	16.030%
<b>Redemption Term</b>	8 Years	8 Years	8 Years	6 Years	6 Years
<b>Redemption Rights</b>	From Closing Date: 12-24 months: 105% 24-36 months: 103%	65% premium (subject to stock movement)		From Closing Date: 0-12 months: 106.5% 12-24 months: 103.5%	From Closing Date: 0-12 months: 106.5% 12-24 months: 103.5%

Redemption rights are at our option or, upon a change in control, at the option of the holder. The holders of Series C Preferred Stock and Series D Preferred Stock have the right to participate equally and ratably with holders of common stock in all cash dividends paid on shares of common stock.

At each preferred stock dividend payment date, we have the option to pay the accrued dividends in cash or to defer them. Deferred dividends accrue dividend expense consistent with the underlying shares of preferred stock.

On July 21, 2017, we entered into the Prior ABL Facility. We used the initial proceeds from the Prior ABL Facility for working capital purposes and to redeem all of the outstanding shares of our Series F Preferred Stock.

The Prior ABL Facility consisted of a:

- \$200.0 million asset-based revolving line of credit, of which \$20.0 million may be used for swing line loans and \$30.0 million may be used for letters of credit;
- \$56.8 million term loan facility; and
- \$35.0 million asset-based facility available to finance future capital expenditures, which was subsequently terminated before being utilized.

We initially borrowed \$141.7 million under the revolving line of credit and \$56.8 million under the term loan facility. As of December 31, 2018, total availability under the Prior ABL Facility was \$31.2 million but we could not draw more than \$11.8 million as of that date to maintain at least \$19.4 million of Adjusted Excess Availability in order to avoid the commencement of a Fixed Charge Trigger Period.

On February 28, 2019, we and our direct and indirect domestic subsidiaries entered into the ABL Credit Facility. The ABL Credit Facility consists of a \$200.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million may be used for FILO Loans (as defined in the ABL Credit Agreement), (ii) \$20.0 million may be used for Swing Line Loans (as defined in the ABL Credit Agreement), and (iii) \$30.0 million may be used for letters of credit. The ABL Credit Agreement provides that the revolving line of credit may be increased by up to an additional \$100.0 million under certain circumstances. The ABL Credit Facility matures on February 28, 2024.

On February 28, 2019, we and our direct and indirect domestic subsidiaries entered into the Term Loan Credit Facility. The Term Loan Credit Facility consists of an approximately \$61.1 million term loan facility, consisting of (i) approximately \$40.3 million of Tranche A Term Loans (as defined in the Term Loan Credit Agreement), (ii) approximately \$2.5 million of Tranche A FILO Term Loans (as defined in the Term Loan Credit Agreement), (iii) approximately \$8.3 million of Tranche B Term Loans (as defined in the Term Loan Credit Agreement), and (iv) a \$10.0 million asset-based facility available to finance future capital expenditures. The Term Loan Credit Facility matures on February 28, 2024.

See Note 5, Debt, and Note 6, Preferred Stock, to our consolidated financial statements in this Form 10-K for additional information regarding the Prior ABL Facility and preferred stock, respectively. We do not believe that the limitations imposed by the terms of our debt agreement have any significant impact on our liquidity, financial condition or results of operations. We believe that these resources, along with the net proceeds from the rights offering described below, will be sufficient to meet our working capital, debt service, and capital investment obligations for the foreseeable future.

#### *Rights Offering*

On September 19, 2018, we filed a registration statement on Form S-1 with the SEC for a rights offering to raise \$450 million. The purpose of the rights offering was to deleverage our balance sheet and provide us with additional liquidity to fund our operations. On December 10, 2018, we filed Pre-Effective Amendment No. 1 to our registration statement on Form S-1 with the SEC to, among other things, specify that the rights offering would consist of an aggregate of 900,000,000 new shares of our common stock issuable upon exercise of rights at a subscription price equal to \$0.50 per share.

On November 8, 2018, in connection with the rights offering, we entered into the Standby Purchase Agreement with Elliott to ensure that the rights offering was fully subscribed and that we raised \$450 million.

On December 19, 2018, we held our 2018 Annual Meeting of Stockholders at which our stockholders approved, among other proposals, the following proposals in connection with the proposed rights offering: (i) an amendment to our Amended and Restated Certificate of Incorporation authorizing additional shares of our common stock for issuance in the rights offering, (ii) the rights offering, (iii) the Standby Purchase Agreement and potential change of control that may result from the purchase of shares of our common stock by Elliott, and (iv) amendments to our Amended and Restated Certificate of Incorporation to implement certain corporate governance changes requested by Elliott in connection with providing the backstop commitment.

On January 11, 2019, we filed Pre-Effective Amendment No. 2 to our registration statement on Form S-1 with the SEC, which registration statement on Form S-1 became effective on January 31, 2019. In the rights offering, we distributed to stockholders of record as of January 30, 2019 (the “record date”) transferable subscription rights to purchase an aggregate of 900,000,000 new shares of our common stock. Each stockholder received one right for every share of common stock such holder owned on the record date. Each transferable subscription right entitled the holder to purchase approximately 23.1379497159 shares of our common stock at a subscription price of \$0.50 per share (the “basic subscription right”). Holders who fully exercised their basic subscription rights were entitled to subscribe for additional shares of our common stock that remain unsubscribed as a result of any unexercised basic subscription rights (the “over-subscription right”). The over-subscription right allowed a holder to subscribe for additional shares of our common stock up to the number of shares purchased under such holder’s basic subscription right at the subscription price. Elliott agreed to exercise its basic subscription rights in full and purchase all unsubscribed shares of common stock in the rights offering pursuant to the backstop commitment, although Elliott was not entitled to the over-subscription privilege. We obtained the backstop commitment from Elliott to ensure that the rights offering would be fully subscribed and that we would raise \$450 million in gross proceeds.

On February 26, 2019, we closed the right offering. An aggregate of 177,676,223 shares of our common stock were purchased pursuant to the exercise of basic subscription rights and over-subscription rights from stockholders of record during the subscription period, including from the exercise of basic subscription rights by Elliott. In addition, Elliott purchased an aggregate of 722,323,777 additional shares pursuant to the backstop commitment from Elliott. Overall, Elliott purchased a total of 843,632,693 shares of our common stock in the rights offering between its basic subscription rights and the backstop commitment, and following the closing of the rights offering beneficially owned approximately 90.4% of our common stock.

The net proceeds from the rights offering and backstop commitment were used to fully redeem the outstanding shares of our preferred stock and to pay related accrued and unpaid dividends. Proceeds were also used to pay fees and expenses in connection with the rights offering and backstop commitment. We retained in excess of \$30 million of net cash proceeds to be used for general corporate purposes. The purpose of the rights offering was to improve and simplify our capital structure in a manner that gave our existing stockholders the opportunity to participate on a pro rata basis.

#### *Trading of the Company's common stock on the New York Stock Exchange*

On October 4, 2018 we received a notice from the NYSE that we had fallen below the NYSE’s continued listing standards relating to minimum average global market capitalization and total stockholders’ investment, which require that either our average

global market capitalization be not less than \$50 million over a consecutive 30 trading day period, or our total stockholders' investment be not less than \$50 million. Pursuant to the NYSE continued listing standards, we timely notified the NYSE that we intended to submit a plan to the NYSE demonstrating how we intend to regain compliance with the continued listing standards within the required 18-month timeframe. We timely submitted our plan, which was subsequently accepted by the NYSE. During the 18-month cure period, our shares will continue to be listed and traded on the NYSE, subject to our compliance with other listing standards. The NYSE notification does not affect our business operations or our SEC reporting requirements.

On October 12, 2018, we received a notice from the NYSE that we had fallen below the NYSE's continued listing standard related to price criteria for common stock, which requires the average closing price of our common stock to equal at least \$1.00 per share over a 30 consecutive trading day period. Pursuant to the NYSE listing standards, we timely notified the NYSE that we intend to cure the deficiency and regain compliance with the continued listing standard. We have six months from our receipt of the notice to regain compliance with the listing standard. We can regain compliance with the standard if, on the last trading day of any calendar month during the six-month period following receipt of the notice or on April 12, 2019, which is the date that is six months following receipt of the notice, our common stock has a closing price of at least \$1.00 per share and an average closing price of at least \$1.00 per share over the previous 30 consecutive trading day period. During the six-month cure period, our shares of common stock will continue to be listed and traded on the NYSE, subject to our compliance with other listing standards. The NYSE notification does not affect our business operations or our SEC reporting requirements.

## Cash Flows

A summary of operating, investing, and financing activities are shown in the following table (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net cash (used in) provided by:			
Operating activities	\$ 5,594	\$ (45,552)	\$ 28,854
Investing activities	(22,715)	77,631	(9,593)
Financing activities	2,598	(35,890)	2,322
Net change in cash and cash equivalents	\$ (14,523)	\$ (3,811)	\$ 21,583

### Cash Flows from Operating Activities

Cash provided by operating activities was \$5.6 million during 2018. The difference between our \$165.6 million net loss and the \$5.6 million of cash provided by operating activities during 2018 was primarily attributable to the change in the fair value of our preferred stock of \$104.6 million, and \$43.5 million of depreciation and amortization expense, partially offset by a deferred tax benefit of \$10.6 million. The remainder is primarily attributable to changes in working capital.

Cash used in operating activities was \$45.6 million in 2017. The difference between our \$91.2 million net loss and the \$45.6 million of cash used in operating activities during 2017 was primarily attributable to \$38.9 million of depreciation and amortization expense, the change in the fair value of our preferred stock of \$18.4 million, and an impairment charge of \$4.4 million, partially offset by a deferred tax benefit of \$27.1 million. The remainder is primarily attributable to changes in working capital.

Cash provided by operating activities was \$28.9 million in 2016. The difference between our \$360.3 million net loss and the \$28.9 million of cash provided by operating activities during 2016 was primarily attributable to \$373.7 million of non-cash impairment charges and \$40.7 million of depreciation and amortization expense, partially offset by a deferred tax benefit of \$43.4 million. The remainder is primarily attributable to changes in working capital.

### Cash Flows from Investing Activities

Cash used in investing activities was \$22.7 million during 2018, which reflects \$25.5 million of capital expenditures used to support our operations. These capital expenditures were partially offset by the proceeds from the sale of equipment of \$2.8 million. We expect to use approximately \$20 million of cash in 2019 to fund expected total capital expenditures of \$60 to \$70 million, excluding conversions of operating leases to capital leases. A majority of our 2019 capital expenditures are expected to be funded with capital leases as opposed to up-front cash.

Cash provided by investing activities was \$77.6 million in 2017, which reflects \$88.5 million of proceeds from the sale of Unitrans, which was partially offset by \$14.5 million of capital expenditures used to support our operations. These capital expenditures were partially offset by proceeds from the sale of equipment of \$3.6 million.

Cash used in investing activities was \$9.6 million in 2016, which reflects \$17.6 million of capital expenditures used to support our operations. These payments were offset by proceeds from the sale of equipment of \$7.0 million and proceeds from the sale of

non-core business of \$1.0 million.

### Cash Flows from Financing Activities

Cash provided by financing activities was \$2.6 million during 2018, which primarily reflects the issuance of Series E-1 Preferred Stock of \$35.0 million and net proceeds from insurance premium financing of \$5.6 million, partially offset by a reduction in borrowings of \$31.0 million and a reduction of our capital lease obligation of \$5.5 million.

Cash used in financing activities was \$35.9 million during 2017, which primarily reflects issuance costs from debt and preferred stock of \$20.8 million, debt extinguishment costs of \$11.0 million, and a reduction of capital lease obligations of \$3.7 million.

Cash provided by financing activities was \$2.3 million in 2016, which primarily reflects net borrowings of \$11.1 million under our prior credit facility, which were offset by a reduction of capital lease obligations of \$5.1 million, the payment of contingent purchase obligations of \$2.5 million, and issuance costs of \$0.9 million associated with the amendments to our prior credit agreement.

## Quarterly Results of Operations



The following table presents unaudited consolidated statement of operations data for each of the four quarters ended December 31, 2018 and 2017. We believe that all necessary adjustments have been included to fairly present the quarterly information when read in conjunction with our annual consolidated financial statements and related notes. The operating results for any quarter are not necessarily indicative of the results for any subsequent quarter.

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
<b>2018:</b>				
Total revenues	\$ 569,984	\$ 558,026	\$ 536,584	\$ 551,547
Net revenues (total revenues less purchased transportation costs)	169,021	177,954	170,906	179,845
Total interest expense	9,543	34,232	35,798	37,339
Loss before income taxes	(22,973)	(45,607)	(46,619)	(60,212)
Net loss available to common stockholders	(23,643)	(41,955)	(41,561)	(58,438)
Loss per share:				
Basic	\$ (0.61)	\$ (1.09)	\$ (1.08)	\$ (1.52)
Diluted	\$ (0.61)	\$ (1.09)	\$ (1.08)	\$ (1.52)
<b>2017:</b>				
Total revenues	\$ 478,920	\$ 530,579	\$ 521,433	\$ 560,359
Net revenues (total revenues less purchased transportation costs)	162,635	172,147	162,953	163,178
Total interest expense	6,525	28,355	10,502	18,667
Loss before income taxes	(24,435)	(45,675)	(5,265)	(41,002)
Net loss available to common stockholders	(19,943)	(37,863)	(10,053)	(23,327)
Loss per share:				
Basic	\$ (0.52)	\$ (0.99)	\$ (0.26)	\$ (0.61)
Diluted	\$ (0.52)	\$ (0.99)	\$ (0.26)	\$ (0.61)

As previously discussed, our operating results in the second quarter of 2018 include operations restructuring costs of \$4.7 million. Our operating results in the fourth quarter of 2018 include asset impairment charges of \$1.6 million. Our operating results in the third quarter of 2017 include goodwill impairment charges of \$4.4 million and the gain from the sale of Unitrans of \$35.4 million.

#### Off-Balance Sheet Arrangements

We do not have any transactions, arrangements, or other relationships with unconsolidated entities that are reasonably likely to materially affect our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, or capital resources. We have no special purpose or limited purpose entities that provide off-balance sheet financing, liquidity, or market or credit risk support; engage in leasing, hedging, or research and development services; or have other relationships that expose us to liability that is not reflected in the financial statements. However, we provide a guarantee for a portion of the value of certain IC leased tractors. The potential maximum exposure under these lease guarantees was approximately \$7.2 million as of December 31, 2018.

#### Seasonality

Our operations are subject to seasonal trends that have been common in the North American over-the-road freight sector for many years. Our results of operations for the quarter ending in March are on average lower than the quarters ending in June, September, and December. Typically, this pattern has been the result of factors such as inclement weather, national holidays, customer demand, and economic conditions.

**Effects of Inflation**

Based on our analysis of the periods presented, we believe that inflation has not had a material effect on our operating results as inflationary increases in fuel and labor costs have generally been offset through fuel surcharges and price increases.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Not applicable.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Reference is made to the financial statements, the notes thereto, and the report of our independent registered public accounting firm commencing at page F-1 of this Form 10-K, which financial statements, notes, and report are incorporated herein by reference. For the Quarterly Results of Operations, see Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Background**

As previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, an independent internal investigation was undertaken in 2017 by the Audit Committee of our Board of Directors (the "Audit Committee"), with assistance from outside counsel and outside consultants to provide forensic and investigative support (the "Audit Committee Investigation") that included detailed reviews of financial records at operating companies and our corporate headquarters. Based on the Audit Committee Investigation, along with matters identified by the Company's management and internal audit function, management determined that there were deficiencies in the design and/or execution of internal controls that constituted material weaknesses.

### **Evaluation of Disclosure Controls and Procedures**

In connection with the filing of this Form 10-K for the year ended December 31, 2018, our Chief Executive Officer ("CEO"), serving as our Principal Executive Officer, and our Chief Financial Officer ("CFO"), serving as our Principal Financial Officer and Principal Accounting Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). As a result of this evaluation, our CEO and CFO concluded that those material weaknesses previously identified in Item 9A. "Controls and Procedures" of our Annual Report on Form 10-K for the year ended December 31, 2017 were still present as of December 31, 2018 (the "Evaluation Date"). Based on those material weaknesses, and the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of the Evaluation Date.

Notwithstanding the identified material weaknesses, management believes that the consolidated financial statements and unaudited interim financial information included in this Form 10-K fairly present in all material respects our financial condition, results of operations, and cash flows as of and for the periods presented based on a number of factors including, but not limited to, (a) substantial resources expended (including the use of internal audit personnel and external consultants) in response to the findings of material weaknesses, (b) internal reviews to identify material accounting errors, and (c) the commencement of certain remediation actions, as discussed further below.

### **Management's Report on Internal Control Over Financial Reporting**

Management, including our CEO and CFO, is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act and based upon the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO framework")). Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our financial statements for external purposes in accordance with GAAP.

An effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error or overriding of controls, and therefore can provide only reasonable assurance with respect to reliable financial reporting. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect all misstatements, including the possibility of human error, the circumvention or overriding of controls, or fraud. Effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements would not be prevented or detected on a timely basis.

Under the supervision and with the participation of our management, including our CEO and CFO, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the COSO framework. Based on evaluation under these criteria, management determined, based upon the existence of the material weaknesses described below, that we did not maintain effective internal control over financial reporting as of the Evaluation Date.

### *Control Environment*

We did not maintain an effective control environment based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the control environment of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) our commitment to integrity and ethical values, (ii) the ability of our board of directors to effectively exercise oversight of the development and performance of internal control, as a result of failure to communicate relevant information within our organization and, in some cases, withholding information, (iii) appropriate organizational structure, reporting lines, and authority and responsibilities in pursuit of objectives, (iv) our commitment to attract, develop, and retain competent individuals, and (v) holding individuals accountable for their internal control related responsibilities.

We did not maintain an effective control environment to enable the identification and mitigation of risks of material accounting errors as result of the contributing factors to the material weaknesses in the control environment, including:

- The tone from former executive management was insufficient to create the proper environment for effective internal control over financial reporting and to ensure that (i) there were adequate processes for oversight, (ii) there was accountability for the performance of internal control over financial reporting responsibilities, (iii) identified issues and concerns were raised to appropriate levels within our organization, (iv) corrective activities were appropriately applied, prioritized, and implemented in a timely manner, and (v) relevant information was communicated within our organization and not withheld from our independent directors, our Audit Committee, and our independent auditors.
- In certain operating companies and at our corporate headquarters there were inconsistent accounting systems, policies and procedures. Additionally, in certain locations we did not attract, develop, and retain competent management, accounting, financial reporting, internal audit, and information systems personnel or resources to ensure that internal control responsibilities were performed and that information systems were aligned with internal control objectives.
- Our oversight processes and procedures that guide individuals in applying internal control over financial reporting were not adequate in preventing or detecting material accounting errors, or omissions due to inadequate information and, in certain instances, management override of internal controls, including recording improper accounting entries, recording accounting entries that were inconsistent with information known by management at the time, not communicating relevant information within our organization and, in some cases, withholding information from our independent directors, our Audit Committee, and our independent auditors.

### *Risk Assessment*

We did not design and implement an effective risk assessment based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the risk assessment component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) identifying, assessing, and communicating appropriate objectives, (ii) identifying and analyzing risks to achieve these objectives, (iii) contemplating fraud risks, and (iv) identifying and assessing changes in the business that could impact our system of internal controls.

### *Control Activities*

We did not design and implement effective control activities based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the control activities component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives and (ii) deploying control activities through policies that establish what is expected and procedures that put policies into action.

Deficiencies in control activities contributed to material accounting errors identified and corrected prior to 2018. Deficiencies in control activities contributed to the potential for there to have been material accounting errors in substantially all financial statement account balances and disclosures.

### *Information and Communication*

We did not generate and provide quality information and communication based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the information and communication component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) obtaining, generating, and using relevant quality information to support the function of internal control, and (ii) communicating accurate information internally and externally, including providing information pursuant to objectives, responsibilities, and functions of internal control.

### *Monitoring Activities*

We did not design and implement effective monitoring activities based on the criteria established in the COSO framework. We have identified deficiencies in the principles associated with the monitoring component of the COSO framework. Specifically, these control deficiencies constitute material weaknesses, either individually or in the aggregate, relating to: (i) selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal controls are present and functioning, and (ii) evaluating and communicating internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

The following were contributing factors to the material weaknesses in monitoring activities:

- Internal audit staffing levels were insufficient to keep pace with the size and complexity of our business structure and organization, which limited our ability to effectively monitor internal controls.
- Failure to effectively communicate relevant information and internal control deficiencies to our Audit Committee for appropriate oversight, monitoring and enforcement of corrective action.
- Not communicating relevant information within our organization and, in some cases, withholding information from our independent directors, our Audit Committee, and our independent auditors.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited the effectiveness of our internal control over financial reporting as of December 31, 2018. Deloitte & Touche LLP's opinion, as stated in their report which appears on page 60 of this Form 10-K, is consistent with management's report on internal control over financial reporting as set forth above.

### **Changes in Internal Control Over Financial Reporting**

There were no changes during the quarter ended December 31, 2018 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

As discussed above, we have identified material weaknesses in our internal control over financial reporting. Although we have not fully remediated the material weaknesses as of December 31, 2018, we have made, and will continue to make, improvements to our policies and procedures as well as the oversight of these policies and procedures, staffing of positions which play a significant role in internal control. We also have made, and will continue to make, improvements in our communication of relevant and accurate information both internally and externally, identification of risks and enhancement of our risk assessment procedures. Design and implementation of control activities that address objectives and risks will continue in 2019 and subsequent years, as necessary, and we will continue our evaluation and assessment of the control environment and efforts to identify and remediate the underlying causes of the identified material weaknesses. The following provides further details regarding each material weakness identified above and the remedial action taken and planned as of the date of this Form 10-K.

### **Remediation Plan and Status**

Our remediation efforts are ongoing and we will continue our initiatives to implement and document policies, procedures, and internal controls. In the second half of 2018, we intensified our efforts to strengthen our internal control environment and remediate the identified material weaknesses. This remediation effort will be a multi-year process, continuing in 2019 and subsequent years as necessary. We will test the ongoing operating effectiveness of the new and existing controls in future periods. The material weaknesses cannot be considered completely remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

While we believe the steps taken to date and those planned for implementation will improve the effectiveness of our internal control over financial reporting, we have not completed all remediation efforts identified herein. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses described above, we have and will continue to perform additional procedures prescribed by management, including the use of manual mitigating control procedures and employing any additional tools and resources deemed necessary, to ensure that our consolidated financial statements are fairly stated in all material respects. The following remediation activities highlight our commitment to remediating our identified material weaknesses:

### *Control Environment*

We have undertaken steps to address material weaknesses in the control environment. Our Chief Executive Officer, President and Chief Operating Officer, General Counsel and Chief Compliance Officer, Chief Financial Officer, Vice President and Corporate Controller, Vice President of Finance and Treasurer, Chief Information Officer, and the Chief Audit Executive are committed to implementing and maintaining an effective control environment that will drive a high level of ethical standards and integrity over internal control over financial reporting. Our Audit Committee, our Board of Directors, and management have emphasized and continue to emphasize the importance of internal control over financial reporting, as well as the integrity of our financial statements. Our executive management team has enhanced compliance with ethical standards by, among other things, issuing and emphasizing corporate governance policies, and improving communication practices among employees with internal control over financial reporting responsibilities as follows:

- Executive management communicates, and will continue to communicate, steps to ensure a proper, consistent tone throughout our organization, with distinct emphasis on the expectation that control deficiencies will be remediated through the implementation of uniform accounting and internal control policies and procedures with the proper oversight that promotes strict compliance with GAAP and regulatory requirements. Recurring meetings are held with corporate, operations and finance leaders to discuss important Company updates as well as progress on the remediation of material weaknesses and the importance of an effective control environment.
- Certain policies and procedures have been developed and distributed to applicable personnel across the organization, and additional policies and procedures will be developed and distributed in 2019 and subsequent years as necessary. In order to drive consistency in our reporting across all accounting systems, a standard chart of accounts was developed at the consolidated level.
- Our internal ethics task force meets at least monthly and includes members from key functional areas who are responsible for reviewing and addressing compliance matters as they arise. Compliance matters and resolutions are regularly shared with Executive Management and reviewed with the Audit Committee on a quarterly basis. Clear and transparent communication with respect to compliance and ethical values continue to emphasize our commitment to ethics and compliance.
- Finance team members with the appropriate experience, certifications, education, and training for key financial reporting and accounting positions have been hired, promoted or reassigned from within our Company. This has allowed us to initiate selection and development of appropriate policies, procedures, and controls to strengthen our control environment.
- Executive management continues to evaluate the resources required to right-size our accounting and financial reporting, internal audit, and information technology functions. Evaluation of the effectiveness of these personnel and appropriateness of reporting lines across the Company is ongoing.
- We have enhanced our compliance practices, including our code of conduct, whistleblower, and ethics policies, which required acknowledgment by all employees in 2018 and will require periodic acknowledgement going forward. Our key executives and finance and operations personnel from our corporate headquarters and operating companies completed quarterly sub-certifications in 2018 to support the CEO/CFO certification as part of our Form 10-Q and Form 10-K filings.

### *Risk Assessment*

We performed monthly detailed reviews of financial records at our corporate headquarters and the operating company level for the purpose of ensuring compliance with GAAP and regulatory compliance requirements, identifying unusual or non-recurring items and correcting accounting errors, if any. We have and will continue to identify risks and enhance risk assessment procedures. This has enabled us to effectively identify and develop controls and procedures to address risks. Our Chief Information Officer continues to assess our information technology control environment and adequacy of personnel, including responding to information technology risks appropriately.

### *Control Activities*

We continue to redesign and implement common internal control activities. In 2018, we established policies and procedures and conducted process and control walkthrough meetings and workshops, sharing best practices over process-level controls and structures and providing guidance to ensure that there is appropriate assignment of authority, responsibility, and accountability to enable remediating our material weaknesses. This will continue in 2019 and subsequent years as necessary.

### *Information and Communication*

We continue to take steps to enhance our practices related to information and communication. Our senior finance and information technology executives have communicated objectives and developed formal job responsibilities for key roles. The information

technology department was reorganized and centralized to better support our business structure. We are evaluating and developing controls to address cyber risk. Operating company restructuring occurred allowing information to be consolidated and communicated more efficiently and effectively. We piloted a new consolidation software solution in 2018, scheduled to be put into service and used to support the consolidation of financial statements for the first quarter of 2019.

#### *Monitoring Activities*

In addition to the items noted above, as we continue to evaluate, remediate, and improve our internal control over financial reporting, executive management may elect to implement additional measures to address control deficiencies or may determine that the remediation efforts described above require modification. Executive management, in consultation with and at the direction of our Audit Committee, will continue to assess the control environment and the above-mentioned efforts to remediate the underlying causes of the identified material weaknesses, including through the following:

- We have increased and will continue to evaluate accounting, finance, information technology and internal audit staffing levels to sufficiently address the size, scope, and complexity of our organization.
- We have developed and continue to implement effective communication plans relating to, among other things, identification of deficiencies and recommendations for corrective actions. These plans will apply to all parties responsible for remediation.

#### **Inherent Limitations on Effectiveness of Controls**

Management, including our CEO and CFO, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, misstatements, errors, and instances of fraud, if any, within our organization have been or will be prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, internal controls may become inadequate as a result of changes in conditions, or through the deterioration of the degree of compliance with policies or procedures.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
Roadrunner Transportation Systems, Inc. and subsidiaries  
Downers Grove, Illinois

### Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Roadrunner Transportation Systems, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, because of the effect of the material weaknesses identified below on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated March 11, 2019, expressed an unqualified opinion on those financial statements.

### 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 Report on 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.

### Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weaknesses have been identified and included in management's assessment:

*Control Environment* - control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) commitment to integrity and ethical values, (ii) the ability of the board of directors to effectively exercise oversight of the development and performance of internal control, as a result of failure to communicate relevant information within the organization and, in some



cases, withholding information, (iii) appropriate organizational structure, reporting lines, and authority and responsibilities in pursuit of objectives, (iv) commitment to attract, develop, and retain competent individuals, and (v) holding individuals accountable for their internal control related responsibilities.

*Risk Assessment* - control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) identifying, assessing, and communicating appropriate objectives, (ii) identifying and analyzing risks to achieve these objectives, (iii) contemplating fraud risks, and (iv) identifying and assessing changes in the business that could impact the system of internal controls.

*Control Activities* - control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) selecting and developing control activities and information technology that contribute to the mitigation of risks and support achievement of objectives and (ii) deploying control activities through policies that establish what is expected and procedures that put policies into action.

*Information and Communication* - control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) obtaining, generating, and using relevant quality information to support the function of internal control, and (ii) communicating accurate information internally and externally, including providing information pursuant to objectives, responsibilities, and functions of internal control.

*Monitoring* - control deficiencies constituting material weaknesses, either individually or in the aggregate, relating to: (i) selecting, developing, and performing ongoing evaluation to ascertain whether the components of internal controls are present and functioning, and (ii) evaluating and communicating internal control deficiencies in a timely manner to those parties responsible for taking corrective action.

These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2018, of the Company, and this report does not affect our report on such financial statements.

/s/ DELOITTE & TOUCHE LLP  
Chicago, Illinois  
March 11, 2019

**ITEM 9B. OTHER INFORMATION**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A of the Exchange Act for our 2019 Annual Meeting of Stockholders.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this Item is included in our definitive Proxy Statement (see Item 10 above), and is incorporated herein by reference.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The information required by this Item is included in our definitive Proxy Statement (see Item 10 above), and is incorporated herein by reference.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this Item is included in our definitive Proxy Statement (see Item 10 above), and is incorporated herein by reference.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this Item is included in our definitive Proxy Statement (see Item 10 above), and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Financial Statement Schedules

(1) Financial Statements are listed in the Index to Consolidated Financial Statements on page F-1 of this Form 10-K.

(2) Other schedules are omitted because they are not applicable, not required, or because required information is included in the consolidated financial statements or notes thereto.

(b) Exhibits

Exhibit Number	Exhibit
2.2	<a href="#"><u>Stock Purchase Agreement, dated August 16, 2017, by and among OIC Intermediate Holdings, Inc., Unitrans, Inc. and Ascent Global Logistics Holdings, Inc. (1)</u></a>
3.1	<a href="#"><u>Amended and Restated Certificate of Incorporation, as amended (2)</u></a>
3.2	<a href="#"><u>Second Amended and Restated Bylaws (3)</u></a>
3.3	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series B Cumulative Redeemable Preferred Stock (4)</u></a>
3.4	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series C Cumulative Redeemable Participating Preferred Stock (4)</u></a>
3.5	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series D Cumulative Redeemable Participating Preferred Stock (4)</u></a>
3.6	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series E Cumulative Redeemable Preferred Stock (4)</u></a>
3.7	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series F Cumulative Redeemable Preferred Stock (4)</u></a>
3.8	<a href="#"><u>Certificate of Designations, Preferences and Rights of Series E-1 Cumulative Redeemable Preferred Stock (5)</u></a>
4.1	<a href="#"><u>Second Amended and Restated Stockholders' Agreement, dated as of March 14, 2007, by and among the Registrant and the stockholders named therein (6)</u></a>
4.2	<a href="#"><u>Warrant Agreement, dated May 2, 2017, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP. (4)</u></a>
4.3	<a href="#"><u>Stockholders' Agreement, dated May 2, 2017, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP. (4)</u></a>
4.3(A)	<a href="#"><u>Amendment No. 1 to Stockholders' Agreement, dated March 1, 2018, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP. (5)</u></a>
4.4	<a href="#"><u>Registration Rights Agreement, dated May 2, 2017, between the Registrant, Elliott Associates, L.P., Brockdale Investments LP, Thayer Equity Investors V, L.P., TC Roadrunner-Dawes Holdings, L.L.C., TC Sargent Holdings, L.L.C., HCI Equity Partners III, L.P., and HCI Co-Investors III, L.P. (4)</u></a>
10.1	<a href="#"><u>Investment Agreement dated May 1, 2017, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP. (4)</u></a>
10.2	<a href="#"><u>Equity Commitment Agreement, dated January 30, 2018, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP. (7)</u></a>
10.14*	<a href="#"><u>2010 Incentive Compensation Plan (3)</u></a>

- 10.15\* [Form of Indemnification Agreement \(3\)](#)
- 10.20\* [Form of Restricted Stock Unit Agreement \(8\)](#)
- 10.26\* [Form of Performance Restricted Stock Unit Agreement \(9\)](#)
- 10.28 [Sixth Amended and Restated Credit Agreement, dated September 24, 2015, among the Registrant, U.S. Bank National Association, a national banking association, the Lenders \(as defined therein\) and the other parties thereto \(10\)](#)
- 10.28(A) [Consent, Waiver and First Amendment to Sixth Amended and Restated Credit Agreement \(11\)](#)
- 10.28(B) [Waiver, dated November 14, 2016, among the Registrant, U.S. Bank National Association, a national banking association, the Lenders \(as defined therein\) and the other parties thereto \(12\)](#)
- 10.30\* [Form of Stock Option Agreement \(13\)](#)
- 10.31 [Forbearance Agreement and Second Amendment to Sixth Amended and Restated Credit Agreement, effective as of February 27, 2017, by and among the Registrant, the lenders party to the Credit Agreement and U.S. Bank National Association, one of the lenders and as administrative agent for the lenders \(14\)](#)
- 10.32 [Forbearance Agreement and Third Amendment to Sixth Amended and Restated Credit Agreement, effective as of March 31, 2017, by and among Roadrunner Transportation Systems, Inc., the lenders party to the Credit Agreement and U.S. Bank National Association, one of the lenders and as administrative agent for the lenders \(15\)](#)
- 10.33 [Credit Agreement, dated July 21, 2017, among the Registrant, BMO Harris Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(16\)](#)
- 10.33(A) [First Amendment to Credit Agreement dated December 15, 2017, among the Registrant, BMO Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(17\)](#)
- 10.33(B) [Second Amendment to Credit Agreement, dated January 30, 2018, among the Registrant, BMO Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(18\)](#)
- 10.33(C) [Third Amendment to Credit Agreement, dated March 14, 2018, among the Registrant, BMO Harris Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(19\)](#)
- 10.33(D) [Fourth Amendment to Credit Agreement, dated August 3, 2018, among the Registrant, BMO Harris Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(20\)](#)
- 10.33(E) [Fifth Amendment and Waiver to Credit Agreement, dated September 19, 2018, among Roadrunner Transportation Systems, Inc., BMO Harris Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(21\)](#)
- 10.33(F) [Sixth Amendment and Waiver to Credit Agreement, dated November 8, 2018, among Roadrunner Transportation Systems, Inc., BMO Harris Bank N.A., the Lenders \(as defined therein\) and the other parties thereto \(22\)](#)
- 10.35 [Investment Agreement, dated March 1, 2018, between the Registrant, Elliott Associates, L.P., and Brockdale Investments LP\(5\)](#)
- 10.35(A) [Amendment No. 1 to Investment Agreement and Termination of Equity Commitment Letter, dated August 3, 2018, by and among the Registrant, Elliott Associates, L.P., and Brockdale Investments LP\(20\)](#)
- 10.35(B) [Amendment No. 2 to Investment Agreement dated as of September 19, 2018, by and among Roadrunner Transportation Systems, Inc., Elliott Associates, L.P., and Brockdale Investments LP\(21\)](#)

10.35(C)	<a href="#">Amendment No. 3 to Investment Agreement, dated as of November 8, 2018, by and among Roadrunner Transportation Systems, Inc., Elliott Associates, L.P., and Brockdale Investments LP(22)</a>
10.36*	<a href="#">Second Amended and Restated Employment Agreement, dated as of April 30, 2017, between the Registrant and Curt Stoelting (23)</a>
10.37*	<a href="#">Second Amended and Restated Employment Agreement, dated as of April 30, 2017, between the Registrant and Mike Gettle (23)</a>
10.38*	<a href="#">Employment Agreement, dated May 22, 2017, between the Registrant and Terry Rogers (23)</a>
10.39*	<a href="#">Separation Agreement, dated June 15, 2017, between the Registrant and Grant Crawford (23)</a>
10.40*	<a href="#">Employment Letter, dated December 21, 2016, between the Registrant and Scott Cousins (24)</a>
10.41*	<a href="#">Employment Agreement, dated as of July 31, 2017, between the Registrant and Frank L. Hurst (24)</a>
10.42*	<a href="#">Employment Agreement, dated as of October 4, 2017, between the Registrant and Craig Paulson (24)</a>
10.43*	<a href="#">Management Retention Agreement, dated July 9, 2018, between the Registrant and Curtis W. Stoelting(25)</a>
10.44*	<a href="#">Management Retention Agreement, dated July 9, 2018, between the Registrant and Michael L. Gettle(25)</a>
10.45*	<a href="#">Management Retention Agreement, dated July 9, 2018, between the Registrant and Terence R. Rogers(25)</a>
10.46*	<a href="#">Management Retention Agreement, dated July 9, 2018, between the Registrant and Scott B. Cousins(25)</a>
10.47*	<a href="#">Supplemental Pay Agreement, dated July 18, 2018, between the Registrant and Terence R. Rogers(26)</a>
10.48	<a href="#">Standby Purchase Agreement, dated as of November 8, 2018, by and among Roadrunner Transportation Systems, Inc., Elliott Associates, L.P., and Elliott International, L.P.(22)</a>
10.49*	<a href="#">Employment Agreement, dated as of December 3, 2018, by and between Roadrunner Transportation Systems, Inc. and Michael Rapken(27)</a>
10.50*	<a href="#">2018 Incentive Compensation Plan</a>
21.1	<a href="#">List of Subsidiaries</a>
23	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
24.1	Power of Attorney (included on the signature page of this Form 10-K)
31.1	<a href="#">Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)</a>
31.2	<a href="#">Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)</a>
32.1	<a href="#">Section 1350 Certification of Principal Executive Officer</a>
32.2	<a href="#">Section 1350 Certification of Principal Financial Officer</a>
101.INS	XBRL Instance Document

101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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- (1) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 21, 2017.
- (2) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on January 9, 2019.
- (3) Incorporated by reference to the registrant's Registration Statement on Form S-1 (Registration No. 333-152504) as filed with the SEC on May 7, 2010.
- (4) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on May 4, 2017.
- (5) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on March 8, 2018.
- (6) Incorporated by reference to the registrant's Registration Statement on Form S-1 (Registration No. 333-152504) as filed with the SEC on September 11, 2008.
- (7) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on January 31, 2018.
- (8) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on March 7, 2011.
- (9) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on February 24, 2015.
- (10) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on September 28, 2015.
- (11) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on June 23, 2016.
- (12) Incorporated by reference to the registrant's Current Report on Form 8-K as filed with the SEC on November 17, 2016.
- (13) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q as filed with the SEC on May 10, 2016.
- (14) Incorporated by reference to the registrant's Form 8-K which was filed with the SEC on March 6, 2017.
- (15) Incorporated by reference to the registrant's Form 8-K which was filed with the SEC on April 3, 2017.
- (16) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 27, 2017.
- (17) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on December 18, 2017.
- (18) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on February 5, 2018.
- (19) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on March 16, 2018.
- (20) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 6, 2018.
- (21) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on September 20, 2018.
- (22) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on November 9, 2018.
- (23) Incorporated by reference to the registrant's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2017 as filed with the SEC on March 30, 2018.
- (24) Incorporated by reference to the registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017 as filed with the SEC on June 20, 2018.
- (25) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 11, 2018.
- (26) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 19, 2018.
- (27) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on December 6, 2018.

\* Indicates management contract or compensation plan or agreement.

**ITEM 16. FORM 10-K SUMMARY**

None.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ROADRUNNER TRANSPORTATION SYSTEMS, INC.

Date: March 11, 2019

By:           /s/ Terence R. Rogers          

Terence R. Rogers  
Executive Vice President and Chief Financial Officer



## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Curtis W. Stoelting and Terence R. Rogers, and each of them, as his or her true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for him or her and in his or her name, place, and stead, in any and all capacities, to sign any and all amendments to this Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, full power and authority to do and perform each and every act and thing required and necessary to be done in connection therewith, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Curtis W. Stoelting</u> Curtis W. Stoelting	Chief Executive Officer and Director (Principal Executive Officer)	March 11, 2019
<u>/s/ Terence R. Rogers</u> Terence R. Rogers	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 11, 2019
<u>/s/ Michael L. Gettle</u> Michael L. Gettle	President, Chief Operating Officer, and Director	March 11, 2019
<u>/s/ James D. Staley</u> James D. Staley	Chairman of the Board	March 11, 2019
<u>/s/ Scott L. Dobak</u> Scott L. Dobak	Director	March 11, 2019
<u>/s/ Christopher L. Doerr</u> Christopher L. Doerr	Director	March 11, 2019
<u>/s/ John G. Kennedy, III</u> John G. Kennedy, III	Director	March 11, 2019
<u>/s/ Ralph W. Kittle III</u> Ralph W. Kittle III	Director	March 11, 2019
<u>/s/ Brian C. Murray</u> Brian C. Murray	Director	March 11, 2019
<u>/s/ William S. Urkiel</u> William S. Urkiel	Director	March 11, 2019
<u>/s/ Michael P. Ward</u> Michael P. Ward	Director	March 11, 2019

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**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**AND SUBSIDIARIES**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of  
Roadrunner Transportation Systems, Inc. and subsidiaries  
Downers Grove, Illinois

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Roadrunner Transportation Systems, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, stockholders' (deficit) investment, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of 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 accounting principles generally accepted in the United States of America.

We have also 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 (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2019, expressed an adverse opinion on the Company's internal control over financial reporting because of material weaknesses.

### 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/ DELOITTE & TOUCHE LLP  
Chicago, Illinois  
March 11, 2019

We have served as the Company's auditor since 2006.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except par value)	December 31,	
	2018	2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,179	\$ 25,702
Accounts receivable, net of allowances of \$9,980 and \$10,891, respectively	274,843	321,629
Income tax receivable	3,910	14,749
Prepaid expenses and other current assets	61,106	36,306
Total current assets	351,038	398,386
<b>Property and equipment</b> , net of accumulated depreciation of \$130,077 and \$107,037, respectively	188,706	159,547
<b>Other assets:</b>		
Goodwill	264,826	264,826
Intangible assets, net	42,526	49,648
Other noncurrent assets	6,361	3,636
Total other assets	313,713	318,110
<b>Total assets</b>	\$ 853,457	\$ 876,043
<b>LIABILITIES AND STOCKHOLDERS' (DEFICIT) INVESTMENT</b>		
<b>Current liabilities:</b>		
Current maturities of debt	\$ 13,171	\$ 9,950
Current capital lease obligation	13,229	2,397
Accounts payable	160,242	171,905
Accrued expenses and other current liabilities	110,943	103,012
Total current liabilities	297,585	287,264
<b>Deferred tax liabilities</b>	3,953	14,282
<b>Other long-term liabilities</b>	7,857	3,705
<b>Long-term debt, net of current maturities</b>	155,596	189,460
<b>Long-term capital lease obligation</b>	37,737	7,168
<b>Preferred stock</b>	402,884	263,317
Total liabilities	905,612	765,196
<b>Commitments and contingencies (Note 13)</b>		
<b>Stockholders' (deficit) investment:</b>		
Common stock \$.01 par value; 105,000 shares authorized; 38,897 and 38,423 shares issued and outstanding, respectively	389	384
Additional paid-in capital	404,870	403,166
Retained deficit	(457,414)	(292,703)
Total stockholders' (deficit) investment	(52,155)	110,847
<b>Total liabilities and stockholders' (deficit) investment</b>	\$ 853,457	\$ 876,043

See accompanying notes to consolidated financial statements.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Year Ended December 31,		
	2018	2017	2016
(In thousands, except per share amounts)			
<b>Revenues</b>	\$ 2,216,141	\$ 2,091,291	\$ 2,033,200
<b>Operating expenses:</b>			
Purchased transportation costs	1,518,415	1,430,378	1,364,055
Personnel and related benefits	309,753	296,925	286,134
Other operating expenses	397,468	393,731	374,979
Depreciation and amortization	42,767	37,747	38,145
Gain from sale of Unitrans	—	(35,440)	—
Impairment charges	1,582	4,402	373,661
Operations restructuring costs	4,655	—	—
Total operating expenses	<u>2,274,640</u>	<u>2,127,743</u>	<u>2,436,974</u>
<b>Operating loss</b>	(58,499)	(36,452)	(403,774)
<b>Interest expense</b>			
Interest expense - preferred stock	105,688	49,704	—
Interest expense - debt	11,224	14,345	22,827
Total interest expense	<u>116,912</u>	<u>64,049</u>	<u>22,827</u>
<b>Loss from debt extinguishment</b>	—	15,876	—
Loss before income taxes	(175,411)	(116,377)	(426,601)
<b>Benefit from income taxes</b>	(9,814)	(25,191)	(66,281)
Net loss	<u>\$ (165,597)</u>	<u>\$ (91,186)</u>	<u>\$ (360,320)</u>
<b>Loss per share:</b>			
Basic	\$ (4.30)	\$ (2.37)	\$ (9.40)
Diluted	\$ (4.30)	\$ (2.37)	\$ (9.40)
<b>Weighted average common stock outstanding:</b>			
Basic	38,552	38,405	38,318
Diluted	38,552	38,405	38,318

See accompanying notes to consolidated financial statements.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' (DEFICIT) INVESTMENT**

(In thousands, except shares)	Common Stock		Additional Paid-In Capital	Retained (Deficit) Earnings	Total Stockholders' (Deficit) Investment
	Shares	Amount			
<b>BALANCE, January 1, 2016</b>	38,265,869	\$ 383	\$ 397,253	\$ 158,803	\$ 556,439
Issuance of restricted stock units, net of taxes paid	74,738	—	(303)	—	(303)
Issuance costs from secondary stock offering	—	—	(33)	—	(33)
Share-based compensation	—	—	2,232	—	2,232
Excess tax benefit on share-based compensation	—	—	(547)	—	(547)
Net loss	—	—	—	(360,320)	(360,320)
<b>BALANCE, December 31, 2016</b>	38,340,607	\$ 383	\$ 398,602	\$ (201,517)	\$ 197,468
Issuance of restricted stock units, net of taxes paid	82,499	1	(240)	—	(239)
Share-based compensation	—	—	2,233	—	2,233
Issuance of warrants	—	—	2,571	—	2,571
Net loss	—	—	—	(91,186)	(91,186)
<b>BALANCE, December 31, 2017</b>	38,423,106	\$ 384	\$ 403,166	\$ (292,703)	\$ 110,847
Issuance of restricted stock units, net of taxes paid	94,001	1	(82)	—	(81)
Share-based compensation	—	—	1,786	—	1,786
Exercise of warrants	379,572	4	—	—	4
Cumulative effect of change in accounting principle	—	—	—	886	886
Net loss	—	—	—	(165,597)	(165,597)
<b>BALANCE, December 31, 2018</b>	38,896,679	\$ 389	\$ 404,870	\$ (457,414)	\$ (52,155)

See accompanying notes to consolidated financial statements.

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
<b>Cash flows from operating activities:</b>			
Net loss	\$ (165,597)	\$ (91,186)	\$ (360,320)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	43,547	38,880	40,720
Loss on disposal of property and equipment	3,212	1,637	4,144
Gain on sale of business	—	(35,440)	(5,416)
Share-based compensation	1,786	2,233	2,232
Change in fair value of preferred stock	104,568	18,387	—
Amortization of preferred stock issuance costs	1,120	16,112	—
Loss from debt extinguishment	—	15,876	—
Adjustments to contingent purchase obligations	1,840	—	(2,458)
Provision for bad debts	3,479	5,964	5,127
Deferred tax benefit	(10,624)	(27,066)	(43,441)
Impairment charges	1,582	4,402	373,661
Changes in (net of acquisitions):			
Accounts receivable	43,902	(70,171)	(18,020)
Income taxes receivable	9,935	26,017	(20,103)
Prepaid expenses and other assets	(26,052)	(753)	8,152
Accounts payable	(12,291)	28,960	32,901
Accrued expenses and other liabilities	5,187	20,596	11,675
Net cash provided by (used in) operating activities	<u>5,594</u>	<u>(45,552)</u>	<u>28,854</u>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(25,495)	(14,517)	(17,573)
Proceeds from sale of property and equipment	2,780	3,636	6,980
Proceeds from sale of business	—	88,512	1,000
Net cash (used in) provided by investing activities	<u>(22,715)</u>	<u>77,631</u>	<u>(9,593)</u>
<b>Cash flows from financing activities:</b>			
Borrowings under revolving credit facilities	695,751	264,405	292,124
Payments under revolving credit facilities	(708,256)	(290,068)	(262,573)
Debt borrowings	557	56,927	—
Debt payments	(19,082)	(278,819)	(18,500)
Debt issuance cost	(373)	(4,672)	(871)
Cash collateralization of letters of credit	—	(175)	—
Payment of debt extinguishment costs	—	(10,960)	—
Payments of contingent purchase obligations	—	—	(2,455)
Preferred stock issuance costs	(1,120)	(16,112)	—
Proceeds from issuance of preferred stocks and warrants	34,999	540,500	—
Preferred stock payments	—	(293,000)	—
Proceeds from exercise of stock warrants	4	—	—
Issuance of restricted stock units, net of taxes paid	(81)	(239)	(303)
Proceeds from insurance premium financing	17,782	—	—
Payments on insurance premium financing	(12,133)	—	—
Reduction of capital lease obligation	(5,450)	(3,677)	(5,100)
Net cash provided by (used in) financing activities	<u>2,598</u>	<u>(35,890)</u>	<u>2,322</u>
<b>Net (decrease) increase in cash and cash equivalents</b>	<u>(14,523)</u>	<u>(3,811)</u>	<u>21,583</u>
<b>Cash and cash equivalents:</b>			
Beginning of period	25,702	29,513	7,930
End of period	<u>\$ 11,179</u>	<u>\$ 25,702</u>	<u>\$ 29,513</u>

**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
<b>Supplemental cash flow information:</b>			
Cash paid for interest	\$ 10,408	\$ 28,129	\$ 19,473
Cash refunds from income taxes, net	\$ (9,597)	\$ (25,254)	\$ (3,943)
Non-cash sale of business	\$ —	\$ —	\$ 3,860
Non-cash capital leases and other obligations to acquire assets	\$ 46,973	\$ 7,193	\$ —
Capital expenditures, not yet paid	\$ 628	\$ —	\$ —

See accompanying notes to consolidated financial statements.



## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements

#### 1. Organization, Nature of Business and Significant Accounting Policies

##### *Nature of Business*

Roadrunner Transportation Systems, Inc. (the "Company") is headquartered in Downers Grove, Illinois with operations primarily in the United States and is organized in the following three segments: Truckload & Express Services ("TES"), Less-than-Truckload ("LTL"), and Ascent Global Logistics ("Ascent"). Within its TES segment, the Company serves customers throughout North America and provides the following services: air and ground expedite; over-the-road operations, including dry van, temperature controlled and flatbed; intermodal drayage and chassis management; and local, warehousing and other logistics. Within its LTL segment, the Company delivers LTL shipments throughout the United States and parts of Canada and operates service centers, complemented by relationships with numerous pick-up and delivery agents. Within its Ascent segment, the Company provides third-party domestic freight management, international freight forwarding, customs brokerage, and retail consolidation solutions.

##### *Principles of Consolidation*

The accompanying audited consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission ("SEC"). All intercompany balances and transactions have been eliminated in consolidation.

The Company owns 37.5% of Central Minnesota Logistics, Inc. ("CML"), which operates as one of the Company's brokerage agents. CML is accounted for under the equity method and is insignificant to the consolidated financial statements. The Company records its investment in CML in other noncurrent assets and recognizes its share of the net income or loss of CML.

##### *Change in Accounting Principle*

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, which was updated in August 2015 by ASU No. 2015-14, Revenue from Contracts with Customers ("Topic 606"). The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In March 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-08 ("ASU 2016-08"), Revenue from Contracts with Customers - Principal versus Agent Considerations (Reporting Revenue Gross versus Net). Under ASU 2016-08, when another party is involved in providing goods or services to a customer, an entity is required to determine whether the nature of its promise is to provide the specified good or service (that is, the entity is a principal) or to arrange for that good or service to be provided by another party. When the principal entity satisfies a performance obligation, the entity recognizes revenue in the gross amount. When an entity that is an agent satisfies the performance obligation, that entity recognizes revenue in the amount of any fee or commission to which it expects to be entitled.

The Company determined key factors from the five-step process to recognize revenue as prescribed by the new standard that may be applicable to each of the Company's operating businesses that roll up into its three segments. Significant customers and contracts from each business unit were identified and the Company reviewed these contracts. The Company completed the evaluation of the provisions of these contracts and compared the historical accounting policies and practices to the requirements of the new standard including the related qualitative disclosures regarding the potential impact of the effects of the accounting policies and a comparison to the Company's previous revenue recognition policies.

The Company determined that certain transactions with customers required a change in the timing of when revenue and related expense is recognized. The guidance was applied only to contracts that were not completed at the date of initial adoption. The Company elected the modified retrospective method which required a cumulative adjustment to retained earnings instead of retrospectively adjusting prior periods. The Company recorded a \$0.9 million benefit to opening retained earnings as of January 1, 2018 for the cumulative impact of adoption related to the recognition of in-transit revenue. Results for 2018 are presented under Topic 606, while prior periods were not adjusted. The adoption of Topic 606 did not have a material impact on the Company's consolidated financial statements for the year ended December 31, 2018. The disclosure requirements of Topic 606 are included within the Company's revenue recognition accounting policy below.

##### *Use of Estimates*

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States (“GAAP”), requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### Segment Reporting

The Company determines its segments based on the information utilized by the chief operating decision maker, the Company’s Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it has three segments: TES, LTL, and Ascent. The Company changed its segment reporting effective January 1, 2018 when it integrated its truckload brokerage business into the Ascent domestic freight management business. Segment information for prior periods has been revised to align with the new segment structure.

#### Cash and Cash Equivalents

Cash equivalents are defined as short-term investments that have an original maturity of three months or less at the date of purchase and are readily convertible into cash. The Company maintains cash in several banks and, at times, the balances may exceed federally insured limits.

#### Accounts Receivable and Related Reserves

Accounts receivable represent trade receivables from customers and are stated net of an allowance for doubtful accounts of approximately \$10.0 million and \$10.9 million as of December 31, 2018 and 2017, respectively. Management estimates the portion of accounts receivable that will not be collected and accounts are written off when they are determined to be uncollectible. Accounts receivable are uncollateralized and are generally due 30 to 60 days from the invoice date.

The rollforward of the allowance for doubtful accounts is as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Beginning balance	\$ 10,891	\$ 18,573	\$ 14,026
Divestiture of Unitrans	—	(91)	—
Provision, charged to expense	3,479	5,964	5,127
Write-offs, less recoveries	(4,390)	(13,555)	(580)
Ending balance	\$ 9,980	\$ 10,891	\$ 18,573

#### Property and Equipment

Property and equipment are stated at cost. Maintenance and repair costs are charged to expense as incurred. For financial reporting purposes, depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	5-40 years
Computer equipment	3-5 years
Internal use software	5-10 years
Office equipment, furniture, and fixtures	3-10 years
Dock, warehouse, and other equipment	5-7 years
Tractors and trailers	3-15 years
Aircraft fleet and spare parts	3-10 years

Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease term. Accelerated depreciation methods are used for tax reporting purposes.

Property and equipment and other long-lived assets are reviewed periodically for possible impairment. The Company evaluates whether current facts or circumstances indicate that the carrying value of the assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured and recorded based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its carrying value or its fair value less the cost to sell.

Costs incurred to develop software for internal use are capitalized and amortized over the estimated useful life of the software. Costs related to maintenance of internal-use software are expensed as incurred.

#### *Spare Parts for Aircraft Fleet*

Spare parts for aircraft fleet are categorized into several categories: rotables, repairables, expendables, and materials and supplies. Rotable and repairable spare parts for aircraft fleet are typically significant in value, can be repaired and re-used, and generally have an expected useful life consistent with the aircraft fleet these parts support. Rotables and repairables for aircraft fleet are recorded at cost and depreciated over the lesser of the life of the aircraft or spare part. The cost of repairing these aircraft fleet parts is expensed as incurred. Expendables and materials and supplies are expensed when purchased.

#### *Goodwill and Other Intangibles*

Goodwill represents the excess of the purchase price of all acquisitions over the estimated fair value of the net assets acquired. The Company evaluates goodwill and intangible assets for impairment at least annually on July 1st or more frequently whenever events or changes in circumstances indicate that the asset may be impaired, or in the case of goodwill, the fair value of the reporting unit is below its carrying amount. The analysis of potential impairment of goodwill requires the Company to compare the estimated fair value at each of its reporting units to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds the estimated fair value of the reporting unit, a non-cash goodwill impairment loss is recognized as an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

For purposes of the impairment analysis, the fair value of the Company's reporting units is estimated based upon an average of the market approach and the income approach, both of which incorporate numerous assumptions and estimates such as company forecasts, discount rates, and growth rates, among others. The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums appropriate for acquisitions in the industries in which the Company competes, the discount rate, terminal growth rates, and forecasts of revenue, operating income, and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships and property and equipment. Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company's stock may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

Prior to 2017, the analysis of potential impairment of goodwill required a two-step approach, the first of which was to compare the estimated fair value at each of the reporting units to its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeded its fair value, a second step was required to measure the goodwill impairment loss. The second step included valuing all the tangible and intangible assets of the reporting unit as if the reporting unit had been acquired in a business combination. Then, the implied fair value of the reporting unit's goodwill was compared to the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeded the implied fair value of the goodwill, a non-cash goodwill impairment loss was recognized in an amount equal to the excess, not to exceed the carrying amount. See Note 4 for more information on how the Company analyzes the valuation of its goodwill and the results of that valuation.

Intangible assets consist primarily of definite lived customer relationships. The customer relationships intangible assets are amortized over their estimated five to 12-year useful lives. The Company evaluates its intangible assets for impairment when current facts or circumstances indicate that the carrying value of the assets to be held and used may not be recoverable. See Note 4 for additional information on the Company's intangible assets.

#### *Fair Value Measurement*

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

The estimated fair value of the Company's debt approximated its carrying value as of December 31, 2018 and 2017 as the debt facilities as of such dates bore interest based on prevailing variable market rates and as such were categorized as a Level 2 in the fair value hierarchy as defined in Note 7.

The Company has elected to measure the value of its preferred stock using the fair value method. The fair value of the preferred stock is the estimated amount that would be paid to redeem the liability in an orderly transaction between market participants at the measurement date. The significant inputs used to determine the fair value are unobservable and require significant management judgment or estimation and as such were categorized as a Level 3 in the fair value hierarchy. See Note 7 for more information on how the Company determines the fair value of its preferred stock.

#### *Issuance Costs*

Debt issuance costs represent costs incurred in connection with the issuance of the Company's debt. Issuance costs associated with the Company's debt are capitalized and amortized over the expected maturity of the financing agreements using the effective interest rate method. Unamortized debt issuance costs have been classified as a reduction to debt in the consolidated balance sheets.

Issuance costs incurred in connection with the issuance of the Company's preferred stock have been expensed as incurred and are reflected in interest expense - preferred stock.

#### *Share-Based Compensation*

The Company's share-based payment awards are comprised of stock options, restricted stock units, and performance restricted stock units. The cost for the Company's stock options is measured at fair value using the Black-Scholes option pricing model. The cost for restricted stock units and performance restricted stock units is measured using the stock price at the grant date. The cost is recognized over the vesting period of the award, which is typically four years. The amount of costs recognized for performance restricted stock units over the vesting period is dependent on the Company meeting the pre-established financial performance goals.

#### *Income Taxes*

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. The U.S. federal tax rate reduction from 35% to 21% (pursuant to the Tax Cuts and Jobs Act enacted on December 22, 2017) was recognized in the benefit from income taxes in 2017.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company generally considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. Given the Company's recent operating losses, projected future taxable income and tax-planning strategies cannot be considered as sources of future taxable income. A valuation allowance has been established related to deferred tax assets that will not "more likely than not" be realized in the future. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

#### *Revenue Recognition (effective January 1, 2018)*

The Company's revenues are primarily derived from transportation services which includes providing freight and carrier services both domestically and internationally via land, air, and sea. The Company disaggregates revenue among its three segments, TES, LTL and Ascent, as presented in Note 15.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

**Performance Obligations** - A performance obligation is created once a customer agreement with an agreed upon transaction price exists. The terms and conditions of the Company's agreements with customers are generally consistent within each segment. The transaction price is typically fixed and determinable and is not contingent upon the occurrence or non-occurrence of any other event. The transaction price is generally due 30 to 60 days from the date of invoice. The Company's transportation service is a promise to move freight to a customer's destination, with the transit period typically being less than one week. The Company views the transportation services it provides to its customers as a single performance obligation. This performance obligation is satisfied and recognized in revenue over the requisite transit period as the customer's goods move from origin to destination. The Company determines the period to recognize revenue in transit based upon the departure date and the delivery date, which may be estimated if delivery has not occurred as of the reporting date. Determining the transit period and the percentage of completion as of the reporting date requires management to make judgments that affect the timing of revenue recognized. The Company has determined that revenue recognition over the transit period provides a reasonable estimate of the transfer of goods and services to its customers as the Company's obligation is performed over the transit period.

**Principal vs. Agent Considerations** - The Company utilizes independent contractors and third-party carriers in the performance of some transportation services. The Company evaluates whether its performance obligation is a promise to transfer services to the customer (as the principal) or to arrange for services to be provided by another party (as the agent) using a control model. This evaluation determined that the Company is in control of establishing the transaction price, managing all aspects of the shipments process and taking the risk of loss for delivery, collection, and returns. Based on the Company's evaluation of the control model, it determined that all of the Company's major businesses act as the principal rather than the agent within their revenue arrangements and such revenues are reported on a gross basis.

**Contract Balances and Costs** - The Company applies the practical expedient in Topic 606 that permits the Company to not disclose the aggregate amount of transaction price allocated to performance obligations that are unsatisfied as of the end of the period as the Company's contracts have an expected length of one year or less. The Company also applies the practical expedient in Topic 606 that permits the recognition of incremental costs of obtaining contracts as an expense when incurred if the amortization period of such costs is one year or less. These costs are included in purchased transportation costs.

The Company's performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unbilled amounts and accrued freight costs for freight shipments in transit. As of December 31, 2018, the Company has \$7.8 million of unbilled amounts recorded in accounts receivable and \$6.1 million of accrued freight costs recorded in accounts payable. Amounts recorded to revenue and purchased transportation costs are not material for the year ended December 31, 2018.

#### *Insurance*

The Company uses a combination of purchased insurance and self-insurance programs to provide for the cost of auto liability, general liability, cargo damage, workers' compensation claims, and benefits paid under employee health care programs. Insurance reserves are established for estimates of the loss that the Company will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported.

The measurement and classification of self-insured costs requires the consideration of historical cost experience, demographic and severity factors, and judgments about the current and expected levels of cost per claim and retention levels. These methods provide estimates of the liability associated with claims incurred as of the balance sheet date, including claims not reported. The Company believes these methods are appropriate for measuring these self-insurance accruals.

#### *Lease Purchase Guarantee*

In connection with leases of certain equipment used exclusively for the Company, the Company has a guarantee to perform in the event of default by the driver. The Company estimates the costs associated with the guarantee by estimating the default rate at the inception of the lease. The Company records the liability and a corresponding asset, which is subsequently amortized over the life of the lease.

#### *New Accounting Pronouncements*

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) ("ASU 2016-02"), which will be effective for the Company in 2019. For financing leases, a lessee is required to: (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments; (2) recognize interest on the lease liability separately from amortization of the right-of-use asset; and (3) classify repayments of the principal portion of the lease liability within financing activities and

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, a lessee is required to: (1) recognize the right-to-use asset and a lease liability, initially measured at the present value of the lease payments; (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis; and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12 months or less, the Company has decided to make an accounting policy election by class of underlying assets not to recognize lease assets and lease liabilities. Therefore, the Company will recognize lease expense for leases with a term of 12 months or less on a straight-line basis over the lease term. The Company is in the process of evaluating the guidance in ASU 2016-02 and will determine the total impact of the new guidance based on the current lease arrangements that are expected to remain in place. The Company expects adoption of this guidance will have a material impact on the Company's consolidated balance sheet given the Company will be required to record operating leases with lease terms greater than 12 months within assets and liabilities on the consolidated balance sheets. The Company does not expect a material impact on the Company's consolidated statements of operations or cash flows. The Company is also in the process of implementing a new lease accounting system and updating its processes in preparation for the adoption of the new leases standard. The Company is currently in the process of determining the impact that this guidance will have on its consolidated financial statements. See Note 13 for a summary of the Company's future minimum lease payments under noncancelable operating leases with an initial term in excess of one year.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other than Inventory ("ASU 2016-16"), which is effective for the Company in 2018. GAAP previously prohibited the recognition of current and deferred income taxes for intra-entity asset transfers other than inventory (e.g. property and equipment) until the asset had been sold to an outside party. Under ASU 2016-16, the FASB decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs. The Company adopted ASU 2016-16 effective January 1, 2018 and it did not have a material impact on the Company's consolidated financial statements.

## 2. Property and Equipment

Property and equipment consisted of the following as of December 31 (in thousands):

	2018	2017
Land	\$ 3,722	\$ 3,785
Buildings and leasehold improvements	21,276	18,625
Computer equipment	22,013	22,004
Internal use software	42,993	33,789
Office equipment, furniture, and fixtures	9,473	5,035
Dock, warehouse, and other equipment	10,675	9,259
Tractors and trailers	173,861	144,260
Aircraft fleet and rotatable spare parts	34,770	29,827
Property and equipment, gross	318,783	266,584
Less: Accumulated depreciation	(130,077)	(107,037)
Property and equipment, net	\$ 188,706	\$ 159,547

As of December 31, 2018 and 2017, \$27.1 million and \$10.9 million, respectively, of assets not yet placed into service have been included in the line items above. Depreciation expense related to property and equipment was \$35.6 million, \$28.5 million, and \$29.6 million for the years ended December 31, 2018, 2017, and 2016, respectively.

In 2018, the Company recorded an asset impairment charge of \$1.6 million related to tractors that were classified as "held for sale" within its TES segment. The value of the assets held for sale is \$2.2 million and are recorded within the balances for Tractors and trailers presented in the table above.

## 3. Acquisitions and Divestitures

On July 28, 2015, the Company acquired all of the outstanding partnership interests of Stagecoach Cartage and Distribution LP ("Stagecoach") for the purpose of expanding its presence within the TES segment. The Stagecoach purchase agreement called for contingent consideration in the form of a contingent purchase obligation capped at \$5.0 million. The former owners of Stagecoach were entitled to receive a payment equal to the amount by which Stagecoach's operating income before depreciation and amortization, as defined in the purchase agreement, exceeded \$7.0 million for the twelve-month periods ending July 31, 2016,

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

2017, 2018, and 2019. Approximately \$4.1 million was recorded as a contingent purchase obligation on the opening balance sheet. The Company paid \$1.7 million of the contingent purchase obligation in the fourth quarter of 2016. Based on future expected earnings, the Company did not expect to pay any additional contingent purchase obligation and recorded an adjustment to write-off the remaining contingent purchase obligation in 2016. In December 2017, the Company and the former owners of Stagecoach signed an agreement releasing the Company from any further obligation under the contingent purchase obligation.

On September 15, 2017, the Company completed the sale of its wholly-owned subsidiary Unitrans, Inc. (“Unitrans”). The Company received net proceeds of \$88.5 million and recognized a gain of \$35.4 million. Proceeds from the sale were used primarily to redeem a portion of the Series E Preferred Stock and to provide funding for operations. The results of operations and financial condition of Unitrans have been included in the Company's consolidated financial statements within the Company's Ascent segment until the date of sale. The divestiture of Unitrans did not meet the criteria for being classified as a discontinued operation and, accordingly, its results are presented within continuing operations. Unitrans contributed \$5.8 million and \$8.0 million of income before taxes for the years ended December 31, 2017 and 2016, respectively.

#### 4. Goodwill and Intangible Assets

Goodwill represents the excess of the purchase price of all acquisitions over the estimated fair value of the net assets acquired. The Company evaluates goodwill and intangible assets for impairment at least annually on July 1st or more frequently whenever events or changes in circumstances indicate that the asset may be impaired, or in the case of goodwill, the fair value of the reporting unit is below its carrying amount. The analysis of potential impairment of goodwill requires the Company to compare the estimated fair value at each of its reporting units to its carrying amount, including goodwill. If the carrying amount of the reporting unit exceeds the estimated fair value of the reporting unit, a non-cash goodwill impairment loss is recognized as an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.

For purposes of the impairment analysis, the fair value of the Company's reporting units is estimated based upon an average of the market approach and the income approach, both of which incorporate numerous assumptions and estimates such as company forecasts, discount rates and growth rates, among others. The determination of the fair value of the reporting units and the allocation of that value to individual assets and liabilities within those reporting units requires the Company to make significant estimates and assumptions. These estimates and assumptions primarily include, but are not limited to, the selection of appropriate peer group companies, control premiums appropriate for acquisitions in the industries in which the Company competes, the discount rate, terminal growth rates, and forecasts of revenue, operating income, and capital expenditures. The allocation requires several analyses to determine fair value of assets and liabilities including, among others, customer relationships and property and equipment. Although the Company believes its estimates of fair value are reasonable, actual financial results could differ from those estimates due to the inherent uncertainty involved in making such estimates. Changes in assumptions concerning future financial results or other underlying assumptions could have a significant impact on either the fair value of the reporting units, the amount of the goodwill impairment charge, or both. Future declines in the overall market value of the Company's stock may also result in a conclusion that the fair value of one or more reporting units has declined below its carrying value.

The Company has four reporting units for its three segments: one reporting unit for its TES segment; one reporting unit for its LTL segment; and two reporting units for its Ascent segment, which are the Domestic and International Logistics reporting unit and the Warehousing & Consolidation reporting unit.

In connection with the change in segments, the Company conducted an impairment analysis as of January 1, 2018 and determined there was no impairment. The Company also conducted its annual goodwill impairment analysis for each of its four reporting units as of July 1, 2018 and determined that the fair values of the TES, Domestic and International Logistics, and Warehousing & Consolidation reporting units exceeded their respective carrying values by 5.1%, 12.8%, and 112.2%, respectively; thus no impairment was indicated for these reporting units. The LTL reporting unit had no remaining goodwill as of July 1, 2018.

The table below provides a sensitivity analysis for the TES, Domestic and International Logistics, and Warehousing & Consolidation reporting units, which shows the estimated fair value impacts related to a 50-basis point increase or decrease in the discount and long-term growth rates used in the valuation as of July 1, 2018.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

	Approximate Percent Change in Estimated Fair Value	
	+/- 50 bps Discount Rate	+/- 50bps Growth Rate
TES reporting unit	(5.4%) / 5.0%	3.6% / (3.2%)
Domestic and International Logistics reporting unit	(5.6%) / 4.9%	3.5% / (2.8%)
Warehousing & Consolidation reporting unit	(4.3%) / 4.3%	3.1% / (3.1%)

The sale of Unitrans, which was included in the Domestic and International Logistics reporting unit, reduced the Domestic and International Logistics reporting unit's goodwill and gross carrying amount of intangible asset balances by \$42.8 million and \$12.0 million, respectively, resulting in an incremental impairment analysis on the remaining net assets of the Domestic and International Logistics reporting unit. The Company evaluated the remaining carrying value of the Domestic and International Logistics reporting unit and compared it to the fair value of the remaining businesses in the Domestic and International Logistics reporting unit. As a result of this evaluation, the Company determined the carrying value exceeded the fair value and recorded a \$4.4 million impairment charge in the third quarter of 2017 within the Ascent segment.

As a result of the first step of the Company's goodwill impairment analysis as of July 1, 2016, the Company determined that the fair value of the Domestic and International Logistics reporting unit exceeded its carrying value by 8.4%; thus, no impairment was indicated for this reporting unit. However, resulting from a combination of the weakened environment, the inability to meet forecast results, and the lower share price, the Company determined that the fair value of the TES, LTL, and Warehousing & Consolidation reporting units were less than their respective carrying values, requiring the Company to perform the second step of the goodwill impairment analysis for its TES, LTL, and Warehousing & Consolidation reporting units. The Company completed the second step of the goodwill impairment analysis for its TES, LTL, and Warehousing & Consolidation reporting units and recorded in the third quarter of 2016 non-cash goodwill impairment charges of \$132.4 million, \$197.3 million, and \$42.4 million for its TES, LTL, and Warehousing & Consolidation reporting units, respectively.

In connection with the change in segments as indicated in Note 1, the Company reallocated goodwill between the TES and Ascent segments of \$5.8 million. The following is a rollforward of goodwill from December 31, 2016 to December 31, 2018 by segment (in thousands):

	TES	LTL	Ascent	Total
Goodwill balance as of December 31, 2016	\$ 93,396	\$ —	\$ 219,145	\$ 312,541
Adjustments to goodwill for purchase accounting	(470)	—	—	(470)
Adjustments to goodwill for sale of Unitrans	—	—	(42,843)	(42,843)
Goodwill impairment charges	—	—	(4,402)	(4,402)
Goodwill balance as of December 31, 2017	\$ 92,926	\$ —	\$ 171,900	\$ 264,826
Goodwill balance as of December 31, 2018	\$ 92,926	\$ —	\$ 171,900	\$ 264,826

In connection with the change in segments as indicated in Note 1, the Company reallocated \$25.1 million of impairment charges between the TES and Ascent segments. The following is a breakdown of the Company's accumulated goodwill impairment losses from January 1, 2016 to December 31, 2018 by segment (in thousands):

	TES	LTL	Ascent	Total
Balance as of January 1, 2016	\$ —	\$ —	\$ —	\$ —
Impairment charges in 2016	132,408	197,312	42,361	372,081
Impairment charges in 2017	—	—	4,402	4,402
Balance as of December 31, 2018	\$ 132,408	\$ 197,312	\$ 46,763	\$ 376,483

Intangible assets consist primarily of customer relationships acquired from business acquisitions. In connection with the change in segments as indicated in Note 1, the Company reallocated net intangible assets of \$0.3 million between the TES and Ascent segments. Intangible assets were as follows as of December 31 (in thousands):



**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

	2018			2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
TES	\$ 55,008	\$ (22,959)	\$ 32,049	\$ 55,008	\$ (18,470)	\$ 36,538
LTL	2,498	(1,925)	573	2,498	(1,748)	750
Ascent	27,152	(17,248)	9,904	27,152	(14,792)	12,360
Total intangible assets	<u>\$ 84,658</u>	<u>\$ (42,132)</u>	<u>\$ 42,526</u>	<u>\$ 84,658</u>	<u>\$ (35,010)</u>	<u>\$ 49,648</u>

Amortization expense was \$7.1 million, \$9.2 million, and \$8.6 million for the years ended December 31, 2018, 2017, and 2016, respectively. In the fourth quarter of 2016, the Company decided to shut down one of its TES business operations due to the significant decline in volume resulting from the loss of a significant customer. The Company reviewed the customer relationship intangible associated with the business operation, considered the decline in volumes, determined the customer relationship intangible was impaired, and recorded an impairment charge of \$1.6 million in 2016. The Company identified indicators of impairment with certain other business operations and performed the required impairment analysis, but no impairment was identified.

Estimated amortization expense for each of the next five years based on intangible assets as of December 31, 2018 is as follows (in thousands):

Year Ending:	
2019	\$ 6,819
2020	6,447
2021	6,265
2022	5,826
2023	5,462
Thereafter	11,707
Total	<u>\$ 42,526</u>

**5. Debt**

The Company's debt consisted of the following at December 31 (in thousands):

	2018	2017
Revolving credit facility	\$ 134,532	\$ 147,037
Term loan	37,333	55,858
Total debt	\$ 171,865	\$ 202,895
Less: Debt issuance costs and discount	(3,098)	(3,485)
Total debt, net of debt issuance costs and discount	168,767	199,410
Less: Current maturities	(13,171)	(9,950)
Total debt, net of current maturities	<u>\$ 155,596</u>	<u>\$ 189,460</u>

Maturities for each of the next four years based on debt as of December 31, 2018 are as follows (in thousands)

Year Ending:	
2019	\$ 13,171
2020	14,180
2021	14,189
2022	130,325
Total	<u>\$ 171,865</u>

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

On July 21, 2017, the Company entered into the Asset-Based Lending (“ABL”) Facility with BMO Harris Bank, N.A. and certain other lenders (the “ABL Facility”). The Company used the initial proceeds from the ABL Facility for working capital purposes and to redeem all of the outstanding shares of its Series F Preferred Stock. The ABL Facility matures on July 21, 2022.

The ABL Facility consists of a:

- \$200.0 million asset-based revolving line of credit, of which \$20.0 million may be used for swing line loans and \$30.0 million may be used for letters of credit;
- \$56.8 million term loan facility; and
- \$35.0 million asset-based facility available to finance future capital expenditures, which was subsequently terminated before being utilized.

The Company initially borrowed \$141.7 million under the revolving line of credit and \$56.8 million under the term loan facility. Principal on the term loan facility is due in quarterly installments commencing on March 31, 2018. Borrowings under the ABL Facility are secured by substantially all of the assets of the Company. Borrowings under the ABL Facility bear interest at either the (a) LIBOR Rate (as defined in the credit agreement) plus an applicable margin in the range of 1.5% to 2.25%, or (b) the Base Rate (as defined in the credit agreement) plus an applicable margin in the range of 0.5% to 1.25%. The ABL Facility contains a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability falls below a specified amount. The ABL Facility also provides for the issuance of up to \$30.0 million in letters of credit. As of December 31, 2018, the Company had outstanding letters of credit totaling \$12.9 million. As of December 31, 2018, total availability under the ABL facility was \$31.2 million but the Company could not draw more than \$11.8 million as of that date to maintain at least \$19.4 million of Adjusted Excess Availability in order to avoid the commencement of a Fixed Charge Trigger Period. In addition, the ABL Facility contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted. The ABL Facility also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the credit agreement to be in full force and effect, and a change of control of the Company's business.

On December 15, 2017, the Company entered into a First Amendment to the ABL Facility. Pursuant to the First Amendment the ABL Facility was amended to (i) reduce the maximum borrowing amount under the revolving line of credit by \$15.0 million and (ii) terminate the asset-based facility available to finance future capital expenditures.

On January 30, 2018, the Company entered into a Second Amendment to the ABL Facility. Pursuant to the Second Amendment the ABL Facility was further amended to, among other things: (i) permit the Company to enter into an investment agreement with Elliott providing for the issuance of up to \$52.5 million of preferred stock; and (ii) increase the applicable margin related to the term loan facility to LIBOR Rate plus 2.25% or Base Rate plus 1.25%.

On March 14, 2018, the Company entered into a Third Amendment to the ABL Facility. Pursuant to the Third Amendment the ABL Facility was further amended to, among other things: (i) extend the date for delivery of the Company's consolidated financial statements for the first three quarters of 2017 (unaudited) until April 30, 2018; (ii) extend the date for delivery of the Company's consolidated financial statements for fiscal year 2017 (audited) until June 30, 2018; (iii) expand the permitted amount of capital leases and purchase money indebtedness from \$35.0 million to \$60.0 million; (iv) require the Company to pay for a new appraisal to be conducted by the administrative agent for the equipment pledged for the term loan within 60 days; (v) establish an additional availability reserve; and (vi) impose certain collateral reporting requirements.

On August 3, 2018, the Company entered into a Fourth Amendment to the ABL Facility. Pursuant to the Fourth Amendment the ABL Facility was further amended to, among other things, reduce the amount of proceeds from the third tranche under the Series E-1 Investment Agreement (as defined herein) to be applied to the bank term loan from 30% to 10%.

On September 19, 2018, the Company entered into a Fifth Amendment to the ABL Facility. Pursuant to the Fifth Amendment the lenders waived: (i) an Event of Default that arose under Section 9.01(b) of the ABL Facility due to (a) a Fixed Charge Trigger Period commencing as of September 6, 2018, and (b) the Consolidated Fixed Charge Coverage Ratio, determined on a Pro Forma Basis as of July 31, 2018, which is the last day of the Measurement Period most recently ended prior to September 6th and 7th of 2018, being less than 1.00 to 1.00; and (ii) the Dominion Trigger Period and the Reporting Trigger Period for the period commencing on September 6, 2018 and ending on September 19, 2018. Pursuant to the Fifth Amendment, the ABL Facility was further amended to, among other things: (i) extend the time period during which the Company is permitted to issue Series E-1 Preferred Stock (as

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

defined herein) under the Series E-1 Investment Agreement (as amended) from November 30, 2018 to December 31, 2018; and (ii) amend the definitions of Dominion Trigger Period and Reporting Trigger Period to confirm that a Dominion Trigger Period and a Reporting Trigger Period have each commenced on September 19, 2018 and will continue until (a) the date that during the previous thirty (30) consecutive days, (1) no Event of Default has existed, and (2) Adjusted Excess Availability has been equal to or greater than the greater of (x) ten percent (10%) of the Maximum Borrowing Amount at such time and (y) \$17,500,000, and (b) the Company has received net cash proceeds from the issuance of Equity Interests (other than Disqualified Equity Interest) of at least \$30,000,000.

On November 8, 2018, the Company entered into a Sixth Amendment to the ABL Facility. Pursuant to the Sixth Amendment, (i) the Change of Control definition was amended to avoid a violation of the Change of Control requirements if Elliott acquires more than 35% of the voting stock of the Company in connection with the Standby Purchase Agreement; (ii) the Company is permitted to enter into Permitted Replacement Term Debt that would refinance the existing Term Loans under the Credit Agreement; (iii) the Company is permitted to enter into the Standby Purchase Agreement or any registration rights agreement and stockholders agreement executed in connection therewith; (iv) so long as no Default or Event of Default exists at such time, the Company is permitted to make Restricted Payments on the Rights Offering Effective Date even if the Payment Conditions are not satisfied; (v) the Company is required to retain at least \$30 million in net cash proceeds from the Rights Offering (inclusive of any amounts received from the Standby Purchase Agreement) and use such proceeds solely for general corporate purposes; and (vi) the limitation on purchase money security indebtedness and capital leases was increased from \$60.0 million to \$75.0 million. If the Rights Offering Effective Date occurs, the Credit Agreement will be further amended to, among other things: (i) increase the interest rates applicable to the Loans; (ii) increase the Availability Block from \$15.0 million to \$20.0 million, which \$20.0 million Availability Block may (x) decrease by \$5.0 million in the event the Term Loan is paid in full, (y) further decrease by \$5.0 million upon the Company meeting a 1.25x Consolidated Fixed Charge Coverage Ratio, and (z) further decrease by \$5.0 million upon the Company meeting a 1.00x Consolidated Fixed Charge Coverage Ratio; (iii) eliminate the ability of the Company to make any Specified Restricted Payment even if the requirement to meet the test of a Consolidated Fixed Charge Coverage Ratio of 1.00x is not satisfied (i.e. prior to the Sixth Amendment Effective Date, the satisfaction of the Consolidated Fixed Charge Coverage Ratio test to make a Specified Restricted Payment was not applicable to any Specified Transaction if the Adjusted Excess Availability of the Company was not less than the greater of (x) 17.5% of Maximum Borrowing Amount, and (y) \$28.0 million), but after the Sixth Amendment Effective Date the elimination of the Consolidated Fixed Charge Coverage Ratio test (x) is not available with respect to a Specified Restricted Payment, and (y) remains available with respect to Specified Transactions other than a Specified Restricted Payment; (iv) increase the quarterly Term Loan payments to \$3.0 million on March 31, 2019 and \$3.5 million on September 30, 2019 (and each quarterly payment thereafter); and (v) further increase the limitation on purchase money security indebtedness and capital leases from \$75.0 million to \$100.0 million upon the earlier of (x) December 31, 2019, and (y) the indefeasible payment in full of all Term Loans under the Credit Agreement.

On January 9, 2019, the Company entered into a Seventh Amendment to the ABL Facility which was then further amended on January 11, 2019, when the Company entered into an Eighth Amendment to the ABL Facility. See Note 17, Subsequent Events, for more information on these amendments.

Prior to the ABL Facility, the Company had senior debt that was comprised of a revolving line of credit and a term loan. The senior debt was paid off with the proceeds from the issuance of preferred stock on May 2, 2017. See Note 6 for further information on the Company's issuance of preferred stock. In connection with the pay-off of the senior debt, the Company recorded a loss from debt extinguishment of \$9.8 million in the second quarter of 2017.

On February 28, 2019, the Company and its direct and indirect domestic subsidiaries entered into a credit agreement (the "ABL Credit Agreement") with BMO Harris Bank N.A., as Administrative Agent, Lender, Letter of Credit Issuer and Swing Line Lender, Wells Fargo Bank, National Association and Bank of America, National Association, as Lenders, and the Joint Lead Arrangers and Joint Book Runners party thereto (the "ABL Credit Facility"). The ABL Credit Facility consists of a \$200.0 million asset-based revolving line of credit. The Company used the initial proceeds from the ABL Credit Facility for working capital purposes and to repay in full the ABL Facility.

On February 28, 2019, the Company and its direct and indirect domestic subsidiaries entered into a credit agreement (the "Term Loan Credit Agreement") with BMO Harris Bank N.A., as Administrative Agent and Lender, Elliott Associates, L.P. and Elliott International, L.P. as Lenders, and BMO Capital Markets Corp., as Lead Arranger and Book Runner (the "Term Loan Credit Facility") which consists of an approximately \$61.1 million term loan facility. The Company used the initial proceeds from the Term Loan Credit Facility for working capital purposes and to repay in full its existing credit facility. See Note 17 for more information on these new credit agreements.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

*Capital Lease Obligations*

The Company has a building and certain equipment classified as capital leases. As of December 31, 2018, the gross property and equipment value of capital lease assets was \$58.4 million. The following is a schedule of future minimum lease payments under the capital leases with the present value of the net minimum lease payments as of December 31, 2018 (in thousands):

Year Ending:		
2019	\$	16,100
2020		14,524
2021		17,885
2022		4,005
2023		4,267
Thereafter		2,067
Total minimum lease payments		<u>58,848</u>
Less: amount representing interest		(7,882)
Present value of net minimum lease payments <sup>(1)</sup>	\$	<u>50,966</u>

<sup>(1)</sup> Reflected in the consolidated balance sheets as \$13.2 million of current capital lease obligation and \$37.7 million of long-term capital lease obligation.

*Insurance Premium Financing*

On June 20, 2018, the Company executed an insurance premium financing agreement of \$17.8 million with a premium finance company in order to finance certain of its annual insurance premiums. Beginning on September 1, 2018, the financing agreement is payable in nine monthly installments of principal and interest of approximately \$2.0 million. The agreement bears interest at 4.75%. The balance of the insurance premium payable as of December 31, 2018 was \$10.0 million and is recorded in accrued expenses and other current liabilities.

**6. Preferred Stock**

Preferred stock as of December 31 consisted of the following (in thousands):

	<u>2018</u>	<u>2017</u>
Preferred stock:		
Series B Preferred	\$ 205,972	\$ 146,649
Series C Preferred	102,098	76,096
Series D Preferred	900	6,672
Series E Preferred	47,367	33,900
Series E-1 Preferred	46,547	—
Total Preferred stock	<u>\$ 402,884</u>	<u>\$ 263,317</u>

On May 1, 2017, the Company entered into an Investment Agreement (“Investment Agreement”), which closed on May 2, 2017, with affiliates of Elliott Management Corporation (“Elliott”), pursuant to which the Company issued and sold shares of its preferred stock and issued warrants to Elliott for an aggregate purchase price of \$540.5 million. The proceeds of the sale of the preferred stock were used to pay off and terminate the Company’s senior credit facility and to provide working capital to support the Company’s operations and future growth.

The preferred stock is mandatorily redeemable and, as such, is presented as a liability on the consolidated balance sheets. At each preferred stock dividend payment date, the Company has the option to pay the accrued dividends in cash or to defer them. Deferred dividends earn dividend income consistent with the underlying shares of preferred stock. The Company has elected to measure the value of its preferred stock using the fair value method. Under the fair value method, issuance costs are expensed as incurred.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

The Company made certain customary representations and warranties and agreed to certain covenants, including agreeing to use reasonable best efforts to enter into, within 90 days following the closing date, an asset based lending facility (the earlier of (i) the date of such entry and (ii) the expiration of such 90 day period, the “Refinancing Date”).

From the closing date until the Refinancing Date, the Company agreed to pay Elliott a daily payment in an amount equal to \$33,333.33 per calendar day (which amount accrued daily and was payable monthly in arrears). On July 21, 2017, the Company entered into the ABL Facility (which was deemed to be the “New ABL Facility” under the Investment Agreement) and used the initial proceeds from the ABL Facility for working capital purposes and to redeem all of the outstanding shares of the Series F Preferred Stock.

In connection with the repurchase of the Series F Preferred Stock and repurchase of a portion of the Series E Preferred Stock, the Company recorded a loss of \$6.1 million in the third quarter of 2017, which was reported in loss from debt extinguishment.

On March 1, 2018, the Company entered into the Series E-1 Preferred Stock Investment Agreement (the “Series E-1 Investment Agreement”) with Elliott, pursuant to which the Company agreed to issue and sell to Elliott from time to time until July 30, 2018, an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock, par value \$0.01 per share (“Series E-1 Preferred Stock”), at a purchase price of \$1,000 per share for the first 17,500 shares of Series E-1 Preferred Stock, \$960 per share for the next 18,228 shares of Series E-1 Preferred Stock, and \$920 per share for the final 19,022 shares of Series E-1 Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which the Company issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. On April 24, 2018, the parties held a closing pursuant to the Series E-1 Investment Agreement, pursuant to which the Company issued and sold to Elliott 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of approximately \$17.5 million.

The Company incurred \$1.1 million and \$16.1 million of issuance costs associated with the preferred stock for the year ended December 31, 2018 and December 31, 2017, respectively, which are reflected in interest expense - preferred stock. The fair value of the preferred stock increased by \$104.6 million and \$18.4 million during the years ended December 31, 2018 and December 31, 2017, respectively, which is reflected in interest expense - preferred stock.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

*Certain Terms of the outstanding Preferred Stock as of December 31, 2018 are as follows:*

	Series B	Series C	Series D	Series E	Series E-1
<b>Shares at \$0.01 Par Value at Issuance</b>	155,000	55,000	100	90,000	35,728
<b>Shares Outstanding at December 31, 2018</b>	155,000	55,000	100	37,500	35,728
<b>Price / Share</b>	\$1,000	\$1,000	\$1.00	\$1,000	\$1,000/\$960
<b>Dividend Rate</b>	Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events.	Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events.	Right to participate equally and ratably in all cash dividends paid on common stock.	Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events.	Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events.
<b>Dividend Rate at December 31, 2018</b>	17.780%	17.780%	N/A	16.030%	16.030%
<b>Redemption Term</b>	8 Years	8 Years	8 Years	6 Years	6 Years
<b>Redemption Rights</b>	<i>From Closing Date:</i> 12-24 months: 105% 24-36 months: 103%	65% premium (subject to stock movement)		<i>From Closing Date:</i> 0-12 months: 106.5% 12-24 months: 103.5%	<i>From Closing Date:</i> 0-12 months: 106.5% 12-24 months: 103.5%

Redemption rights are at the option of the Company or, upon a change in control, at the option of the holder. The holders of Series C Preferred Stock and Series D Preferred Stock have the right to participate equally and ratably with holders of common stock in all cash dividends paid on shares of common stock.

At each preferred stock dividend payment date, the Company has the option to pay the accrued dividends in cash or to defer them. Deferred dividends earn dividend income consistent with the underlying shares of preferred stock. On November 8, 2018, the Company entered into a Standby Purchase Agreement with Elliott, pursuant to which, among other things, Elliott agreed to waive all preferred stock dividends accrued and unpaid after November 30, 2018 if the Company's rights offering is consummated on or prior to March 1, 2019.

*Other Terms of the Preferred Stock*

**Voting.** The holders of preferred stock will generally not be entitled to vote on any matters submitted to a vote of the stockholders of the Company. So long as any shares of preferred stock are outstanding, the Company may not take certain actions without the prior approval of the holders of shares of preferred stock representing a majority of the aggregate liquidation value of all of the shares of preferred stock (the "Preferred Requisite Vote"), voting as a separate class.

**Board of Directors.** For so long as (a) any shares of Series B Preferred Stock or Series C Preferred Stock are issued and outstanding and (b) Elliott holds shares of preferred stock collectively representing a majority of the liquidation value of the preferred stock, the holders of preferred stock shall have the exclusive right, acting with the Preferred Requisite Vote, to nominate and elect two (2) individuals selected by the holders of preferred stock, or to require the Company's Board of Directors to fill two (2) vacancies in the Board of Directors with individuals selected by the holders of preferred stock, to serve as, respectively, a Class II director and a Class III director of the Company (the "Preferred Stock Directors").

Following the redemption of all shares of Series B Preferred Stock and Series C Preferred Stock, and until such time as all shares of Series D Preferred Stock are redeemed, for so long as Elliott holds at least 5.0% of the equity value of the Company, the

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

holders of preferred stock shall have the exclusive right acting with the Preferred Requisite Vote, to (i) nominate and elect one (1) Preferred Stock Director, and (ii) designate one individual to act as an observer to the Board of Directors.

In the event of any Triggering Event (as defined in the Certificates of Designations), subject to applicable rules of the New York Stock Exchange, including, without limitation, independent director requirements, the number of directors constituting the Board of Directors shall be increased such that the number of vacancies on the Board of Directors resulting from such increase (the “Triggering Event Vacancies”), together with the Preferred Stock Directors (to the extent then serving on the Board of Directors), constitutes a majority of the Board of Directors. The holders of preferred stock shall have the right, acting with the Preferred Requisite Vote, to nominate and elect individuals selected by the holders of preferred stock to fill such Triggering Event Vacancies and thereby serve as directors of the Company, or to require the Board of Directors to act to fill such Triggering Event Vacancies with individuals selected by such holders of preferred stock, to serve as directors of the Company, and the size of the Board of Directors shall be increased as needed. Each such director so elected is referred to as a “Triggering Event Director”. When a Triggering Event is no longer continuing, then the right of the holders of preferred stock to elect the Triggering Event Directors will cease, the terms of office of the Triggering Event Directors will immediately terminate and the number of directors constituting the Board of Directors will be reduced accordingly. The holders of preferred stock have other rights in the event of a Triggering Event, as described in the Certificate of Designations.

#### *Warrant Agreement*

In connection with the issuance of the preferred stock pursuant to the Investment Agreement, the Company and Elliott entered into a Warrant Agreement (the “Warrant Agreement”), pursuant to which the Company issued to Elliott eight year warrants (the “Warrants”) to purchase an aggregate of 379,572 shares of the Company's common stock at an exercise price of \$0.01 per share. On November 9, 2018, the Company issued 379,572 shares of common stock in connection with the exercise of the Warrants by Elliott.

#### *Stockholders' Agreement*

In connection with the issuance of the preferred stock pursuant to the Investment Agreement, the Company and Elliott entered into a Stockholders' Agreement (the “Stockholders' Agreement”), pursuant to which Elliott was granted certain preemptive rights and other rights.

Subject to customary exceptions, each Eligible Elliott Party (as defined in the Stockholders' Agreement) shall have the right to purchase their pro rata percentage of subsequent issuances of equity securities offered by the Company in any non-public offering.

On February 26, 2019, the Company entered into a Stockholders' Agreement with Elliott (the “New Stockholders' Agreement”). See Note 17 for more information.

#### *Registration Rights Agreement*

In connection with the issuance of the preferred stock pursuant to the Investment Agreement, the Company, Elliott, and investment funds affiliated with HCI Equity Management L.P. (“HCI”) entered into a Registration Rights Agreement (the “Registration Rights Agreement”), pursuant to which the Company granted certain demand and piggyback registration rights.

On February 26, 2019, the Company entered into an Amended and Restated Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners (the “A&R Registration Rights Agreement”), which amended and restated the Registration Rights Agreement, dated as of May 2, 2017, between the Company and the parties thereto. See Note 17 for more information.

#### *Rights Offering*

In 2018, the Company filed a registration statement on Form S-1 with the SEC for a rights offering to issue an aggregate of 900,000,000 new shares of its common stock issuable upon exercise of rights at a subscription price equal to \$0.50 per share. The purpose of the rights offering was to raise \$450 million to be used to redeem all of the outstanding shares of the Company's preferred stock, at liquidation value, together with all redemption premiums; pay in cash all applicable accrued and unpaid dividends on the outstanding shares of its preferred stock; and provide the Company with additional liquidity to fund its operations. In connection with the rights offering, the Company entered into a Standby Purchase Agreement with Elliott, pursuant to which Elliott agreed to purchase all unsubscribed shares of common stock in the rights offering to ensure that the rights offering was fully subscribed and that the Company raised \$450 million.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

### 7. Fair Value Measurement

Accounting guidance on fair value measurements for certain financial assets and liabilities requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

*Level 1* — Quoted market prices in active markets for identical assets or liabilities.

*Level 2* — Observable market-based inputs or unobservable inputs that are corroborated by market data.

*Level 3* — Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

A financial asset or liability's classification within the hierarchy is determined based on the lowest level of input that is significant to the fair value measurement.

The Company has elected to measure its preferred stock using the fair value method. The fair value of the preferred stock is the estimated amount that would be paid to redeem the liability in an orderly transaction between market participants at the measurement date. The Company calculates the fair value of:

- the Series B Preferred Stock using a lattice model that takes into consideration the Company's call right on the instrument based on simulated future interest rates;
- the Series C Preferred stock using a lattice model that takes into consideration the future redemption value on the instrument, which is tied to the Company's stock price;
- the Series D Preferred Stock using a static discounted cash flow approach, where the expected redemption value of the instrument is based on the value of the Company's stock as of the measurement date grown at the risk-free rate;
- the Series E and E-1 Preferred Stock via application of both (i) a static discounted cash flow approach and (ii) a lattice model that takes into consideration the Company's call right on this instrument based on simulated future interest rates.

These valuations are considered to be Level 3 fair value measurements as the significant inputs are unobservable and require significant management judgment or estimation. Considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the Company's estimates are not necessarily indicative of the amounts that the Company, or holders of the instruments, could realize in a current market exchange. Significant assumptions used in the fair value models include: the estimates of the redemption dates; credit spreads; dividend payments; and the market price of the Company's common stock. The use of different assumptions and/or estimation methodologies could have a material effect on the estimated fair values.

The table below sets forth a reconciliation of the Company's beginning and ending Level 3 preferred stock liability balance as of December 31.

	2018	2017
Balance, beginning of period	\$ 263,317	\$ —
Issuance of preferred stock at fair value	34,999	537,930
Redemption of preferred stock	—	(293,000)
Change in fair value of preferred stock <sup>(1)</sup>	104,568	18,387
Balance, end of period	<u>\$ 402,884</u>	<u>\$ 263,317</u>

(1) Change in fair value of preferred stock is reported in interest expense - preferred stock.

### 8. Stockholders' (Deficit) Investment

#### Common Stock

The Company's common stock has voting rights — one vote for each share of common stock. In March 2007, the Company entered into a second amended and restated stockholders' agreement (the "Stockholders' Agreement"). The Stockholders' Agreement provided that, any time after the Company was eligible to register its common stock on a Form S-3 registration statement under the Securities Act, certain of the Company's stockholders, including entities affiliated with HCI Equity Partners, L.L.C. (the "HCI Stockholders"), could request registration under the Securities Act of all or any portion of their shares of common stock. These stockholders were limited to a total of two of such registrations. In addition, if the Company proposed to file a registration statement under the Securities Act for any underwritten sale of shares of any of its securities, certain of the Company's stockholders could request that the Company include in such registration the shares of common stock held by them on the same terms and conditions as the securities otherwise being sold in such registration. In connection with the closing of the transactions contemplated by the Investment Agreement, the Company, affiliates of Elliott, and the HCI Stockholders entered into a Registration Rights



## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

Agreement that, with respect to the HCI Stockholders, amended and restated the Stockholders' Agreement. See Note 6 for additional information regarding the Investment Agreement.

At the Company's annual meeting of stockholders held on December 19, 2018, the Company's stockholders approved certain amendments to its Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"). The amendments to the Company's Certificate of Incorporation are as follows:

- The Company filed a Certificate of Amendment to its Certificate of Incorporation to increase the number of authorized shares of its common stock from 105,000,000 shares to 1,100,000,000 shares and to increase its total authorized shares of capital stock from 120,005,000 shares to 1,115,005,000 shares.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit stockholder action by written consent.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to request that the Company call a special meeting of stockholders. The Certificate of Incorporation only permitted the chairman of the Company's board of directors or the board of directors to call a special meeting of stockholders.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to remove directors with or without cause. The Certificate of Incorporation previously provided that directors may only be removed for cause and by a vote of stockholders holding at least 66 2/3% of its common stock.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to amend or repeal its Certificate of Incorporation or any provision thereof. The Certificate of Incorporation previously provided that certain provisions of the Certificate of Incorporation could only be amended or repealed with the affirmative vote of stockholders holding 80% of its common stock, unless such amendment or repeal was declared advisable by its board of directors by the affirmative vote of at least 75% of the entire board of directors, notwithstanding the fact that a lesser percentage may be specified by the Delaware General Corporation Law.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to amend or repeal its Second Amended and Restated Bylaws or any provision thereof. The Certificate of Incorporation previously provided that the Second Amended and Restated Bylaws could only be amended or repealed with the affirmative vote of the stockholders holding 66 2/3% of the Company's common stock.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to designate the courts in the state of Delaware as the exclusive forum for all legal actions unless otherwise consented to by the Company.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to expressly opt-out of Section 203 of the Delaware General Corporation Law. The Certificate of Incorporation did not previously opt-out of Section 203 of the Delaware General Corporation Law. Section 203 is an anti-takeover provision that generally prohibits a person or entity who acquires 15% or more in voting power from engaging in certain transactions with a corporation for a period of three years following the date such person or entity acquired the 15% or more in voting power.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to renounce any interest or expectancy it may have in, or being offered an opportunity to participate in, any business opportunity that is presented to Elliott, or funds affiliated with Elliott, or any of its or their directors, officers, stockholders, or employees.

On January 8, 2019, the Company filed the Certificates of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware and the amendments to its Certificate of Incorporation became effective.

On February 26, 2019, the Company entered into a Stockholders' Agreement with Elliott (the "New Stockholders' Agreement"). See Note 17 for more information.

On February 26, 2019, the Company entered into an Amended and Restated Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners (the "A&R Registration Rights Agreement"), which amended and restated the Registration Rights Agreement, dated as of May 2, 2017, between the Company and the parties thereto. See Note 17 for more information.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

### *Warrants to Acquire Common Stock*

On May 1, 2017, in connection with the issuance of preferred stock pursuant to the Investment Agreement, the Company issued 8-year warrants to purchase an aggregate of 379,572 shares of common stock, at an exercise price of \$0.01 per share. On November 9, 2018, the Company issued 379,572 shares of common stock in connection with the exercise of the Warrants by Elliott.

### **9. Share-Based Compensation**

On November 7, 2018, the Company's board of directors adopted the Roadrunner Transportation Systems, Inc. 2018 Incentive Compensation Plan (the "2018 Plan"), which 2018 Plan was approved by the Company's stockholders on December 19, 2018 at the 2018 Annual Meeting of Stockholders. Under the 2018 Plan, the total number of shares of the Company's common stock reserved and available for delivery under the 2018 Plan at any time during the term of the 2018 Plan was 3,000,000 shares. However, pursuant to the terms of the 2018 Plan, such number of shares of the Company's common stock was increased by 7.5% of the shares of the Company's common stock issued by the Company in the rights offering (or 67,500,000 shares). Accordingly, the total number of shares of the Company's common stock reserved and available for delivery under the 2018 Plan is 70,500,000 shares.

The Company previously maintained the 2010 Incentive Compensation Plan (the "2010 Plan"), which reserved 2,500,000 shares of the Company's common stock for issuance under the 2010 Plan. The 2010 Plan permitted the grant of stock options, restricted stock units, performance stock units, and other awards. The 2018 Plan serves as the successor to the 2010 Plan. Outstanding awards granted under the 2010 Plan will continue to be governed by the terms of the 2010 Plan, but no further awards will be made under the 2010 Plan.

If any shares subject to any award granted under the 2010 Plan are forfeited, expire, or otherwise terminate without issuance of such shares, or any shares subject to any award granted under the 2010 Plan are settled for cash or otherwise do not result in the issuance of all or a portion of the shares subject to such award under the 2010 Plan, the shares to which those awards under the 2010 Plan were subject will, to the extent of such forfeiture, expiration, termination, non-issuance, or cash settlement, again be available for delivery with respect to awards under the 2018 Plan. In addition, in the event that any award granted under the 2010 Plan is exercised through the tendering of shares (either actually or by attestation) or by the withholding of shares by the Company, or withholding tax liabilities arising from any award granted under the 2010 Plan are satisfied by the tendering of shares (either actually or by attestation) or by the withholding of shares by the Company, then only the number of shares issued net of the shares tendered or withheld will be counted for purposes of determining the maximum number of shares available for grant under the 2018 Plan.

In 2015, the Company added performance restricted stock units to its share-based compensation plan. Under this program, performance restricted stock units are awarded to eligible employees based on pre-established financial performance goals. No performance restricted stock unit awards were earned as of December 31, 2018 or 2017.

The Company awards restricted stock units to certain key employees and independent directors. The restricted stock units vest ratably over a three or four-year service period from the grant date. Restricted stock units are valued based on the market price on the date of the grant and are amortized on a straight-line basis over the vesting period. Compensation expense for restricted stock units is based on fair market value at the grant date.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

The following table summarizes the nonvested restricted stock units as of December 31, 2018 and 2017:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2016	274,764	\$ 15.67	1.8
Granted	271,279	7.59	
Vested	(113,956)	16.73	
Forfeitures	(74,000)	10.35	
Nonvested as of December 31, 2017	358,087	\$ 9.96	2.7
Granted	558,000	2.67	
Vested	(116,360)	12.38	
Forfeitures	(86,357)	4.35	
Nonvested as of December 31, 2018	713,370	\$ 4.53	2.3

Unrecognized share-based compensation expense for restricted stock units was \$2.6 million as of December 31, 2018. The expense is expected to be recognized over a weighted-average period of approximately two years.

The Company previously maintained a Key Employee Equity Plan (“Equity Plan”), a stock-based compensation plan that permitted the grant of stock options to Company employees and directors. Stock options under the Equity Plan were granted with an exercise price equal to or in excess of the fair value of the Company’s stock on the date of grant. Such options vested ratably over a two or four year service period and were exercisable ten years from the date of grant, but only to the extent vested as specified in each option agreement. The Company no longer issues awards under this plan.

Group Transportation Services (“GTS”) previously maintained a Key Employee Equity Plan (“GTS Plan”), which permitted the grant of stock options to employees and directors. Stock options under the GTS Plan were granted with an exercise price equal to or in excess of the fair value of GTS’ stock on the date of grant. Such options vested ratably over a two or four-year service period and were exercisable ten years from the date of grant, but only to the extent vested as specified in each option agreement. All options granted pursuant to the GTS Plan outstanding at the effective time of the merger became options to purchase shares of the Company’s common stock. The Company no longer issues awards under this plan.

Under the 2010 Plan, the Company awarded stock options to certain key employees. The stock options vest ratably over a three to five-year service period and are exercisable four to seven years from the date of grant, but only to the extent vested as specified in each option agreement. Stock options awarded are valued based upon the Black-Scholes option pricing model and the Company recognizes this value as stock compensation expense over the periods in which the options vest. Use of the Black Scholes option-pricing model requires that the Company make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield, and the expected life of the options. No stock options were granted in 2018. The Company granted stock options to purchase 564,000 shares in 2017.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

Stock option fair value assumptions for the stock options granted during the year ended December 31, 2017 are as follows:

	<b>2017</b>
Option life (years)	7 years
Risk free interest rate	1.8% to 2.2%
Dividend yield	—
Expected volatility	47.8% to 48.0%
Expected life (years)	5 years
Weighted average fair value of stock options granted	\$3.14

A summary of the option activity for the years ended December 31, 2018 and 2017 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding as of December 31, 2016	745,259	\$ 12.34	4.4
Granted	564,000	7.18	
Forfeited	(59,726)	13.39	
Outstanding as of December 31, 2017	1,249,533	\$ 10.34	4.9
Granted	—	—	
Forfeited	(142,084)	9.59	
Outstanding as of December 31, 2018	1,107,449	\$ 8.75	4.1

Unrecognized stock compensation expense for stock options was \$1.3 million as of December 31, 2018. The expense is expected to be recognized over a weighted-average period of approximately four years.

All outstanding options are non-qualified options. There were 503,199, 198,867, and 95,259 options exercisable as of December 31, 2018, 2017, and 2016, respectively. As of December 31, 2018, for exercisable options, the weighted-average exercise price was \$9.44, the weighted average remaining contractual term was approximately three years and there was no estimated aggregate intrinsic value per share. As of December 31, 2018, 614,250 options were unvested.

Stock-based compensation expense for restricted stock units and stock options was \$1.8 million, \$2.2 million, and \$2.2 million for the years ended December 31, 2018, 2017, and 2016, respectively. The related estimated income tax benefit recognized in the accompanying consolidated statements of operations, net of estimated forfeitures, was \$0.4 million for the year ended December 31, 2018 and \$0.9 million for each of the years ended December 31, 2017 and 2016. Following the adoption of ASU 2016-09, the Company recorded tax deficiencies on vested shares of \$0.3 million and \$0.4 million in benefit from income taxes for the years ended December 31, 2018 and December 31, 2017, respectively. Prior to January 1, 2017, tax deficiencies and excess tax benefits on vested shares was reported through additional paid-in capital.

### 10. Earnings Per Share

Basic loss per common share is calculated by dividing net loss by the weighted average number of common stock outstanding during the period. Diluted loss per share is calculated by dividing net loss by the weighted average common stock outstanding plus stock equivalents that would arise from the assumed exercise of stock options and conversion of warrants using the treasury stock method.

The Company had stock options and warrants outstanding of 1,107,449, 1,629,105, 3,037,447, as of December 31, 2018, 2017, and 2016, respectively, that were not included in the computation of diluted loss per share because they were not assumed to be exercised under the treasury stock method or because they were anti-dilutive. All restricted stock units were anti-dilutive for the years ended December 31, 2018, 2017, and 2016. Since the Company was in a net loss position for the years ended December 31, 2018, 2017, and 2016, there is no difference between basic and dilutive weighted average common stock outstanding.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

**11. Income Taxes**

The components of the Company's benefit from income taxes were as follows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
<b>Current:</b>			
Federal	\$ —	\$ —	\$ (23,500)
State, local, and foreign	810	1,875	660
<b>Deferred:</b>			
Federal	(9,664)	(27,118)	(39,695)
State, local, and foreign	(960)	52	(3,746)
<b>Benefit from income taxes</b>	<b>\$ (9,814)</b>	<b>\$ (25,191)</b>	<b>\$ (66,281)</b>

The Company's benefit from income taxes varied from the amounts calculated by applying the U.S. statutory income tax rate to the pretax loss as shown in the following reconciliations (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Statutory federal rate	\$ (36,836)	\$ (40,732)	\$ (149,310)
Interest expense - preferred stock	22,195	20,459	—
State income taxes — net of federal benefit	(2,358)	(1,465)	(5,368)
Gain on sale of Unitrans	—	(1,161)	—
Goodwill impairment	—	1,020	86,776
Effect of change in U.S. statutory income tax rate	—	(7,413)	—
Change in valuation allowance	7,204	1,989	1,624
Other	(19)	2,112	(3)
<b>Total</b>	<b>\$ (9,814)</b>	<b>\$ (25,191)</b>	<b>\$ (66,281)</b>

The Company recorded assets for refundable federal and state income taxes of \$4.6 million as of December 31, 2018 (\$3.9 million classified as income tax receivable and \$0.7 million included within other noncurrent assets) and \$14.7 million as of December 31, 2017 (classified as income tax receivable).

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

## Notes to Consolidated Financial Statements — (Continued)

The tax rate effects of temporary differences that give rise to significant elements of deferred tax assets and deferred tax liabilities as of December 31 were as follows (in thousands):

	2018	2017
<b>Deferred income tax assets:</b>		
Accounts receivable	\$ 2,442	\$ 2,694
Accrued expenses and other current liabilities	13,695	13,103
Net operating loss carryforwards	28,153	18,715
Interest expense carryforwards	2,334	—
Other, net	890	51
Total	\$ 47,514	\$ 34,563
Valuation allowance	(11,145)	(3,942)
Total, net of valuation allowance	\$ 36,369	\$ 30,621
<b>Deferred income tax liabilities:</b>		
Prepaid expenses and other current assets	\$ (4,324)	\$ (2,906)
Goodwill and intangible assets	(12,699)	(11,685)
Property and equipment	(23,299)	(30,312)
Total	\$ (40,322)	\$ (44,903)
Net deferred tax liabilities	\$ (3,953)	\$ (14,282)

The net noncurrent deferred income tax liability of \$4.0 million as of December 31, 2018 and \$14.3 million as of December 31, 2017 (net of current deferred tax assets and related valuation allowance) is classified as deferred tax liabilities.

Management assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets, including through reversals of existing cumulative temporary differences. A significant piece of objective evidence evaluated was the cumulative losses incurred over the three-year periods ended December 31, 2018 and December 31, 2017. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, the Company has recorded a valuation allowance of \$11.1 million and \$3.9 million as of December 31, 2018 and 2017, respectively, primarily related to federal and state net operating loss carryforwards and other deferred tax assets that will not "more likely than not" be realized in the future.

The Company has \$100.2 million of federal net operating loss carryforwards as of December 31, 2018 (\$21.0 million tax-effected), of which \$58.5 million was incurred in tax years prior to 2018 and will expire between 2030 and 2037. The remaining \$41.7 million federal net operating loss incurred in 2018 carries forward indefinitely and can be utilized to offset taxable income in future years, to the extent of 80% of taxable income generated in those years, until exhausted. The remaining \$7.2 million deferred tax asset for net operating loss carryforwards consists of the tax effect of various state and foreign net operating loss carryforwards that will generally expire between 2019 and 2038. Some of the Company's net operating loss carryforward amounts are subject to an annual section 382 limitation. However, the Company does not currently expect the annual section 382 limitation to materially impact its ability to utilize the net operating loss carryforward amounts.

The Company has a \$10.0 million interest expense carryforward as of December 31, 2018 related to interest expense not deductible in 2018. Starting in 2018, annual net interest expense deductions are limited to 30% of "adjusted taxable income" as defined in the tax code, and any interest expense not deducted in the current year due to said limitation carries forward indefinitely and can be utilized to offset taxable income in future years, to the extent of 30% of "adjusted taxable income" generated in those years, until exhausted.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

## Notes to Consolidated Financial Statements — (Continued)

The change to the Company's gross unrecognized tax benefits for the years ended December 31 is reconciled as follows (in thousands):

	2018	2017	2016
Balance as of January 1	\$ 1,311	\$ 737	\$ —
Additions based on current year tax positions	—	—	—
Additions for prior years' tax positions	142	574	737
Reductions for prior years' tax positions	(21)	—	—
Settlements with taxing authorities	—	—	—
Lapse of statute of limitations	(149)	—	—
Balance as of December 31	<u>\$ 1,283</u>	<u>\$ 1,311</u>	<u>\$ 737</u>

Depending on specific facts, the above amounts may be reflected in the consolidated balance sheets either (a) as a reduction to income tax receivable; (b) as a reduction to net operating loss deferred tax assets, which are presented netted against deferred tax liabilities; or (c) within other long-term liabilities. The entire amount of unrecognized tax benefits would impact the effective tax rate. Interest and penalties related to uncertain tax benefits were less than \$0.1 million, \$0.3 million, and \$0.1 million for the years ending December 31, 2018, 2017, and 2016, respectively, and are included within the benefit from income taxes. Accrued interest and penalties were \$0.4 million as of December 31, 2018 and 2017.

The Company is subject to federal and state tax examinations for all tax years subsequent to December 31, 2013. The Internal Revenue Service ("IRS") is currently reviewing the Company's 2014-2016 federal tax returns. The Company has extended the federal period of limitations to assess tax for the 2014 and 2015 tax years through March 31, 2020. Although pre-2014 years are generally no longer subject to examinations by the IRS and various state taxing authorities, certain state net operating loss carryforwards generated in those years may still be adjusted upon examination by state taxing authorities if they were used after 2013 or will be used in a future period.

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law, and most changes were effective as of January 1, 2018. The law includes various provisions that affect corporations, including a reduction of the corporate income tax rate from a 35% maximum rate to a 21% flat rate, availability of enhanced "bonus depreciation" for capital equipment purchases, annual limitations on interest expense deductions, changes to net operating loss carryback and carryforward rules, and changes to U.S. taxation of foreign profits. The corporate tax rate reduction resulted in a \$7.4 million discrete tax benefit during the year ended December 31, 2017 as a result of recalculating the carrying value of the Company's deferred tax assets and liabilities. Additionally, the Company reduced its net operating loss deferred tax asset by \$0.4 million as a result of the one-time deemed repatriation of foreign subsidiary earnings.

**12. Guarantees**

The Company provides a guarantee for a portion of the value of certain independent contractors' ("IC") leased tractors. The guarantees expire at various dates through 2022. The potential maximum exposure under these lease guarantees was approximately \$7.2 million as of December 31, 2018. Upon an IC default, the Company has the option to purchase the tractor or return the tractor to the leasing company if the residual value is greater than the Company's guarantee. Alternatively, the Company can contract another IC to assume the lease. The Company estimated the fair value of its liability under this on-going guarantee to be \$1.0 million and \$1.4 million as of December 31, 2018 and 2017, respectively, and it is included in accrued expenses and other current liabilities.

In the fourth quarter of 2016, the Company began to offer a lease purchase program that did not include a guarantee, and offered newer equipment under factory warranty that was more cost effective. ICs began electing the newer lease purchase program over the legacy lease guarantee programs which led to an increase in unseated legacy tractors. In late 2016, management committed to a plan to divest of these older assets and recorded a loss reserve of \$8.9 million as of December 31, 2016. The loss reserve for the guarantee and reconditioning costs associated with the planned divestiture was \$0.4 million as of December 31, 2018, which is included in accrued expenses and other current liabilities.

The Company paid \$2.1 million and \$9.0 million under these lease guarantees during the year ended December 31, 2018 and 2017, respectively.

### 13. Commitments and Contingencies

#### *Employee Benefit Plans*

The Company sponsors defined contribution profit sharing plans for substantially all employees of the Company and its subsidiaries. The Company provides matching contributions on some of these plans. Total expense under these plans was \$2.4 million, \$2.5 million, and \$2.4 million for the years ended December 31, 2018, 2017, and 2016, respectively.

#### *Operating Leases*

The Company leases terminals, office space, trucks, trailers, and other equipment under noncancelable operating leases expiring on various dates through 2027. The Company incurred rent expense from operating leases of \$83.7 million, \$83.4 million, and \$72.8 million for the years ended December 31, 2018, 2017, and 2016, respectively.

Aggregate future minimum lease payments under noncancelable operating leases with an initial term in excess of one year were as follows as of December 31, 2018 (in thousands):

Year Ending:		
2019	\$	45,713
2020		34,920
2021		25,536
2022		21,413
2023		17,920
Thereafter		17,556
Total	\$	<u>163,058</u>

#### *Auto, Workers Compensation, and General Liability Reserves*

In the ordinary course of business, the Company is a defendant in several legal proceedings arising out of the conduct of its business. These proceedings include claims for property damage or personal injury incurred in connection with the Company's services. Although there can be no assurance as to the ultimate disposition of these proceedings, the Company does not believe, based upon the information available at this time, that these property damage or personal injury claims, in the aggregate, will have a material impact on its consolidated financial statements. The Company maintains insurance for auto liability, general liability, and cargo claims. The Company maintains an aggregate of \$100 million of auto liability and general liability insurance. The Company maintains auto liability insurance coverage for claims in excess of \$1.0 million per occurrence and cargo coverage for claims in excess of \$100,000 per occurrence. The Company is self-insured up to \$1.0 million per occurrence for workers compensation. The Company believes it has adequate insurance to cover losses in excess of the self-insured and deductible amount. As of December 31, 2018 and 2017, the Company had reserves for estimated uninsured losses of \$26.8 million and \$28.4 million, respectively, included in accrued expenses and other current liabilities.

#### *General Litigation Proceedings*

Jeffrey Cox and David Chidester filed a complaint against certain of the Company's subsidiaries in state court in California in a post-acquisition dispute (the "Central Cal Matter"). The complaint alleges contract, statutory and tort-based claims arising out of the Stock Purchase Agreement, dated November 2, 2012, between the defendants, as buyers, and the plaintiffs, as sellers, for the purchase of the shares of Central Cal Transportation, Inc. and Double C Transportation, Inc. (the "Central Cal Agreement"). The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California's Labor Code related to the plaintiffs' respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted the Company's motion to compel arbitration of all non-employment claims alleged in the complaint. The parties selected a settlement accountant to determine the contingent purchase obligation pursuant to the Central Cal Agreement. The settlement accountant provided a final determination that a contingent purchase obligation of \$2.1 million is due to the plaintiffs. The Company's position is that this contingent purchase obligation is subject to offset for certain indemnification claims owed to the Company by the plaintiffs ranging from approximately \$0.3 million to \$1.0 million. Accordingly, the Company has recorded a contingent purchase obligation liability of \$1.8 million in accrued expenses and other current liabilities. The Company intends to pursue indemnification and other claims as it relates to the Central Cal Matter and other related matters involving these plaintiffs. In February 2018, Plaintiff David Chidester agreed to dismiss his employment-related claims from the Los Angeles Superior Court



matter, while Plaintiff Jeffrey Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. The parties are proceeding with discovery and the consolidated case is currently set for trial on November 5, 2019.

The Company received a letter dated April 17, 2018 from legal counsel representing Warren Communications News, Inc. (“Warren”) in which Warren made certain allegations against the Company of copyright infringement concerning an electronic newsletter published by Warren (the “Warren Matter”). Specifically, Warren alleged that an employee of the Company had, for several years, forwarded that electronic newsletter to third parties in violation of corresponding subscription agreements. After discussions with Warren, the Company received a second letter dated July 30, 2018 in which counsel for Warren offered to settle its claim for a monetary payment by the Company. The Company subsequently sent a counter-offer to Warren, which was rejected.

In addition to the legal proceeding described above, the Company is a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against the Company alleging that the Company violated various California labor laws. In 2017 and 2018, the Company reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of December 31, 2018 and 2017, the Company recorded a liability for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter and the Warren Matter of \$10.8 million and \$13.2 million, respectively, which are recorded in accrued expenses and other current liabilities.

In December 2018, a class action lawsuit was brought against the Company in the Superior Court of the State of California by Fernando Gomez, on behalf of himself and other similarly situated persons, alleging violation of California labor laws. This is a new lawsuit and the Company is currently determining its effects. The Company intends to vigorously defend against such claims; however, there can be no assurance that it will be able to prevail. In light of the relatively early stage of the proceedings, the Company is unable to predict the potential costs or range of costs at this time.

#### *Securities Litigation Proceedings*

Following the Company's press release on January 30, 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against the Company and its former officers, Mark A. DiBlasi and Peter R. Ambruster. On May 19, 2017, the Court consolidated the actions under the caption *In re Roadrunner Transportation Systems, Inc. Securities Litigation* (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed the Consolidated Amended Complaint (“CAC”) on behalf of a class of persons who purchased the Company's common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC alleges (i) the Company and Messrs. DiBlasi and Ambruster violated Section 10(b) of the Exchange Act and Rule 10b-5, and (ii) Messrs. DiBlasi and Ambruster, the Company's former Chairman Scott Rued, HCI Equity Partners, L.L.C., and HCI Equity Management, L.P. violated Section 20(a) of the Exchange Act, by making or causing to be made materially false or misleading statements, or failing to disclose material facts, regarding (a) the accuracy of the Company's financial statements; (b) the Company's true earnings and expenses; (c) the effectiveness of the Company's disclosure controls and controls over financial reporting; (d) the true nature and depth of financial risk associated with the Company's tractor lease guaranty program; (e) the Company's leverage ratios and compliance with its credit facilities; and (f) the value of the goodwill the Company carried on its balance sheet. The CAC seeks certification as a class action, compensatory damages, and attorney's fees and costs. On November 19, 2018, the parties entered into a binding term sheet agreeing to settle the action for \$20 million, \$17.9 million of which will be funded by the Company's D&O carriers (\$4.8 million of which is by way of a pass through of the D&O carriers' payment to the Company in connection with the settlement of the Federal Derivative Action described below). The parties are finalizing the Stipulation of Settlement. The settlement is conditioned on a settlement of the Federal Derivative Action described below, dismissal of the State Derivative Action described below, and final court approval of the settlements in this action and in the Federal Derivative Action.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on the Company's behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi, Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vjums, Michael Ward, Chad Utrup, Ivor Evans, Peter Ambruster, and Brian van Helden (the “State Derivative Action”). Count I of the complaint alleges the Director Defendants breached their fiduciary duties by “knowingly failing to ensure that the Company implemented and maintained adequate internal controls over its accounting and financial reporting functions,” and seeks unspecified damages. Count II of the complaint alleges the Officer Defendants DiBlasi, Ambruster, and van Helden received substantial performance-based compensation and bonuses for fiscal year 2014 that should be disgorged. The action has been stayed pending the District Court's approval of the

proposed settlement of the Federal Derivative Action, following which the defendants would move to dismiss this action as moot. While the case was stayed, the plaintiff obtained permission to file an amended complaint adding claims against two former Company employees: Bret Naggs and Mark Wogsland.

On June 28, 2017, Jesse Kent filed a complaint alleging derivative claims on the Company's behalf and class action claims in the United States District Court for the Eastern District of Wisconsin. On December 22, 2017, Chester County Employees Retirement Fund filed a complaint alleging derivative claims on the Company's behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption *Kent v. Stoelting et al* (Case No. 17-cv-00893) (the "Federal Derivative Action"). On March 28, 2018, plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on behalf of the Company against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vijjums, and Michael Ward. Count I alleges that several of the defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 based upon alleged misrepresentations and omissions in several of the Company's proxy statements. Count II alleges that all the defendants breached their fiduciary duty. Count III alleges that all the defendants wasted corporate assets. Count IV alleges that certain of the defendants were unjustly enriched. The Complaint seeks monetary damages, improvements to the Company's corporate governance and internal procedures, an accounting from defendants of the damages allegedly caused by them and the improper amounts the defendants allegedly obtained, and punitive damages. The parties are currently finalizing the terms of a Stipulation of Settlement, which provides for certain corporate governance changes and a \$6.9 million payment, \$4.8 million of which will be paid by the Company's D&O carriers into an escrow account to be used by the Company to settle the class action described above and \$2.1 million of which will be paid by the Company's D&O carriers to cover plaintiffs attorney's fees and expenses, subject to court approval.

Given the status of the matters above, the Company concluded in 2018 that a liability is probable and recorded the estimated loss of \$22 million and a corresponding insurance reimbursement receivable of \$20 million.

In addition, subsequent to the Company's announcement that certain previously filed financial statements should not be relied upon, the Company was contacted by the SEC, Financial Industry Regulatory Authority ("FINRA"), and the Department of Justice ("DOJ"). The DOJ and Division of Enforcement of the SEC have commenced investigations into the events giving rise to the restatement. The Company has received formal requests for documents and other information. In addition, in June 2018 two of the Company's former employees were indicted on charges of conspiracy, securities fraud, and wire fraud as part of the ongoing DOJ and SEC investigation. The Company is cooperating fully with the joint DOJ and SEC investigation. Given the status of this matter, the Company is unable to reasonably estimate the potential costs or range of costs at this time.

#### **14. Related Party Transactions**

The Company had an advisory agreement with HCI Equity Management L.P. ("HCI") to pay transaction fees and an annual advisory fee of \$0.1 million. The Company owed \$0.1 million to HCI for advisory services and travel expenses for the year ended December 31, 2017 and paid an aggregate of \$0.2 million to HCI for services performed in connection with the sixth amended and restated credit agreement, advisory fees, and travel expenses during the year ended December 31, 2016. On May 2, 2017, the Company and HCI entered into a Termination Agreement in which HCI waived the Company's payment of any and all unpaid fees and expenses accrued under the advisory agreement through May 2, 2017.

On December 13, 2018, the Company entered into an agreement with HCI to resume the advancement of reasonable fees and expenses of up to \$7.1 million pursuant to the advisory agreement. In addition, the Company and HCI agreed to contribute \$1 million each to resolve the previously mentioned Securities Litigation Proceedings described in Note 13. The Company reserves all rights to seek reimbursement for any fees or expense advanced to HCI, while HCI reserves all rights to seek indemnification for amounts above the \$7.1 million and the \$1 million that HCI will contribute to resolve the Securities Litigation Proceedings.

On December 27, 2018, the Company filed a registration statement on Form S-1 with the SEC for the offer and sale of up to 7,801,625 shares of its common stock held by HCI and its affiliates. The shares covered by the registration statement may be offered and sold from time to time by HCI to the public. The Company will not receive any cash proceeds from the offer and sale of the shares of common stock that have been registered pursuant to this registration statement.

The Investment Agreement with Elliott required the Company to pay Elliott a daily payment in an amount equal to \$33,333.33 per calendar day from the closing date until the Refinancing Date. The Company paid \$2.7 million under this agreement for the year ended December 31, 2017.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### Notes to Consolidated Financial Statements — (Continued)

The Company, as part of the \$293.0 million redemption of its Series F Preferred Stock (\$240.5 million) and a portion of its Series E Preferred Stock (\$52.5 million), paid to Elliott \$6.0 million in early redemption premiums for the year ended December 31, 2017. The Company also paid to Elliott \$15.2 million in dividends on its preferred stock for the year ended December 31, 2017. No such dividends were paid to Elliott in 2018.

On May 1, 2017, in connection with the issuance of preferred stock pursuant to the Investment Agreement, the Company issued 8-year warrants to Elliott to purchase an aggregate of 379,572 shares of common stock, at an exercise price of \$0.01 per share. On November 9, 2018, the Company issued 379,572 shares of common stock in connection with the exercise of the Warrants by Elliott.

As previously mentioned, the Company entered into the Series E-1 Preferred Stock Investment Agreement with Elliott on March 1, 2018, pursuant to which the Company agreed to issue and sell to Elliott from time to time an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock.

On November 8, 2018, the Company entered into a Standby Purchase Agreement with Elliott, pursuant to which Elliott agreed to backstop the Company's rights offering to raise \$450 million. Pursuant to the Standby Purchase Agreement, Elliott agreed to exercise their basic subscription rights in full. In addition, to the extent the rights offering was not fully subscribed, Elliott agreed to purchase from the Company, at the Subscription Price, all unsubscribed shares of common stock in the Rights Offering (the "Backstop Commitment"). The Company will not pay Elliott a fee for providing the Backstop Commitment, but agreed to reimburse Elliott for all documented out-of-pocket costs and expenses in connection with the rights offering, the Backstop Commitment, and the transactions contemplated thereby, including fees for legal counsel to Elliott. Elliott agreed to waive all preferred stock dividends accrued and unpaid after November 30, 2018 once the rights offering was consummated. Among other covenants, the Company agreed to deliver to Elliott an amended and restated Registration Rights Agreement and a Stockholders' Agreement, and Elliott agreed that it would not, without the prior written consent of the special committee of the board of directors, sell, assign, transfer, or otherwise dispose of any rights distributed to Elliott. Additionally, Elliott agreed that it would not, without the prior written consent of the special committee, transfer any shares of its common stock until the earlier to occur of the closing of the rights offering or the termination of the Standby Purchase Agreement. On February 26, 2019, the Company closed the rights offering and Elliott purchased a total of 843,632,693 shares of the Company's common stock between its basic subscription rights and the backstop commitment. See Note 17 for additional information.

On February 28, 2019, the Company entered into the Term Loan Credit Facility with BMO Harris Bank, N.A. and Elliott which consists of an approximately \$61.1 million term loan facility. See Note 17, Subsequent Events, for more information on the new credit agreement.

The Company's operating companies have contracts with certain purchased transportation providers that are considered related parties. The Company paid an aggregate of \$29.4 million and \$13.6 million to these carriers during the years ended December 31, 2018 and 2017, respectively.

The Company has a number of facility leases with related parties and paid an aggregate of \$1.2 million and \$3.2 million under these leases during the years ended December 31, 2018 and 2017, respectively.

The Company owns 37.5% of CML which operates as one of the Company's brokerage agents. The Company paid CML broker commissions of \$3.1 million and \$2.7 million during the years ended December 31, 2018 and 2017, respectively.

The Company has a jet fuel purchase agreement with a related party and paid an aggregate of \$2.1 million and \$1.8 million under this agreement during the years ended December 31, 2018 and 2017, respectively.

The Company leases certain equipment through leasing companies owned by related parties and paid an aggregate of \$4.6 million and \$1.5 million during the years ended December 31, 2018 and 2017, respectively.

During 2016, the Company entered into and completed a sale-leaseback transaction to sell a combined office and warehouse facility to an entity controlled by a former owner of an operating company for a total sale price of \$3.5 million.

## 15. Segment Reporting

The Company determines its segments based on the information utilized by the chief operating decision maker, the Company's Chief Executive Officer, to allocate resources and assess performance. Based on this information, the Company has determined that it has three segments: TES, LTL, and Ascent. The Company changed its segment reporting effective January 1, 2018 when it

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

integrated its truckload brokerage business into the Ascent domestic freight management business. Segment information for prior periods has been revised to align with the new segment structure.

These segments are strategic business units through which the Company offers different services. The Company evaluates the performance of the segments primarily based on their respective revenues and operating income. Accordingly, interest expense and other non-operating items are not reported in segment results. In addition, the Company has disclosed corporate, which is not a segment and includes corporate salaries, insurance and administrative costs, and long-term incentive compensation expense. Included within corporate are rolling stock assets that are purchased and leased by Roadrunner Equipment Leasing (“REL”). REL, a wholly-owned subsidiary of the Company, is a centralized asset management company that purchases and leases equipment that is utilized by the Company's segments.

One direct customer, General Motors, accounted for approximately 12% of revenue, or approximately \$268.1 million, \$245.4 million and \$252.1 million, within the Company's TES segment, for the years ended December 31, 2018, 2017 and 2016, respectively.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

The following table reflects certain financial data of the Company's segments (in thousands):

	Year Ended December 31,		
	2018	2017	2016
<b>Revenues:</b>			
TES	\$ 1,207,677	\$ 1,067,145	\$ 990,665
LTL	452,281	463,519	461,540
Ascent	573,072	570,223	597,159
Eliminations	(16,889)	(9,596)	(16,164)
Total	<u>\$ 2,216,141</u>	<u>\$ 2,091,291</u>	<u>\$ 2,033,200</u>
<b>Impairment charges:</b>			
TES	\$ 1,582	\$ —	\$ 133,988
LTL	—	—	197,312
Ascent	—	4,402	42,361
Total	<u>\$ 1,582</u>	<u>\$ 4,402</u>	<u>\$ 373,661</u>
<b>Operating (loss) income:</b>			
TES <sup>(1)</sup>	\$ 2,097	\$ 5,989	\$ (116,545)
LTL	(26,892)	(26,383)	(203,600)
Ascent	28,465	22,493	(28,148)
Corporate <sup>(2)</sup>	(62,169)	(38,551)	(55,481)
Total	<u>(58,499)</u>	<u>(36,452)</u>	<u>(403,774)</u>
Interest expense	116,912	64,049	22,827
Loss on early extinguishment of debt	—	15,876	—
Loss before income taxes	<u>\$ (175,411)</u>	<u>\$ (116,377)</u>	<u>\$ (426,601)</u>
<b>Depreciation and amortization:</b>			
TES	\$ 28,807	\$ 25,535	\$ 25,872
LTL	3,854	4,353	4,052
Ascent	5,049	5,965	6,688
Corporate	5,057	1,894	1,533
Total	<u>\$ 42,767</u>	<u>\$ 37,747</u>	<u>\$ 38,145</u>
<b>Capital expenditures<sup>(3)</sup>:</b>			
TES	\$ 9,777	\$ 11,833	\$ 7,978
LTL	1,122	1,641	4,051
Ascent	2,087	1,397	5,465
Corporate <sup>(4)</sup>	60,110	6,839	79
Total	<u>\$ 73,096</u>	<u>\$ 21,710</u>	<u>\$ 17,573</u>

## Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Consolidated Financial Statements — (Continued)

	December 31,		
	2018	2017	2016
Total assets:			
TES	\$ 379,956	\$ 458,945	\$ 436,237
LTL	73,706	79,065	129,899
Ascent	276,994	271,400	366,894
Corporate	123,921	68,445	3,488
Eliminations <sup>(5)</sup>	(1,120)	(1,812)	(2,964)
Total	<u>\$ 853,457</u>	<u>\$ 876,043</u>	<u>\$ 933,554</u>

(1) Operations restructuring charges of \$4.7 million are included within TES for the year ended December 31, 2018. See Note 16 for additional information.

(2) Gain from sale of Unitrans of \$35.4 million is included within Corporate for the year ended December 31, 2017.

(3) Includes non-cash capital leases and capital expenditures not yet paid.

(4) Includes \$45.6 million of rolling stock assets that are purchased and leased by REL of which 75% was allocated to TES, 10% to LTL, and 15% to Ascent.

(5) Eliminations represents intercompany trade receivable balances between the three segments.

### 16. Restructuring Costs

In the second quarter of 2018, the Company restructured its temperature-controlled truckload business by completing the integration of multiple operating companies into one business unit. As part of this integration, the Company also right-sized its temperature-controlled fleets, facilities, and support functions. As a result, in the second quarter of 2018, the Company recorded operations restructuring costs of \$4.7 million, related to fleet and facilities right-sizing and relocation costs, severance costs, and the write-down of assets to fair market value. The initial write-down of assets to fair market value totaled \$1.3 million and was recorded to property and equipment, while the remaining \$3.4 million was recorded in accrued expenses and other current liabilities. None of the remaining individual components are considered material to the overall cost. The following is a rollforward of the Company's restructuring reserve balance as of December 31, 2018.

	Restructuring reserves	Fixed asset write-down
Beginning balance at June 30, 2018	\$ 3,375	\$ 1,280
Charges/Adjustments	(597)	597
Payments	(2,234)	—
Ending balance at December 31, 2018	<u>\$ 544</u>	<u>\$ 1,877</u>

The Company also incurred corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, SEC and accounting compliance, and restructuring of \$22.2 million and \$32.3 million for the years ended December 31, 2018 and 2017, respectively. These costs are included in other operating expenses.

### 17. Subsequent Events

#### Prior ABL Facility Amendments

On January 9, 2019, the Company entered into a Seventh Amendment to the ABL Facility. Pursuant to the Seventh Amendment, the ABL Facility was further amended to, among other things: (i) extend the time period during which the Company is permitted to issue Series E-1 Preferred Stock under the Investment Agreement (as amended) from January 31, 2019 to the earlier of (a) March 1, 2019 and (b) the occurrence of the rights offering; and (ii) extend the date by which the Company is required to consummate the rights offering from January 31, 2019 to March 1, 2019.

On January 11, 2019, the Company entered into an Eighth Amendment to the ABL Facility. Pursuant to the Eighth Amendment, the ABL Facility was further amended to, among other things, modify the definition of "Fixed Charge Trigger Period" to reduce the Adjusted Excess Availability requirements until the earlier of (i) the date that is 30 days from the Eighth Amendment Effective Date; and (ii) the Rights Offering Effective Date.

## **Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

### **Rights Offering**

On February 26, 2019, the Company closed its previously announced fully backstopped \$450 million rights offering, pursuant to which the Company issued and sold an aggregate of 900 million new shares of its common stock at the subscription price of \$0.50 per share. An aggregate of 177,676,223 shares of the Company's common stock were purchased pursuant to the exercise of basic subscription rights and over-subscription rights from stockholders of record during the subscription period, including from the exercise of basic subscription rights by stockholders who are affiliates of Elliott. In addition, Elliott purchased an aggregate of 722,323,777 additional shares pursuant to the previously announced commitment from Elliott to purchase all unsubscribed shares of the Company's common stock in the rights offering pursuant to the Standby Purchase Agreement that the Company entered into with Elliott dated November 8, 2018, as amended. Overall, Elliott purchased a total of 843,632,693 shares of the Company's common stock in the rights offering between its basic subscription rights and the backstop commitment, and following the closing of the rights offering beneficially owned approximately 90.4% of the Company's common stock.

The net proceeds from the rights offering and backstop commitment were used to fully redeem the outstanding shares of the Company's preferred stock and to pay related accrued and unpaid dividends. Proceeds were also used to pay fees and expenses in connection with the rights offering and backstop commitment. The Company retained in excess of \$30 million of net cash proceeds to be used for general corporate purposes. The purpose of the rights offering was to improve and simplify the Company's capital structure in a manner that gave the Company's existing stockholders the opportunity to participate on a pro rata basis.

### **Stockholders' Agreement**

On February 26, 2019, the Company entered into a New Stockholders' Agreement with Elliott. The Company's execution and delivery of the Stockholders' Agreement was a condition to Elliott's backstop commitment. Pursuant to the Stockholders' Agreement, the Company granted Elliott the right to designate nominees to Company's board of directors and access to available financial information.

### **Amended and Restated Registration Rights Agreement**

On February 26, 2019, the Company entered into the A&R Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners, which amended and restated the Registration Rights Agreement, dated as of May 2, 2017, between the Company and the parties thereto. The Company's execution and delivery of the A&R Registration Rights Agreement was a condition to Elliott's backstop commitment. The A&R Registration Rights Agreement amended the Registration Rights Agreement to provide the Elliott Stockholders (as defined therein) and the HCI Stockholders (as defined therein) with unlimited Form S-1 registration rights in connection with Company securities owned by them.

### **Asset-Based Lending Credit Agreement**

On February 28, 2019, the Company entered into the ABL Credit Facility with BMO Harris Bank, N.A. and certain other lenders. The Company used the initial proceeds from the ABL Credit Facility for working capital purposes and to repay in full the Company's existing credit facility.

The ABL Credit Facility consists of a \$200.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million may be used for FILO Loans (as defined in the ABL Credit Agreement), (ii) \$20.0 million may be used for Swing Line Loans (as defined in the ABL Credit Agreement), and (iii) \$30.0 million may be used for letters of credit. The ABL Credit Agreement provides that the revolving line of credit may be increased by up to an additional \$100.0 million under certain circumstances. The ABL Credit Facility matures on February 28, 2024. Advances under the Company's ABL Credit Facility bear interest at either: (a) the LIBOR Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 1.50% to 2.00% for the non-FILO Loans and 2.50% to 3.00% for the FILO Loans; or (b) the Base Rate (as defined in the ABL Credit Agreement), plus an applicable margin ranging from 0.50% to 1.00% for the non-FILO Loans and 1.50% to 2.00% for the FILO Loans.

### **Term Loan Credit Agreement**

On February 28, 2019, the Company entered into the Term Loan Credit Facility with BMO Harris Bank, N.A. and Elliott. The Company used the initial proceeds from the Term Loan Credit Facility for working capital purposes and to repay in full the Company's existing credit facility.

The Term Loan Credit Facility consists of an approximately \$61.1 million term loan facility, consisting of (i) approximately \$40.3 million of Tranche A Term Loans (as defined in the Term Loan Credit Agreement), (ii) approximately \$2.5 million of Tranche

## **Roadrunner Transportation Systems, Inc. and Subsidiaries**

Notes to Consolidated Financial Statements — (Continued)

A FILO Term Loans (as defined in the Term Loan Credit Agreement), (iii) approximately \$8.3 million of Tranche B Term Loans (as defined in the Term Loan Credit Agreement), and (iv) a \$10.0 million asset-based facility available to finance future capital expenditures. The Term Loan Credit Facility matures on February 28, 2024. Principal on each of the Tranche A Term Loans and the Tranche B Term Loans is due in quarterly installments based upon a 4.5-year amortization schedule (i.e. each installment is 1/18th of the original principal amount of the Tranche A Term Loans and the Tranche B Term Loans), commencing on September 1, 2019. Principal on the Tranche A FILO Term Loans is due on the maturity date of the Term Loan Credit Facility, unless earlier accelerated thereunder. Principal on each draw under the capital expenditure facility is due in quarterly installments based upon a five-year amortization schedule (i.e. each installment shall be 1/20th of the original principal amount of any capital expenditure loan), commencing on the first day of the first full fiscal quarter immediately following the making of each such capital expenditure loan. The loans under the Term Loan Credit Facility bear interest at either: (a) the LIBOR rate (as defined in the Term Loan Credit Agreement), plus an applicable margin of 7.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 8.50% for Tranche A FILO Term Loans; or (b) the Base Rate (as defined in the Term Loan Credit Agreement), plus an applicable margin of 6.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 7.50% for Tranche A FILO Term Loans.

### **HCI Sales of the Company's Common Stock**

On February 14, 2019, HCI sold 2,000,000 shares of the Company's common stock in an open-market transaction at a price per share of \$0.4797 to unaffiliated purchasers.



**ROADRUNNER TRANSPORTATION SYSTEMS, INC.  
2018 INCENTIVE COMPENSATION PLAN**

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**ROADRUNNER TRANSPORTATION SYSTEMS, INC.  
2018 INCENTIVE COMPENSATION PLAN**

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**ROADRUNNER TRANSPORTATION SYSTEMS, INC.**  
**2018 INCENTIVE COMPENSATION PLAN**

1. **Purpose.** The purpose of this 2018 INCENTIVE COMPENSATION PLAN (the “Plan”) is to assist Roadrunner Transportation Systems, Inc., a Delaware corporation, and its Related Entities (as hereinafter defined) in attracting, motivating, retaining and rewarding high-quality executives and other employees, officers, directors, consultants and other persons who provide services to the Company or its Related Entities by enabling such persons to acquire or increase a proprietary interest in the Company in order to strengthen the mutuality of interests between such persons and the Company’s stockholders, and providing such persons with performance incentives to expend their maximum efforts in the creation of stockholder value.

2. **Definitions.** For purposes of the Plan, the following terms shall be defined as set forth below, in addition to such terms defined in Section 1 hereof and elsewhere herein.

(a) “Award” means any Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Share granted as a bonus or in lieu of another Award, Dividend Equivalent, Other Stock-Based Award or Performance Award, together with any other right or interest relating to Shares or other property (including cash), granted to a Participant under the Plan.

(b) “Award Agreement” means any written agreement, contract or other instrument or document evidencing any Award granted by the Committee hereunder.

(c) “Beneficiary” means the person, persons, trust or trusts that have been designated by a Participant in his or her most recent written beneficiary designation filed with the Committee to receive the benefits specified under the Plan upon such Participant’s death or to which Awards or other rights are transferred if and to the extent permitted under Section 9(b) hereof. If, upon a Participant’s death, there is no designated Beneficiary or surviving designated Beneficiary, then the term Beneficiary means the Participant’s estate.

(d) “Beneficial Owner” and “Beneficial Ownership” shall have the meaning ascribed to such term in Rule 13d-3 under the Exchange Act and any successor to such Rule.

(e) “Board” means the Company’s Board of Directors.

(f) “Business Combination” has the meaning set forth in Section 8(b)(iii) hereof.

(g) “Cause” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Cause” shall have the equivalent meaning or the same meaning as “cause” or “for cause” set forth in any employment, consulting, or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the failure by the Participant to perform, in a reasonable manner, his or her duties as assigned by the Company or a Related Entity, (ii) any violation or breach by the Participant of his or her employment, consulting or other similar agreement with the Company or a Related Entity, if any, (iii) any violation or breach by the Participant of any non-competition, non-solicitation, non-disclosure and/or other similar agreement with the Company or a Related Entity, (iv) any act by the Participant of dishonesty or bad faith with respect to the Company or a Related Entity, (v) use of alcohol, drugs or other similar substances in a manner that adversely affects the Participant’s work performance, or (vi) the commission by the Participant of any act, misdemeanor, or crime reflecting unfavorably upon the Participant or the Company or any

Related Entity. The good faith determination by the Committee of whether the Participant's Continuous Service was terminated by the Company for "Cause" shall be final and binding for all purposes hereunder.

(h) "Change in Control" has the meaning set forth in Section 8(b) hereof.

(i) "Clawback Policy" has the meaning set forth in Section 9(g) hereof.

(j) "Code" means the Internal Revenue Code of 1986, as amended from time to time, including regulations thereunder and successor provisions and regulations thereto.

(k) "Committee" means a committee designated by the Board to administer the Plan; provided, however, that if the Board fails to designate a committee or if there are no longer any members on the committee so designated by the Board, or for any other reason determined by the Board, then the Board shall serve as the Committee. While it is intended that the Committee shall consist of at least two (2) directors, each of whom shall be (i) a "non-employee director" within the meaning of Rule 16b-3 (or any successor rule) under the Exchange Act, unless administration of the Plan by "non-employee directors" is not then required in order for exemptions under Rule 16b-3 to apply to transactions under the Plan, and (ii) "Independent", the failure of the Committee to be so comprised shall not invalidate any Award that otherwise satisfies the terms of the Plan.

(l) "Company" means Roadrunner Transportation Systems, Inc., a Delaware corporation, and any successor thereto.

(m) "Consultant" means any consultant or advisor who provides services to the Company or any Related Entity, so long as (i) such person renders bona fide services that are not in connection with the offer and sale of the Company's securities in a capital-raising transaction, (ii) such person does not directly or indirectly promote or maintain a market for the Company's securities, and (iii) the identity of such person would not preclude the Company from offering or selling securities to such person pursuant to the Plan in reliance on either the exemption from registration provided by Rule 701 under the Securities Act or, if the Company is required to file reports pursuant to Section 13 or 15(d) of the Exchange Act, registration on a Form S-8 Registration Statement under the Securities Act.

(n) "Continuing Entity" has the meaning set forth in Section 8(b)(iii) hereof.

(o) "Continuous Service" means the uninterrupted provision of services to the Company or any Related Entity in any capacity of Employee, Director, Consultant or other service provider. Continuous Service shall not be considered to be interrupted in the case of (i) any approved leave of absence, (ii) transfers among the Company, any Related Entities, or any successor entities, in any capacity of Employee, Director, Consultant or other service provider, or (iii) any change in status as long as the individual remains in the service of the Company or a Related Entity in any capacity of Employee, Director, Consultant or other service provider (except as otherwise provided in the Award Agreement). An approved leave of absence shall include sick leave, military leave, or any other authorized personal leave.

(p) "Controlling Interest" has the meaning set forth in Section 8(b)(i) hereof.

(q) "Director" means a member of the Board or the board of directors of any Related Entity.

(r) "Disability" means a permanent and total disability (within the meaning of Section 22(e) of the Code), as determined by a medical doctor satisfactory to the Committee.

(s) “Dividend Equivalent” means a right, granted to a Participant under Section 6(g) hereof, to receive cash, Shares, other Awards or other property equal in value to dividends paid with respect to a specified number of Shares, or other periodic payments.

(t) “Effective Date” means the effective date of the Plan, which shall be November 7, 2018.

(u) “Eligible Person” means each officer, Director, Employee, Consultant and other person who provides services to the Company or any Related Entity. The foregoing notwithstanding, only Employees of the Company, or any parent corporation or subsidiary corporation of the Company (as those terms are defined in Sections 424(e) and (f) of the Code, respectively), shall be Eligible Persons for purposes of receiving any Incentive Stock Options. An Employee on leave of absence may, in the discretion of the Committee, be considered as still in the employ of the Company or a Related Entity for purposes of eligibility for participation in the Plan.

(v) “Employee” means any person, including an officer or Director, who is an employee of the Company or any Related Entity, or is a prospective employee of the Company or any Related Entity (conditioned upon and effective not earlier than, such person becoming an employee of the Company or any Related Entity). The payment of a director’s fee by the Company or a Related Entity shall not be sufficient to constitute “employment” by the Company.

(w) “Exchange Act” means the Securities Exchange Act of 1934, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(x) “Fair Market Value” means the fair market value of Shares, Awards or other property on the date as of which the value is being determined, as determined by the Committee, or under procedures established by the Committee, subject to the following:

(i) If, on such date, the Shares are listed on a national or regional securities exchange or market system, the Fair Market Value of a Share shall be the closing price of a Share (or the mean of the closing bid and asked prices of a Share if the Share is so quoted instead) as quoted on the Nasdaq National Market, The Nasdaq Small Cap Market or such other national or regional securities exchange or market system constituting the primary market for the Share, as reported in The Wall Street Journal or such other source as the Company deems reliable. If the relevant date does not fall on a day on which the Share has traded on such securities exchange or market system, the date on which the Fair Market Value shall be established shall be the last day on which the Share was so traded prior to the relevant date, or such other appropriate day as shall be determined by the Board, in its discretion.

(ii) If, on such date, the Share are not listed on a national or regional securities exchange or market system, the Fair Market Value of a Share shall be as determined by the Board in good faith without regard to any restriction other than a restriction which, by its terms, will never lapse.

(y) “Freestanding Stock Appreciation Right” has the meaning set forth in Section 6(c) hereof.

(z) “Good Reason” shall, with respect to any Participant, have the meaning specified in the Award Agreement. In the absence of any definition in the Award Agreement, “Good Reason” shall have the equivalent meaning or the same meaning as “good reason” or “for good reason” set forth in any employment, consulting or other agreement for the performance of services between the Participant and the Company or a Related Entity or, in the absence of any such agreement or any such definition in such agreement, such term shall mean (i) the assignment to the Participant of any duties inconsistent in any

material respect with the Participant's duties or responsibilities as assigned by the Company or a Related Entity, or any other action by the Company or a Related Entity which results in a material diminution in such duties or responsibilities, excluding for this purpose an action which is remedied by the Company or a Related Entity promptly after receipt of notice thereof given by the Participant; (ii) the Company's or Related Entity's requiring the Participant to be based at any office or location outside of fifty (50) miles from the location of employment or service as of the date of Award, except for travel reasonably required in the performance of the Participant's responsibilities; or (iii) a material breach by the Company or any Related Entity of any employment, consulting or other agreement under which the Participant provides services to the Company or any Related Entity. For purposes of this Plan, upon termination of a Participant's Continuous Service, Good Reason shall not be deemed to exist unless the Participant's termination of Continuous Service for Good Reason occurs within one hundred eighty (180) days following the initial existence of one of the conditions specified in clauses (i) through (iii) above, the Participant provides the Company or the Related Entity for which the Participant provides services with written notice of the existence of such condition with ninety (90) days after the initial existence of the condition, and the Company fails to remedy the condition within thirty (30) days after its receipt of notice.

(aa) "Incentive Stock Option" means any Option intended to be designated as an incentive stock option within the meaning of Section 422 of the Code or any successor provision thereto.

(bb) "Independent", when referring to either the Board or members of the Committee, shall have the same meaning as used in the rules of the Listing Market.

(cc) "Incumbent Board" has the meaning set forth in Section 8(b)(ii) hereof.

(dd) "Listing Market" means the New York Stock Exchange or any other national securities exchange on which any securities of the Company are listed for trading, and if not listed for trading, by the rules of the Nasdaq Stock Market.

(ee) "Major Subsidiaries" has the meaning set forth in Section 8(b)(iii) hereof.

(ff) "Option" means a right granted to a Participant under Section 6(b) hereof, to purchase Shares or other Awards at a specified price during specified time periods.

(gg) "Optionee" means a person to whom an Option is granted under this Plan or any person who succeeds to the rights of such person under this Plan.

(hh) "Other Stock-Based Awards" means Awards granted to a Participant under Section 6(i) hereof.

(ii) "Outstanding Company Voting Securities" has the meaning set forth in Section 8(b)(i) hereof.

(jj) "Parent" means any corporation (other than the Company), whether now or hereafter existing, in an unbroken chain of corporations ending with the Company, if each of the corporations in the chain (other than the Company) owns stock possessing fifty percent (50%) or more of the combined voting power of all classes of stock in one of the other corporations in the chain.

(kk) "Participant" means a person who has been granted an Award under the Plan which remains outstanding, including a person who is no longer an Eligible Person.

(ll) "Performance Award" means any Award granted pursuant to Section 6(h) hereof.

(mm) “Performance Period” means that period established by the Committee at the time any Performance Award is granted or at any time thereafter during which any performance goals specified by the Committee with respect to such Award are to be measured.

(nn) “Permitted Assignee” has the meaning set forth in Section 9(b) hereof.

(oo) “Person” shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, and shall include a “group” as defined in Section 13(d) thereof.

(pp) “Prior Plan” means the Roadrunner Transportation Systems, Inc. 2010 Incentive Compensation Plan.

(qq) “Related Entity” means any Parent or Subsidiary, and any business, corporation, partnership, limited liability company or other entity designated by the Committee in which the Company, a Parent or a Subsidiary holds a substantial ownership interest, directly or indirectly, and with respect to which the Company may offer or sell securities pursuant to the Plan in reliance upon either Rule 701 under the Securities Act or, if the Company is required to file reports pursuant to Section 13 or 15(d) of the Exchange Act, registration on a Form S-8 Registration Statement under the Securities Act.

(rr) “Restricted Stock” means any Share issued with such risks of forfeiture and other restrictions as the Committee, in its sole discretion, may impose (including any restriction on the right to vote such Share and the right to receive any dividends), which restrictions may lapse separately or in combination at such time or times, in installments or otherwise, as the Committee may deem appropriate.

(ss) “Restricted Stock Award” means an Award granted to a Participant under Section 6(d) hereof.

(tt) “Restricted Stock Unit” means a right to receive Shares, including Restricted Stock, cash measured based upon the value of Shares, or a combination thereof, at the end of a specified deferral period.

(uu) “Restricted Stock Unit Award” means an Award of Restricted Stock Units granted to a Participant under Section 6(e) hereof.

(vv) “Restriction Period” means the period of time specified by the Committee that Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose.

(ww) “Rights Offering” means any public offering of Shares solely to the Company’s stockholders, and shall include any unsubscribed Shares issued pursuant to any standby/backup purchase agreement executed in connection with the offering.

(xx) “Rule 16b-3” means Rule 16b-3, as from time to time in effect and applicable to the Plan and Participants, promulgated by the Securities and Exchange Commission under Section 16 of the Exchange Act.

(yy) “Section 409A Plan” has the meaning set forth in Section 7(e)(i) hereof.

(zz) “Securities Act” means the Securities Act of 1933, as amended from time to time, including rules thereunder and successor provisions and rules thereto.

(aaa) “Shares” means the shares of common stock of the Company, par value \$0.01 per share, and such other securities as may be substituted (or resubstituted) for Shares pursuant to Section 9(c) hereof.

(bbb) “Stock Appreciation Right” means a right granted to a Participant under Section 6(c) hereof.

(ccc) “Stockholder Approval Date” means the date on which this Plan is approved by stockholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Section 422 of the Code, Rule 16b-3 under the Exchange Act and applicable requirements under the rules of the Listing Market.

(ddd) “Subsidiary” means any corporation or other entity in which the Company has a direct or indirect ownership interest of fifty percent (50%) or more of the total combined voting power of the then outstanding securities or interests of such corporation or other entity entitled to vote generally in the election of directors or in which the Company has the right to receive fifty percent (50%) or more of the distribution of profits or fifty percent (50%) or more of the assets on liquidation or dissolution.

(eee) “Substitute Awards” means Awards granted or Shares issued by the Company in assumption of, or in substitution or exchange for, Awards previously granted, or the right or obligation to make future Awards, by a company (i) acquired by the Company or any Related Entity, (ii) which becomes a Related Entity after the date hereof, or (iii) with which the Company or any Related Entity combines.

(fff) “Tandem Stock Appreciation Right” has the meaning set forth in Section 6(c) hereof.

### 3. **Administration.**

(a) Authority of the Committee. The Plan shall be administered by the Committee, except to the extent (and subject to the limitations imposed by Section 3(b) hereof) the Board elects to administer the Plan, in which case the Plan shall be administered by only those members of the Board who are Independent members of the Board, in which case references herein to the “Committee” shall be deemed to include references to the Independent members of the Board. The Committee shall have full and final authority, subject to and consistent with the provisions of the Plan, to select Eligible Persons to become Participants, grant Awards, determine the type, number and other terms and conditions of, and all other matters relating to, Awards, prescribe Award Agreements (which need not be identical for each Participant) and rules and regulations for the administration of the Plan, construe and interpret the Plan and Award Agreements and correct defects, supply omissions or reconcile inconsistencies therein, and to make all other decisions and determinations as the Committee may deem necessary or advisable for the administration of the Plan. In exercising any discretion granted to the Committee under the Plan or pursuant to any Award, the Committee shall not be required to follow past practices, act in a manner consistent with past practices, or treat any Eligible Person or Participant in a manner consistent with the treatment of any other Eligible Persons or Participants. Decisions of the Committee shall be final, conclusive and binding on all persons or entities, including the Company, any Related Entity or any Participant or Beneficiary, or any transferee under Section 9(b) hereof or any other person claiming rights from or through any of the foregoing persons or entities.

(b) Manner of Exercise of Committee Authority. The Committee, and not the Board, shall exercise sole and exclusive discretion (i) on any matter relating to a Participant then subject to Section 16 of the Exchange Act with respect to the Company to the extent necessary in order that transactions by such Participant shall be exempt under Rule 16b-3 under the Exchange Act, and (ii) with



respect to any Award to an Independent Director. The express grant of any specific power to the Committee, and the taking of any action by the Committee, shall not be construed as limiting any power or authority of the Committee. The Committee may delegate to members of the Board, or officers or managers of the Company or any Related Entity, or committees thereof, the authority, subject to such terms and limitations as the Committee shall determine, to perform such functions, including administrative functions as the Committee may determine to the extent that such delegation will not result in the loss of an exemption under Rule 16b-3(d)(1) for Awards granted to Participants subject to Section 16 of the Exchange Act in respect of the Company. The Committee may appoint agents to assist it in administering the Plan. Any such delegations shall be set forth in a written instrument that specifies the persons authorized to act thereunder and the terms and limitations of such authority, which writing shall be delivered to the Company's Chief Financial Officer, Principal Accounting Officer and General Counsel before any authority may be exercised.

(c) Limitation of Liability. The Committee and the Board, and each member thereof, shall be entitled to, in good faith, rely or act upon any report or other information furnished to him or her by any officer or Employee, the Company's independent auditors, Consultants or any other agents assisting in the administration of the Plan. Members of the Committee and the Board, and any officer or Employee acting at the direction or on behalf of the Committee or the Board, shall not be personally liable for any action or determination taken or made in good faith with respect to the Plan, and shall, to the extent permitted by law, be fully indemnified and protected by the Company with respect to any such action or determination.

#### 4. Shares Subject to Plan.

(a) Limitation on Overall Number of Shares Available for Delivery under Plan. Subject to adjustment as provided in Section 9(c) hereof, the total number of Shares reserved and available for delivery under the Plan shall be 3,000,000, increased by 7.5% of any Shares issued by the Company pursuant to any Rights Offering by the Company after the Stockholder Approval Date and prior to the date on which the Plan terminates. Any Shares delivered under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares.

(b) Application of Limitation to Grants of Awards. No Award may be granted if the number of Shares to be delivered in connection with such an Award exceeds the number of Shares remaining available for delivery under the Plan, minus the number of Shares that would be counted against the limit upon settlement of then outstanding Awards. The Committee may adopt reasonable counting procedures to ensure appropriate counting, avoid double counting (as, for example, in the case of tandem or substitute awards) and make adjustments if the number of Shares actually delivered differs from the number of Shares previously counted in connection with an Award.

(c) Availability of Shares not Delivered under Awards and Adjustments to Limits.

(i) If any Shares subject to an Award, or after the Stockholder Approval Date, Shares subject to any awards granted under the Prior Plan, are forfeited, expire or otherwise terminate without issuance of such Shares, or any Award, or after Stockholder Approval Date, Shares subject to any award granted under the Prior Plan, is settled for cash or otherwise does not result in the issuance of all or a portion of the Shares subject to such Award or award under the Prior Plan, the Shares to which those Awards or awards under the Prior Plan were subject, shall, to the extent of such forfeiture, expiration, termination, non-issuance or cash settlement, again be available for delivery with respect to Awards under the Plan.

(ii) In the event that any Option or other Award granted under this Plan, or after the Stockholder Approval Date, any award granted under the Prior Plan, is exercised through the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, or withholding tax liabilities arising from such Option or other Award, or after the Stockholder Approval Date, any award granted under the Prior Plan, are satisfied by the tendering of Shares (either actually or by attestation) or by the withholding of Shares by the Company, then only the number of Shares issued net of the Shares tendered or withheld shall be counted for purposes of determining the maximum number of Shares available for grant under the Plan.

(iii) Substitute Awards shall not reduce the Shares authorized for delivery under the Plan or authorized for delivery to a Participant in any period. Additionally, in the event that an entity acquired by the Company or any Related Entity or with which the Company or any Related Entity combines has shares available under a pre-existing plan approved by its stockholders and not adopted in contemplation of such acquisition or combination, the shares available for delivery pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan and shall not reduce the Shares authorized for delivery under the Plan if and to the extent that the use of such Shares would not require approval of the Company's stockholders under the rules of the Listing Market. Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not Employees or Directors prior to such acquisition or combination.

(iv) Any Share that again becomes available for delivery pursuant to this Section 4(c) shall be added back as one (1) Share.

(v) Notwithstanding anything in this Section 4(c) to the contrary but subject to adjustment as provided in Section 9(c) hereof, the maximum aggregate number of Shares that may be delivered under the Plan as a result of the exercise of Incentive Stock Options shall be 1,000,000 Shares. In no event shall any Incentive Stock Options be granted under the Plan after the tenth anniversary of the date on which the Board adopts the Plan.

(vi) Notwithstanding anything in this Section 4 to the contrary, but subject to adjustment as provided in Section 9(c) hereof, in any fiscal year of the Company during any part of which the Plan is in effect, no Participant who is a Director but is not also an Employee or Consultant may be granted any Awards that have a "fair value" as of the date of grant, as determined in accordance with FASB ASC Topic 718 (or any other applicable accounting guidance), that exceeds \$75,000 in the aggregate.

(d) No Further Awards under Prior Plan. In light of the adoption of this Plan, no further awards shall be made under the Prior Plan after the Stockholder Approval Date.

5. **Eligibility.** Awards may be granted under the Plan only to Eligible Persons.

6. **Specific Terms of Awards.**

(a) **General.** Awards may be granted on the terms and conditions set forth in this Section 6. In addition, the Committee may impose on any Award or the exercise thereof, at the date of grant or thereafter (subject to Section 9(f) hereof), such additional terms and conditions, not inconsistent with the provisions of the Plan, as the Committee shall determine, including terms requiring forfeiture of Awards in the event of termination of the Participant's Continuous Service and terms permitting a

Participant to make elections relating to his or her Award. Except in cases in which the Committee is authorized to require other forms of consideration under the Plan, or to the extent other forms of consideration must be paid to satisfy the requirements of Delaware law, no consideration other than services may be required for the grant (as opposed to the exercise) of any Award.

(b) Options. The Committee is authorized to grant Options to any Eligible Person on the following terms and conditions:

(i) Exercise Price. Other than in connection with Substitute Awards, the exercise price per Share purchasable under an Option shall be determined by the Committee, provided that such exercise price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant of the Option and shall not, in any event, be less than the par value of a Share on the date of grant of the Option. If an Employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and an Incentive Stock Option is granted to such Employee, the exercise price of such Incentive Stock Option (to the extent required by the Code at the time of grant) shall be no less than one hundred ten percent (110%) of the Fair Market Value of a Share on the date such Incentive Stock Option is granted. Other than pursuant to Sections 9(c)(i) and (ii) hereof, the Committee shall not be permitted to (A) lower the exercise price per Share of an Option after it is granted, (B) cancel an Option when the exercise price per Share exceeds the Fair Market Value of the underlying Shares in exchange for cash or another Award (other than in connection with Substitute Awards), (C) cancel an outstanding Option in exchange for an Option with an exercise price that is less than the exercise price of the original Options or (D) take any other action with respect to an Option that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without approval of the Company's stockholders.

(ii) Time and Method of Exercise. The Committee shall determine the time or times at which or the circumstances under which an Option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method by which notice of exercise is to be given and the form of exercise notice to be used, the time or times at which Options shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the methods by which the exercise price may be paid or deemed to be paid (including in the discretion of the Committee a cashless exercise procedure), the form of such payment, including, without limitation, cash, Shares (including without limitation the withholding of Shares otherwise deliverable pursuant to the Award), other Awards or awards granted under other plans of the Company or a Related Entity, or other property (including notes or other contractual obligations of Participants to make payment on a deferred basis provided that such deferred payments are not in violation of Section 13(k) of the Exchange Act, or any rule or regulation adopted thereunder or any other applicable law), and the methods by or forms in which Shares will be delivered or deemed to be delivered to Participants.

(iii) Form of Settlement. The Committee may, in its sole discretion, provide that the Shares to be issued upon exercise of an Option shall be in the form of Restricted Stock or other similar securities.

(iv) Incentive Stock Options. The terms of any Incentive Stock Option granted under the Plan shall comply in all respects with the provisions of Section 422 of the Code. Anything in the Plan to the contrary notwithstanding, no term of the Plan relating to Incentive Stock Options (including any Stock Appreciation Right issued in tandem therewith) shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be exercised, so as to disqualify either the Plan or any Incentive Stock Option under Section 422 of the Code, unless the Participant has first requested, or consents

to, the change that will result in such disqualification. Thus, if and to the extent required to comply with Section 422 of the Code, Options granted as Incentive Stock Options shall be subject to the following special terms and conditions:

(A) the Option shall not be exercisable for more than ten (10) years after the date such Incentive Stock Option is granted; provided, however, that if a Participant owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than ten percent (10%) of the combined voting power of all classes of stock of the Company (or any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) and the Incentive Stock Option is granted to such Participant, the term of the Incentive Stock Option shall be (to the extent required by the Code at the time of the grant) for no more than five (5) years from the date of grant;

(B) the aggregate Fair Market Value (determined as of the date the Incentive Stock Option is granted) of the Shares with respect to which Incentive Stock Options granted under the Plan and all other option plans of the Company (and any parent corporation or subsidiary corporation of the Company, as those terms are defined in Sections 424(e) and (f) of the Code, respectively) that become exercisable for the first time by the Participant during any calendar year shall not (to the extent required by the Code at the time of the grant) exceed \$100,000; and

(C) if Shares acquired by exercise of an Incentive Stock Option are disposed of within two (2) years following the date the Incentive Stock Option is granted or one (1) year following the transfer of such Shares to the Participant upon exercise, the Participant shall, promptly following such disposition, notify the Company in writing of the date and terms of such disposition and provide such other information regarding the disposition as the Committee may reasonably require.

(c) Stock Appreciation Rights. The Committee may grant Stock Appreciation Rights to any Eligible Person in conjunction with all or part of any Option granted under the Plan or at any subsequent time during the term of such Option (a "Tandem Stock Appreciation Right"), or without regard to any Option (a "Freestanding Stock Appreciation Right"), in each case upon such terms and conditions as the Committee may establish in its sole discretion, not inconsistent with the provisions of the Plan, including the following:

(i) Right to Payment. A Stock Appreciation Right shall confer on the Participant to whom it is granted a right to receive, upon exercise thereof, the excess of (A) the Fair Market Value of one (1) Share on the date of exercise over (B) the grant price of the Stock Appreciation Right as determined by the Committee. The grant price of a Stock Appreciation Right shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date of grant, in the case of a Freestanding Stock Appreciation Right, or less than the associated Option exercise price, in the case of a Tandem Stock Appreciation Right. Other than pursuant to Sections 9(c)(i) and (ii) hereof, the Committee shall not be permitted to (A) lower the grant price per Share of a Stock Appreciation Right after it is granted, (B) cancel a Stock Appreciation Right when the grant price per Share exceeds the Fair Market Value of the underlying Shares in exchange for another Award (other than in connection with Substitute Awards), (C) cancel an outstanding Stock Appreciation Right in exchange for a Stock Appreciation Right with a grant price that is less than the grant price of the original Stock Appreciation Right, or (D) take any other action with respect to a Stock Appreciation Right that may be treated as a repricing pursuant to the applicable rules of the Listing Market, without stockholder approval.

(ii) Other Terms. The Committee shall determine at the date of grant or thereafter, the time or times at which and the circumstances under which a Stock Appreciation Right may be exercised in whole or in part (including based on achievement of performance goals and/or future service

requirements), the time or times at which Stock Appreciation Rights shall cease to be or become exercisable following termination of Continuous Service or upon other conditions, the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which Shares will be delivered or deemed to be delivered to Participants, whether or not a Stock Appreciation Right shall be in tandem or in combination with any other Award, and any other terms and conditions of any Stock Appreciation Right.

(iii) Tandem Stock Appreciation Rights. Any Tandem Stock Appreciation Right may be granted at the same time as the related Option is granted or, for Options that are not Incentive Stock Options, at any time thereafter before exercise or expiration of such Option. Any Tandem Stock Appreciation Right related to an Option may be exercised only when the related Option would be exercisable and the Fair Market Value of the Shares subject to the related Option exceeds the exercise price at which Shares can be acquired pursuant to the Option. In addition, if a Tandem Stock Appreciation Right exists with respect to less than the full number of Shares covered by a related Option, then an exercise or termination of such Option shall not reduce the number of Shares to which the Tandem Stock Appreciation Right applies until the number of Shares then exercisable under such Option equals the number of Shares to which the Tandem Stock Appreciation Right applies. Any Option related to a Tandem Stock Appreciation Right shall no longer be exercisable to the extent the Tandem Stock Appreciation Right has been exercised, and any Tandem Stock Appreciation Right shall no longer be exercisable to the extent the related Option has been exercised.

(d) Restricted Stock Awards. The Committee is authorized to grant Restricted Stock Awards to any Eligible Person on the following terms and conditions:

(i) Grant and Restrictions. Restricted Stock Awards shall be subject to such restrictions on transferability, risk of forfeiture and other restrictions, if any, as the Committee may impose, or as otherwise provided in this Plan during the Restriction Period. The terms of any Restricted Stock Award granted under the Plan shall be set forth in a written Award Agreement which shall contain provisions determined by the Committee and not inconsistent with the Plan. The restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as the Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Plan and any Award Agreement relating to a Restricted Stock Award, a Participant granted Restricted Stock shall have all of the rights of a stockholder, including the right to vote the Restricted Stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by the Committee). During the period that the Restricted Stock Award is subject to a risk of forfeiture, subject to Section 9(b) below and except as otherwise provided in the Award Agreement, the Restricted Stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant or Beneficiary.

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable Restriction Period, the Participant's Restricted Stock that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited and reacquired by the Company; provided, that, subject to the limitations set forth in Section 6(j)(ii) hereof, the Committee may provide, by resolution or other action or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to Restricted Stock Awards shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of Restricted Stock.

(iii) Certificates for Stock. Restricted Stock granted under the Plan may be evidenced in such manner as the Committee shall determine. If certificates representing Restricted Stock

are registered in the name of the Participant, the Committee may require that such certificates bear an appropriate legend referring to the terms, conditions and restrictions applicable to such Restricted Stock, that the Company retain physical possession of the certificates, and that the Participant deliver a stock power to the Company, endorsed in blank, relating to the Restricted Stock.

(iv) Dividends and Splits. As a condition to the grant of a Restricted Stock Award, the Committee may require or permit a Participant to elect that any cash dividends paid on a Share of Restricted Stock be automatically reinvested in additional Shares of Restricted Stock or applied to the purchase of additional Awards under the Plan, or may require that payment be delayed (with or without interest at such rate, if any, as the Committee shall determine) and remain subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such cash dividend is payable, in each case in a manner that does not violate the requirements of Section 409A of the Code. Unless otherwise determined by the Committee, Shares distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, shall be subject to restrictions and a risk of forfeiture to the same extent as the Restricted Stock with respect to which such Shares or other property have been distributed.

(e) Restricted Stock Unit Award. The Committee is authorized to grant Restricted Stock Unit Awards to any Eligible Person on the following terms and conditions:

(i) Award and Restrictions. Satisfaction of a Restricted Stock Unit Award shall occur upon expiration of the deferral period specified for such Restricted Stock Unit Award by the Committee (or, if permitted by the Committee, as elected by the Participant in a manner that does not violate the requirements of Section 409A of the Code). In addition, a Restricted Stock Unit Award shall be subject to such restrictions (which may include a risk of forfeiture) as the Committee may impose, if any, which restrictions may lapse at the expiration of the deferral period or at earlier specified times (including based on achievement of performance goals and/or future service requirements), separately or in combination, in installments or otherwise, as the Committee may determine. A Restricted Stock Unit Award may be satisfied by delivery of Shares, cash equal to the Fair Market Value of the specified number of Shares covered by the Restricted Stock Units, or a combination thereof, as determined by the Committee at the date of grant or thereafter. Prior to satisfaction of a Restricted Stock Unit Award, a Restricted Stock Unit Award carries no voting or dividend or other rights associated with Share ownership. Prior to satisfaction of a Restricted Stock Unit Award, except as otherwise provided in an Award Agreement and as permitted under Section 409A of the Code, a Restricted Stock Unit Award may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the Participant or any Beneficiary.

(ii) Forfeiture. Except as otherwise determined by the Committee, upon termination of a Participant's Continuous Service during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the Award Agreement evidencing the Restricted Stock Unit Award), the Participant's Restricted Stock Unit Award that is at that time subject to a risk of forfeiture that has not lapsed or otherwise been satisfied shall be forfeited; provided, that, subject to the limitations set forth in Section 6(j)(ii) hereof, the Committee may provide, by resolution or other action or in any Award Agreement, or may determine in any individual case, that forfeiture conditions relating to a Restricted Stock Unit Award shall be waived in whole or in part in the event of terminations resulting from specified causes, and the Committee may in other cases waive in whole or in part the forfeiture of any Restricted Stock Unit Award.

(iii) Dividend Equivalents. Unless otherwise determined by the Committee at the date of grant, any Dividend Equivalents that are granted with respect to any Restricted Stock Unit Award shall be either (A) paid with respect to such Restricted Stock Unit Award at the dividend payment date in cash or in Shares of unrestricted stock having a Fair Market Value equal to the amount of such dividends,

or (B) deferred (with or without interest as determined by the Committee in its sole discretion) with respect to such Restricted Stock Unit Award and the amount or value thereof may be automatically deemed reinvested in additional Restricted Stock Units, other Awards or other investment vehicles, as the Committee shall determine or permit the Participant to elect. The applicable Award Agreement shall specify whether any Dividend Equivalents shall be paid at the dividend payment date, deferred or deferred at the election of the Participant. If the Participant may elect to defer the Dividend Equivalents, such election shall be made within thirty (30) days after the grant date of the Restricted Stock Unit Award, but in no event later than twelve (12) months before the first date on which any portion of such Restricted Stock Unit Award vests (or at such other times prescribed by the Committee as shall not result in a violation of Section 409A of the Code).

(f) Bonus Stock and Awards in lieu of Obligations. The Committee is authorized to grant Shares to any Eligible Persons as a bonus, or to grant Shares or other Awards in lieu of obligations to pay cash or deliver other property under the Plan or under other plans or compensatory arrangements, provided that, in the case of Eligible Persons subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of the Committee to the extent necessary to ensure that acquisitions of Shares or other Awards are exempt from liability under Section 16(b) of the Exchange Act. Shares or Awards granted hereunder shall be subject to such other terms as shall be determined by the Committee.

(g) Dividend Equivalents. The Committee is authorized to grant Dividend Equivalents to any Eligible Person entitling the Eligible Person to receive cash, Shares, other Awards, or other property equal in value to the dividends paid with respect to a specified number of Shares, or other periodic payments. Dividend Equivalents may be awarded on a free-standing basis or in connection with another Award. The Committee may provide that Dividend Equivalents shall be paid or distributed when accrued or at some later date, or whether such Dividend Equivalents shall be deemed to have been reinvested in additional Shares, Awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as the Committee may specify. Any such determination by the Committee shall be made at the grant date of the applicable Award. Notwithstanding the foregoing, Dividend Equivalents credited in connection with an Award that vests based on the achievement of performance goals shall be subject to restrictions and risk of forfeiture to the same extent as the Award with respect to which such Dividend Equivalents have been credited.

(h) Performance Awards. The Committee is authorized to grant Performance Awards to any Eligible Person payable in cash, Shares, or other Awards, on terms and conditions established by the Committee. The performance criteria to be achieved during any Performance Period and the length of the Performance Period shall be determined by the Committee upon the grant of each Performance Award. Except as provided in Section 8 or as may be provided in an Award Agreement, Performance Awards will be distributed only after the end of the relevant Performance Period. The performance goals to be achieved for each Performance Period shall be conclusively determined by the Committee and may be based upon any criteria that the Committee, in its sole discretion, shall determine should be used for that purpose. The amount of the Award to be distributed shall be conclusively determined by the Committee. Performance Awards may be paid in a lump sum or in installments following the close of the Performance Period or, in accordance with procedures established by the Committee, on a deferred basis in a manner that does not violate the requirements of Section 409A of the Code.

(i) Other Stock-Based Awards. The Committee is authorized, subject to limitations under applicable law, to grant to any Eligible Person such other Awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, Shares, as deemed by the Committee to be consistent with the purposes of the Plan. Other Stock-Based Awards may be granted to Participants either alone or in addition to other Awards granted under the Plan, and such Other Stock-Based Awards shall also be available as a form of payment in the settlement of other Awards granted under the

Plan. The Committee shall determine the terms and conditions of such Awards. Shares delivered pursuant to an Award in the nature of a purchase right granted under this Section 6(i) shall be purchased for such consideration, (including without limitation loans from the Company or a Related Entity provided that such loans are not in violation of Section 13(k) of the Exchange Act or any rule or regulation adopted thereunder or any other applicable law) paid for at such times, by such methods, and in such forms, including, without limitation, cash, Shares, other Awards or other property, as the Committee shall determine.

(j) Certain Vesting Requirements and Limitations on Waiver of Forfeiture Restrictions. Except for certain limited situations (including death, disability, retirement, a Change in Control referred to in Section 8, grants to new hires to replace forfeited compensation, grants representing payment of earned Performance Awards or other incentive compensation, Substitute Awards or grants to Directors):

(i) Restricted Stock Awards, Restricted Stock Unit Awards, and Other Stock-Based Awards (A) that are not subject to performance-based vesting requirements shall vest over a period of not less than one (1) year from date of grant (but permitting pro-rata vesting over such time); and (B) that are subject to performance-based vesting requirements shall vest over a period of not less than one (1) year; and

(ii) The Committee shall not waive the vesting requirements set forth in the foregoing clause (i).

The limitations set forth in this Section 6(j) shall not apply with respect to up to ninety-five percent (95%) of the maximum number of Shares available for delivery under the Plan (subject to adjustment as provided in Section 9(c) hereof).

#### 7. Certain Provisions Applicable to Awards.

(a) Stand-Alone, Additional, Tandem, and Substitute Awards. Awards granted under the Plan may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other Award or any award granted under another plan of the Company, any Related Entity, or any business entity to be acquired by the Company or a Related Entity, or any other right of a Participant to receive payment from the Company or any Related Entity. Such additional, tandem, and substitute or exchange Awards may be granted at any time. If an Award is granted in substitution or exchange for another Award or award, the Committee shall require the surrender of such other Award or award in consideration for the grant of the new Award. In addition, Awards may be granted in lieu of cash compensation, including in lieu of cash amounts payable under other plans of the Company or any Related Entity, in which the value of Shares subject to the Award is equivalent in value to the cash compensation (for example, Restricted Stock or Restricted Stock Units), or in which the exercise price, grant price or purchase price of the Award in the nature of a right that may be exercised is equal to the Fair Market Value of the underlying Shares minus the value of the cash compensation surrendered (for example, Options or Stock Appreciation Right granted with an exercise price or grant price "discounted" by the amount of the cash compensation surrendered), provided that any such determination to grant an Award in lieu of cash compensation must be made in a manner intended to be exempt from or comply with Section 409A of the Code.

(b) Term of Awards. The term of each Award shall be for such period as may be determined by the Committee; provided, that in no event shall the term of any Option or Stock Appreciation Right exceed a period of ten (10) years (or in the case of an Incentive Stock Option such shorter term as may be required under Section 422 of the Code); provided, however, that in the event that on the last day of the term of an Option or a Stock Appreciation Right, other than an Incentive Stock Option, (i) the exercise



of the Option or Stock Appreciation Right is prohibited by applicable law, or (ii) Shares may not be purchased, or sold by certain employees or directors of the Company due to the “black-out period” of a Company policy or a “lock-up” agreement undertaken in connection with an issuance of securities by the Company, the term of the Option or Stock Appreciation Right may be extended by the Committee for a period of up to thirty (30) days following the end of the legal prohibition, black-out period or lock-up agreement, provided that such extension of the term of the Option or Stock Appreciation Right would not cause the Option or Stock Appreciation Right to violate the requirements of Section 409A of the Code.

(c) Form and Timing of Payment under Awards; Deferrals. Subject to the terms of the Plan and any applicable Award Agreement, payments to be made by the Company or a Related Entity upon the exercise of an Option or other Award or settlement of an Award may be made in such forms as the Committee shall determine, including, without limitation, cash, Shares, other Awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis, provided that any determination to pay in installments or on a deferred basis shall be made by the Committee at the date of grant. Any installment or deferral provided for in the preceding sentence shall, however, subject to the terms of the Plan, be subject to the Company’s compliance with the provisions of the Sarbanes-Oxley Act of 2002, as amended, the rules and regulations adopted by the Securities and Exchange Commission thereunder, all applicable rules of the Listing Market and any other applicable law, and in a manner intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. Subject to Sections 6(j) and 7(e) hereof, the settlement of any Award may be accelerated, and cash paid in lieu of Shares in connection with such settlement, in the sole discretion of the Committee or upon occurrence of one or more specified events (in addition to a Change in Control). Any such settlement shall be at a value determined by the Committee in its sole discretion, which, without limitation, may in the case of an Option or Stock Appreciation Right be limited to the amount if any by which the Fair Market Value of a Share on the settlement date exceeds the exercise or grant price. Installment or deferred payments may be required by the Committee (subject to Section 7(e) hereof Plan, including the consent provisions thereof in the case of any deferral of an outstanding Award not provided for in the original Award Agreement) or permitted at the election of the Participant on terms and conditions established by the Committee. The acceleration of the settlement of any Award, and the payment of any Award in installments or on a deferred basis, all shall be done in a manner that is intended to be exempt from or otherwise satisfy the requirements of Section 409A of the Code. The Committee may, without limitation, make provision for the payment or crediting of a reasonable interest rate on installment or deferred payments or the grant or crediting of Dividend Equivalents or other amounts in respect of installment or deferred payments denominated in Shares.

(d) Exemptions from Section 16(b) Liability. It is the intent of the Company that the grant of any Awards to or other transaction by a Participant who is subject to Section 16 of the Exchange Act shall be exempt from Section 16 of the Exchange Act pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such Participant). Accordingly, if any provision of this Plan or any Award Agreement does not comply with the requirements of Rule 16b-3 then applicable to any such transaction, such provision shall be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such Participant shall avoid liability under Section 16(b) of the Exchange Act.

(e) Code Section 409A.

(i) The Award Agreement for any Award that the Committee reasonably determines to constitute a “nonqualified deferred compensation plan” under Section 409A of the Code (a “Section 409A Plan”), and the provisions of the Section 409A Plan applicable to that Award, shall be construed in a manner consistent with the applicable requirements of Section 409A of the Code, and the Committee, in its sole discretion and without the consent of any Participant, may amend any Award Agreement (and the provisions of the Plan applicable thereto) if and to the extent that the Committee

determines that such amendment is necessary or appropriate to comply with the requirements of Section 409A of the Code.

(ii) If any Award constitutes a Section 409A Plan, then the Award shall be subject to the following additional requirements, if and to the extent required to comply with Section 409A of the Code:

(A) Payments under the Section 409A Plan may be made only upon (u) the Participant's "separation from service", (v) the date the Participant becomes "disabled", (w) the Participant's death, (x) a "specified time (or pursuant to a fixed schedule)" specified in the Award Agreement at the date of the deferral of such compensation, (y) a "change in the ownership or effective control of the corporation, or in the ownership of a substantial portion of the assets" of the Company, or (z) the occurrence of an "unforeseeable emergency";

(B) The time or schedule for any payment of the deferred compensation may not be accelerated, except to the extent provided in applicable Treasury Regulations or other applicable guidance issued by the Internal Revenue Service;

(C) Any elections with respect to the deferral of such compensation or the time and form of distribution of such deferred compensation shall comply with the requirements of Section 409A(a)(4) of the Code; and

(D) In the case of any Participant who is "specified employee", a distribution on account of a "separation from service" may not be made before the date which is six (6) months after the date of the Participant's "separation from service" (or, if earlier, the date of the Participant's death).

For purposes of the foregoing, the terms in quotations shall have the same meanings as those terms have for purposes of Section 409A of the Code, and the limitations set forth herein shall be applied in such manner (and only to the extent) as shall be necessary to comply with any requirements of Section 409A of the Code that are applicable to the Award.

(iii) Notwithstanding the foregoing, or any provision of this Plan or any Award Agreement, the Company does not make any representation to any Participant or Beneficiary that any Awards made pursuant to this Plan are exempt from, or satisfy, the requirements of, Section 409A of the Code, and the Company shall have no liability or other obligation to indemnify or hold harmless the Participant or any Beneficiary for any tax, additional tax, interest or penalties that the Participant or any Beneficiary may incur in the event that any provision of this Plan, or any Award Agreement, or any amendment or modification thereof, or any other action taken with respect thereto, is deemed to violate any of the requirements of Section 409A of the Code.

#### 8. **Change in Control.**

(a) Effect of "Change in Control". If and only to the extent provided in any employment or other agreement between the Participant and the Company or any Related Entity, or in any Award Agreement, or to the extent otherwise determined by the Committee in its sole discretion and without any requirement that each Participant be treated consistently, and except as otherwise provided in Section 8(a)(iv) hereof, upon a Change in Control:

(i) any Option or Stock Appreciation Right that was not previously vested and exercisable as of the time of the Change in Control, shall become immediately vested and exercisable, subject to applicable restrictions set forth in Section 9(a) hereof;

(ii) any restrictions, deferral of settlement, and forfeiture conditions applicable to a Restricted Stock Award, Restricted Stock Unit Award or an Other Stock-Based Award subject only to future service requirements granted under the Plan shall lapse and such Awards shall be deemed fully vested as of the time of the Change in Control, except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 9(a) hereof;

(iii) with respect to any outstanding Award subject to achievement of performance goals and conditions under the Plan, the Committee may, in its discretion, consider such Awards to have been earned and payable based on achievement of performance goals as of the date of the Change in Control and/or the time elapsed in the Performance Period as of the Change in Control Date or based upon target performance (either in full or pro-rata based on the portion of the Performance Period completed as of the Change in Control), except to the extent of any waiver by the Participant and subject to applicable restrictions set forth in Section 9(a); and

(iv) except as otherwise provided in any employment or other agreement for services between the Participant and the Company or any Subsidiary, and unless the Committee otherwise determines in a specific instance, each outstanding Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award shall not be accelerated as described in Sections 8(a)(i), (ii) and (iii), if either (A) the Company is the surviving entity in the Change in Control and the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award or Other Stock-Based Award continues to be outstanding after the Change in Control on substantially the same terms and conditions as were applicable immediately prior to the Change in Control or (B) the successor company or its parent company assumes or substitutes for the applicable Award, as determined in accordance with Section 9(c)(ii) hereof.

(b) Definition of "Change in Control". Unless otherwise specified in any Award Agreement, a "Change in Control" shall mean the occurrence of any of the following:

(i) the acquisition by any Person of Beneficial Ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than fifty percent (50%) of the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities") (the foregoing Beneficial Ownership hereinafter being referred to as a "Controlling Interest"); provided, however, that for purposes of this Section 8(b), the following acquisitions shall not constitute or result in a Change in Control: (v) any acquisition directly from the Company; (w) any acquisition by the Company; (x) any acquisition by any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest; (y) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any Related Entity; or (z) any acquisition by any entity pursuant to a transaction which complies with clauses (1), (2) and (3) of subsection (iii) below;

(ii) during any period of two (2) consecutive years (not including any period prior to the Effective Date) individuals who constitute the Board on the Effective Date (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office

occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

(iii) consummation of (A) a reorganization, merger, statutory share exchange or consolidation or similar transaction involving (x) the Company or (y) any one or more Subsidiaries whose combined revenues for the prior fiscal year represented more than fifty percent (50%) of the consolidated revenues of the Company and its Subsidiaries for the prior fiscal year (the "Major Subsidiaries"), or (B) a sale or other disposition of all or substantially all of the assets of the Company or the Major Subsidiaries, or the acquisition of assets or equity of another entity by the Company or any of its Subsidiaries (each of the events referred to in clauses (A) and (B) sometimes hereinafter being referred to a "Business Combination"), unless, following such Business Combination, (1) all or substantially all of the individuals and entities who were the Beneficial Owners, respectively, of the Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of the combined voting power of the then outstanding voting securities entitled to vote generally in the election of members of the board of directors (or comparable governing body of an entity that does not have such a board), as the case may be, of the entity resulting from such Business Combination (including, without limitation, an entity which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries) (the "Continuing Entity") in substantially the same proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Voting Securities, (excluding any outstanding voting securities of the Continuing Entity that such Beneficial Owners hold immediately following the consummation of the Business Combination as a result of their ownership, prior to such consummation, of voting securities of any company or other entity involved in or forming part of such Business Combination other than the Company), (2) no Person (excluding any employee benefit plan (or related trust) of the Company or any Continuing Entity or any entity controlled by the Continuing Entity or any Person that as of the Effective Date owns Beneficial Ownership of a Controlling Interest) beneficially owns, directly or indirectly, fifty percent (50%) or more of the combined voting power of the then outstanding voting securities of the Continuing Entity except to the extent that such ownership existed prior to the Business Combination and (3) at least a majority of the members of the Board of Directors or other governing body of the Continuing Entity were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) approval by the stockholders of the Company of a complete liquidation or dissolution of the Company.

#### 9. General Provisions.

(a) Compliance with Legal and Other Requirements. The Company may, to the extent deemed necessary or advisable by the Committee, postpone the issuance or delivery of Shares or payment of other benefits under any Award until completion of such registration or qualification of such Shares or other required action under any federal or state law, rule or regulation, listing or other required action with respect to the Listing Market, or compliance with any other obligation of the Company, as the Committee, may consider appropriate, and may require any Participant to make such representations, furnish such information and comply with or be subject to such other conditions as it may consider appropriate in connection with the issuance or delivery of Shares or payment of other benefits in compliance with applicable laws, rules, and regulations, listing requirements, or other obligations.

(b) Limits on Transferability; Beneficiaries. No Award or other right or interest granted under the Plan shall be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of such Participant to any party, or assigned or transferred by such Participant

otherwise than by will or the laws of descent and distribution or to a Beneficiary upon the death of a Participant, and such Awards or rights that may be exercisable shall be exercised during the lifetime of the Participant only by the Participant or his or her guardian or legal representative, except that Awards and other rights (other than Incentive Stock Options and Stock Appreciation Rights in tandem therewith) may be transferred to one or more Beneficiaries or other transferees during the lifetime of the Participant, and may be exercised by such transferees in accordance with the terms of such Award, but only if and to the extent such transfers are permitted by the Committee pursuant to the express terms of an Award Agreement (subject to any terms and conditions which the Committee may impose thereon), are by gift or pursuant to a domestic relations order, and are to a "Permitted Assignee" that is a permissible transferee under the applicable rules of the Securities and Exchange Commission for registration of securities on a Form S-8 registration statement. For this purpose, a "Permitted Assignee" shall mean (i) the Participant's spouse, children or grandchildren (including any adopted and step children or grandchildren), parents, grandparents or siblings, (ii) a trust for the benefit of one or more of the Participant or the persons referred to in clause (i), (iii) a partnership, limited liability company or corporation in which the Participant or the persons referred to in clauses (i) and (ii) are the only partners, members or stockholders, or (iv) a foundation in which any person or entity designated in clauses (i), (ii) or (iii) above control the management of assets. A Beneficiary, transferee, or other person claiming any rights under the Plan from or through any Participant shall be subject to all terms and conditions of the Plan and any Award Agreement applicable to such Participant, except as otherwise determined by the Committee, and to any additional terms and conditions deemed necessary or appropriate by the Committee.

(c) Adjustments.

(i) Adjustments to Awards. In the event that any extraordinary dividend or other distribution (whether in the form of cash, Shares, or other property), recapitalization, forward or reverse split, reorganization, merger, consolidation, spin-off, combination, repurchase, share exchange, liquidation, dissolution or other similar corporate transaction or event affects the Shares and/or such other securities of the Company or any other issuer, then the Committee shall, in such manner as it may deem appropriate and equitable, substitute, exchange or adjust any or all of (A) the number and kind of Shares which may be delivered in connection with Awards granted thereafter, (B) the number and kind of Shares subject to or deliverable in respect of outstanding Awards, (C) the exercise price, grant price or purchase price relating to any Award and/or make provision for payment of cash or other property in respect of any outstanding Award, and (D) any other aspect of any Award that the Committee determines to be appropriate in order to prevent the reduction or enlargement of benefits under any Award.

(ii) Adjustments in Case of Certain Transactions. In the event of any merger, consolidation or other reorganization in which the Company does not survive, or in the event of any Change in Control (and subject to the provisions of Section 8 hereof relating to the vesting of Awards in the event of any Change in Control), any outstanding Awards may be dealt with in accordance with any of the following approaches, without the requirement of obtaining any consent or agreement of a Participant as such, as determined by the agreement effectuating the transaction or, if and to the extent not so determined, as determined by the Committee: (A) the continuation of the outstanding Awards by the Company, if the Company is a surviving entity, (B) the assumption or substitution for, as those terms are defined below, the outstanding Awards by the surviving entity or its parent or subsidiary, (C) full exercisability or vesting and accelerated expiration of the outstanding Awards, or (D) settlement of the value of the outstanding Awards in cash or cash equivalents or other property followed by cancellation of such Awards (which value, in the case of Options or Stock Appreciation Rights, shall be measured by the amount, if any, by which the Fair Market Value of a Share exceeds the exercise or grant price of the Option or Stock Appreciation Right as of the effective date of the transaction). For the purposes of this Plan, an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Stock-Based Award shall be considered assumed or substituted for if following the applicable transaction the Award confers the

right to purchase or receive, for each Share subject to the Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Stock-Based Award immediately prior to the applicable transaction, on substantially the same vesting and other terms and conditions as were applicable to the Award immediately prior to the applicable transaction, the consideration (whether stock, cash or other securities or property) received in the applicable transaction by holders of Shares for each Share held on the effective date of such transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares); provided, however, that if such consideration received in the applicable transaction is not solely common stock of the successor company or its parent or subsidiary, the Committee may, with the consent of the successor company or its parent or subsidiary, provide that the consideration to be received upon the exercise or vesting of an Option, Stock Appreciation Right, Restricted Stock Award, Restricted Stock Unit Award, Performance Award or Other Stock-Based Award, for each Share subject thereto, will be solely common stock of the successor company or its parent or subsidiary substantially equal in fair market value to the per share consideration received by holders of Shares in the applicable transaction. The determination of such substantial equality of value of consideration shall be made by the Committee in its sole discretion and its determination shall be conclusive and binding. The Committee shall give written notice of any proposed transaction referred to in this Section 9(c)(ii) a reasonable period of time prior to the closing date for such transaction (which notice may be given either before or after the approval of such transaction), in order that Participants may have a reasonable period of time prior to the closing date of such transaction within which to exercise any Awards that are then exercisable (including any Awards that may become exercisable upon the closing date of such transaction). A Participant may condition his or her exercise of any Awards upon the consummation of the transaction.

(iii) Other Adjustments. The Committee is authorized to make adjustments in the terms and conditions of, and the criteria included in, Awards (including Awards subject to satisfaction of performance goals, or performance goals and conditions relating thereto) in recognition of unusual or nonrecurring events (including, without limitation, acquisitions and dispositions of businesses and assets) affecting the Company, any Related Entity or any business unit, or the financial statements of the Company or any Related Entity, or in response to changes in applicable laws, regulations, accounting principles, tax rates and regulations or business conditions or in view of the Committee's assessment of the business strategy of the Company, any Related Entity or business unit thereof, performance of comparable organizations, economic and business conditions, personal performance of a Participant, and any other circumstances deemed relevant.

(d) Award Agreements. Each Award Agreement shall either be (i) in writing in a form approved by the Committee and executed by the Company by an officer duly authorized to act on its behalf, or (ii) an electronic notice in a form approved by the Committee and recorded by the Company (or its designee) in an electronic recordkeeping system used for the purpose of tracking one or more types of Awards as the Committee may provide; in each case and if required by the Committee, the Award Agreement shall be executed or otherwise electronically accepted by the recipient of the Award in such form and manner as the Committee may require. The Committee may authorize any officer of the Company to execute any or all Award Agreements on behalf of the Company. The Award Agreement shall set forth the material terms and conditions of the Award as established by the Committee consistent with the provisions of the Plan.

(e) Taxes. The Company and any Related Entity are authorized to withhold from any Award granted, any payment relating to an Award under the Plan, including from a distribution of Shares, or any payroll or other payment to a Participant, amounts of withholding and other taxes due or potentially payable in connection with any transaction involving an Award, and to take such other action as the Committee may deem advisable to enable the Company or any Related Entity and Participants to satisfy obligations for the payment of withholding taxes and other tax obligations relating to any Award. This

authority shall include authority to withhold or receive Shares or other property and to make cash payments in respect thereof in satisfaction of a Participant's tax obligations, either on a mandatory or elective basis in the discretion of the Committee. The amount of withholding tax paid with respect to an Award by the withholding of Shares otherwise deliverable pursuant to the Award or by delivering Shares already owned shall not exceed the maximum statutory withholding required with respect to that Award (or such other limit as the Committee shall impose, including without limitation, any limit imposed to avoid or limit any financial accounting expense relating to the Award).

(f) Changes to the Plan and Awards. The Board may amend, alter, suspend, discontinue or terminate the Plan, or the Committee's authority to grant Awards under the Plan, without the consent of stockholders or Participants, except that any amendment or alteration to the Plan shall be subject to the approval of the Company's stockholders not later than the annual meeting next following such Board action if such stockholder approval is required by any federal or state law or regulation (including, without limitation, Rule 16b-3) or the rules of the Listing Market, and the Board may otherwise, in its discretion, determine to submit other such changes to the Plan to stockholders for approval; provided, that, except as otherwise permitted by the Plan or Award Agreement, without the consent of an affected Participant, no such Board action may materially and adversely affect the rights of such Participant under the terms of any previously granted and outstanding Award. The Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any Award theretofore granted and any Award Agreement relating thereto, except as otherwise provided in the Plan; provided that, except as otherwise permitted by the Plan or Award Agreement, without the consent of an affected Participant, no such Committee or the Board action may materially and adversely affect the rights of such Participant under terms of such Award.

(g) Clawback of Benefits.

(i) The Company may (A) cause the cancellation of any Award, (B) require reimbursement of any Award by a Participant or Beneficiary, and (C) effect any other right of recoupment of equity or other compensation provided under this Plan or otherwise in accordance with any Company policies that currently exist or that may from time to time be adopted or modified in the future by the Company and/or applicable law (each, a "Clawback Policy"). In addition, a Participant may be required to repay to the Company certain previously paid compensation, whether provided under this Plan or an Award Agreement or otherwise, in accordance with any Clawback Policy. By accepting an Award, a Participant is also agreeing to be bound by any existing or future Clawback Policy adopted by the Company, or any amendments that may from time to time be made to the Clawback Policy in the future by the Company in its discretion (including without limitation any Clawback Policy adopted or amended to comply with applicable laws or stock exchange requirements) and is further agreeing that all of the Participant's Award Agreements (and/or awards issued under the Prior Plan) may be unilaterally amended by the Company, without the Participant's consent, to the extent that the Company in its discretion determines to be necessary or appropriate to comply with any Clawback Policy.

(ii) If the Participant, without the consent of the Company, while employed by or providing services to the Company or any Related Entity or after termination of such employment or service, violates a non-competition, non-solicitation or non-disclosure covenant or agreement, then (A) any outstanding, vested or unvested, earned or unearned portion of the Award may, at the Committee's discretion, be canceled and (B) the Committee, in its discretion, may require the Participant or other person to whom any payment has been made or Shares or other property have been transferred in connection with the Award to forfeit and pay over to the Company, on demand, all or any portion of the gain (whether or not taxable) realized upon the exercise of any Option or Stock Appreciation Right and the value realized (whether or not taxable) on the vesting or payment of any other Award during the time period specified in the Award Agreement or otherwise specified by the Committee.

(h) Limitation on Rights Conferred under Plan. Neither the Plan nor any action taken hereunder or under any Award shall be construed as (i) giving any Eligible Person or Participant the right to continue as an Eligible Person or Participant or in the employ or service of the Company or a Related Entity; (ii) interfering in any way with the right of the Company or a Related Entity to terminate any Eligible Person's or Participant's Continuous Service at any time, (iii) giving an Eligible Person or Participant any claim to be granted any Award under the Plan or to be treated uniformly with other Participants and Employees, or (iv) conferring on a Participant any of the rights of a stockholder of the Company or any Related Entity including, without limitation, any right to receive dividends or distributions, any right to vote or act by written consent, any right to attend meetings of stockholders or any right to receive any information concerning the Company's or any Related Entity's business, financial condition, results of operation or prospects, unless and until such time as the Participant is duly issued Shares on the stock books or is otherwise reflected as a stockholder on the books and records of the Company or any Related Entity in accordance with the terms of an Award. None of the Company, its officers or its directors shall have any fiduciary obligation to the Participant with respect to any Awards unless and until the Participant is duly issued Shares pursuant to the Award on the stock books of the Company or is otherwise reflected as a stockholder on the books and records of the Company in accordance with the terms of an Award. Neither the Company, nor any Related Entity, nor any of their respective officers, directors, representatives or agents is granting any rights under the Plan to the Participant whatsoever, oral or written, express or implied, other than those rights expressly set forth in this Plan or the Award Agreement.

(i) Unfunded Status of Awards; Creation of Trusts. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Participant or obligation to deliver Shares pursuant to an Award, nothing contained in the Plan or any Award Agreement shall give any such Participant any rights that are greater than those of a general creditor of the Company or Related Entity that issues the Award; provided that the Committee may authorize the creation of trusts and deposit therein cash, Shares, other Awards or other property, or make other arrangements to meet the obligations of the Company or Related Entity under the Plan. Such trusts or other arrangements shall be consistent with the "unfunded" status of the Plan unless the Committee otherwise determines with the consent of each affected Participant. The trustee of such trusts may be authorized to dispose of trust assets and reinvest the proceeds in alternative investments, subject to such terms and conditions as the Committee may specify and in accordance with applicable law.

(j) Nonexclusivity of the Plan. Neither the adoption of the Plan by the Board nor its submission to the stockholders of the Company for approval shall be construed as creating any limitations on the power of the Board or a committee thereof to adopt such other incentive arrangements as it may deem desirable.

(k) Payments in the Event of Forfeitures; Fractional Shares. Unless otherwise determined by the Committee, in the event of a forfeiture of an Award with respect to which a Participant paid cash or other consideration, the Participant shall be repaid the amount of such cash or other consideration. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award. The Committee shall determine whether cash, other Awards or other property shall be issued or paid in lieu of such fractional shares or whether such fractional shares or any rights thereto shall be forfeited or otherwise eliminated.

(l) Governing Law. Except as otherwise provided in any Award Agreement, the validity, construction and effect of the Plan, any rules and regulations under the Plan, and any Award Agreement shall be determined in accordance with the laws of the State of Delaware without giving effect to principles of conflict of laws, and applicable federal law.



(m) Non-U.S. Laws. The Committee shall have the authority to adopt such modifications, procedures, and subplans as may be necessary or desirable to comply with provisions of the laws of foreign countries in which the Company or its Related Entities may operate to assure the viability of the benefits from Awards granted to Participants performing services in such countries and to meet the objectives of the Plan.

(n) Plan Effective Date and Stockholder Approval; Termination of Plan. The Plan shall become effective on the Effective Date, subject to subsequent approval, within twelve (12) months of its adoption by the Board, by stockholders of the Company eligible to vote in the election of directors, by a vote sufficient to meet the requirements of Section 422 of the Code, Rule 16b-3 (if applicable), applicable requirements under the rules of any stock exchange or automated quotation system on which the Shares may be listed or quoted, and other laws, regulations, and obligations of the Company applicable to the Plan. Awards may be granted subject to stockholder approval, but may not be exercised or otherwise settled in the event the stockholder approval is not obtained. The Plan shall terminate at the earliest of (i) such time as no Shares remain available for issuance under the Plan, (ii) termination of this Plan by the Board, or (iii) the tenth (10<sup>th</sup>) anniversary of the Stockholder Approval Date. Awards outstanding upon expiration of the Plan shall remain in effect until they have been exercised or terminated, or have expired.

(o) Construction and Interpretation. Whenever used herein, nouns in the singular shall include the plural, and the masculine pronoun shall include the feminine gender. Headings of Articles and Sections hereof are inserted for convenience and reference and constitute no part of the Plan.

(p) Severability. If any provision of the Plan or any Award Agreement shall be determined to be illegal or unenforceable by any court of law in any jurisdiction, the remaining provisions hereof and thereof shall be severable and enforceable in accordance with their terms, and all provisions shall remain enforceable in any other jurisdiction.



## LIST OF SUBSIDIARIES

## ROADRUNNER TRANSPORTATION SYSTEMS, INC.

<b>Name of Subsidiary</b>	<b>State/County of Incorporation/Organization</b>	<b>Parent</b>
A&A Express, LLC	Delaware	RRTC Holdings, Inc.
A&A Logistics, LLC	Delaware	RRTC Holdings, Inc.
Active Aero Charter, LLC	Michigan	Active Aero Group, Inc.
Active Aero Group, Inc.	Delaware	Roadrunner Transportation Systems, Inc.
Active Aero Motor Carrier, LLC (DBA Roadrunner Expedited)	Michigan	Active Aero Group, Inc.
Active Global Solutions, LLC	Michigan	Active Aero Group, Inc.
Active on Demand de Mexico S. de R.L. de C.V.	Mexico	(1)
Active PTM, LLC	Michigan	Active Aero Group, Inc.
Active Quantem FBO, LLC	Ohio	(4)
Ascent Global Logistics, LLC	Delaware	Ascent Global Logistics Holdings, Inc.
Ascent Global Logistics Holdings, Inc.	Delaware	Roadrunner Transportation Systems, Inc. (50%) Roadrunner Truckload Holdings, LLC (50%)
Beech Hill Enterprises, LLC (DBA Ascent Global Logistics)	Delaware	MESCA Freight Services, LLC
Big Rock Transportation, LLC	Delaware	Ascent Global Logistics, LLC
Capital Transportation Logistics, LLC (DBA Ascent Global Logistics)	Delaware	Group Transportation Services, LLC
Central Cal Transportation, LLC	Delaware	Roadrunner Intermodal Services, LLC
Central Minnesota Logistics, Inc.	Minnesota	(2)
CTW Transport, LLC (DBA Ascent Global Logistics)	Delaware	Ascent Global Logistics, LLC
D&E Transport, LLC	Delaware	Roadrunner Truckload Holdings, LLC
Everett Logistics, LLC	Delaware	Roadrunner Truckload Holdings, LLC
Expedited Freight Systems, LLC	Delaware	Roadrunner Transportation Services, Inc.
Great Northern Transportation Services, LLC (DBA Ascent Global Logistics)	Delaware	Group Transportation Services, LLC
Group Transportation Services, LLC (DBA Ascent Global Logistics)	Delaware	Ascent Global Logistics, LLC
International Transportation Holdings, Inc.	Delaware	Roadrunner Transportation Systems, Inc.
ISI Logistics, LLC	Delaware	Roadrunner Truckload Holdings, LLC
ISI Logistics South, LLC	Delaware	Roadrunner Truckload Holdings, LLC
Marisol International, LLC (DBA Ascent Global Logistics)	Delaware	Ascent Global Logistics Holdings, Inc.
MESCA Freight Services, LLC (DBA Ascent Global Logistics)	Delaware	Ascent Global Logistics, LLC
Midwest Transit, Inc.	Canada	International Transportation Holdings, Inc.
Morgan Southern, Inc.	Delaware	Roadrunner Transportation Services, Inc.
Prime Distribution Services, Inc.	Delaware	Roadrunner Transportation Systems, Inc.

Rich Transport, LLC (DBA Rich Logistics)	Delaware	Roadrunner Truckload Holdings, LLC
Roadrunner Equipment Leasing, LLC	Delaware	Roadrunner Transportation Systems, Inc.
Roadrunner Freight Carriers, LLC	Delaware	Roadrunner Transportation Services, Inc.
Roadrunner Intermodal Services, LLC	Delaware	Morgan Southern, Inc.
Roadrunner Temperature Controlled, LLC (DBA A&A Express)	Delaware	RRTC Holdings, Inc.
Roadrunner Transportation Services, Inc. (DBA Roadrunner Freight)	Delaware	Roadrunner Transportation Systems, Inc.
Roadrunner Truckload 2, LLC	Delaware	Ascent Global Logistics, LLC
Roadrunner Truckload Agent Investment, Inc.	Delaware	Roadrunner Transportation Systems, Inc.
Roadrunner Truckload Holdings, LLC	Delaware	Roadrunner Transportation Systems, Inc.
RRTC Holdings, Inc.	Delaware	Ascent Global Logistics, LLC
Sargent Trucking, LLC (DBA Ascent Global Logistics)	Delaware	Ascent Global Logistics, LLC
Sortino Transportation, LLC	Delaware	RRTC Holdings, Inc.
Stagecoach Cartage and Distribution, LLC	Delaware	Roadrunner Truckload Holdings, LLC
USA Jet Airlines, Inc.	Delaware	Active Aero Group, Inc.
Velocity Insurance Company, A Risk Retention Group	South Carolina	(3)
Wando Trucking, LLC	Delaware	Morgan Southern, Inc.
World Transport Services, LLC (DBA Ascent Global Logistics)	Delaware	MESCA Freight Services, LLC

NOTES:

- (1) 90% of the capital is held by Active Aero Group, Inc. and 10% of the capital is held by Active PTM, LLC.
- (2) Roadrunner Truckload Agent Investment, Inc. holds 37.5% of the outstanding shares of common stock
- (3) Owned collectively by Roadrunner Transportation Systems, Inc.; Roadrunner Equipment Leasing, LLC; Roadrunner Transportation Services, Inc.; Roadrunner Truckload Agent Investment, Inc.; Prime Distribution Services, Inc.; Ascent Global Logistics Holdings, Inc.; International Transportation Holdings, Inc.; Roadrunner Truckload Holdings, LLC; Ascent Global Logistics, LLC; and Active Aero Group, Inc. (150,000 shares each)
- (4) Active Aero Group, Inc. holds 10% of the outstanding membership interests

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-168204 on Form S-8 and Registration Statement No. 333-229050 on Form S-1 of our reports dated March 11, 2019, relating to (1) the consolidated financial statements of Roadrunner Transportation Systems, Inc., and (2) the effectiveness of Roadrunner Transportation Systems, Inc.'s internal control over financial reporting (which report expresses an adverse opinion on the effectiveness of the Roadrunner Transportation Systems, Inc. and subsidiaries' internal control over financial reporting because of material weaknesses), appearing in this Annual Report on Form 10-K of Roadrunner Transportation Systems, Inc. for the year ended December 31, 2018.

*/s/ DELOITTE & TOUCHE LLP*  
Chicago, Illinois  
March 11, 2019

**Certification of Principal Executive Officer**

I, Curtis W. Stoelting, certify that:

1. I have reviewed this Annual Report on Form 10-K of Roadrunner Transportation Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2019

*/s/ Curtis W. Stoelting*

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Curtis W. Stoelting

Chief Executive Officer (Principal Executive Officer)

**Certification of Principal Financial Officer**

I, Terence R. Rogers, certify that:

1. I have reviewed this Annual Report on Form 10-K of Roadrunner Transportation Systems, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 11, 2019

*/s/ Terence R. Rogers*

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Terence R. Rogers  
Chief Financial Officer (Principal Financial Officer and Principal  
Accounting Officer)

**Section 1350 Certification of Principal Executive Officer**

In connection with the Annual Report on Form 10-K of Roadrunner Transportation Systems, Inc. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Curtis W. Stoelting, Chief Executive Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Curtis W. Stoelting*

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Curtis W. Stoelting  
Chief Executive Officer (Principal Executive Officer)

Date: March 11, 2019

This certification accompanies the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Roadrunner Transportation Systems, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.



**Section 1350 Certification of Principal Financial Officer**

In connection with the Annual Report on Form 10-K of Roadrunner Transportation Systems, Inc. (the "Company") for the year ended December 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Terence R. Rogers, Chief Financial Officer of the Company, certify, to the best of my knowledge and belief, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m(a) or 78o(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

*/s/ Terence R. Rogers*

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Terence R. Rogers

Chief Financial Officer (Principal Financial Officer and  
Principal Accounting Officer)

Date: March 11, 2019

This certification accompanies the Annual Report on Form 10-K to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Roadrunner Transportation Systems, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Annual Report on Form 10-K), irrespective of any general incorporation language contained in such filing.