



# Fueled by Technology and Tenacity

2019 ANNUAL REPORT





# Driving Operational Efficiency through **Strategic Initiatives**

As one of the nation's largest asset-based trucking companies—including being a Top 10 provider of dedicated contract services—we know how important our trucks and trailers are. But are they our most valuable asset? Not the way we see it.

Here at U.S. Xpress, we don't just run on horsepower, we run on the brainpower of thousands of visionaries and problem-solvers. Their ideas are all helping us discover and explore new ways to do business and improve service and efficiency for our customers. And we're already seeing results.



## By the Numbers

**42%**

of company trucks in dedicated operation

**21%**

increase in average tractors in dedicated over last four years

**25k**

independent carriers now included in our brokerage network

**4M+**

customer and driver touch points eliminated

**40k**

parking spaces presented to drivers through in-cab tech

**5TH**

largest publicly traded asset-based truckload carrier

**\$1.7B**

in revenue

**15TH**

year as EPA SmartWay Partner

**8.5k+**

problem solvers





We're capitalizing on tech to create competitive advantages that will position us as a best-in-class solutions provider.

**IDEAS FUELED BY INNOVATION** We're embracing next-generation technology and data-driven approaches to improve the customer experience and drive efficiencies across the company. We alleviated a major pain point for drivers by presenting over 40,000 parking spaces through their in-cab technology to help them maximize their Hours of Service and to find a safe place to take a break.

Along with helping drivers succeed, we are using technology to help eliminate friction in the order process for everyone involved, improving on-time performance, and removing unnecessary steps along the way. In fact, to lead the charge in making technology-enabled improvements, we've expanded our tech personnel by 60%, including three PhD data scientists.





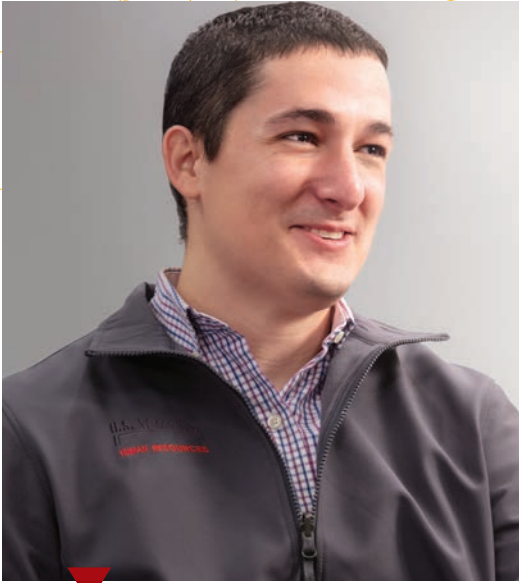
### Julie Van de Kamp

VP of Customer Experience

“After 12 years working in the industry, I’ve found that sometimes the simplest ideas are the best. My team and I knew we needed to start making the customer experience process simpler. But how? Turns out, it was as simple as assigning them one contact point. It made things so much easier—for us and them.”

**IDEAS FUELED BY CUSTOMERS** In 2019, we took a hard look at the values we hold true as a company. The somewhat painful truth was that we had lost our customer focus at some point along the way. This realization led us to do a reset at every level of the company with the introduction of a new set of core values that keep the customers front and center along with an insistence on working together and being unafraid to take calculated risks. While we recognize that changing a mindset doesn’t happen overnight, we’re taking several steps in the right direction.

Our Customer Experience team has taken particularly large strides in putting customers first by streamlining day-to-day interactions and giving each customer one single touchpoint, whether their freight is being carried through our asset-based business or brokered through a 3rd party carrier.



## Ralph Romero

VP of Talent Management

"I've worked in talent management for a long time, but one of the most rewarding projects I've ever worked on has been the Professional Driver Development initiative at U.S. Xpress. Since rolling it out, there has already been a 6% decrease in driver turnover and 20% reduction in preventable accidents among participating drivers. These kinds of results are really what keep me going. I'm so lucky to be part of such a relentless team that was able to come together to make it happen."



## We're continuing to improve our **service offerings.**

**IDEAS FUELED BY TENACITY** Ever mindful of the need to continually evolve our service offerings to meet the needs of our customers, we're taking steps to enhance the options we have today while looking for new ways to serve tomorrow.

With the growing demand for dedicated business, we have expanded our dedicated service offering to comprise 42% of our company's total fleet, increasing our average tractors in dedicated by 21% over the last 4 years.





Now we're gearing up to take it to the next level with a new focus on professional driver development that gives plenty of attention to the specialized skills needed to deliver that particular service.

We have also started the process of converting our brokerage network, now 25,000 independent carriers strong, to a digital management system that drives efficiencies and response times for both drivers and customers.

**IDEAS FUELED BY RESPONSIBILITY** As problem solvers, we are dedicated not only to caring for our customers' freight but also for our planet, our people and the communities we serve.

Proudly entering our 15th year as an EPA SmartWay Partner, we're even prouder to have won two SmartWay

Excellence Awards for our industry-leading efficiency and contribution to clean air.

We take our responsibility for keeping the nation's roads as safe as possible very seriously. That's one reason we've partnered with Truckers Against Trafficking to train our drivers to recognize and report instances of human trafficking, a multi-billion-dollar industry that enslaves about 40 million people worldwide.

In the spirit of safe roads, we've taken our driver safety efforts well above and beyond standard practice or even national requirements. With hair testing conducted for all new truck drivers at U.S. Xpress and forward-facing event recorders installed across our fleet, we're trying to do everything we can to keep the roads safe for our drivers and the millions of motorists driving alongside them.



## Letter to our Shareholders

# Change is **here**

**ERIC FULLER** PRESIDENT AND CHIEF EXECUTIVE OFFICER

In 2019, we competed for freight in a highly volatile market, and we invested materially in the future of our enterprise as we continued to make advances in automation of core functions, implementation of safety training and technology, and improved execution of our large and growing dedicated contract unit.



We also renewed our focus on the customer, to offer a differentiated level of service and analytics. As we enter 2020, I am struck by how quickly the landscape has changed as our nation battles the spread of Covid-19 which has dramatically impacted how we live and work. In this period of uncertainty, we are committed to keeping our employees safe and our customers' product moving across the country. U.S. Xpress provides a critical service to our customers and their customers as millions of Americans depend on us to ship their product and keep their store shelves stocked. We are quickly adapting to the changing environment and working with our drivers, on a daily basis, to keep them informed and safe. Importantly, the investments that we have made in our Company position us to not only overcome the near term challenges that we face but succeed over the long term as our market continues to rapidly evolve.

Looking back at 2019, our financial results were disappointing as our industry experienced increased capacity relative to volumes, which drove spot rates down to levels we haven't seen in over ten years. This challenging market backdrop was further impacted by an erratic trade policy and new digital disruptors operating at negative margins. As a company, we had some bumps but also some big wins in areas of strategic focus. Our internal initiatives set a foundation for further improvement as we continue to advance our company. We must continue to execute on our current initiatives, find new ways to operate based on years of experience and knowledge, and capitalize on new technologies like those now being deployed by venture-backed digital companies. This is the clear focus of our executive management team in 2020.

Drilling down into our results in more detail, our internal initiatives were overshadowed by poor performance in our Over-The-Road division. Volumes and rates slipped through the year, and our decision to divest our Mexico operations, while still the right long-term decision, coincided with the downturn in the spot market, forcing us to expose more of our capacity to rapidly falling rates. As a result, companywide operating margins deteriorated by over 500 basis points through the year, putting us solidly in the third tier of our competitive peer group. It has been, and continues to be, our main focus to improve profitability through the cycle with the goal of eventually delivering margins in line with or better than the industry over time. However, our long-term goal is not to focus on what is thought of as our peer group today, but on a broader subset of companies that are more diverse in their service offerings and revenue base.

While our financial results were disappointing, we had many big wins spread across the organization. The most evident was in our Dedicated division where revenue, on a per truck basis, increased by almost 8% and was the highest that we have seen in the history of our Company. This was driven by improved utilization per truck and rates that were up 3%, year over year. These improvements were the result of successful efforts that we made to improve the business mix in Dedicated by allocating capital to new and existing accounts with a better combination of rate and utilization. Looking forward, our goal is to organically grow Dedicated to more than 50% of total Company tractors, given the stability that the division provides through economic cycles.

We have also been focused on improving our safety results given our desire to be a good corporate citizen and put the best quality truck and driver out on the road and around our friends and families. There is also a significant financial benefit to this initiative, since our accident costs, reflected mostly in our insurance line item, is one of our largest costs. To achieve this goal, we have focused on three primary areas.

First, we rolled out forward looking event recorders in all of our trucks starting in May 2018. This gives us an additional tool for coaching our drivers and identifying the root cause of accidents, which are often the fault of others.

Second, we have revamped our driver training program, starting at the beginning of 2019, which was based on a more hands on approach, as opposed to a dense classroom curriculum. We opened two facilities this past year and plan to open more facilities in 2020 with a goal of using this new training for 100% of our drivers, over time.

Lastly, we rolled out hair follicle drug testing at the beginning of 2019 for all student hires and expanded that initiative to include testing of all experienced drivers in the back half of 2019.

All combined, we expect these initiatives to lead to a better quality of driver for U.S. Xpress, which I believe will lead to a lower claims expense, over time.

We also took a strong approach to our equipment management strategy. We were able to seat additional tractors and eliminate unproductive equipment, allowing us to drive revenue production without increasing our fixed cost infrastructure.

We needed to drive real change across our organization as well as implement foundational improvements to position U.S. Xpress to be successful in a rapidly changing industry. Through 2017 and 2018, we focused on our planning methodology, our fleet manager structure, and our operational incentives, all essential building blocks to the initiatives that we are implementing today such as the 'frictionless order'. While we have made strong progress implementing our strategic initiatives designed to improve our performance, it was not enough to insulate our financial results from the challenging market conditions we experienced this past year. The ultimate responsibility for our poor performance lies with me, of course, which is why I took a long look at why we saw such a deterioration in performance during this market down cycle. I asked tough questions that ultimately led to additional systems, operational, compensation structure, cultural, and even leadership changes over 2019. We believe these changes will create momentum in both growth and margin improvement that will become evident in 2020 and continue for years to come.

As we reimagine our systems, operations, and culture, we aren't focusing on how to create the best operating model with a lens to the past, but one to the future. Our focus is on creating a company that's engineered to compete in a future full of advanced technology, automation, and high optimization. I believe that the adoption of advanced technology in our industry is accelerating beyond anything we've ever experienced before. Machine learning, automation, and advanced databases that were mostly limited to large multi-national technology companies are now being deployed by both new entrants and incumbents. In fact, I believe that companies that continue to operate with a 1980's or 1990's operating model and technology will cease to be in business in ten years or so.

As a result, our focus is not just rooted in a systems upgrade or a layering in of new software but a wholesale redesign of our operating model. Workflow, systems, personnel, and branding have all been given careful thought to not be the company we want to be tomorrow but the company we want to be in five to ten years. And, this was also done in the context of a company that will be a large capacity provider that can service our customers at a high level with near unlimited capacity and at rates that are highly competitive to anything they can get in the marketplace.

Along with this is an increased focus on our customers. We have always provided solid service to our customers but allowed the culture of "the customer is the most important thing in our business" to slip away some. It's easy to divert your focus from customers to drivers when your industry struggles with triple digit workforce turnover. Therefore, we have redesigned our structure to prioritize the customer. We are focused around providing the highest level of service expected from our customers while driving their costs down. With a new operating structure, new compensation strategy, and new management in both sales and customer experience we can drive growth in our revenues in all areas of our business.

To conclude, 2019 was a year of transformation for U.S. Xpress; one where we were focused on the future. While we partner with our employees and customers to successfully battle the coronavirus over the near term, we will also continue to implement these transformational initiatives through the year. We believe our investments will start to show results as we roll out multiple operating models in our asset and non-asset based businesses that are designed for the future with improved margins, lower unit cost, and ultimate scalability. This will be a year in which we leverage cutting edge technology to drive cost out and revenue production up through automation and optimization. The results of our work will show in our numbers for years to come and will set us apart from our current competitors, new entrants, and larger capacity solutions providers.

As you can see, I am very excited with what the future holds for U.S. Xpress.



**Eric Fuller**, President and Chief Executive Officer



## BUSINESS

### Cautionary Note Regarding Forward-looking Statements

*This Annual Report (this “Annual Report”) contains certain statements that may be considered forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933, as amended (the “Securities Act”) and such statements are subject to the safe harbor created by those sections and the Private Securities Litigation Reform Act of 1995, as amended. All statements, other than statements of historical or current fact, are statements that could be deemed forward-looking statements, including without limitation: any projections of earnings, revenues or other financial items; any statement of plans, strategies, outlook, growth prospects or objectives of management for future operations; our operational and financial targets; general economic trends, performance or conditions and trends in the industry and markets; the competitive environment in which we operate; any statements concerning proposed new services, technologies or developments; and any statement of belief and any statements of assumptions underlying any of the foregoing. In this Annual Report, statements relating to the impact of new accounting standards, future tax rates, expenses, and deductions, expected freight demand, capacity, and volumes, potential results of a default under our Credit Facility or other debt agreements, expected sources of working capital and liquidity (including our mix of debt, finance leases, and operating leases as means of financing revenue equipment), expected capital expenditures, expected fleet age and mix of owned versus leased equipment, expected impact of technology, including the impact of event recorders and our strategic initiatives, future customer relationships, future growth of dedicated contract services and brokerage, future growth in independent contractors and related purchased transportation expense and fuel surcharge reimbursement, future growth of our lease-purchase program, future driver market conditions and driver turnover and retention rates, any projections of earnings, revenues, cash flows, dividends, capital expenditures, or other financial items, expected cash flows, expected operating improvements, including improvements in our working capital, any statements regarding future economic conditions or performance, any statement of plans, strategies, programs and objectives of management for future operations, including the anticipated impact of such plans, strategies, programs and objectives, future rates and prices, future utilization, future depreciation and amortization, future salaries, wages, and related expenses, including driver compensation, future insurance and claims expense, including the impact of the installation of event recorders, future fluctuations in fuel costs and fuel surcharge revenue, including the future effectiveness of our fuel surcharge program, strategies for managing fuel costs, political conditions and regulations, including trade regulation, quotas, duties or tariffs, and any future changes to the foregoing, future fluctuations in operating expenses and supplies, future fleet size and management, the market value of used equipment, including gain on sale, future residual value guarantees, any statements concerning proposed acquisition plans, new services or developments, the anticipated impact of legal proceedings on our financial position and results of operations, expected progress on internal control remediation efforts, among others, are forward-looking statements. Such statements may be identified by their use of terms or phrases such as “believe,” “may,” “could,” “should,” “expects,” “estimates,” “projects,” “anticipates,” “plans,” “intends,” “outlook,” “strategy,” “target,” “optimistic,” “focus,” “continue,” “will” and similar terms and phrases. Such statements are based on currently available operating, financial and competitive information. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified, which could cause future events and actual results to differ materially from those set forth in, contemplated by, or underlying the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section entitled “Risk Factors,” set forth below. Readers should review and consider the factors discussed in “Risk Factors,” along with various disclosures in our press releases, stockholder reports, and other filings with the Securities and Exchange Commission (“SEC”).*

*All such forward-looking statements speak only as of the date of this Annual Report. You are cautioned not to place undue reliance on such forward-looking statements. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in our expectations with regard thereto or any change in the events, conditions, or circumstances on which any such statement is based.*

**References in this Annual Report to “we,” “us,” “our,” or the “Company” or similar terms refer to U.S. Xpress Enterprises, Inc., and its subsidiaries.**

## GENERAL

### Our Business

We believe we are the fifth largest asset-based truckload carrier in the United States by revenue, generating over \$1.7 billion in total operating revenue in 2019. We provide services primarily throughout the United States, with a focus in the densely populated and economically diverse eastern half of the United States. We offer customers a broad portfolio of services using our own truckload fleet and third-party carriers through our non-asset-based truck brokerage network. As of December 31, 2019, our fleet consisted of approximately 6,900 tractors and approximately 15,500 trailers, including approximately 2,000 tractors provided by independent contractors. All of our tractors have been equipped with electronic logs since 2012, and our systems and network are engineered for compliance with the federal electronic log mandate. Our terminal network is established and capable of handling significantly larger volumes without meaningful additional investment. In June 2018, we completed our initial public offering (the “IPO”).

For much of our history, we focused primarily on scaling our fleet and expanding our service offerings to support sustainable, multi-faceted relationships with customers. More recently, we have focused on our core service offerings and refined our network to focus on shorter, more profitable lanes with more density, which we believe are more attractive to drivers. Over the last five years, we have recruited and developed new executive and operational management teams with significant industry experience and instilled a new culture of professional management. These changes, which are ongoing, helped us to maintain relatively stable profitability during the weak truckload market of 2016 and early 2017, and drive significant improvements to profitability during the strong truckload market beginning in the second half of 2017.

### Our Service Offerings

We organize our service offerings into two reportable segments, Truckload and Brokerage. The Truckload segment offers asset-based truckload services, including the over-the-road (“OTR”) and dedicated contract services described below. Our Brokerage segment is principally engaged in non-asset-based freight brokerage services. We believe many customers seek truckload operators that offer both asset-based and non-asset-based services to help ensure capacity will be available as needed. We believe that each of our service offerings, on a stand-alone revenue basis, would represent one of the largest participants in its respective market.

Below is a brief overview of our service offerings:

		<b>Approximate % of 2019 Revenue<sup>(1)</sup></b>	<b>Description</b>
<b>Truckload (85%)</b>	<b>OTR</b>	48%	<ul style="list-style-type: none"><li>■ Transports a full trailer of freight for a single customer from origin to destination, typically without intermediate stops or handling</li><li>■ Short-term contracts and spot moves that include irregular route moves without volume and capacity commitments</li><li>■ Tractors are operated with one driver or a team of two drivers to handle more time-sensitive, higher margin freight</li><li>■ Routes are generally between 450 and 1,050 miles in length</li><li>■ Fuel surcharge programs help us offset most of the negative impact of rising fuel prices associated with loaded or billed miles</li></ul>



<p><b>Dedicated Contract</b></p>	37%	<ul style="list-style-type: none"> <li>■ Contractually assigned equipment, drivers and on-site personnel to address customers' needs for committed capacity and service levels</li> <li>■ Multi-year initial contract term with guaranteed volumes and pricing</li> <li>■ We have renewed substantially all of our dedicated contracts after the initial contract term</li> <li>■ Fuel costs are typically more predictable and less volatile under the fixed and variable pricing of these contracts</li> <li>■ Historically, our dedicated contract customers generally adjust pricing to account for driver wage increases, although these adjustments may not be contractually required</li> </ul>
<p><b>Brokerage</b></p>	12%	<ul style="list-style-type: none"> <li>■ Non-asset-based freight brokerage service through which loads are contracted to third-party carriers</li> <li>■ Allocation strategy designed to maximize profitability of our Truckload fleet before outsourcing loads to third-party carriers</li> <li>■ In the past 12 months, we have utilized the capacity of approximately 25,000 third-party carriers</li> </ul>

(1) Based on revenue, before fuel surcharge. Approximately 3% of revenue is attributable to other ancillary services.

While we primarily operate in the eastern half of the United States, we provide services into and out of Mexico. In January 2019, we sold our interest in Xpress Internacional. Even following our sale of Xpress Internacional, we expect to have business to and from Mexico via a more variable cost model using third party carriers. During 2019, 2018 and 2017, substantially all of our operating revenue was generated in the United States.

### Customer Relationships

We maintain a diverse, long-standing customer base that includes many Fortune 500 companies, including Amazon, Dollar General, Dollar Tree, FedEx, Home Depot, Kroger, Procter & Gamble, Target, Tractor Supply and Walmart. Our customers fall within a broad spectrum of geographies and end markets, including retail, food and beverage, e-commerce and packages, manufacturing and consumer products. No other category comprised more than five percent of the end markets we served at December 31, 2019. Relationships with our top ten customers exceed ten years on average. For the year ended December 31, 2019, our largest customer, Walmart Inc., accounted for approximately 12% of our revenue, excluding fuel surcharge.

### Tractor and Trailer Fleets

We operate a modern fleet of approximately 4,900 company-owned tractors and approximately 15,500 trailers, and we also contract for additional tractor capacity through approximately 2,000 independent contractors, who provide both the tractor and a driver and, except for the trailer, which we generally provide, bear the operating expenses of each load. Our company tractor fleet continues to adopt the most advanced technology in today's market including electronic logging devices ("ELDs"), electronic speed limiters, electronic roll stability, improved aerodynamics and fuel efficiency technologies, enhanced tractor connectivity with remote updating capabilities, improved automatic transmissions, lane departure and collision warning / avoidance systems and upgraded braking systems. Each of our company tractors is also equipped with onboard communication units that offer real time freight positioning to our customers and instant communication between our drivers and us, and event recorders. We believe event recorders will give us the ability to better train our drivers with respect to safe driving behavior, which in turn may help reduce insurance costs over time.

Tractors and trailers represent our most substantial capital investments. In general, we expect to operate a tractor for approximately 475,000 miles, which when averaged across our fleet as of December 31, 2019 equates to approximately 4.5 years of operation (while most major components are under warranty) and a trailer for up to 10 years or more of operation. We depreciate or finance our equipment over their useful lives and down to salvage values that we expect to represent fair market value at the expected time of sale. Our ongoing capital expenditures are significant, and our annual depreciation expense is expected to be approximately equal to maintenance capital

expenditures, net of proceeds of dispositions, assuming a constant percentage of leased versus owned equipment and a constant trade cycle. In practice, we vary our trade cycle and financing based on the market for new and used tractors, the quality, dependability and cost per mile to operate the equipment, our capital budget, expected tax benefits and other factors. Based on the volumes we purchase, we believe that we have a cost advantage in the procurement of new tractors and trailers compared to the prices paid by small trucking companies.

Our company tractors had an average age of approximately 1.7 years at December 31, 2019. During 2020, we expect to continue to replace tractors as they reach approximately 475,000 miles, which we expect will result in an average tractor age of approximately 1.6 years at December 31, 2020.

## **Our Competitive Strengths**

We believe the following competitive strengths provide us with a strong foundation to continue to improve our profitability and stockholder value:

### ***Industry leading truckload operator with significant scale***

We believe we are the fifth largest asset-based truckload carrier in the United States in 2019 by total operating revenue and we believe our large scale provides us with significant benefits. These benefits include economies of scale on major expenditures such as tractors, trailers and fuel, as well as our overall infrastructure. Additionally, we can offer an enhanced value proposition for large customers who seek efficiency in sourcing capacity from a limited number of carriers and flexible capacity to accommodate seasonal surge volumes. Our established and well-maintained terminal network is capable of handling meaningfully larger volumes without meaningful additional investment.

### ***Complementary mix of services to afford flexibility and stability throughout economic cycles***

Our service offerings have unique characteristics and are subject to differing market forces, which we believe allows us to respond effectively through economic cycles.

#### *OTR*

OTR business involves short-term customer contracts without pricing or volume guarantees that allow us to benefit from periods of supply and demand imbalance and price volatility. This is the largest part of our business and the overall truckload market.

#### *Dedicated*

Dedicated business features committed rates, lanes and volumes under contracts that generally afford us greater revenue predictability over the contract period and help smooth the impact of market cycles. Additionally, our dedicated contract service offering generally has higher driver retention rates than our OTR service offering, which we believe is because our professional drivers prefer the more predictable time at home that dedicated routes offer. In addition, this increased visibility allows us to commit and invest fleet resources with a more predictable return profile. We intend to grow this portion of our business as a percentage of our average tractors.

#### *Brokerage*

Brokerage capacity allows us to aggregate volume and to flex the amount allocated to our own fleet with freight cycles. Typically, we allocate more loads to our OTR fleet during slow freight demand to keep our assets productive, and more loads to third-party carriers during higher freight demand to maintain control over customer freight and make a margin on outsourcing the moves. By retaining control over significantly more freight than we are able to serve with our own assets, and allocating the available loads first to our own tractors, we have more choices for optimizing the utilization and pricing of our fleet every day and throughout market cycles.

### ***Long-standing, diverse and resilient customer base***

We maintain a long-standing customer base that includes many Fortune 500 companies with national footprints, including Amazon, Dollar General, Dollar Tree, FedEx, Home Depot, Kroger, Procter & Gamble, Target, Tractor Supply and Walmart. As of December 31, 2019, relationships with our top ten customers exceeded ten years on average. Our portfolio of blue-chip customers allows us to benefit from the less cyclical and more-stable demand from



grocery and dollar stores in addition to increasing demand due to secular growth trends in end-markets such as e-commerce. We also benefit from significant cross-selling opportunities among large key customers, as all of our top ten customers use at least two of our three service offerings, which allows us to have multiple points of contact with our customers and take advantage of varying bid cycles.

### ***Modern fleet and maintenance system designed to optimize life cycle investment and minimize operating costs***

Our fleet represents our largest capital investment, a visible representation of our brand for customers and drivers and a large portion of our controllable costs. We select, maintain and dispose of our fleet based on rigorous analysis of our investments and operating costs.

Our modern and well-maintained fleet consisted of approximately 4,900 company tractors with an average age of approximately 1.7 years and approximately 15,500 trailers at December 31, 2019. We also contracted for approximately 2,000 tractors provided by independent contractors at December 31, 2019. We equip our tractors with carefully selected components based on initial cost, maintenance requirements, warranty coverage, safety and efficiency advantages, driver preference and resale value. Our company tractor fleet is technologically advanced and equipped with safety and efficiency features, including using electronic logs since 2012, electronic speed limiters, automatic transmissions, lane departure and collision warning systems, air disc brakes and high performance wide brake drums and electronic roll stability. In addition, we have installed forward-facing event recorders in our company tractors, which we expect to further enhance our safety program and reduce insurance and claims costs over time.

Over the past several years, we have developed a disciplined and effective in-house maintenance program designed to actively manage these assets based on customized timetables for preventive maintenance and replacement of parts. We believe this approach, coupled with our in-house maintenance facilities and in-house technicians dedicated to fleet maintenance, helps us effectively manage our maintenance cost per mile, keeps drivers on the road efficiently and creates an attractive asset and record for resale.

### ***Motivated management team focused on tactical execution and leadership in the truckload market***

Our management and operations team has been carefully assembled to obtain a mix of industry veterans from successful competitors and high-performing internal candidates, all of whom are motivated to perform in our transparent, metric-driven environment. Our President and Chief Executive Officer, Eric Fuller, has over 20 years of experience at U.S. Xpress and has been responsible for developing the team and spearheading our transformation program over the last five years. Our management team's compensation and ownership of our common stock provide further incentive to improve business performance and profitability. In addition, with active positions in industry associations, such as the American Trucking Associations, Inc. ("ATA"), our management team provides us with a key role in the discussions that we believe are shaping the future of the industry. We believe our leadership team is well-positioned to execute our strategy and remains a key driver of our financial and operational success.

## **Our Strategies**

We believe we possess the scale, infrastructure and service offerings to compete effectively in our markets, our opportunity for further improvement is significant, and our strategies are designed to enhance stockholder value.

### ***Improve profitability and grow revenue as appropriate to the market cycle***

- Improve asset productivity by using advanced technology to optimize dispatch miles in all cycles and actively upgrade freight mix when volumes permit
- Control non-essential costs and seek efficiencies throughout the enterprise
- Pursue driver training and safety initiatives as a core cultural value
- Continue to leverage our service mix to manage through all market cycles
- Grow our revenue base prudently with a focus on dedicated contract service and brokerage by cross-selling our services with existing customers and pursuing new customer opportunities

### ***Capitalize on high return on investment potential of advanced technology, automation, and optimization***

- Continue to use our scale and relationships to gain early access to technological advances and evaluate the costs and benefits
- Incubate, develop, and implement operating efficiencies across our enterprise using our USX Ventures technology development group
- Pursue use of artificial intelligence to accommodate individual drivers' preferences with the goal of improving driver satisfaction and retention
- Apply data analytics across the billions of dollars of freight spend we see every year to capture and optimize the execution of our customers' loads and our network
- Partner with equipment manufacturers to test, evaluate and refine electric, autonomous and other advanced vehicle technology

### ***Maintain flexibility through long-term enterprise planning and conservative financial policies***

- Maximize our free cash flow generation by managing expenses, taxes and capital expenditures
- Convert equipment financing over time toward owned equipment from operating leased equipment to gain tax benefits and flexibility in trade cycles
- Allocate capital toward dedicated contract services, which offers more predictable revenue streams and greater asset productivity, and brokerage, which requires limited capital investment and affords network-balancing freight volumes
- Target a conservative leverage profile, taking into consideration both owned and leased financing

### **Company Drivers**

Professional truck drivers are the backbone of our success and the heart of the Company. Responsibility for driver retention flows throughout our organization and every office and maintenance employee is expected to take the necessary steps to keep our drivers satisfied and productive. Keeping our drivers satisfied and safe is the guiding principle behind our modern fleet, training programs and driver compensation. Company drivers are eligible to participate in our health care plan and certain voluntary plans, including life insurance and disability plans, dental and vision plans and our 401(k) plan.

Our drivers are subject to certain hiring guidelines related to driving history, accident and safety history, physical standards and drug and alcohol testing. Upon meeting certain criteria, applicants are invited to attend an orientation at one of our service centers. The on-site orientation is focused on introducing a driver to the concepts and training necessary to be a successful, professional driver, including training related to safety, life on the road, our operations and equipment and electronic log operation. The on-site orientation also includes a road test.

### **Independent Contractors**

In addition to the company drivers that we employ, we enter into contracts with independent contractors. Independent contractors operate their own tractors (although some employ drivers they hire) and provide their services to us under contractual arrangements. Except for generally providing independent contractors with the use of our trailers, they are responsible for the ownership and operating expenses and are compensated by us primarily on a rate per mile basis. By operating safely and productively, independent contractors can improve their own profitability and ours. We believe that the fleet of independent contractors we engage provides significant advantages that primarily arise from the motivation of business ownership. Independent contractors tend to produce more miles per tractor per week. As of December 31, 2019, the approximately 2,000 independent contractors we engage comprised approximately 28% of our available capacity, as measured by tractor count.

Services offered to independent contractors include insurance, maintenance and fuel. Through our wholly owned insurance captive subsidiary, Xpress Assurance, Inc. ("Xpress Assurance"), independent contractors can purchase



occupational accident, physical damage and other types of insurance. Independent contractors also are able to procure at their expense fuel and maintenance services at our truckload service centers.

## **Employment**

As of December 31, 2019, we employed approximately 8,572 employees, of whom approximately 6,298 were drivers, approximately 316 were maintenance technicians and approximately 1,958 were office employees, including operations staff, sales and marketing, recruiting, safety and other support personnel. None of our domestic employees are covered by a collective bargaining agreement.

## **Insurance**

We retain high deductibles on a significant portion of our claims exposure and related expenses associated with third party bodily injury and property damage, employee medical expenses, workers' compensation, physical damage to our equipment and cargo loss. See "Risk Factors." We currently carry the following material types of insurance, which generally have the retention amounts, maximum benefits per claim and other limitations noted:

- commercial automobile liability excess coverage approximately \$300.0 million of coverage per occurrence subject to a \$3.0 million retention per occurrence with annual aggregate limits within the \$3.0 to \$10.0 million layer of \$14.0 million and a three-year policy aggregate of \$28.0 million;
- general liability, business auto liability and excess employer's liability coverage: approximately \$300.0 million of coverage per occurrence subject to a \$25,000 deductible per occurrence for general liability claims, \$50,000 deductible per occurrence for business auto claims and \$500,000 deductible for excess employer's liability;
- cargo damage and loss: \$2.0 million limit per tractor or trailer subject to a \$250,000 retention per occurrence;
- workers' compensation/employers' liability: statutory coverage limits subject to a \$500,000 retention for each accident or disease;
- employment practices and wage and hour liability: \$25.0 million aggregate limit in coverage subject to a \$1.0 million retention for employment practices and \$2.5 million retention for wage and hour for either a single claim or a class action;
- directors' and officers' insurance: \$75.0 million aggregate limit of coverage subject to a \$1.0 million retention with various sub-limits;
- fiduciary liability policy: \$10.0 million aggregate limit of coverage subject to a \$10,000 retention;
- employee healthcare: we retain each employee health care claim and maintain stop loss insurance of \$1.0 million;
- crime insurance: \$5.0 million of coverage subject to a \$100,000 retention; and
- underground storage tank liability: \$5.0 million in coverage with deductibles ranging from \$25,000 to \$75,000.

## **Regulation**

### *Transportation Regulations*

Our operations are regulated and licensed by various government agencies, including the Department of Transportation ("DOT"), Environmental Protection Agency ("EPA") and the Department of Homeland security ("DHS"). These and other federal and state agencies also regulate our equipment, operations, drivers and third-party carriers.

The DOT, through the Federal Motor Carrier Safety Administration (“FMCSA”), imposes safety and fitness regulations on us and our drivers, including rules that restrict driver hours-of-service. Changes to such hours-of-service rules can negatively impact our productivity and affect our operations and profitability by reducing the number of hours per day or week our drivers may operate and/or disrupting our network. However, in August 2019, the FMCSA issued a proposal to make changes to its hours-of-service rules that would allow truck drivers more flexibility with their 30-minute rest break and with dividing their time in the sleeper berth. It also would extend by two hours the duty time for drivers encountering adverse weather, and extend the shorthaul exemption by lengthening the drivers’ maximum on-duty period from 12 hours to 14 hours. It is unclear how long the process of finalizing a final rule will take, if one does come to fruition. Any future changes to hours-of-service rules could materially adversely affect our results of operations and profitability.

There are two methods of evaluating the safety and fitness of carriers. The first method is the application of a safety rating that is based on an onsite investigation and affects a carrier’s ability to operate in interstate commerce. We currently have a satisfactory DOT safety rating for our U.S. operations under this method, which is the highest available rating under the current safety rating scale. If we were to receive a conditional or unsatisfactory DOT safety rating, it could materially adversely affect our business, as some of our existing customer contracts require a satisfactory DOT safety rating. In January 2016, the FMCSA published a Notice of Proposed Rulemaking outlining a revised safety rating measurement system, which would replace the current methodology. Under the proposed rule, the current three safety ratings of “satisfactory,” “conditional” and “unsatisfactory” would be replaced with a single safety rating of “unfit,” and a carrier would be deemed fit when no rating was assigned. Moreover, the proposed rules would use roadside inspection data in addition to investigations and onsite reviews to determine a carrier’s safety fitness on a monthly basis. Under the current rules, a safety rating can only be given upon completion of a comprehensive onsite audit or review. Under the proposed rules, a carrier would be evaluated each month and could be given an “unfit” rating if the data collected from roadside inspections, investigations and onsite reviews did not meet certain standards. The proposed rule underwent a public comment period extending into May 2016 and several industry groups and lawmakers have expressed their disagreement with the proposed rule, arguing that it violates the requirements of the Fixing America’s Surface Transportation Act (the “FAST Act”), and that the FMCSA must first finalize its review of the Compliance, Safety, Accountability program (“CSA”) scoring system, described in further detail below. Based on this feedback and other concerns raised by industry stakeholders, in March 2017, the FMCSA withdrew the Notice of Proposed Rulemaking related to the new safety rating system. In its notice of withdrawal, the FMCSA noted that a new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when or under what form any such rule could be implemented. The FMCSA also recently indicated its intent to perform a new study on the causation of crashes. Although it remains unclear whether such a study will ultimately be undertaken and completed, the results of such a study could spur further proposed and/or final rules in regards to safety and fitness.

In addition to the safety rating system, the FMCSA has adopted the CSA program as an additional safety enforcement and compliance model that evaluates and ranks fleets on certain safety-related standards. The CSA program analyzes data from roadside inspections, moving violations, crash reports from the last two years and investigation results. The data is organized into seven categories. Carriers are grouped by category with other carriers that have a similar number of safety events (e.g., crashes, inspections or violations) and carriers are ranked and assigned a rating percentile to prioritize them for interventions if they are above a certain threshold. Currently, these scores do not have a direct impact on a carrier’s safety rating. However, the occurrence of unfavorable scores in one or more categories may (i) affect driver recruiting and retention by causing high-quality drivers to seek employment with other carriers, (ii) cause our customers to direct their business away from us and to carriers with higher fleet rankings, (iii) subject us to an increase in compliance reviews and roadside inspections, (iv) cause us to incur greater than expected expenses in our attempts to improve unfavorable scores or (v) increase our insurance expenses, any of which could adversely affect our results of operations and profitability.

Under the CSA, these scores were initially made available to the public in five of the seven categories. However, pursuant to the FAST Act, which was signed into law in December 2015, the FMCSA was required to remove from public view the previously available CSA scores while it reviews the reliability of the scoring system. During this period of review by the FMCSA, we will continue to have access to our own scores and will still be subject to intervention by the FMCSA when such scores are above the intervention thresholds. A study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate, and reliable. In late June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Therefore, it is unclear if, when and to what extent such changes to the CSA program will



occur. However, any changes that increase the likelihood of us receiving unfavorable scores could materially adversely affect our results of operations and profitability.

Following the 2001 terrorist attacks, the DHS and other federal, state and municipal authorities implemented and continue to implement various security measures, including checkpoints and travel restrictions on large trucks. The Transportation Safety Administration requires that each driver who applies for or renews his or her license for carrying hazardous materials is not a security threat. This requirement has reduced the pool of qualified drivers who are permitted to transport hazardous materials. These regulations also could complicate the matching of available equipment with hazardous material shipments, thereby increasing our response time and our empty miles on customer shipments. As a result, we could possibly fail to meet certain customer needs or incur increased expenses to do so, either of which could materially adversely affect our business, financial condition and results of operations.

In November 2015, the FMCSA published its final rule related to driver coercion, which took effect in January 2016. Under this rule, carriers, shippers, receivers, or transportation intermediaries that are found to have coerced drivers to violate certain FMCSA regulations (including hours-of-service rules) may be fined up to \$16,000 for each offense.

The final rule requiring the use of ELDs was published in December 2015. This rule requires drivers of commercial motor vehicles that are required to keep logs to be ELD-compliant by December 2017. Enforcement of this rule was phased in, as states did not begin putting tractors out of service for non-compliance until April 1, 2018. However, on a state-by-state basis, carriers were subject to citations for non-compliance with the rule after the December 2017 compliance deadline. For those carriers who had automatic onboard recording devices (“AOBRDs”) installed prior to the December 2017 compliance deadline, the deadline to be fully compliant is December 2019. We currently use AOBRDs and were fully converted to ELDs by the December 2019 deadline. We do not believe that the conversion from AOBRDs to ELDs will have any material impact on our operations. However, we believe that more effective hours-of-service enforcement under this rule may improve our competitive position by causing all carriers to adhere more closely to hours-of-service requirements.

In December 2016, the FMCSA issued a final rule establishing a national clearinghouse for drug and alcohol testing results and requiring motor carriers and medical review officers to provide records of violations by commercial drivers of FMCSA drug and alcohol testing requirements. Motor carriers will be required to query the clearinghouse to ensure drivers and driver applicants do not have violations of federal drug and alcohol testing regulations that prohibit them from operating commercial motor vehicles. The final rule became effective on January 4, 2017, with a compliance date of January 6, 2020. In December 2019, however, the FMCSA announced a final rule extending by three years the date for state driver’s licensing agencies to comply with certain Drug and Alcohol Clearinghouse requirements. The December 2016 commercial driver’s license rule required states to request information from the Clearinghouse about individuals prior to issuing, renewing, upgrading or transferring a CDL. This new action will allow states’ compliance with the requirement, which was set to begin January 2020, to be delayed until January 2023. That being said, the FMCSA has indicated it will allow states the option to voluntarily query Clearinghouse information beginning January 2020. The compliance date of January 2020 remained in place for all other requirements set forth in the Clearinghouse final rule, however. Upon implementation, the rule may reduce the number of available drivers in an already constrained driver market.

Other rules have been recently proposed or made final by the FMCSA, including (i) a rule requiring the use of speed limiting devices on heavy duty tractors to restrict maximum speeds, which was proposed in 2016, and (ii) a rule setting forth minimum driver-training standards for new drivers applying for commercial driver’s licenses for the first time and to experienced drivers upgrading their licenses or seeking a hazardous materials endorsement, which was made final in December 2016, with a compliance date in February 2020 (FMCSA officials have recently reported, however, that they are delaying implementation of the final rule by two years). In July 2017, the DOT announced that it would no longer pursue a speed limiter rule, but left open the possibility that it could resume such a pursuit in the future. In 2019, U.S. Congressional representatives proposed a similar rule related to speed-limiting devices. The effect of these rules, to the extent they become effective, could result in a decrease in fleet production and driver availability, either of which could materially adversely affect our business, financial condition and results of operations.

In March 2014, the Ninth Circuit Court of Appeals held that California state wage and hour laws are not preempted by federal law. The case was appealed to the Supreme Court of the United States, which denied certiorari in May 2015, and accordingly, the Ninth Circuit Court of Appeals decision stood. However, in December 2018, the FMCSA granted a petition filed by the ATA and in doing so determined that federal law does preempt California’s wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA’s decision has been appealed by labor groups, and multiple lawsuits have been filed in federal courts seeking to overturn the decision, and thus it’s uncertain whether it will stand. Other current and future state and local wage and hour laws, including laws related to employee

meal breaks and rest periods, may also vary significantly from federal law. Further, driver piece rate compensation, which is an industry standard, has been attacked as non-compliant with state minimum wage laws and lawsuits have recently been filed and/or adjudicated against carriers demanding compensation for sleeper berth time, layovers, rest breaks and pre-trip and post-trip inspections, the outcome of which could have major implications for the treatment of time that drivers spend off-duty (whether in a truck's sleeper berth or otherwise) under applicable wage laws. Both of these issues are adversely impacting the Corporation and the industry as a whole, with respect to the practical application of the laws, thereby resulting in additional cost. As a result, we, along with other companies in our industry, are subject to an uneven patchwork of wage and hour laws throughout the United States. In the past, certain legislators have proposed federal legislation to preempt state and local wage and hour laws; however, passage of such legislation is uncertain. If federal legislation is not passed, we will either need to comply with the most restrictive state and local laws across our entire fleet, or revise our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, decreased efficiency, and amplified legal exposure.

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractor drivers in the trucking industry are employees rather than independent contractors and our classification of independent contractors has been the subject of audits by such authorities from time to time. Federal legislation has been introduced in the past that would make it easier for tax and other authorities to reclassify independent contractors as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractor drivers and to increase the penalties for companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, extend the Fair Labor Standards Act to independent contractors and impose notice requirements based on employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenue from items such as unemployment, workers' compensation and income taxes and a reclassification of independent contractors as employees would help states with this initiative.

Recently, courts in certain states have issued decisions that could result in a greater likelihood that independent contractors would be judicially classified as employees in such states. In September 2019, California enacted A.B. 5 ("AB5"), a new law that changed the landscape of the state's treatment of employees and independent contractors. AB5 provides that the three-pronged "ABC Test" must be used to determine worker classification in wage-order claims. Under the ABC Test, a worker is presumed to be an employee—and the burden to demonstrate their independent contractor status is on the hiring company through satisfying all 3 of the following criteria:

- the worker is free from control and direction in the performance of services; and
- the worker is performing work outside the usual course of the business of the hiring company; and
- the worker is customarily engaged in an independently established trade, occupation, or business.

How AB5 will be enforced is still to be determined. While it was set to go into effect in January 2020, a federal judge in California issued a preliminary injunction barring the enforcement of AB5 on the trucking industry while the California Trucking Association ("CTA") moves forward with its suit seeking to invalidate AB5. While this preliminary injunction provides temporary relief to the enforcement of AB5, it remains unclear how long such relief will last, and whether the CTA will ultimately be successful in invalidating the law. It is also possible AB5 will spur similar legislation in states other than California, which could adversely affect our results of operations and profitability.

Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. If independent contractors we contract with are determined to be 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 and tax withholdings.

### *Environmental Regulations*

From time to time we engage in the transportation of hazardous substances. Additionally, some of our tractor terminals are located in areas where groundwater or other forms of environmental contamination could occur. Our operations



involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. Certain of our facilities have wash facilities, waste oil or fuel storage tanks and fueling islands. If we are involved in a spill or other accident involving hazardous substances, if there are releases of hazardous substances we transport, if soil or groundwater contamination is found at our facilities or results from our operations, or if we are found to be in violation of applicable laws or regulations, we could be subject to cleanup costs and liabilities, including substantial fines or penalties or civil and criminal liability, any of which could have a materially adverse effect on our business, financial condition and results of operations.

In August 2011, the National Highway Traffic Safety Administration (the “NHTSA”) and the EPA adopted a new rule that established the first-ever fuel economy and greenhouse gas standards for medium and heavy-duty vehicles, including the tractors we employ (the “Phase 1 Standards”). The Phase 1 Standards apply to tractor model years 2014 to 2018 and require the achievement of an approximate 20 percent reduction in fuel consumption by the 2018 model year, which equates to approximately four gallons of fuel for every 100 miles traveled. In addition, in February 2014, President Obama announced that his administration would begin developing the next phase of tighter fuel efficiency and greenhouse gas standards for medium-and heavy-duty tractors and trailers (the “Phase 2 Standards”). In October 2016, the EPA and NHTSA published the final rule mandating that the Phase 2 Standards will apply to trailers beginning with model year 2018 and tractors beginning with model year 2021. The Phase 2 Standards require nine percent and 25 percent reductions in emissions and fuel consumption for trailers and tractors, respectively, by 2027. We believe these requirements will result in additional increases in new tractor and trailer prices and additional parts and maintenance costs incurred to retrofit our tractors and trailers with technology to achieve compliance with such standards, which could materially adversely affect our business, financial condition, results of operations and profitability, particularly if such costs are not offset by potential fuel savings, but we cannot predict the extent to which our operations and productivity will be impacted. In October 2017, the EPA announced a proposal to repeal the Phase 2 Standards as they relate to gliders (which mix refurbished older components, including transmissions and pre-emission-rule engines, with a new frame, cab, steer axle, wheels and other standard equipment). The outcome of such proposal is still undetermined as the EPA continues to consider congressionally requested investigations into the legality of the proposal and the merits of an anti-glider study that was published four days after the proposal became official. Additionally, implementation of the Phase 2 Standards as they relate to trailers has been delayed due to a provisional stay granted in October 2017 by the U.S. Court of Appeals for the District of Columbia, which is overseeing a case against the EPA by the Truck Trailer Manufacturers Association, Inc. regarding the Phase 2 Standards.

In January 2020, the EPA announced it is seeking input on reducing emissions of nitrogen oxides and other pollutants from heavy-duty trucks. The EPA is aiming to release proposed standards for the new plan, commonly referred to as the “Cleaner Trucks Initiative,” later in 2020, and may take final action as soon as 2021. The EPA is targeting 2027 for these new standards to take effect.

The California Air Resources Board (“CARB”) also adopted emission control regulations that will be applicable to all heavy-duty tractors that pull 53-foot or longer box-type trailers within the State of California. The tractors and trailers subject to these CARB regulations must be either EPA SmartWay certified or equipped with low-rolling resistance tires and retrofitted with SmartWay-approved aerodynamic technologies. Enforcement of these CARB regulations for 2011 model year equipment began in January 2010 and have been phased in over several years for older equipment. In order to comply with the CARB regulations, we submitted a large fleet compliance plan to CARB in June 2010. In addition, in February 2017 CARB proposed California Phase 2 standards that would generally align with the federal Phase 2 Standards, with some minor additional requirements, and as proposed would stay in place even if the federal Phase 2 Standards are affected by action from President Trump’s administration. In February 2019, the California Phase 2 standards became final. Thus, even if the trailer provisions of the Phase 2 Standards are permanently removed, we would still need to ensure the majority of our fleet is compliant with the California Phase 2 standards, which may result in increased equipment costs and could adversely affect our operating results and profitability. CARB has also recently announced intentions to adopt regulations ensuring that 100% of tractors operating in California are operating with battery or fuel cell-electric engines in the future. Whether these regulations will ultimately be adopted remains unclear. We will continue monitoring our compliance with the CARB regulations. Federal and state lawmakers also have proposed potential limits on carbon emissions under a variety of climate-change proposals. Compliance with such regulations has increased the cost of our new tractors, may increase the cost of any new trailers that will operate in California, may require us to retrofit certain of our pre-2011 model year trailers that operate in California and could impair equipment productivity and increase our operating expenses. These adverse effects, combined with the uncertainty as to the reliability of the newly designed diesel engines and the residual values of these vehicles, could materially increase our costs or otherwise materially adversely affect our business, financial condition and results of operations.

In order to reduce exhaust emissions, some states and municipalities have begun to restrict the locations and amount of time where diesel-powered tractors may idle. These restrictions could force us to purchase on-board power units that do not require the engine to idle or to alter its drivers' behavior, which could result in increased costs.

In addition to the foregoing laws and regulations, our operations are subject to other federal, state and local environmental laws and regulations, many of which are implemented by the EPA and similar state agencies. Such laws and regulations generally govern the management and handling of hazardous materials, discharge of pollutants into the air, surface water and other environmental media, and groundwater preservation and disposal of certain various substances. We do not believe that our compliance with these statutory and regulatory measures has had a material adverse effect on our business, financial condition and results of operations.

#### *Food Safety Regulations*

In April 2016, the Food and Drug Administration published a final rule establishing requirements for shippers, loaders, carriers by motor vehicle and rail vehicle and receivers engaged in the transportation of food, to use sanitary transportation practices to ensure the safety of the food they transport as part of the Food Safety Modernization Act ("FSMA"). This rule sets forth requirements related to (i) the design and maintenance of equipment used to transport food, (ii) the measures taken during food transportation to ensure food safety, (iii) the training of carrier personnel in sanitary food transportation practices and (iv) maintenance and retention of records of written procedures, agreements and training related to the foregoing items. These requirements will take effect for larger carriers such as us in April 2017. The FSMA is applicable to us not only as a carrier, but we are also considered a shipper when acting in the role of broker. We believe we have been in compliance with the FSMA since the compliance date. However, if we are found to be in violation of applicable laws or regulations related to the FSMA or if we transport food or goods that are contaminated or are found to cause illness and/or death, we could be subject to substantial fines, lawsuits, penalties and/or criminal and civil liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

#### *Executive and Legislative Climate*

The regulatory environment has changed under the administration of President Trump. In January 2017, the President signed an executive order requiring federal agencies to repeal two regulations for each new one they propose and imposing a regulatory budget, which would limit the amount of new regulatory costs federal agencies can impose on individuals and businesses each year. In December 2019, the DOT announced a final rule indicating it is codifying this directive on our industry. This rule and any other anti-regulatory action by the President and/or Congress may inhibit future new regulations and/or lead to the repeal or delayed effectiveness of existing regulations. Therefore, it is uncertain how we may be impacted in the future by existing, proposed or repealed regulations.

The United States Mexico Canada Agreement ("USMCA") has been ratified by the United States and Mexico but must be ratified by the Parliament of Canada before it enters into effect. The USMCA is designed to modernize food and agriculture trade, advance rules of origin for automobiles and trucks, and enhance intellectual property protections, among other matters, according to the Office of the U.S. Trade Representative. It is difficult to predict at this stage what could be the impact of the USMCA on the economy, including the transportation industry. However, given the amount of North American trade that moves by truck, if the USMCA enters into effect, it could have a significant impact on supply and demand in the transportation industry, and could adversely impact the amount, movement and patterns of freight we transport.

With the FAST Act set to expire in September 2020, Congress has noted its intent to consider a multiyear highway measure that would update the FAST Act. However, if Congress fails to reauthorize the FAST Act or pass updated replacement legislation by the September 2020 deadline and proceeds to manage transportation policy via short-term legislative directives, there will be uncertainty that could have a negative impact on our operations.

For further discussion regarding these laws and regulations, please see the section entitled "Risk Factors."

#### **Seasonality**

In the trucking industry, revenue has historically decreased as customers reduce shipments following the winter holiday season and as inclement weather impedes operations. At the same time, operating expenses have generally increased, with fuel efficiency declining because of engine idling and weather, causing more physical damage equipment repairs and insurance claims and costs. For the reasons stated, first quarter results historically have been

lower than results in each of the other three quarters of the year. Over the past several years, we have seen increases in demand at varying times, including surges between Thanksgiving and the year-end holiday season.

### **Available Information**

Our website address is investor.usxpress.com. Our Annual Report on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and all other reports filed with the Securities and Exchange Commission pursuant to Section 13(a) or 15 (d) of the Securities Exchange Act of 1934, can be obtained free of charge by visiting our website. Information contained in or available through our website is not incorporated by reference into, and you should not consider such information to be part of, this Annual Report. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at www.sec.gov.

We are a Nevada corporation. We were founded by Max Fuller and Patrick Quinn in 1985 and commenced operations in the transportation business in 1986.

### **RISK FACTORS**

When evaluating the Company, the following discussion of risk factors, which contains forward-looking statements as discussed in “Cautionary Note Regarding Forward-looking Statements” above, should be considered in conjunction with the other information contained in this Annual Report. If we are unable to mitigate and/or are exposed to any of the following risks in the future, then there could be a material, adverse effect on our business, financial condition and results of operations.

***Our business is subject to general economic, business and regulatory factors affecting the truckload industry that are largely beyond our control, any of which could have a material adverse effect on our results of operations.***

The truckload industry is highly cyclical, and our business is dependent on a number of factors that may have a negative impact on our results of operations, many of which are beyond our control. We believe that some of the most significant of these factors are economic changes that affect supply and demand in transportation markets, such as:

- recessionary economic cycles, such as the period from 2007 through 2009;
- changes in customers’ inventory levels and practices, including shrinking product/package sizes, and in the availability of funding for their working capital;
- excess truck capacity in comparison with shipping demand;
- driver shortages and increases in drivers’ compensation;
- industry compliance with ongoing regulatory requirements;
- fluctuations in foreign exchange rates and imposition of domestic or foreign trade tariffs; and
- downturns in customers’ business cycles, including as a result of declines in consumer spending.

Several of the above factors were evident in the 2016 and 2019 freight environments, which led to higher inventories, weakened demand and pressure on rates. Similar conditions in the future could have a material adverse effect on our business, financial condition and results of operations.

Additionally, economic conditions that decrease shipping demand or increase the supply of available tractors and trailers can exert downward pressure on rates and equipment utilization, thereby decreasing asset productivity. The risks associated with these factors are heightened when the U.S. economy is weakened. Some of the principal risks during such times are as follows:

- we may experience low overall freight levels, which may impair our asset utilization;
- certain of our customers may face credit issues and cash flow problems that may lead to payment delays, increased credit risk, bankruptcies and other financial hardships that could result in even lower freight demand and may require us to increase our allowance for doubtful accounts;



- freight patterns may change as supply chains are redesigned, resulting in an imbalance between our capacity and our customers' freight demand;
- customers may solicit bids for freight from multiple trucking companies or select competitors that offer lower rates from among existing choices in an attempt to lower their costs, and we might be forced to lower our rates or lose freight;
- we may be forced to accept more loads from freight brokers, where freight rates are typically lower, or may be forced to incur more non-revenue miles to obtain loads; and
- lack of access to current sources of credit or lack of lender access to capital, leading to an inability to secure financing on satisfactory terms, or at all.

We are also subject to cost increases outside our control that could materially reduce our profitability if we are unable to increase our rates sufficiently. Such cost increases include, but are not limited to, increases in fuel prices, driver and office employee wages, purchased transportation costs, interest rates, taxes, tolls, license and registration fees, insurance, revenue equipment and related maintenance, tires and other components and healthcare and other benefits for our employees. Further, we may not be able to appropriately adjust our costs to changing market demands. In order to maintain high variability in our business model, it is necessary to adjust staffing levels to changing market demands. In periods of rapid change, it is more difficult to match our staffing level to our business needs.

In addition, events outside our control, such as deterioration of U.S. transportation infrastructure and reduced investment in such infrastructure, strikes or other work stoppages at our facilities or at customer, port, border or other shipping locations, trade tariffs, actual or threatened outbreaks of disease or other public health risks, armed conflicts or terrorist attacks, efforts to combat terrorism, military action against a foreign state or group located in a foreign state or heightened security requirements could lead to wear, tear and damage to our equipment, driver dissatisfaction, reduced economic demand and freight volumes, reduced availability of credit, increased prices for fuel or temporary closing of the shipping locations or U.S. borders. Such events or enhanced security measures in connection with such events could impair our operating efficiency and productivity and result in higher operating costs.

Changing impacts of regulatory measures could impair our operating efficiency and productivity, decrease our revenues and profitability and result in higher operating costs. In addition, declines in the resale value of revenue equipment can affect our profitability and cash flows. From time to time, various U.S. federal, state or local taxes are also increased, including taxes on fuel. We cannot predict whether, or in what form, any such tax increase applicable to us will be enacted, but such an increase could materially adversely affect our profitability.

***Increases in driver compensation or difficulties attracting and retaining qualified drivers could materially adversely affect our profitability and ability to maintain or grow our fleet.***

Like many truckload carriers, we experience substantial difficulty in attracting and retaining sufficient numbers of qualified drivers, which includes the engagement of independent contractors. Our industry is subject to a shortage of qualified drivers. Such shortage is exacerbated during periods of economic expansion, in which alternative employment opportunities, including in the construction and manufacturing industries, which may offer better compensation and/or more time at home, are more plentiful and freight demand increases, or during periods of economic downturns, in which unemployment benefits might be extended and financing is limited for independent contractors who seek to purchase equipment, or the scarcity or growth of loans for students who seek financial aid for driving school. Regulatory requirements, including those related to safety ratings, ELDs and hours-of-service changes and an improved economy could further reduce the pool of eligible drivers or force us to increase driver compensation to attract and retain drivers. We have seen evidence that stricter hours-of-service regulations adopted by the DOT in the past have tightened, and, to the extent new regulations are enacted, may continue to tighten, the market for eligible drivers. The lack of adequate tractor parking along some U.S. highways and congestion caused by inadequate highway funding may make it more difficult for drivers to comply with hours-of-service regulations and cause added stress for drivers, further reducing the pool of eligible drivers. We believe that the required implementation of ELDs has and may further tighten such market. A shortage of qualified drivers and intense competition for drivers from other trucking companies will create difficulties in maintaining or increasing the number of our drivers and may restrain our ability to engage independent contractors. We have implemented driver pay increases to address this shortage and we are implementing initiatives aimed at reducing the daily friction faced by our drivers in hopes of reducing turnover. However, the compensation we offer our drivers and independent contractor expenses are subject to market conditions and our initiatives to reduce driver turnover may prove unsuccessful, therefore we may find it necessary to further increase driver compensation, change the structure of our driver compensation and/or become subject to increased

independent contractor expenses in future periods, which could materially adversely affect our growth and profitability.

In addition, we suffer from a high turnover rate of drivers and our turnover rate is higher than the industry average and compared to our peers. This high turnover rate requires us to spend significant resources recruiting a substantial number of drivers in order to operate existing revenue equipment and subjects us to a higher degree of risk with respect to driver shortages than our competitors. Our use of team-driven tractors in our expedited service offering requires two drivers per tractor, which further increases the number of drivers we must recruit and retain in comparison to operations that require one driver per tractor. Our driver hiring standards, including hair follicle drug testing, could further reduce the pool of available drivers from which we would hire. If we are unable to continue to attract and retain a sufficient number of drivers, we could be forced to, among other things, continue to adjust our compensation packages or operate with fewer tractors and face difficulty meeting shipper demands, either of which could materially adversely affect our growth and profitability.

***Our engagement of independent contractors to provide a portion of our capacity exposes us to different risks than we face with our tractors driven by company drivers.***

Our contracts with independent contractors are governed by the federal leasing regulations, which impose specific requirements on us and the independent contractors. If more stringent federal leasing regulations are adopted, independent contractors could be deterred from becoming independent contractor drivers, which could materially adversely affect our goal of maintaining our current fleet levels of independent contractors.

Pursuant to our fuel surcharge program with independent contractors, we pay independent contractors we contract with a fuel surcharge that increases with the increase in fuel prices. A significant increase or rapid fluctuation in fuel prices could cause our costs under this program to be higher than the revenue we receive under our customer fuel surcharge programs.

We provide financing to certain qualified independent contractors. If we are unable to provide such financing in the future, due to liquidity constraints or other restrictions, we may experience a decrease in the number of independent contractors we are able to engage. Further, if independent contractors we engage default under or otherwise terminate the financing arrangement and we are unable to find a replacement independent contractor or seat the tractor with a company driver, we may incur losses on amounts owed to us with respect to the tractor.

Independent contractors are third-party service providers, as compared with company drivers, who are employed by us. As independent business owners, they may make business or personal decisions that may conflict with our best interests. For example, if a load is unprofitable, route distance is too far from home, personal scheduling conflicts arise, or for other reasons, independent contractors may deny loads of freight from time to time. In these circumstances, we must be able to deliver the freight timely in order to maintain relationships with customers, and if we fail to meet certain customer needs or incur increased expenses to do so, this could materially adversely affect our business, financial condition, and results of operations. Furthermore, the autonomy of our independent contractors may frustrate any attempts to further utilize the capacity provided by independent contractors.

***If the independent contractors we contract with are deemed by regulators or judicial process to be employees, our business, financial condition and results of operations could be materially adversely affected.***

Tax and other regulatory authorities, as well as independent contractors themselves, have increasingly asserted that independent contractor drivers in the trucking industry are employees rather than independent contractors, and our classification of independent contractors has been the subject of audits by such authorities from time to time. Federal legislation has been introduced in the past that would make it easier for tax and other authorities to reclassify independent contractors as employees, including legislation to increase the recordkeeping requirements for those that engage independent contractor drivers and to increase the penalties for companies who misclassify their employees and are found to have violated employees' overtime and/or wage requirements. Additionally, federal legislators have sought to abolish the current safe harbor allowing taxpayers meeting certain criteria to treat individuals as independent contractors if they are following a long-standing, recognized practice, to extend the Fair Labor Standards Act to independent contractors and to impose notice requirements based on employment or independent contractor status and fines for failure to comply. Some states have put initiatives in place to increase their revenue from items such as unemployment, workers' compensation and income taxes, and a reclassification of independent contractors as employees would help states with this initiative. Recently, courts in certain states have issued decisions that could result in a greater likelihood that independent contractors would be judicially classified as employees in such states. In September 2019, California enacted a law that made it more difficult for workers to be classified as independent

contractors (as opposed to employees). For further discussion of this new California law, please see "Regulation" under "Business." Further, class actions and other lawsuits have been filed against certain members of our industry seeking to reclassify independent contractors as employees for a variety of purposes, including workers' compensation and health care coverage. In addition, companies that use lease-purchase independent contractor programs, such as us, have been more susceptible to reclassification lawsuits, and several recent decisions have been made in favor of those seeking to classify independent contractor truck drivers as employees. Taxing and other regulatory authorities and courts apply a variety of standards in their determination of independent contractor status. If the independent contractors with whom we contract are determined to be 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 and tax withholdings, and our business, financial condition and results of operations could be materially adversely affected.

***We have a history of net losses.***

We have generated a profit in two of the last five years. Improving profitability depends upon numerous factors, including our ability to successfully execute both our ongoing and planned strategic initiatives, such as increasing our fleet efficiency and utilization, decreasing driver turnover and further refinement of our business mix profile. We may not be able to improve profitability in the future. If we are unable to improve our profitability, our liquidity, business, financial condition and results of operations may be materially adversely affected.

***We may not be successful in achieving our business strategies.***

Many of our business strategies require time, significant management and financial resources and successful implementation. Consequently, we may be unable to effectively and successfully implement our business strategies. We also cannot ensure that our operating results, including our operating margins, will not be materially adversely affected by future changes in and expansion of our business, including the expected expansion of our dedicated contract service and brokerage service offerings and our increased focus on the implementation of technology to improve our execution and reduce friction, or by changes in economic conditions. Further, many of our strategic initiatives are focused on the development and deployment of technology. These new technology-driven initiatives have a high degree of risk, as they involve unproven business strategies and technologies with which we have limited or no prior experience. Because such offerings and technologies are new, they may involve unforeseen expenses and regulatory and other risks. There can be no assurance that these initiatives will generate sufficient revenue to offset any new expenses or liabilities associated with these new investments. It is also possible that technology developed or deployed by others will render our technology noncompetitive or obsolete. Further, our development and deployment efforts with respect to new technologies could distract management from current operations, and will divert capital and other resources from our historical operations. Despite the implementation of our operational and tactical strategies and initiatives, we may be unsuccessful in achieving a reduction in our operating ratio in the time frames we expect or at all. Further, our results of operations may be materially adversely affected by a failure to further penetrate our existing customer base, cross-sell our services, secure new customer opportunities and manage the operations and expenses of new or growing services. There is no assurance that we will be successful in achieving any of our business strategies. Even if we are successful in executing our business strategies, we still may not achieve our goals.

***We operate in a highly competitive and fragmented industry, and numerous competitive factors could impair our ability to improve our profitability and materially adversely affect our results of operations.***

Numerous competitive factors could impair our ability to improve our profitability and materially adversely affect our results of operations, including:

- we compete with many other truckload carriers of varying sizes and service offerings (including intermodal) and, to a lesser extent, with (i) less-than-truckload carriers, (ii) railroads and (iii) other transportation and brokerage companies, several of which have access to more equipment and greater capital resources than we do;
- many of our competitors periodically reduce their freight rates to gain business, especially during times of reduced growth in the economy, which may limit our ability to maintain or increase freight rates or to maintain or expand our business or may require us to reduce our freight rates in order to maintain business and keep our equipment productive;



- we may increase the size of our fleet during periods of high freight demand during which our competitors also increase their capacity, and we may experience losses in greater amounts than such competitors during subsequent cycles of softened freight demand if we are required to dispose of assets at a loss to match reduced freight demand;
- we may have difficulty recruiting and retaining drivers because our competitors offer better compensation or working conditions;
- some of our larger customers are other transportation companies and/or also operate their own private trucking fleets, and they may decide to transport more of their own freight;
- some shippers have reduced or may reduce the number of carriers they use by selecting preferred carriers as approved service providers or by engaging dedicated providers, and we may not be selected;
- many customers periodically solicit bids from multiple carriers for their shipping needs and this process may depress freight rates or result in a loss of business to competitors;
- consolidation in the trucking industry may create other large carriers with greater financial resources and other competitive advantages, and we may have difficulty competing with them;
- advances in technology may require us to increase investments in order to remain competitive, and our customers may not be willing to accept higher freight rates to cover the cost of these investments;
- our competitors may have better safety records than us or a perception of better safety records;
- higher fuel prices and, in turn, higher fuel surcharges to our customers may cause some of our customers to consider freight transportation alternatives, including rail transportation;
- the U.S. Xpress brand name is a valuable asset that is subject to the risk of adverse publicity (whether or not justified), which could result in the loss of value attributable to our brand and reduced demand for our services;
- competition from freight brokerage companies may materially adversely affect our customer relationships and freight rates;
- new digital entrants with cheaper sources of capital could inhibit our ability to compete,
- our competitors may have better technology that may lead to increased operating efficiencies, reduced costs, a better ability to recruit drivers and more demand for their services, and
- economies of scale that procurement aggregation providers may pass on to smaller carriers may improve such carriers' ability to compete with us.

***We retain high deductibles on a significant portion of our claims exposure, which could significantly increase the volatility of, and decrease the amount of, our earnings and materially adversely affect our results of operations.***

We retain high deductibles on a significant portion of our claims exposure and related expenses associated with third-party bodily injury and property damage, employee medical expenses, workers' compensation, physical damage to our equipment and cargo loss. We currently retain a deductible of approximately \$3.0 million per occurrence for automobile bodily injury and property damage through our captive risk retention group and up to \$500,000 per occurrence for workers' compensation claims, both of which can make our insurance and claims expense higher or more volatile than if we maintained lower retentions. Effective September 1, 2018, we have a \$3.0 million retention and an aggregate limit of \$14.0 million in our \$3.0 to \$10.0 million layer of excess insurance coverage for automobile bodily injury and property damage. Additionally, with respect to our third-party insurance, reduced capacity in the insurance market for trucking risks can make it more difficult to obtain both primary and excess insurance, can necessitate procuring insurance offshore, and could result in increases in collateral requirements on those primary lines that require securitization.

We have liability coverage limits of \$300.0 million per occurrence. If any claim were to exceed coverage limits, we would bear the excess in addition to our other retained amounts. Our insurance and claims expense could increase, or we could find it necessary to raise our retained amounts or decrease our coverage limits when our policies are renewed or replaced. Our initiatives aimed at reducing insurance premiums and claims expense, such as installation of forward-facing event recorders, hair follicle drug testing, and additional driver training, could prove unsuccessful. In addition, although we endeavor to limit our exposure arising with respect to such claims, we also may have exposure if carriers hired by our Brokerage segment are inadequately insured for any accident. Our results of operations and financial condition may be materially adversely affected if (i) these expenses increase, (ii) we are unable to find excess coverage in amounts we deem sufficient, (iii) we experience a claim in excess of our coverage limits, (iv) we experience a claim for which we do not have coverage or for which our insurance carriers fail to pay or (v) we experience increased accidents. We have in the past, and may in the future, incur significant expenses for deductibles and retentions due to our accident experience.

***If we are required to accrue or pay additional amounts because claims prove to be more severe than our recorded liabilities, our financial condition and results of operations may be materially adversely affected.***

We accrue the costs of the uninsured portion of pending claims based on estimates derived from our evaluation of the nature and severity of individual claims and an estimate of future claims development based upon historical claims development trends. Actual settlement of our retained claim liabilities could differ from our estimates due to a number of uncertainties, including evaluation of severity, legal costs and claims that have been incurred but not reported. Due to our high retained amounts, we have significant exposure to fluctuations in the number and severity of claims. If we are required to accrue or pay additional amounts because our estimates are revised or the claims ultimately prove to be more severe than originally assessed, our financial condition and results of operations may be materially adversely affected.

***Insuring risk through our captive insurance companies could materially adversely affect our operations.***

We utilize two captive insurers to transfer or fund risks. Mountain Lake Risk Retention Group, Inc. (“Mountain Lake RRG”) is a state-regulated, captive risk retention group owned by two of our operating subsidiaries, U.S. Xpress, Inc. and Total Transportation of Mississippi LLC (“Total”). Mountain Lake RRG writes the primary auto insurance liability policies for U.S. Xpress, Inc. and Total; a portion of this risk is transferred to Mountain Lake RRG and the remaining risk is retained as a deductible by the insured subsidiaries. Through our second captive insurer, Xpress Assurance, we participate as a reinsurer in certain third party risks related to various types of insurance policies sold to drivers who carry passengers in tractors and independent contractors engaged by U.S. Xpress, Inc. and Total. The use of the captives necessarily involves retaining certain risks that might otherwise be covered by traditional insurance products, and increases in the number or severity of claims that Mountain Lake RRG and Xpress Assurance insure have in the past, and could in the future, materially adversely affect our earnings, business, financial condition and results of operations.

***Increases in collateral requirements that support our insurance program and could materially adversely affect our operations.***

To comply with certain state insurance regulatory requirements, cash and/or cash equivalents must be paid to certain of our third-party insurers, to state regulators and to our captive insurance companies and restricted as collateral to ensure payment for anticipated losses. Significant future increases in the amount of collateral required by third-party insurance carriers and regulators would reduce our liquidity and could materially adversely affect our business, financial condition, results of operations and capital resources.

***Our captive insurance companies are subject to substantial government regulation.***

Our captive insurance companies are regulated by state authorities. State regulations generally provide protection to policy holders, rather than stockholders, and generally involve:

- approval of premium rates for insurance;
- standards of solvency;
- minimum amounts of statutory capital surplus that must be maintained;

- limitations on types and amounts of investments;
- regulation of dividend payments and other transactions between affiliates;
- regulation of reinsurance;
- regulation of underwriting and marketing practices;
- approval of policy forms;
- methods of accounting; and
- filing of annual and other reports with respect to financial condition and other matters.

These regulations may increase our costs, limit our ability to change premiums, restrict our ability to access cash held by these subsidiaries and otherwise impede our ability to take actions we deem advisable.

***Increased prices for new revenue equipment, design changes of new engines, future use of autonomous tractors, volatility in the used equipment market, decreased availability of new revenue equipment and the failure of manufacturers to meet their obligations to us could materially adversely affect our business, financial condition, results of operations and profitability.***

We are subject to risk with respect to higher prices for new tractors. We have experienced an increase in prices for new tractors over the past few years, and the resale value of the tractors has not increased to the same extent. Prices have increased and may continue to increase, due, in part, to (i) government regulations applicable to newly manufactured tractors and diesel engines, (ii) increases in commodity prices and (iii) and due to the pricing discretion of equipment manufacturers in periods of high demand. More restrictive EPA and state emissions standards have required vendors to introduce new engines. Compliance with such regulations has increased the cost of our new tractors and could impair equipment productivity, result in lower fuel mileage and increase our operating expenses. These adverse effects, combined with the uncertainty as to the reliability of the vehicles equipped with the newly designed diesel engines and the residual values realized from the disposition of these vehicles, could increase our costs or otherwise materially adversely affect our business, financial condition and results of operations as the regulations become effective. Furthermore, future use of autonomous tractors could increase the price of new tractors and decrease the value of used non-autonomous tractors.

A depressed market for used equipment could require us to trade our revenue equipment at depressed values or to record losses on disposal or impairments of the carrying values of our revenue equipment that is not protected by residual value arrangements. Used equipment prices are subject to substantial fluctuations based on freight demand, supply of used tractors, availability of financing, the presence of buyers for export to foreign countries and commodity prices for scrap metal. If there is a deterioration of resale prices, it could have a material adverse effect on our business, financial condition and results of operations. Trades at depressed values, decreases in proceeds under equipment disposals and impairments of the carrying values of our revenue equipment could materially adversely affect our business, financial condition and results of operations.

Tractor and trailer vendors may reduce their manufacturing output in response to lower demand for their products in economic downturns or shortages of component parts. A decrease in vendor output may materially adversely affect our ability to purchase a quantity of new revenue equipment that is sufficient to sustain our desired growth rate and to maintain a late-model fleet. Moreover, an inability to obtain an adequate supply of new tractors or trailers could have a material adverse effect on our business, financial condition and results of operations.

Certain of our revenue equipment financing arrangements have balloon payments at the end of the finance terms equal to the values we expect to be able to obtain in the used market. To the extent the used market values are lower than such balloon payments, we may be forced to sell the equipment at a loss and our results of operations would be materially adversely affected.



***Our profitability may be materially adversely impacted if our capital investments do not match customer demand for invested resources or if there is a decline in the availability of funding sources for these investments.***

The truckload industry generally, and our truckload offering in particular, is capital intensive and asset heavy, and our policy of maintaining a young, technology-equipped fleet requires us to expend significant amounts in capital expenditures annually. The amount and timing of such capital expenditures depend on various factors, including anticipated freight demand and the price and availability of assets. If anticipated demand differs materially from actual usage, our capital-intensive Truckload segment may have too many or too few assets. Moreover, resource requirements vary based on customer demand, which may be subject to seasonal or general economic conditions. During periods of decreased customer demand, our asset utilization may suffer, and we may be forced to sell equipment on the open market or turn in equipment under certain equipment leases in order to right size our fleet. This could cause us to incur losses on such sales or require payments in connection with equipment we turn in, particularly during times of a softer used equipment market, either of which could have a material adverse effect on our profitability. Our ability to select profitable freight and adapt to changes in customer transportation requirements is important to efficiently deploy resources and make capital investments in tractors and trailers (with respect to our Truckload segment) or obtain qualified third-party carriers at a reasonable price (with respect to our Brokerage segment).

We expect to pay for projected capital expenditures with cash flows from operations, proceeds from equity sales or financing available under our existing debt instruments. Although our business volume is not highly concentrated, our customers' financial failures or loss of customer business may materially adversely affect us. If we were unable to generate sufficient cash from operations, we would need to seek alternative sources of capital, including financing, to meet our capital requirements. In the event that we are unable to generate sufficient cash from operations or obtain financing on favorable terms in the future, we may have to limit our fleet size, enter into less favorable financing arrangements or operate our revenue equipment for longer periods, any of which could have a materially adverse effect on our profitability.

***Upgrading our tractors to reduce the average age of our fleet may not increase our profitability or result in cost savings as expected or at all.***

Upgrades of our tractor fleet may not result in an increase in profitability or cost savings. Expected improvements in operating ratio may lag behind new tractor deliveries, primarily because in executing a tractor fleet upgrade, we may experience costs associated with preparing our old tractors for trade, and our new tractors for integration into our fleet, and lost driving time while swapping revenue equipment. Further, tractor prices have increased and may continue to increase, due in part to government regulations applicable to newly manufactured tractors and diesel engines.

In addition, we cannot be certain that an agreement will be reached on price, equipment trade-ins or other terms that we deem favorable. If we do enter an agreement for the purchase of new tractors, we could be exposed to the risk that the new tractor deliveries will be delayed. Accordingly, we are subject to an increased risk that upgrades of our tractor fleet will not result in the operational results, cost savings and increases in profitability that we expect.

***Difficulty in obtaining materials, equipment, goods and services from our vendors and suppliers could adversely affect our business.***

We are dependent upon our suppliers for certain products and materials, including our tractors, trailers and chassis. We manage our OTR fleet to an approximate 475,000 mile trade cycle with an average tractor age of approximately 1.7 years as of December 31, 2019. Accordingly, we rely on suppliers of our tractors, trailers and components to maintain the age of our fleet. If we fail to maintain favorable relationships with our vendors and suppliers, or if our vendors and suppliers are unable to provide the products and materials we need or undergo financial hardship, we could experience difficulty in obtaining needed goods and services because of production interruptions, limited material availability or other reasons, or we may not be able to obtain favorable pricing or other terms. As a result, our business and operations could be adversely affected.

***We are dependent on systems, networks and other information technology assets (and the data contained therein) and a failure in the foregoing, including those caused by cybersecurity breaches, could cause a significant disruption to our business and we may incur increasing costs in efforts to minimize those risks and comply with regulatory standards.***

Our business depends on the efficient and uninterrupted operation of our systems, networks and other information technology assets (and the data contained therein). This includes information and electronic data interchange systems

that we have developed, both by creating these systems in-house or by adapting purchased or off-the-shelf applications to suit our needs. Our information and electronic data interchange systems are used for receiving and planning loads, dispatching drivers and other capacity providers, billing customers and load tracking and storing the data related to the foregoing activities. We also maintain information security policies to protect our systems, networks and other information technology assets (and the data contained therein) from cybersecurity breaches and threats, such as hackers, malware and viruses; however, such policies cannot ensure the protection of our systems, networks and other information technology assets (and the data contained therein). We currently maintain our hardware systems and infrastructure at our Chattanooga, Tennessee headquarters, along with an off-site secondary data center and computer equipment at each of our truckload service centers. If we are unable to prevent system violations or other unauthorized access to our systems, networks and other information technology assets (and the data contained therein), we could be subject to significant fines and lawsuits and our reputation could be damaged, or our business operations could be interrupted, any of which could have a material adverse effect on our financial performance and business operations. Furthermore, recently enacted data privacy laws, such as the California Consumer Privacy Act that became effective on January 1, 2020 and provides new data privacy rights for consumers and operational requirements for companies, may result in increased liability and amplified compliance and monitoring costs, any of which could have a material adverse effect on our financial performance and business operations.

Our operations, and those of our technology and communications service providers are vulnerable to interruption by fire, natural disasters, power loss, telecommunications failure, network disruptions, cyber-attacks, terrorist attacks, Internet failures, malicious intrusions, computer viruses and other events that may be beyond our control. Although we attempt to reduce the risk of disruption to our business operations through redundant computer systems and networks, backup systems and a disaster recovery off-site alternate location, there can be no assurance that such measures will be effective. Furthermore, many of our strategic initiatives would require further integration of technology into our operations, which could exacerbate the effects of any such interruption. If any of our critical information technology assets fail or become otherwise unavailable, whether as a result of a cybersecurity breach, upgrade project or otherwise, we would have to perform certain functions manually, which could temporarily impact our ability to manage our fleet efficiently, respond to customers' requests effectively, maintain billing and other records reliably, and bill for services and prepare financial statements accurately or in a timely manner. Although we maintain business interruption insurance, it may be inadequate to protect us in the event of an unforeseeable and extreme catastrophe. Any significant system failure, upgrade complication, security breach or other system disruption could interrupt or delay our operations, damage our reputation, cause us to lose customers or impact our ability to manage our operations and report our financial performance, any of which could have a material adverse effect on our business, financial condition and results of operations. In addition, we are currently dependent on a single vendor platform to support certain information technology functions. If the stability or capability of such vendor is compromised and we were forced to migrate to a new platform, it could materially adversely affect our business, financial condition and results of operations.

***Our existing and future indebtedness could limit our flexibility in operating our business or adversely affect our business and our liquidity position.***

We have significant amounts of indebtedness outstanding, including obligations under a new credit facility we entered into in January 2020 that is structured as a \$250.0 million revolving credit facility (the "Credit Facility"), equipment installment notes, finance leases and secured notes. As of December 31, 2019, we had indebtedness of \$396.0 million. While our goal is to reduce our leverage, our indebtedness may increase from time to time in the future for various reasons, including fluctuations in results of operations, capital expenditures and potential acquisitions. Any indebtedness we incur and restrictive covenants contained in financing agreements governing such indebtedness could:

- make it difficult for us to satisfy our obligations, including making interest payments on our debt obligations;
- limit our ability to obtain additional financing to operate our business;
- require us to dedicate a substantial portion of our cash flow to payments on our debt, reducing our ability to use our cash flow to fund capital expenditures and working capital and other general operational requirements;
- expose us to the risk of increased interest rates relating to any of our indebtedness at variable rates;

- limit our flexibility to plan for and react to changes in our business and/or changing market conditions;
- place us at a competitive disadvantage relative to some of our competitors that have less, or less restrictive, debt than us;
- limit our ability to pursue acquisitions or cause us to make non-strategic divestitures; and
- increase our vulnerability to general adverse economic and industry conditions, including changes in interest rates or a downturn in our business or the economy.

The occurrence of any one of these events could have a material adverse effect on our business, financial condition and results of operations or cause a significant decrease in our liquidity and impair our ability to pay amounts due on our indebtedness. Significant repayment penalties may limit our flexibility. In addition, our Credit Facility contains usual and customary restrictive covenants for a facility of this nature including, among other things, restrictions on our ability to incur certain additional indebtedness or issue guarantees, to create liens on our assets, to make distributions on or redeem equity interests, to make investments and to engage in mergers, consolidations, or acquisitions, and, if our excess availability is less than a specified amount, requires us to maintain a fixed charge coverage ratio of at least 1:00:1:00.

***We may be adversely affected by changes in the method of determining the London Interbank Offered Rate (“LIBOR”) or the replacement of LIBOR with an alternative reference rate.***

In July 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021, which is expected to result in these widely used reference rates no longer being available. Borrowings under the Credit Facility are classified as either "base rate loans" or "LIBOR loans." Borrowings under the Credit Facility are classified as either “base rate loans” or “eurodollar rate loans”. Base rate loans accrue interest at a base rate equal to the highest of (A) the Federal Funds Rate plus 0.50%, (B) the Agent’s prime rate, and (C) LIBOR plus 1.00% plus an applicable margin that is set at 0.50% through June 30, 2020 and adjusted quarterly thereafter between 0.25% and 0.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. Eurodollar rate loans accrue interest at LIBOR plus an applicable margin that is set at 1.50% through June 30, 2020 and adjusted quarterly thereafter between 1.25% and 1.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. Potential changes to LIBOR, as well as uncertainty related to such potential changes and the establishment of any alternative reference rate, may adversely affect our cost of capital. At this time, we cannot predict the overall effect of the modification or discontinuation of LIBOR or the establishment of any alternative benchmark rate.

***In the future, we may need to obtain additional financing that may not be available or, if it is available, may result in a reduction in the percentage ownership of our then-existing stockholders.***

We may need to raise additional funds in order to:

- finance unanticipated working capital requirements, capital investments or refinance existing indebtedness;
- develop or enhance our technological infrastructure and our existing products and services;
- fund strategic relationships;
- respond to competitive pressures; and
- acquire complementary businesses, technologies, products or services.

If the economy and/or the credit markets weaken, or we are unable to enter into capital or operating leases to acquire revenue equipment on terms favorable to us, our business, financial results and results of operations could be materially adversely affected, especially if consumer confidence declines and domestic spending decreases. If adequate funds are not available or are not available on acceptable terms, our ability to fund our strategic initiatives, take advantage of unanticipated opportunities, develop or enhance technology or services or otherwise respond to competitive pressures could be significantly limited. If we raise additional funds by issuing equity or convertible debt



securities, the percentage ownership of our then-existing stockholders may be reduced, and holders of these securities may have rights, preferences or privileges senior to those of our then-existing stockholders.

***We are exposed to the credit, reputational and relationship risks of certain of our current and former equity investments.***

Certain of our current and former equity investments, including Parker Global Enterprises, Inc. (“Parker”), XPS Logisti-K Systems, S.A.P.I. de C.V. (“Logisti-K”), Dylka Distribuciones Logisti-K S.A. de C.V. (“Dylka”) and Xpress Internacional, have amounts owing to us. Furthermore, we may have overlapping customers and vendors with Parker, Logisti-K, Dylka and Xpress Internacional. Any financial hardships of Parker, Logisti-K, Dylka, or Xpress Internacional could lead to delay or nonpayment of amounts owed to us, strain our relationships with overlapping customers and vendors, and damage our reputation. The occurrence of any of the foregoing events could have a material adverse effect on our business, financial condition and results of operations. Such risks may be heightened during a weak freight environment.

***Fluctuations in the price or availability of fuel or surcharge collection may increase our costs of operation, which could materially adversely affect our profitability.***

Fuel is one of our largest operating expenses. Diesel fuel prices fluctuate greatly due to factors beyond our control, such as political events, terrorist activities, armed conflicts, commodity futures trading, depreciation of the dollar against other currencies, weather events and other natural or man-made disasters, each of which may lead to an increase in the cost of fuel. Fuel prices also are affected by the rising demand for fuel in developing countries, including China, and could be materially adversely affected by the use of crude oil and oil reserves for purposes other than fuel production and by diminished drilling activity. Such events may lead not only to increases in fuel prices, but also to fuel shortages and disruptions in the fuel supply chain. Because our operations are dependent upon diesel fuel, significant diesel fuel cost increases, shortages, rationings, or supply disruptions would materially adversely affect our business, financial condition and results of operations.

Fuel also is subject to regional pricing differences and is often more expensive on the West Coast of the United States, where we have operations. Increases in fuel costs, to the extent not offset by rate per mile increases or fuel surcharges, have a material adverse effect on our operations and profitability. While we have fuel surcharge programs in place with a majority of our customers, which historically have helped us offset the majority of the negative impact of rising fuel prices associated with loaded or billed miles, we also incur fuel costs that cannot be recovered even with respect to customers with which we maintain fuel surcharge programs, such as those associated with non-revenue generating miles, the time when our engines are idling and fuel for refrigeration units on our refrigerated trailers. Moreover, the terms of each customer’s fuel surcharge program vary, and certain customers have sought to modify the terms of their fuel surcharge programs to minimize recoverability for fuel price increases. In addition, because our fuel surcharge recovery lags behind changes in fuel prices, our fuel surcharge recovery may not capture the increased costs we pay for fuel, especially when prices are rising. This could lead to fluctuations in our levels of reimbursement, which have occurred in the past. During periods of low freight volumes, shippers can use their negotiating leverage to impose fuel surcharge policies that provide a lower reimbursement of our fuel costs. There is no assurance that our fuel surcharge program can be maintained indefinitely or will be sufficiently effective. Our results of operations would be negatively affected to the extent we cannot recover higher fuel costs or fail to improve our fuel price protection through our fuel surcharge program.

As of December 31, 2019, we had no derivative financial instruments to reduce our exposure to fuel price fluctuations.

***We operate in a highly regulated industry, and increased direct and indirect costs of compliance with, or liability for violations of, existing or future regulations could have a material adverse effect on our business.***

We have authority to operate in the United States, as granted by the DOT, Mexico (as granted by the Secretaría de Comunicaciones y Transportes), and various Canadian provinces (as granted by the Ministries of Transportation and Communication in such provinces). In the United States, we are also regulated by the EPA, the DHS and other agencies in states in which we operate. Our company drivers, independent contractors and third-party carriers also must comply with the applicable safety and fitness regulations of the DOT, including those relating to drug and alcohol testing, driver safety performance and hours-of-service. Matters such as weight, equipment dimensions, exhaust emissions, fuel efficiency and hazardous material transportation, storage and disposal are also subject to government regulations. We also may become subject to new or more restrictive regulations relating to fuel efficiency, exhaust emissions, hours-of-service, drug and alcohol testing, ergonomics, on-board reporting of operations, collective bargaining, security at ports, speed limiters, driver training and other matters affecting safety or operating methods. Future laws

and regulations may be more stringent, require changes in our operating practices, influence the demand for transportation services or require us to incur significant additional costs. Higher costs incurred by us, or by our suppliers who pass the costs onto us through higher supplies and materials pricing, or liabilities we may incur related to our failure to comply with existing or future regulations could adversely affect our results of operations. In addition, the Trump administration has indicated a desire to reduce regulatory burdens that constrain growth and productivity and also to introduce legislation such as infrastructure spending that could improve our growth and productivity, to the extent implemented.

In January 2016, the FMCSA proposed changes to the DOT's safety rating system, which would determine unfit carriers on a monthly basis using roadside inspection data in addition to investigations and onsite reviews. This change was expected to significantly increase the number of carriers deemed unfit and potentially unable to continue to operate. In March 2017, in response to significant objection by the industry, the FMCSA withdrew the proposed changes but noted that new rulemaking related to a similar process may be initiated in the future. Therefore, it is uncertain if, when or under what form any such new rule could be implemented. New rulemaking related to the DOT's safety rating system or changes to the CSA program that impacts our safety rating or CSA scores could materially adversely affect our results of operations. The FMCSA also recently announced plans to conduct a new study on the causation of certain crashes. Although it remains unclear whether such a study will ultimately be undertaken and completed, the results of such a study could spur further proposed and/or final rules regarding safety and fitness in the U.S.

In December 2016, the FMCSA issued a final rule establishing a national clearinghouse for drug and alcohol testing results and requiring motor carriers and medical review officers to provide records of violations by commercial drivers of FMCSA drug and alcohol testing requirements. Motor carriers will be required to query the clearinghouse to ensure drivers and driver applicants do not have violations of federal drug and alcohol testing regulations that prohibit them from operating commercial motor vehicles. The final rule became effective on January 4, 2017, with a compliance date of January 6, 2020. In December 2019, however, the FMCSA announced a final rule extending by three years the date for state driver's licensing agencies to comply with certain Drug and Alcohol Clearinghouse requirements. The December 2016 commercial driver's license rule required states to request information from the Clearinghouse about individuals prior to issuing, renewing, upgrading or transferring a CDL. This new action will allow states' compliance with the requirement, which was set to begin January 2020, to be delayed until January 2023.

In addition, other rules have been recently proposed or made final by the FMCSA, including (i) a rule requiring the use of speed limiting devices on heavy duty tractors to restrict maximum speeds, which was proposed in 2016 and (ii) a rule setting forth minimum driver-training standards for new drivers applying for commercial driver's licenses for the first time and to experienced drivers upgrading their licenses or seeking a hazardous materials endorsement, which was made final in December 2016 with a compliance date in February 2020 (FMCSA officials have recently reported, however, that they are delaying implementation of the final rule by two years). In July 2017, the DOT announced that it would no longer pursue a speed limiter rule, but left open the possibility that it could resume such a pursuit in the future. In 2019, U.S. Congressional representatives proposed a similar rule related to speed-limiting devices. The effect of these rules, to the extent they become effective, could result in a decrease in fleet production and/or driver availability, either of which could materially adversely affect our business, financial condition and results of operations.

U.S. Congressional representatives also proposed a bill in 2019 that would pave the way for commercial drivers younger than 21 to drive tractors across state lines. This new bill, which would lower the age requirement of 21 to 18 for interstate commercial driving if certain requirements are met, received support from the ATA during a February 2020 Senate hearing. It is unclear how long the process of finalizing such a bill will take, however, if one comes to fruition at all.

In March 2014, the U.S. Ninth Circuit Court of Appeals held that the application of California state wage and hour laws to interstate truck drivers is not pre-empted by U.S. federal law. The case was appealed to the U.S. Supreme Court, which denied *certiorari* in May 2015, and accordingly, the Ninth Circuit Court of Appeals decision stands. However, in December 2018, the FMCSA granted a petition filed by the American Trucking Associations and in doing so determined that federal law does pre-empt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in U.S. federal courts seeking to overturn the decision, and thus it's uncertain whether it will stand. Current and future U.S. state and local wage and hour laws, including laws related to employee meal breaks and rest periods, may vary significantly from U.S. federal law. Further, driver piece rate compensation, which is an industry standard, has been attacked as non-compliant with state minimum wage laws. Both of these issues are adversely impacting the Corporation and the industry as a whole, with respect to the practical application of the laws, thereby resulting in

additional cost. As a result, we, along with other companies in our industry, are subject to an uneven patchwork of wage and hour laws throughout the United States. Legislation to preempt state and local wage and hour laws has been proposed in the past; however, passage of such legislation is uncertain. If federal legislation is not passed, we will either need to comply with the most restrictive state and local laws across our entire fleet, or revise our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover, decreased efficiency, and amplified legal exposure, any of which could adversely affect our results of operations

The NHTSA, the EPA and certain states, including California, have adopted regulations that are aimed at reducing tractor emissions and/or increasing fuel economy of the equipment we use. Certain of these regulations are currently effective, with stricter emission and fuel economy standards becoming effective over the next several years. Other regulations have been proposed that would similarly increase these standards. The effects of these regulations have been and may continue to be increases in new tractor and trailer prices, additional parts and maintenance costs, impaired productivity and uncertainty as to the reliability of the newly designed diesel engines and the residual values of our equipment. Such effects could materially adversely affect our business, financial condition and results of operations.

Changes in existing regulations and implementation of new regulations, such as those related to trailer size limits, emissions and fuel economy, hours-of-service, mandating ELDs and drug and alcohol testing in Canada, the United States and Mexico, could increase capacity in the industry or improve the position of certain competitors, either of which could negatively impact pricing and volumes or require additional investments by us. The short and long term impacts of changes in legislation or regulations are difficult to predict and could materially adversely affect our results of operations.

***Safety-related evaluations and rankings under CSA could materially adversely affect our profitability and operations, our ability to maintain or grow our fleet and our customer relationships.***

Under the CSA program, fleets are evaluated and ranked against their peers based on certain safety-related standards. Carriers are grouped by category with other carriers that have a similar number of safety events (i.e. crashes, inspections, or violations) and carriers are ranked and assigned a rating percentile or score to prioritize them for interventions if they are above a certain threshold. As a result, our fleet could be ranked poorly as compared to peer carriers, which could have an adverse effect on our business, financial condition and results of operations. We recruit and retain first-time drivers to be part of our fleet, and these drivers may have a higher likelihood of creating adverse safety events under CSA. The occurrence of future deficiencies could affect driver recruitment by causing high-quality drivers to seek employment with other carriers or limit the pool of available drivers or could cause our customers to direct their business away from us and to carriers with higher fleet safety rankings, either of which would materially adversely affect our business, financial condition and results of operations. In addition, future deficiencies could increase our insurance expenses. Additionally, competition for drivers with favorable safety backgrounds may increase, which could necessitate increases in driver-related compensation costs. Further, we may incur greater than expected expenses in our attempts to improve unfavorable scores. Since our driver turnover is higher than the industry average, any events that decrease the pool of available drivers or increase the competition for drivers may have a disproportionately negative impact on us versus our competitors.

Certain of our subsidiaries are currently exceeding the established intervention thresholds in one or more of the seven CSA safety-related categories. Based on these unfavorable ratings, we may be prioritized for an intervention action or roadside inspection, either of which could materially adversely affect our business, financial condition and results of operations. In addition, customers may be less likely to assign loads to us. While we have put procedures in place in an attempt to address areas where we are exceeding and have in the past exceeded the thresholds, we cannot assure you these measures will be effective.

In December 2015, Congress passed the FAST Act, which calls for significant CSA reform. The FAST Act directs the FMCSA to conduct studies of the scoring system used to generate CSA rankings to determine if it is effective in identifying high-risk carriers and predicting future crash risk. This study was conducted and delivered to the FMCSA in June 2017 with several recommendations to make the CSA program more fair, accurate and reliable. In late June 2018, the FMCSA provided a report to Congress outlining the changes it may make to the CSA program in response to the study. Such changes include the testing and possible adoption of a revised risk modeling theory, potential collection and dissemination of additional carrier data and revised measures for intervention thresholds. The adoption of such changes is contingent on the results of the new modeling theory and additional public feedback. Thus, it is unclear if, when and to what extent such changes to the CSA program will occur. Additionally, with the FAST Act set to expire in September 2020, the U.S. Congress has noted its intent to consider a multiyear highway measure that



would update the FAST Act, which could lead to further changes to the CSA program. Any changes that increase the likelihood of us receiving unfavorable scores could materially adversely affect our results of operations and profitability.

***Receipt of an unfavorable DOT safety rating could have a material adverse effect on our operations and profitability.***

We currently have a satisfactory DOT rating for our U.S. operations, which is the highest available rating under the current safety rating scale. If we were to receive a conditional or unsatisfactory DOT safety rating, it could materially adversely affect our business, financial condition and results of operations as customer contracts may require a satisfactory DOT safety rating, and a conditional or unsatisfactory rating could materially adversely affect or restrict our operations.

The FMCSA has proposed regulations that would modify the existing rating system and the safety labels assigned to motor carriers evaluated by the DOT. Under regulations that were proposed in 2016, the methodology for determining a carrier's DOT safety rating would be expanded to include the on-road safety performance of the carrier's drivers and equipment, as well as results obtained from investigations. Exceeding certain thresholds based on such performance or results would cause a carrier to receive an unfit safety rating. The proposed regulations were withdrawn in March 2017, but the FMCSA noted that a similar process may be initiated in the future. If similar regulations were enacted and we were to receive an unfit or other negative safety rating, our business would be materially adversely affected in the same manner as if we received a conditional or unsatisfactory safety rating under the current regulations. In addition, poor safety performance could lead to increased risk of liability, increased insurance, maintenance and equipment costs and potential loss of customers, which could materially adversely affect our business, financial condition and results of operations.

***We face litigation risks that could have a material adverse effect on the operation of our business.***

Our business is subject to the risk of litigation by employees, applicants, independent contractor drivers, customers, vendors, government agencies, stockholders and other parties through private actions, class actions, administrative proceedings, regulatory actions and other processes. Recently, we and several other trucking companies have been subject to lawsuits, including class action lawsuits, alleging violations of various federal and state wage and hour laws regarding, among other things, minimum wage, meal and rest periods, overtime eligibility and failure to pay for all hours worked. A number of these lawsuits have resulted in the payment of substantial settlements or damages by other carriers.

The outcome of litigation, particularly class action lawsuits, such as our pending wage and hour class action lawsuit, the independent contractor putative class action lawsuit and the putative class action lawsuits arising out of our IPO, and regulatory actions, is difficult to assess or quantify, and the magnitude of the potential loss relating to such lawsuits may remain unknown for substantial periods of time. See "Legal Proceeding." Additionally, the cost to defend litigation may also be significant. Not all claims are covered by our insurance (including wage and hour claims), and there can be no assurance that our coverage limits will be adequate to cover all amounts in dispute. To the extent we experience claims that are uninsured, exceed our coverage limits, involve significant aggregate use of our retention amounts, or cause increases in future premiums, the resulting expenses could have a material adverse effect on our business, financial condition and results of operations.

In addition, we may be subject, and have been subject in the past, to litigation resulting from trucking accidents. The number and severity of litigation claims may be worsened by distracted driving by both truck drivers and other motorists. These lawsuits have resulted, and may result in the future, in the payment of substantial settlements or damages and increases of our insurance costs.

***We are a defendant in putative class action lawsuits and a stockholder derivative lawsuit arising out of our IPO and we may be involved in additional litigation in the future. Such lawsuits could result in substantial costs and divert management's attention.***

In 2018, a putative class action lawsuit alleging violations of federal securities laws was filed naming us and certain of our officers and directors as defendants. Plaintiffs also named as defendants the underwriters in our IPO. Since then, several other actions making substantially the same allegations have been filed. The plaintiffs in these lawsuits generally allege that our registration statement and prospectus related to our IPO contained materially false or misleading statements. Additionally, one of these lawsuits alleges that the Company, its Chief Executive Officer and its Chief Financial Officer made false and/or misleading statements and/or material omissions in press releases,

earnings calls, investor conferences, television interviews, and filings made with the SEC subsequent to our IPO. Furthermore, a stockholder derivative lawsuit was filed against five of our executives and our independent board members (the “Individual Defendants”), naming the Company as a nominal defendant. The complaint alleges that the Company made false and/or misleading statements in the registration statement and prospectus filed with the SEC in connection with our IPO and that the Individual Defendants breached their fiduciary duties by causing or allowing the Company to make such statements. The complaint alleges that the Company has been damaged by the alleged wrongful conduct as a result of, among other things, being subjected to the time and expense of the securities class action lawsuits that have been filed relating to our IPO. In addition to a claim for alleged breach of fiduciary duties, the lawsuit alleges claims against the Individual Defendants for unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets.

These lawsuits may divert financial and management resources that would otherwise be used to benefit our operations. Although we deny the material allegations in the lawsuits and intend to defend ourselves vigorously, defending the lawsuits could result in substantial costs. No assurances can be given that the results of these matters will be favorable to us. In addition, we may be the target of securities-related litigation in the future, both related and unrelated to the existing class action lawsuits. Such litigation could divert our management’s attention and resources, result in substantial damages, costs and expense and have an adverse effect on our business, financial condition and results of operations.

We are generally obligated to indemnify our current and former directors and officers in connection with lawsuits and related litigation or settlement amounts. We maintain director and officer insurance to protect us from such lawsuits, however, we are responsible for meeting certain deductibles under the policies. In addition, we cannot assure you that such policies will adequately protect us from lawsuits or that costs and expenses related to lawsuits will not exceed the coverage provided under such policies. Further, as a result of the pending lawsuits, the costs of director and officer insurance may increase and the availability of coverage may decrease. As a result, we may not be able to maintain our current levels of director and officer insurance at a reasonable cost, or at all, which might make it more difficult to attract qualified candidates to serve as executive officers or directors. The effect of these lawsuits involving our officers and directors and the resolution of these matters may result in significant damages, costs and expenses, which could have a material adverse impact on our business, financial condition and results of operations.

We evaluate these and other litigation claims and legal proceedings to assess the probability of unfavorable outcomes and to estimate, if possible, the amount of potential losses. Based on these assessments and estimates, we establish reserves or disclose the relevant litigation claims or legal proceedings, as appropriate. These assessments and estimates are based on the information available to management at the time and involve a significant amount of management judgment. Actual outcomes or losses may differ materially from our current assessments and estimates, and any adverse resolution of litigation pending or threatened against us could have a material adverse impact on our business, financial condition and results of operations.

***Management and key employee turnover or failure to attract and retain qualified management and other key personnel, could materially adversely affect our business, financial condition and results of operations.***

We depend on the leadership and expertise of our executive management team and other key personnel to design and execute our strategic and operating plans. While we have employment agreements in place with these executives, there can be no assurance we will continue to retain their services and we may become subject to significant severance payments if our relationship with these executives is terminated under certain circumstances. Further, turnover, planned or otherwise, in these or other key leadership positions may materially adversely affect our ability to manage our business efficiently and effectively, and such turnover can be disruptive and distracting to management, may lead to additional departures of existing personnel and could have a material adverse effect on our operations and future profitability. We must recruit, develop and retain a core group of managers to realize our goal of expanding our operations, improving our earnings consistency and positioning ourselves for long-term operating revenue growth.

***We have several major customers, and the loss of, or significant reduction of business with, one or more of them could have a material adverse effect on our business, financial condition and results of operations.***

A significant portion of our revenue is generated from a small number of major customers, the loss of, or significant reduction of business with, one or more of which could have a material adverse effect on our business. For the year ended December 31, 2019, our top 25 customers, based on revenue, accounted for approximately 71.2% of our revenue; our top ten customers, approximately 55.3% of our revenue; our top five customers, approximately 40.4% of our revenue; and our largest customer, Walmart Inc., accounted for approximately 12.3% of our revenue, in each case, calculated excluding fuel surcharge. A substantial portion of our freight is from customers in the retail industry.

As such, our volumes are largely dependent on consumer spending and retail sales, and our results may be more susceptible to trends in unemployment and retail sales than carriers that do not have this concentration. In addition, our major customers engage in bid processes and other activities periodically (including currently) in an attempt to lower their costs of transportation. We may not choose to participate in these bids or, if we participate, may not be awarded the freight, either of which circumstances could result in a reduction of our freight volumes with these customers. In this event, we could be required to replace the volumes elsewhere at uncertain rates and volumes, suffer reduced equipment utilization or reduce the size of our fleet. Failure to retain our existing customers, or enter into relationships with new customers, each on acceptable terms, could materially impact our business, financial condition, results of operations and ability to meet our current and long-term financial forecasts.

Economic conditions and capital markets may materially adversely affect our customers and their ability to remain solvent. Our customers' financial difficulties can negatively impact our results of operations and financial condition and our ability to comply with the covenants under our debt agreements, especially if they were to delay or default on payments to us. Generally, we do not have contractual relationships that guarantee any minimum volumes with our customers, and we cannot assure you that our customer relationships will continue as presently in effect. Our dedicated contract service offering is typically subject to longer term written contracts than our OTR service offering. However, certain of these contracts contain cancellation clauses, including our "evergreen" contracts, which automatically renew for one year terms but that can be terminated more easily. There is no assurance any of our customers, including our dedicated contract customers, will continue to utilize our services, renew our existing contracts, or continue at the same volume levels. Despite the existence of contractual arrangements with our customers, certain of our customers may nonetheless engage in competitive bidding processes that could negatively impact our contractual relationship. In addition, certain of our major customers may increasingly use their own truckload and delivery fleets, which would reduce our freight volumes. A reduction in or termination of our services by one or more of our major customers, including our dedicated contract customers, could have a material adverse effect on our business, financial condition and results of operations.

In addition, the size and market concentration of some of our customers may allow them to exert increased pressure on the prices, margins and non-monetary terms of our contracts.

***We depend on third-party service providers, particularly in our Brokerage segment, and service instability from these providers could increase our operating costs and reduce our ability to offer brokerage services, which could materially adversely affect our revenue, business, financial condition, results of operations and customer relationships.***

Our Brokerage segment is dependent upon the services of third-party carriers, including other truckload carriers. For this business, we do not own or control the transportation assets that deliver our customers' freight and we do not employ the providers directly involved in delivering the freight. These third-party providers may seek other freight opportunities and/or require increased compensation in times of improved freight demand or tight truckload capacity. If we are unable to secure the services of these third parties or if we become subject to increases in the prices we must pay to secure such services, our business, financial condition and results of operations may be materially adversely affected, and we may be unable to serve our customers on competitive terms. Our ability to secure sufficient equipment or other transportation services may be affected by many risks beyond our control, including equipment shortages in the transportation industry, particularly among contracted truckload carriers, new entrants with different business models, interruptions in service due to labor disputes, driver shortage, changes in regulations impacting transportation and changes in transportation rates.

***We may not make acquisitions in the future, which could impede growth, or if we do, we may not be successful in integrating any acquired businesses, either of which could have a material adverse effect on our business.***

Historically, a key component of our growth strategy has been to pursue acquisitions of complementary businesses. We currently do not expect to make any material acquisitions over the next few years, which could impede growth. If we do make acquisitions, we cannot assure that we will be successful in negotiating, consummating or integrating the acquisitions. If we succeed in consummating future acquisitions, our business, financial condition and results of operations, may be materially adversely affected because:

- some of the acquired businesses may not achieve anticipated revenue, earnings or cash flows;
- we may assume liabilities that were not disclosed to us or otherwise exceed our estimates;



- we may be unable to integrate acquired businesses successfully, or at all, and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems;
- acquisitions could disrupt our ongoing business, distract our management and divert our resources;
- we may experience difficulties operating in markets in which we have had no or only limited direct experience;
- we may incur transactions costs and acquisition-related integration costs;
- we could lose customers, employees and drivers of any acquired company;
- we may incur additional indebtedness; and
- we may issue additional shares of our Class A common stock, which would dilute the ownership of our then-existing stockholders.

***We are subject to certain risks arising from our Mexican operations.***

We have operations in Mexico, representing approximately \$2.4 million of our revenue in 2019, excluding fuel surcharge. Even following our sale of Xpress Internacional, we expect to have business to and from Mexico through a more variable cost model using third party carriers. As a result, we are subject to risks of doing business internationally, including fluctuations in foreign currencies, changes in the economic strength of Mexico, difficulties in enforcing contractual obligations and intellectual property rights, burdens of complying with a wide variety of international and U.S. export and import laws, economic sanctions and social, political and economic instability. We must also comply with applicable anti-corruption and anti-bribery laws such as the U.S. Foreign Corrupt Practices Act and local laws prohibiting corrupt payments to government officials. We cannot guarantee compliance with all applicable laws, and violations could result in substantial fines, sanctions, civil or criminal penalties, competitive or reputational harm, litigation or regulatory action and other consequences that might adversely affect our results of operations and our consolidated performance.

In addition, if we are unable to maintain our Free and Secure Trade (“FAST”), Business Alliance for Secure Commerce (“BASC”) and U.S. C-TPAT certification statuses, we may have significant border delays, which could cause our Mexican operations to be less efficient than those of competitor truckload carriers also operating in Mexico that obtain or continue to maintain FAST, BASC and C-TPAT certifications. We also face additional risks associated with our foreign operations, including restrictive trade policies and imposition of duties, taxes or government royalties imposed by the Mexican government, to the extent not preempted by the terms of the North American Free Trade Agreement (“NAFTA”) or its proposed replacement, the United-States-Mexico-Canada Agreement (“USMCA”), which has been ratified by the U.S. and Mexico, but must be ratified by Canada in order to go into effect. In addition, changes to NAFTA, USMCA (if ratified by Canada) or other treaties governing our business could materially adversely affect our international business. It is also uncertain how the USMCA, if ratified by Canada, will impact foreign trade and our Mexican operations. Factors that substantially affect the operations of our business in Mexico may have a material adverse effect on our overall results of operations. Additionally, the management team for our Mexican operations is relatively small and each member of the management team has significant impact on the performance and results of our Mexican operations. The loss of one or more of the management members could have a negative effect on our Mexican revenue and results of operations and on our consolidated performance.

***Changes to trade regulation, quotas, duties or tariffs, caused by the changing U.S. and geopolitical environments or otherwise, may increase our costs and materially adversely affect our business.***

Actions by the Trump administration have led to the imposition of tariffs on certain imported steel and aluminum. The implementation of these tariffs, as well as the imposition of additional tariffs or quotas or changes to certain trade agreements, including tariffs applied to goods traded between the United States and China, could, among other things, increase the costs of the materials used by our suppliers to produce new revenue equipment or increase the price of fuel. Such cost increases for our revenue equipment suppliers would likely be passed on to us, and to the extent fuel prices increase, we may not be able to fully recover such increases through rate increases or our fuel surcharge program, either of which could have a material adverse effect on our business.

The USMCA could also impact the amount, movement and patterns of freight we transport.

***Our business depends on our reputation and the value of the U.S. Xpress brand, and if we are unable to protect our brand name or proprietary and other intellectual property rights, our competitive position may be harmed.***

We believe that the U.S. Xpress brand name symbolizes high-quality service and reliability and is a significant sales and marketing tool to which we devote substantial resources to promote and protect. Adverse publicity, whether or not justified, related to activities by our drivers, independent contractors or agents, such as accidents, customer service issues or noncompliance with laws, could tarnish our reputation and reduce the value of our brand. With the increased use of social media outlets, adverse publicity can be disseminated quickly and broadly, making it difficult for us to respond effectively. Damage to our reputation and loss of value in our brand could reduce the demand for our services and have a material adverse effect on our financial condition and results of operations, and require additional resources to rebuild our reputation and restore the value of our brand.

In addition, we depend on the protection of our proprietary and other intellectual property rights, including service marks, trademarks, domain names, patents, copyrights, confidential information and similar intellectual property rights. We rely on a combination of laws and contractual restrictions with employees, independent contractors, customers, suppliers, affiliates and others to establish and protect these proprietary and other intellectual property rights. Despite our efforts to protect our proprietary and other intellectual property rights, third parties may use our proprietary and other intellectual property information without our authorization and may otherwise misappropriate, infringe or violate the same, and efforts to prevent or police such unauthorized use or misappropriation, including instituting litigation, may consume significant resources, which could materially adversely affect our business, distract our management and divert our resources.

***Developments in labor and employment law and any unionizing efforts by employees could have a material adverse effect on our results of operations.***

We face the risk that Congress, federal agencies or one or more states could approve legislation or regulations significantly affecting our businesses and our relationship with our employees, such as the previously proposed federal legislation referred to as the Employee Free Choice Act, which would have substantially liberalized the procedures for union organization. None of our domestic employees are currently covered by a collective bargaining agreement, but any attempt by our employees to organize a labor union could result in increased legal and other associated costs. Additionally, given the National Labor Relations Board's "speedy election" rule, our ability to timely and effectively address any unionizing efforts would be difficult. If we entered into a collective bargaining agreement with our domestic employees, the terms could materially adversely affect our costs, efficiency and ability to generate acceptable returns on the affected operations.

Additionally, the Department of Labor issued a final rule in 2016 raising the minimum salary basis exemption from overtime payments for executive, administrative and professional employees. The rule purported to increase the minimum salary from the current amount of \$23,660 to \$47,476 and aimed to count non-discretionary bonus, commission and other incentive payments towards the minimum salary requirement. The rule was scheduled to go into effect on December 1, 2016. However, the rule was temporarily enjoined from going into effect in November 2016, and later invalidated in August 2017, after several states and business groups filed separate lawsuits against the Department of Labor challenging the rule. However, on January 1, 2020, a similar final rule adopted by the Department of Labor went into effect, raising the current minimum salary level for exempt employees from \$455 per week, or \$23,660 annually, to \$684 per week, or \$35,568 annually, and allowing for up to 10 percent of the standard salary level to come from non-discretionary bonuses and incentive payments (including commissions) that are paid at least annually. This rule, and any future rule similar to this rule that impacts the way we classify certain positions, increases our payment of overtime wages or increases the salaries we are required to pay to currently exempt employees to maintain their exempt status may have a material adverse effect on our business, financial condition and results of operations.

These types of cases have increased since March 2014 when the Ninth Circuit Court of Appeals held that the application of California state wage and hour laws to interstate truck drivers is not preempted by federal law. The case was appealed to the Supreme Court of the United States, which denied certiorari in May 2015, and accordingly, the Ninth Circuit Court of Appeals decision stood. However, in December 2018, the FMCSA granted a petition filed by the ATA and in doing so determined that federal law does preempt California's wage and hour laws, and interstate truck drivers are not subject to such laws. The FMCSA's decision has been appealed by labor groups and multiple lawsuits have been filed in federal courts seeking to overturn the decision, and thus it's uncertain whether it will stand. Other current and future state and local wage and hour laws, including laws related to employee meal breaks and rest

periods, may also vary significantly from federal law. As a result, we, along with other companies in the industry, are subject to an uneven patchwork of wage and hour laws throughout the United States. In the past, certain legislators have proposed federal legislation to solidify the preemption of state and local wage and hour laws applied to interstate truck drivers; however, passage of such legislation is uncertain. If federal legislation is not passed, we may either need to comply with the most restrictive state and local laws across our entire fleet, or revise our management systems to comply with varying state and local laws. Either solution could result in increased compliance and labor costs, driver turnover and decreased efficiency.

***Seasonality and the impact of weather and other catastrophic events affect our operations and profitability.***

Our tractor productivity decreases during the winter season because inclement weather impedes operations and some shippers reduce their shipments after the winter holiday season. Revenue may also be adversely affected by inclement weather and holidays, since revenue is directly related to available working days of shippers. At the same time, operating expenses increase and fuel efficiency declines because of engine idling and harsh weather creating higher accident frequency, increased claims and higher equipment repair expenditures. We also may suffer from weather-related or other unforeseen events such as tornadoes, hurricanes, blizzards, ice storms, floods, fires, earthquakes and explosions. These events may disrupt fuel supplies, increase fuel costs, disrupt freight shipments or routes, affect regional economies, damage or destroy our assets or adversely affect the business or financial condition of our customers, any of which could materially adversely affect our results of operations or make our results of operations more volatile.

***Our total assets include goodwill and other intangibles. If we determine that these items have become impaired in the future, net income could be materially adversely affected.***

As of December 31, 2019, we had recorded goodwill of \$57.7 million and other intangible assets of \$27.2 million primarily as a result of certain customer relationships connected with certain acquisition-related transactions and trade names. Goodwill represents the excess of the consideration paid by us over the estimated fair value of identifiable net assets acquired by us. We may never realize the full value of our goodwill or intangible assets. Any future determination requiring the write-off of a significant portion of goodwill or other intangible assets would have a material adverse effect on our business, financial condition and results of operations.

***Uncertainties in the interpretation and application of the 2017 Tax Cuts and Jobs Act could materially adversely affect our tax obligations and effective tax rate.***

In December 2017, the U.S. enacted comprehensive tax legislation, commonly referred to as the 2017 Tax Cuts and Jobs Act (the “Act”). The new law requires complex computations not previously required by U.S. tax law. As such, the application of accounting guidance for such items is currently uncertain. Further, compliance with the new law and the accounting for such provisions require preparation and analysis of information not previously required or regularly produced. In addition, the U.S. Department of Treasury has broad authority to issue regulations and interpretative guidance that may significantly impact how we will apply the law and impact our results of operations in future periods. Accordingly, while we have provided a provisional estimate on the effect of the new law in our accompanying audited financial statements, further regulatory or U.S. generally accepted accounting principles (“GAAP”) accounting guidance for the law, our further analysis on the application of the law, and refinement of our initial estimates and calculations could materially change our current provisional estimates, which could in turn materially affect our tax obligations and effective tax rate. There are also likely to be significant future impacts that these tax reforms will have on our future financial results and our business strategies. In addition, there is a risk that states or foreign jurisdictions may amend their tax laws in response to these tax reforms, which could have a material adverse effect on our results.

***The price of our Class A common stock may fluctuate significantly.***

The trading price of our Class A common stock has been and is likely to continue to be volatile and subject to wide price fluctuations in response to various factors, many of which are beyond our control, including those described above and the following:

- actual or anticipated fluctuations in our quarterly or annual financial results;
- the financial guidance we may provide to the public, any changes in such guidance or our failure to meet such guidance;



- failure of industry or securities analysts to maintain coverage of us, changes in financial estimates or downgrades of our Class A common stock or our sector by any industry or securities analysts that follow us or our failure to meet such estimates;
- downgrades in our credit ratings or the credit ratings of our competitors;
- market factors, including rumors, whether or not correct, involving us or our competitors;
- unfavorable market reactions to allegations regarding the safety of our or our competitors' services and costs or negative publicity arising out of any potential litigation and/or government investigations resulting therefrom;
- fluctuations in stock market prices and trading volumes of securities of similar companies;
- sales or anticipated sales of large blocks of our Class A common stock;
- short selling of our Class A common stock by investors;
- limited "public float" in the hands of a small number of persons whose sales or lack of sales of our Class A common stock could result in positive or negative pricing pressure on the market price for our Class A common stock;
- our ability to satisfy our ongoing capital requirements and unanticipated cash needs or adverse market reaction to any additional indebtedness we may incur or securities we may issue in the future;
- additions or departures of key personnel;
- announcements of new commercial relationships, acquisitions or other strategic transactions, or entry into new markets or exit from markets by us or our competitors;
- failure of any of our initiatives, including our growth strategy, to achieve commercial success;
- regulatory or political developments;
- changes in accounting principles or methodologies;
- litigation or governmental investigations;
- negative publicity about us in the media and online; and
- general financial market conditions or events.

Furthermore, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations sometimes have been unrelated or disproportionate to the operating performance of those companies. In addition, certain index providers, such as FTSE Russell and S&P Dow Jones, have announced restrictions that limit or preclude inclusion of companies with multiple-class share structures in certain indexes. Because of our dual-class structure, we may be excluded from these indexes and we cannot assure you that other stock indexes will not take similar actions. Given the sustained flow of investment funds into passive strategies that seek to track certain indexes, exclusion from stock indexes would likely preclude investment by many of these funds and could make our Class A common stock less attractive to other investors. These and other factors may cause the market price and demand for our Class A common stock to fluctuate substantially, which may limit or prevent investors from readily selling their shares of Class A common stock and may otherwise adversely affect the price or liquidity of our Class A common stock.

***We previously identified four material weaknesses in our internal control over financial reporting. We have concluded that we have remediated three of such material weaknesses. If our remediation of the remaining material weakness is not effective, or if we identify additional material weaknesses in the future or otherwise fail to maintain an effective system of internal controls in the future, we may not be able to accurately or timely report our financial condition or results of operations, which may adversely affect investor confidence in us and, as a result, the value of our Class A common stock.***

Prior to our IPO, we were not required to comply with the rules of the SEC implementing Section 404 of the Sarbanes-Oxley Act and were therefore not required to make a formal assessment of the effectiveness of our internal controls over financial reporting for that purpose. Since our IPO, we have been required to comply with the SEC's rules implementing Sections 302 and 404 of the Sarbanes-Oxley Act, which has required management to certify financial and other information in our quarterly and annual reports and provide an annual management report on the effectiveness of controls over financial reporting. We were required to make our first annual assessment of our internal controls over financial reporting pursuant to Section 404 (including an auditor attestation on management's internal controls report) in this Annual Report.

As disclosed in "Controls and Procedures" of this report, during the course of preparing for our IPO, we identified four material weaknesses in our internal control over financial reporting. As of December 31, 2019, we have concluded that we had remediated material weaknesses related to (i) the design of controls over income tax accounting (ii) evidential matter supporting the design and implementation of our controls and (iii) the control activities component of the Committee of Sponsoring Organizations of the Treadway Commission framework. However, as of December 31, 2019, we had a material weakness in our internal control over financial reporting related to a failure to maintain an effective control environment as a result of key information technology general controls being implemented in the quarter ending December 31, 2019, which did not allow an ample instances of control operations to determine operational effectiveness. Management believes additional time is needed to demonstrate the sustainability and effectiveness of the established controls before concluding on remediation of the material weakness. There is no assurance that we will effectively remediate the material weakness or that we will not identify additional material weaknesses in our internal control over financial reporting in the future.

If we fail to effectively remediate the material weakness in our control environment, if we identify future material weaknesses in our internal controls over financial reporting, or if we are unable to comply with the demands that have been placed upon us as a public company, including the requirements of Section 404 of the Sarbanes-Oxley Act, in a timely manner, we may be unable to accurately report our financial results, or report them within the timeframes required by the SEC. We also could become subject to sanctions or investigations by the NYSE, the SEC or other regulatory authorities. In addition, if we are unable to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, when required, investors may lose confidence in the accuracy and completeness of our financial reports, we may face restricted access to the capital markets and our stock price may be adversely affected.

***If securities or industry analysts do not publish or cease publishing research or reports about us, our business, our market or our competitors, or if they change their recommendations regarding our Class A common stock in a negative way, the price and trading volume of our Class A common stock could decline.***

The trading market for our Class A common stock is influenced by the research and reports that industry or securities analysts may publish about us, our business, our market or our competitors. If any of the analysts who cover us change their recommendation regarding our Class A common stock in a negative way, or provide more favorable relative recommendations about our competitors, the price of our Class A common stock would likely decline. If any analyst who covers us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our Class A common stock price or trading volume to decline.

***The large number of shares eligible for public sale in the future, or the perception of the public that these sales may occur, could depress the market price of our Class A common stock.***

The market price of our Class A common stock could decline as a result of (i) sales of a large number of shares of our Class A common stock, particularly sales by our directors, employees (including our executive officers) and significant stockholders, and (ii) a large number of shares of our Class A common stock being registered or offered for sale (including upon the conversion of Class B shares for Class A shares and the subsequent sale by the holders thereof). These sales, or the perception that these sales could occur, may depress the market price of our Class A common stock. Any shares of Class B common stock sold to non-family members will automatically convert to

Class A common stock upon such sale. In addition to the sale of existing Class A shares, our charter does not limit the conversion of shares of Class B common stock into shares of Class A common stock upon transfer by the holders thereof and as a result, all of the shares of Class B common stock may be converted into shares of Class A common stock, which could have a negative effect on the market price of the outstanding shares of Class A common stock.

Additionally, entities affiliated with Mr. Max Fuller have negatively pledged 8,261,776 shares of Class B common stock as security for a loan, as well as the equity of the entities holding such shares. If the lender for such loan were to foreclose on the entities holding such shares and sell such shares into the market, it could result in (i) a decrease of the market price of the outstanding share of Class A stock, (ii) an increase volatility in the market price of the outstanding shares of Class A common stock and (iii) a change in control of the Company. Our Board of Directors has approved, subject to stockholder approval, an amendment to our Second Amended and Restated Articles of Incorporation ("Articles of Incorporation") that would allow trusts and entities affiliated with Messrs. Max Fuller and Eric Fuller and Ms. Lisa Pate to pledge shares of Class B common stock without automatic conversion to Class A common stock, in addition to their ability to pledge shares of Class B common stock individually without automatic conversion to Class A common stock. Accordingly, subject to approval by our Board of Directors, to the extent required by our Executive and Director Stock Ownership, Retention, and Anti-Hedging and Pledging Policy, all shares of Class B common stock would be eligible for pledging.

***The dual class structure of our common stock has the effect of concentrating voting control with certain members of the Fuller and Quinn families (or trusts for the benefit of any of them or entities owned by any of them), which limits or precludes the ability of other stockholders to influence corporate matters.***

Our Class B common stock has five votes per share, and our Class A common stock has one vote per share. Stockholders who hold shares of Class B common stock, Messrs. Max Fuller and Eric Fuller and Ms. Pate (collectively, the "Qualifying Stockholders") and certain trusts for the benefit of any of them or their family members or certain entities owned by any of them or their family members (collectively with the Qualifying Stockholders, the "Class B Stockholders"), hold approximately 70.2% of the voting power of our outstanding capital stock. Because of the five-to-one voting ratio between our Class B common stock and Class A common stock, the Class B Stockholders collectively will continue to control a majority of the combined voting power of our common stock and therefore be able to control all matters submitted to our stockholders for approval so long as the shares of Class B common stock represent at least 16.7% of all outstanding shares of our Class A common stock and Class B common stock. This concentrated control will limit or preclude the ability of our other stockholders to influence corporate matters for the foreseeable future. The interests of the Class B Stockholders may conflict with the interests of our other stockholders, and they may take actions affecting us with which other stockholders disagree. For example, the Class B Stockholders could take actions that would have the effect of delaying, deterring or preventing a change in control or other business combination that might otherwise be beneficial to us and our stockholders. In addition, certain of the Class B Stockholders have been engaged from time to time in certain related party transactions with us. Further, Messrs. Eric Fuller and Max Fuller and Ms. Pate and Janice Fuller, the wife of Max Fuller, have entered into a voting agreement (the "Voting Agreement") under which each has granted a voting proxy with respect to the shares of Class B common stock subject to the voting agreement. Mr. Eric Fuller and Ms. Janice Fuller have initially designated Mr. Max Fuller as his or her proxy and Mr. Max Fuller and Ms. Pate have each initially designated Mr. Eric Fuller as his or her proxy. Accordingly, upon death or incapacity of any of Messrs. Eric Fuller or Max Fuller or Ms. Pate, voting control would remain concentrated with certain members of the Fuller and/or Quinn families.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, except for transfers among certain members of the Fuller and Quinn families (or trusts for the benefit of any of them or entities owned by any of them) effected for estate planning or charitable purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term.

Furthermore, as a "controlled company" within the meaning of the NYSE rules, we qualify for and, in the future, may opt to rely on, exemptions from certain corporate governance requirements, including having a majority of independent directors, as well as having nominating and corporate governance and compensation committees composed entirely of independent directors. If in the future we choose to rely on such exemptions, the interests of our Qualifying Stockholders may differ from those of our other stockholders and the other stockholders may not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance rules for NYSE-listed companies. Our status as a controlled company could make our Class A common stock less attractive to some investors or otherwise harm our stock price.



***We do not currently expect to pay any cash dividends.***

The continued operation and growth of our business will require substantial funding. Accordingly, we do not currently expect to pay any cash dividends on shares of our common stock. Any determination to pay dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, financial condition, contractual restrictions, including restrictive covenants contained in our financing agreements, restrictions imposed by applicable law, capital requirements and other factors our Board of Directors deems relevant. Additionally, under our Credit Facility, we are restricted from paying cash dividends except in limited circumstances. Accordingly, in order for stockholders to realize a gain on their investment, the price of our common stock would need to increase, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

***Provisions in our charter documents or Nevada law may inhibit a takeover, which could limit the price investors might be willing to pay for our Class A common stock.***

Our Articles of Incorporation, our Amended and Restated Bylaws ("Bylaws"), and Nevada corporate law contain provisions that could delay, discourage or prevent a change of control or changes in our Board of Directors or management that a stockholder might consider favorable. For example, our Articles of Incorporation authorize our Board of Directors to issue preferred stock without stockholder approval and to set the rights, preferences and other terms thereof, including voting rights of those shares; our Articles of Incorporation do not provide for cumulative voting in the election of directors, which would otherwise allow holders of less than a majority of stock to elect some directors; our Class B common stock possesses disproportionate voting rights; and our Bylaws provide that a stockholder must provide advance notice of business to be brought before an annual meeting or to nominate candidates for election as directors at an annual meeting of stockholders. These provisions will apply even if the change may be considered beneficial by some of our stockholders, and thereby negatively affect the price that investors might be willing to pay in the future for our Class A common stock. In addition, to the extent that these provisions discourage an acquisition of our company or other change in control transaction, they could deprive stockholders of opportunities to realize takeover premiums for their shares of our Class A common stock.

***Our Articles of Incorporation designate the Eighth Judicial District Court of Clark County of the State of Nevada as the sole and exclusive forum for certain types of actions and proceedings that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.***

Our Articles of Incorporation provide that, unless we consent in writing to an alternative forum, the Eighth Judicial District Court of Clark County of the State of Nevada will be the sole and exclusive forum for any and all actions, suits or proceedings, whether civil, administrative or investigative or that asserts any claim or counterclaim brought in our name or on our behalf, any derivative action (i) asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or employees to us or our stockholders, (ii) arising or asserting a claim arising pursuant to any provision the Nevada Statutes, our Articles of Incorporation or our Bylaws or (iii) asserting a claim that is governed by the internal affairs doctrine, in each such case subject to the Eighth Judicial District Court of Clark County having personal jurisdiction over the indispensable parties named as defendant. Any person purchasing or otherwise acquiring any interest in any shares of our capital stock shall be deemed to have notice of and to have consented to this provision of our Articles of Incorporation. This choice of forum provision may limit our stockholders' ability to bring certain claims, including claims against our directors, officers or employees, in a judicial forum that the stockholder finds favorable and therefore may discourage lawsuits with respect to such claims. Stockholders who do bring a claim in the Eighth Judicial District Court of Clark County could face additional litigation and related costs in pursuing any such claim, particularly if they do not reside in or near Nevada. The Eighth Judicial District Court of Clark County may also reach different judgments or results than would other courts, including courts where a stockholder considering an action may be located or would otherwise choose to bring the action, and such judgments or results may be more favorable to us than to our stockholders. Alternatively, if a court were to find this provision of our Articles of Incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could have a material adverse effect on our business, financial condition or results of operations.

## **PROPERTIES**

We own or lease administrative offices and truck terminals (which may include fleet operations, equipment maintenance, driver orientation/training, fuel station and equipment parking) throughout the continental United States, none of which are individually material.

## **LEGAL PROCEEDINGS**

We are involved in various litigation and claims primarily arising in the normal course of business, which include claims for personal injury or property damage incurred in the transportation of freight. Our insurance program for liability, physical damage and cargo damage involves varying risk retention levels. Claims in excess of these risk retention levels are covered by insurance in amounts that management considers to be adequate. Based on its knowledge of the facts and, in certain cases, advice of outside counsel, management believes the resolution of claims and pending litigation, taking into account existing reserves, will not have a materially adverse effect on us. Information relating to legal proceedings is included in Note 12 of the accompanying consolidated financial statements, and is incorporated herein by reference.

## **MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

### **Market Information**

Our Class A common stock is traded on The New York Stock Exchange, under the symbol "USX."

### **Holders of Record**

As of February 19, 2020, we had approximately eight stockholders of record of our Class A common stock; however, we estimate our actual number of stockholders is much higher because a substantial number of our shares are held of record by brokers or dealers for their customers in street names. As of February 19, 2020, Messrs. Eric and Max Fuller and Ms. Lisa Quinn Pate, together with certain trusts for the benefit of any of them and certain entities owned by any of them, owned all of the outstanding Class B common stock.

### **Dividend Policy**

We currently intend to retain all available funds and any future earnings for use in the development and expansion of our business, the repayment of debt and for general corporate purposes. Any future determination to pay dividends and other distributions will be at the discretion of our Board of Directors. Such determinations will depend on then-existing conditions, including our financial condition and results of operations, contractual restrictions, including restrictive covenants contained in our financing agreements, capital requirements and other factors that our Board of Directors may deem relevant.

### **Securities Authorized for Issuance under Equity Compensation Plans**

See "Equity Compensation Plan Information" of this Annual Report for certain information concerning shares of our Class A and Class B common stock authorized for issuance under our equity compensation plans.

### **Issuer Purchases of Equity Securities**

We did not purchase any of our Class A or Class B common stock during the year ended December 31, 2019.

## **SELECTED FINANCIAL DATA**

The selected financial data set forth below is not necessarily indicative of results of future operations and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the Company's consolidated financial statements and notes thereto included in this Annual Report.

	As of December 31,				
	2019	2018	2017	2016	2015
Operating revenues	\$ 1,707,361	\$ 1,804,915	\$ 1,555,385	\$ 1,451,205	\$ 1,541,103
Income from operations <sup>(1)</sup>	26,070	78,906	28,608	27,731	47,613
Net income (loss) <sup>(2)</sup>	(3,043)	26,106	(3,937)	(15,974)	4,692
Net income (loss) attributable to controlling interest	(3,647)	24,899	(4,060)	(16,524)	4,102
Basic earnings (loss) per share	(0.07)	0.84	(0.64)	(2.59)	0.64
Diluted earnings (loss) per share	(0.07)	0.83	(0.64)	(2.59)	0.64
Operating ratio	98.5 %	95.6 %	98.2 %	98.1 %	96.9 %
Total assets	1,140,109	910,487	820,571	639,431	776,495
Total debt, including finance lease obligations and current portion	394,821	424,566	605,538	431,022	488,390
Stockholders' equity (deficit)	230,836	238,387	(41,105)	(37,168)	(21,194)

(1) During the 4<sup>th</sup> quarter of 2018, we incurred an impairment charge of \$10.7 million related to our disposition of Xpress Internacional interest in January 2019

(2) During the 4<sup>th</sup> quarter of 2019, we incurred an impairment charge of \$6.8 million related to our note receivable from Arnold.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read together with "Business" in this Annual Report, as well as the consolidated financial statements and accompanying footnotes in this Annual Report. This discussion contains forward-looking statements as a result of many factors, including those set forth under "Risk Factors" and "Cautionary Note Regarding Forward-looking Statements" of this Annual Report, and elsewhere in this report. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those discussed.

### Overview

We believe we are the fifth largest asset-based truckload carrier in the United States by revenue, generating over \$1.7 billion in total operating revenue in 2019. We provide services primarily throughout the United States, with a focus in the densely populated and economically diverse eastern half of the United States. We offer customers a broad portfolio of services using our own truckload fleet and third-party carriers through our non-asset-based truck brokerage network. As of December 31, 2019, our fleet consisted of approximately 6,900 tractors and approximately 15,500 trailers, including approximately 2,000 tractors provided by independent contractors. All of our tractors have been equipped with electronic logs since 2012, and our systems and network are engineered for compliance with the recent federal electronic log mandate. Our terminal network infrastructure is established and capable of handling significantly larger volumes without meaningful additional investment.

For much of our history, we focused primarily on scaling our fleet and expanding our service offerings to support sustainable, multi-faceted relationships with customers. More recently, we have focused on our core service offerings and refined our network to focus on shorter, more profitable lanes with more density, which we believe are more attractive to drivers. Over the last five years, we have recruited and developed new executive and operational management teams with significant industry experience and instilled a new culture of professional management. These changes, which are ongoing, were reflected in our 2018 and the first quarter of 2019 financial results where we delivered the highest earnings of any first quarter in the history of the Company. During the second through fourth quarters of 2019, the freight market we experienced was challenging driven by excess capacity as a result of more favorable market conditions in 2018. This supply-demand imbalance severely pressured spot pricing during this time, which adversely impacted parts of our business. We believe the pricing environment was further impacted by unprecedented and unsustainable rate competition from digital freight brokers. Looking forward over the longer term, we expect conditions to firm in the second half of 2020, as capacity slowly exits the market, including in response to the implementation of the Drug and Alcohol Clearinghouse in the first quarter of 2020, other regulatory constraints, and increasing insurance premiums that could cause smaller carriers to exit the market. We believe we have the strategy, management team, revenue base, modern fleet, and capital structure that position us very well to execute upon our initiatives, drive further operational gains, and deliver long term value for our stockholders. For 2020 we are

focused on three main priorities. The first is optimizing our Truckload network and resulting average revenue per tractor per week through repositioning equipment and allocating capacity between our Dedicated and Over-the-Road (“OTR”) service offerings. The second is improving the experience of our professional truck drivers, including their safety and security. And, the third is advancing our technology initiatives centered on digitization of our loads and business, automated load acceptance and prioritization, and our goal of achieving a frictionless order.

Total revenue for 2019 decreased by \$97.6 million to \$1.7 billion as compared to 2018. The decrease was primarily a result of a 23.5% decrease in Brokerage revenue to \$185.9 million, and a \$13.9 million decrease in fuel surcharge revenue partially offset by an increase in average tractors combined with increased miscellaneous revenue. Excluding the impact of fuel surcharge revenue, revenue decreased \$83.6 million to \$1.5 billion, a decrease of 5.2% as compared to the prior year. Our Mexico operations accounted for \$2.4 million of our total operating revenue for 2019, compared to \$53.4 million in 2018.

Operating income for 2019 was \$26.1 million compared to the \$78.9 million achieved in 2018. We delivered a 98.5% operating ratio for the year which is an increase relative to the 95.6% operating ratio reported in 2018. Our profitability declined largely as a result of the challenging market conditions described above. Our OTR fleet saw revenue per tractor per week decline 9.2% from \$3,917 in 2018 to \$3,558 in 2019. This degradation was partially offset by progress in our Dedicated fleet which saw revenue per tractor per week increase 7.8% to \$4,007 in 2019 from 2018. In addition, driver pay increased approximately \$0.05 cents per mile compared to the prior year as a result of inflation and lower utilization.

We are continuing to focus on our driver centric initiatives, such as increased miles and modern equipment, to both retain the professional drivers who have chosen to partner with us and attract new professional drivers to our team. In an effort to improve driver satisfaction we created a new driver development program. This program provides continuous learning opportunities for our drivers with the goal of providing the knowledge, skills and abilities necessary for a successful career. While still early in its implementation, we are seeing positive results from those drivers who have completed this training versus those who have not. We are optimistic that, over time, this training will improve our drivers’ satisfaction and retention while also reducing their accident rate and the Company’s insurance and claims expense. We will continue to focus on implementing and executing our initiatives that we expect will continue to drive sustainable improved performance over time.

Our Management’s Discussion and Analysis of Financial Condition and Results of Operations included in this document generally discusses 2019 and 2018 items and year-to-year comparisons between 2019 and 2018. Discussions of 2017 items and year-to-year comparisons between 2018 and 2017 that are not included in this document can be found in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Part II, Item 7 of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

## **Reportable Segments**

Our business is organized into two reportable segments, Truckload and Brokerage. Our Truckload segment offers truckload services, including OTR trucking and dedicated contract services. Our OTR service offering transports a full trailer of freight for a single customer from origin to destination, typically without intermediate stops or handling pursuant to short-term contracts and spot moves that include irregular route moves without volume and capacity commitments. Tractors are operated with a solo driver or, when handling more time-sensitive, higher-margin freight, a team of two drivers. Our dedicated contract service offering provides similar freight transportation services, but with contractually assigned equipment, drivers and on-site personnel to address customers’ needs for committed capacity and service levels pursuant to multi-year contracts with guaranteed volumes and pricing. Our Brokerage segment is principally engaged in non-asset-based freight brokerage services, where loads are contracted to third-party carriers.

### *Truckload Segment*

In our Truckload segment, we generate revenue by transporting freight for our customers in our OTR and dedicated contract service offerings. Our OTR service offering provides solo and expedited team services through one-way movements of freight over routes throughout the United States. While we primarily operate in the eastern half of the United States, we provide services into and out of Mexico. In January 2019, we sold our interest in Xpress Internacional. Even following our sale of Xpress Internacional, we expect to have business to and from Mexico through a more variable cost model using third party carriers. Our dedicated contract service offering devotes the use of equipment to specific customers and provides services through long-term contracts. Our Truckload segment provides services that are geographically diversified but have similar economic and other relevant characteristics, as they all provide truckload carrier services of general commodities and durable goods to similar classes of customers.



We are typically paid a predetermined rate per load or per mile for our Truckload services. We enhance our revenue by charging for tractor and trailer detention, loading and unloading activities and other specialized services. Consistent with industry practice, our typical customer contracts (other than those contracts in which we have agreed to dedicate certain tractor and trailer capacity for use by specific customers) do not guarantee load levels or tractor availability. This gives us and our customers a certain degree of flexibility to negotiate rates up or down in response to changes in freight demand and trucking capacity. In our dedicated contract service offering, which comprised approximately 41.3% of our Truckload operating revenue, and approximately 42.1% of our Truckload revenue, before fuel surcharge, for 2019, we provide service under contracts with fixed terms, volumes and rates. Dedicated contracts are often used by our customers with high-service and high-priority freight, sometimes to replace private fleets previously operated by them. We expect to grow our dedicated business as a percentage of our average tractors.

Generally, in our Truckload segment, we receive fuel surcharges on the miles for which we are compensated by customers. Fuel surcharge revenue mitigates the effect of price increases over a negotiated base rate per gallon of fuel; however, these revenues may not fully protect us from all fuel price increases. Our fuel surcharges to customers may not fully recover all fuel increases due to engine idle time, out-of-route miles and non-revenue generating miles that are not generally billable to the customer, as well as to the extent the surcharge paid by the customer is insufficient. The main factors that affect fuel surcharge revenue are the price of diesel fuel and the number of revenue miles we generate. Although our surcharge programs vary by customer, we generally attempt to negotiate an additional penny per mile charge for every five-cent increase in the U.S. Department of Energy's (the "DOE") national average diesel fuel index over an agreed baseline price. Our fuel surcharges are billed on a lagging basis, meaning we typically bill customers in the current week based on a previous week's applicable index. Therefore, in times of increasing fuel prices, we do not recover as much as we are currently paying for fuel. In periods of declining prices, the opposite is true. Based on the current status of our empty miles percentage and the fuel efficiency of our tractors, we believe that our fuel surcharge recovery is effective.

The main factors that affect our operating revenue in our Truckload segment are the average revenue per mile we receive from our customers, the percentage of miles for which we are compensated and the number of shipments and miles we generate. Our primary measures of revenue generation for our Truckload segment are average revenue per loaded mile and average revenue miles per tractor per period, in each case excluding fuel surcharge revenue and revenue and miles from services in Mexico.

In our Truckload segment, our most significant operating expenses vary with miles traveled and include (i) fuel, (ii) driver-related expenses, such as wages, benefits, training and recruitment and (iii) costs associated with independent contractors (which are primarily included in the "Purchased transportation" line item). Expenses that have both fixed and variable components include maintenance and tire expense and our total cost of insurance and claims. These expenses generally vary with the miles we travel, but also have a controllable component based on safety, fleet age, efficiency and other factors. Our main fixed costs include vehicle rent and depreciation of long-term assets, such as revenue equipment and service center facilities, the compensation of non-driver personnel and other general and administrative expenses.

Our Truckload segment requires substantial capital expenditures for purchase of new revenue equipment. We use a combination of operating leases and secured financing to acquire tractors and trailers, which we refer to as revenue equipment. When we finance revenue equipment acquisitions with operating leases, we record an operating lease right of use asset and an operating lease liability on our consolidated balance sheet, and the lease payments in respect of such equipment are reflected in our consolidated statement of comprehensive income (loss) in the line item "Vehicle rents." When we finance revenue equipment acquisitions with secured financing, the asset and liability are recorded on our consolidated balance sheet, and we record expense under "Depreciation and amortization" and "Interest expense." Typically, the aggregate monthly payments are similar under operating lease financing and secured financing. We use a mix of finance leases and operating leases with individual decisions being based on competitive bids, tax projections and contractual restrictions. We expect our vehicle rents, depreciation and amortization and interest expense will be impacted by changes in the percentage of our revenue equipment acquired through operating leases versus equipment owned or acquired through finance leases. Because of the inverse relationship between vehicle rents and depreciation and amortization, we review both line items together.

Approximately 28% of our total tractor fleet was operated by independent contractors at December 31, 2019. Independent contractors provide a tractor and a driver and are responsible for all of the costs of operating their equipment and drivers, including interest and depreciation, vehicle rents, driver compensation, fuel and other expenses, in exchange for a fixed payment per mile or percentage of revenue per invoice plus a fuel surcharge pass-through. Payments to independent contractors are recorded in the "Purchased transportation" line item. When independent contractors increase as a percentage of our total tractor fleet, our "Purchased transportation" line item

typically will increase, with offsetting reductions in employee driver wages and related expenses, net of fuel (assuming all other factors remain equal). The reverse is true when the percentage of our total fleet operated by company drivers increases.

### *Brokerage Segment*

In our Brokerage segment, we retain the customer relationship, including billing and collection, and we outsource the transportation of the loads to third-party carriers. For this segment, we rely on brokerage employees to procure third-party carriers, as well as information systems to match loads and carriers.

Our Brokerage segment revenue is mainly affected by the rates we obtain from customers, the freight volumes we ship through our third-party carriers and our ability to secure third-party carriers to transport customer freight. We generally do not have contracted long-term rates for the cost of third-party carriers, and we cannot assure that our results of operations will not be adversely impacted in the future if our ability to obtain third-party carriers changes or the rates of such providers increase.

The most significant expense of our Brokerage segment, which is primarily variable, is the cost of purchased transportation that we pay to third-party carriers, and is included in the “Purchased transportation” line item. This expense generally varies depending upon truckload capacity, availability of third-party carriers, rates charged to customers and current freight demand and customer shipping needs. Other operating expenses are generally fixed and primarily include the compensation and benefits of non-driver personnel (which are recorded in the “Salaries, wages and benefits” line item) and depreciation and amortization expense.

The key performance indicator in our Brokerage segment is gross margin percentage (which is calculated as brokerage revenue less purchased transportation expense expressed as a percentage of total operating revenue). Gross margin percentage can be impacted by the rates charged to customers and the costs of securing third-party carriers.

Our Brokerage segment does not require significant capital expenditures and is not asset-intensive like our Truckload segment.

## **Results of Operations**

### *Revenue*

We generate revenue from two primary sources: transporting freight for our customers (including related fuel surcharge revenue) and arranging for the transportation of customer freight by third-party carriers. We have two reportable segments: our Truckload segment and our Brokerage segment. Truckload revenue, before fuel surcharge and truckload fuel surcharge are primarily generated through trucking services provided by our two Truckload service offerings (OTR and dedicated contract). Brokerage revenue is primarily generated through brokering freight to third-party carriers.

Our total operating revenue is affected by certain factors that relate to, among other things, the general level of economic activity in the United States, customer inventory levels, specific customer demand, the level of capacity in the truckload and brokerage industry, the success of our marketing and sales efforts and the availability of drivers, independent contractors and third-party carriers.

A summary of our revenue generated by type for the periods indicated is as follows:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(in thousands)</b>	
Revenue, before fuel surcharge	\$ 1,538,450	\$ 1,622,083
Fuel surcharge	168,911	182,832
<b>Total operating revenue</b>	<b>\$ 1,707,361</b>	<b>\$ 1,804,915</b>

For 2019, our total operating revenue decreased by \$97.6 million, or 5.4%, compared to 2018, and our revenue, before fuel surcharge decreased by \$83.6 million, or 5.2%. Our Mexico operations accounted for \$2.4 million of our total operating revenue for 2019, compared to \$53.4 million in 2018. The primary factors driving the decreases in total operating revenue and revenue, before fuel surcharge, excluding our Mexico operations, were decreased volumes and

pricing in our Brokerage segment, decreased fuel surcharge revenues and decreased miles per tractor in our Truckload segment partially offset by increased average tractors combined with increased miscellaneous revenues.

A summary of our revenue generated by segment for the periods indicated is as follows:

	Year Ended December 31,	
	2019	2018
(in thousands)		
Truckload revenue, before fuel surcharge	\$ 1,352,583	\$ 1,379,266
Fuel surcharge	168,911	182,832
Total Truckload operating revenue	1,521,494	1,562,098
Brokerage operating revenue	185,867	242,817
<b>Total operating revenue</b>	<b>\$ 1,707,361</b>	<b>\$ 1,804,915</b>

In 2018, our operations in Mexico represented approximately 3% of our revenue, excluding fuel surcharge. In January 2019, we sold our interest in Xpress Internacional. Even following our sale of Xpress Internacional, we expect to have business to and from Mexico through a more variable cost model using third party carriers.

The following is a summary of our key Truckload segment performance indicators, before fuel surcharge and excluding miles from services in Mexico, for the periods indicated. Average tractors, average company-owned tractors and average independent contractor tractors exclude tractors in Mexico.

	Year Ended December 31,	
	2019	2018
<b><i>Over the road</i></b>		
Average revenue per tractor per week	\$ 3,558	\$ 3,917
Average revenue per mile	\$ 1.949	\$ 2.041
Average revenue miles per tractor per week	1,825	1,919
Average tractors	3,712	3,562
<b><i>Dedicated</i></b>		
Average revenue per tractor per week	\$ 4,007	\$ 3,717
Average revenue per mile	\$ 2.375	\$ 2.259
Average revenue miles per tractor per week	1,687	1,645
Average tractors	2,727	2,701
<b><i>Consolidated</i></b>		
Average revenue per tractor per week	\$ 3,748	\$ 3,831
Average revenue per mile	\$ 2.122	\$ 2.127
Average revenue miles per tractor per week	1,767	1,801
Average tractors	6,439	6,263

For 2019, our Truckload revenue, before fuel surcharge decreased by \$26.7 million, or 1.9%, compared to 2018. Our Mexico operations accounted for \$2.4 million of our Truckload revenue for 2019, compared to \$53.4 million in 2018. The primary factors driving the changes in Truckload revenue, excluding Mexico operations, were a 1.9% decrease in average revenue miles per tractor and a slight decrease in revenue per loaded mile primarily due to a greater than 30% decrease in spot rates partially offset by an approximate 4.5% increase in our contractual rate, an increase of \$16.5 million in miscellaneous revenue, and a 2.8% increase in average available tractors. Fuel surcharge revenue decreased by \$13.9 million, or 7.6%, to \$168.9 million, compared with \$182.8 million in 2018. The DOE national weekly average fuel price per gallon averaged approximately \$0.12 per gallon lower for 2019 compared to 2018. The decrease in fuel surcharge revenue primarily relates to decreased fuel prices offset by a slight increase in revenue miles compared to 2018.

The key performance indicator of our Brokerage segment is gross margin percentage (brokerage revenue less purchased transportation expense expressed as a percentage of total operating revenue). Gross margin percentage can

be impacted by the rates charged to customers and the costs of securing third-party carriers. The following table lists the gross margin percentage for our Brokerage segment for the years ended December 31, 2019 and 2018.

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
Gross margin percentage	12.9 %	13.4 %

For 2019, our Brokerage revenue decreased by \$57.0 million, or 23.5%, compared to 2018. The primary factors driving the decrease in Brokerage revenue were a 15.1% decrease in load count combined with a 9.8% decrease in average revenue per load. We experienced a decrease in our gross margin to 12.9% in 2019, compared to 13.4% in 2018. During the fourth quarter of 2019 we experienced pressure on our Brokerage gross margins as a result of capacity tightening, which increased our cost on a per load basis. Additionally, in an effort to increase our truckload rate per mile, we procured contractual business at prices that were at a premium to the spot market but a discount to current contractual rates. The combination of lower revenue per load with a higher cost per load due to these two factors led to a decrease in gross margins. We anticipate continued pressure on our brokerage gross margins in 2020.

### *Operating Expenses*

For comparison purposes in the discussion below, we use total operating revenue and revenue, before fuel surcharge when discussing changes as a percentage of revenue. As it relates to the comparison of expenses to revenue, before fuel surcharge, we believe that removing fuel surcharge revenue, which is sometimes a volatile source of revenue affords a more consistent basis for comparing the results of operations from period-to-period.

Individual expense line items as a percentage of total operating revenue also are affected by fluctuations in the percentage of our revenue generated by independent contractor and brokerage loads.

### *Salaries, wages, and related expenses*

Salaries, wages and benefits consist primarily of compensation for all employees. Salaries, wages and benefits are primarily affected by the total number of miles driven by company drivers, the rate per mile we pay our company drivers, employee benefits such as health care and workers' compensation, and to a lesser extent by the number of, and compensation and benefits paid to, non-driver employees.

The following is a summary of our salaries, wages and benefits for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(dollars in thousands)</b>	
Salaries, wages and benefits	\$ 530,885	\$ 535,994
<b>% of total operating revenue</b>	<b>31.1 %</b>	<b>29.7 %</b>
% of revenue, before fuel surcharge	34.5 %	33.0 %

For 2019, salaries, wages and benefits decreased \$5.1 million, or 1.0%, compared with 2018. Our Mexican operations accounted for \$0.5 million in salaries, wages and benefits in 2019, compared to \$12.1 million in 2018. Our driver wages increased slightly due to increased driver pay on a per mile basis as a result of higher incentive-based pay and lower utilization as compared to 2018. In addition to the decrease related to our Mexico operations, during 2019 we also had decreases related to \$6.4 million of lower compensation expense related to the payout of our stock appreciation rights and IPO bonuses during the second quarter of 2018 offset by the \$4.0 million gain on life insurance in the third quarter of 2018. During 2019, our group health and workers' compensation expense increased approximately 5.6%, due to increased group health claims expense offset by positive trends in our workers' compensation claims compared to 2018. In the near term, we believe salaries, wages and benefits will increase as a result of a tight driver market, wage inflation and higher healthcare costs. As a percentage of revenue, we expect salaries, wages and benefits will fluctuate based on our ability to generate offsetting increases in average revenue per total mile and the percentage of revenue generated by independent contractors and brokerage operations, for which payments are reflected in the "Purchased transportation" line item.



### **Fuel and fuel taxes**

Fuel and fuel taxes consist primarily of diesel fuel expense and fuel taxes for our company-owned and leased tractors. The primary factors affecting our fuel and fuel taxes expense are the cost of diesel fuel, the miles per gallon we realize with our equipment and the number of miles driven by company drivers.

We believe that the most effective protection against net fuel cost increases in the near term is to maintain an effective fuel surcharge program and to operate a fuel-efficient fleet by incorporating fuel efficiency measures, such as auxiliary heating units, installation of aerodynamic devices on tractors and trailers and low-rolling resistance tires on our tractors, engine idle limitations and computer-optimized fuel-efficient routing of our fleet.

The following is a summary of our fuel and fuel taxes for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(dollars in thousands)</b>	
Fuel and fuel taxes	\$ 189,800	\$ 227,525
<b>% of total operating revenue</b>	<b>11.1 %</b>	<b>12.6 %</b>
% of revenue, before fuel surcharge	12.3 %	14.0 %

For 2019, fuel and fuel taxes decreased \$37.7 million, or 16.6%, compared with 2018. The decrease in fuel and fuel taxes was primarily the result of a 5.4% decrease in company driver miles, a \$10.6 million decrease due to the divestiture of our Mexico business, a 3.3% increase in our average miles per gallon and the DOE fuel price per gallon decrease of 3.8% compared to 2018.

To measure the effectiveness of our fuel surcharge program, we calculate “net fuel expense” by subtracting fuel surcharge revenue (other than the fuel surcharge revenue we reimburse to independent contractors, which is included in purchased transportation) from our fuel expense. Our net fuel expense as a percentage of revenue, before fuel surcharge, is affected by the cost of diesel fuel net of surcharge collection, the percentage of miles driven by company tractors and our percentage of non-revenue generating miles, for which we do not receive fuel surcharge revenues. Net fuel expense as a percentage of revenue, before fuel surcharge, is shown below:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(dollars in thousands)</b>	
Total fuel surcharge revenue	\$ 168,911	\$ 182,832
Less: fuel surcharge revenue reimbursed to independent contractors	46,862	41,898
Company fuel surcharge revenue	\$ 122,049	\$ 140,934
Total fuel and fuel taxes	\$ 189,800	\$ 227,525
Less: company fuel surcharge revenue	122,049	140,934
Net fuel expense	\$ 67,751	\$ 86,591
<b>% of total operating revenue</b>	<b>4.0 %</b>	<b>4.8 %</b>
% of revenue, before fuel surcharge	4.4 %	5.3 %

For 2019, net fuel expense decreased \$18.8 million, or 21.8%, compared with 2018. During 2019, the decrease in net fuel expenses was primarily the result of a \$10.6 million decrease due to the divestiture of our Mexico business, a 5.4% decrease in company driver miles, and a 3.3% increase in average miles per gallon, offset by increased fuel surcharge paid to independent contractors. Independent contractors accounted for 27.3% of the average tractors available compared to 22.1% in 2018. In the near term, our net fuel expense is expected to fluctuate as a percentage of total operating revenue and revenue, before fuel surcharge, based on factors such as diesel fuel prices, the percentage recovered from fuel surcharge programs, the percentage of uncompensated miles, the percentage of revenue generated by independent contractors, the percentage of revenue generated by team-driven tractors (which tend to generate higher miles and lower revenue per mile, thus proportionately more fuel cost as a percentage of revenue).

### **Vehicle Rents and Depreciation and Amortization**

Vehicle rents consist primarily of payments for tractors and trailers financed with operating leases. The primary factors affecting this expense item include the size and age of our tractor and trailer fleets, the cost of new equipment and the relative percentage of owned versus leased equipment.

Depreciation and amortization consists primarily of depreciation for owned tractors and trailers. The primary factors affecting these expense items include the size and age of our tractor and trailer fleets, the cost of new equipment and the relative percentage of owned equipment and equipment acquired through debt or finance leases versus equipment leased through operating leases. We use a mix of finance leases and operating leases to finance our revenue equipment with individual decisions being based on competitive bids and tax projections. Gains or losses realized on the sale of owned revenue equipment are included in depreciation and amortization for reporting purposes.

Vehicle rents and depreciation and amortization are closely related because both line items fluctuate depending on the relative percentage of owned equipment and equipment acquired through finance leases versus equipment leased through operating leases. Vehicle rents increase with greater amounts of equipment acquired through operating leases, while depreciation and amortization increases with greater amounts of owned equipment and equipment acquired through finance leases. Because of the inverse relationship between vehicle rents and depreciation and amortization, we review both line items together.

The following is a summary of our vehicle rents and depreciation and amortization for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(dollars in thousands)</b>	
Vehicle rents	\$ 80,064	\$ 78,639
Depreciation and amortization, net of (gains) losses on sale of property	94,337	97,954
Vehicle rents and depreciation and amortization of property and equipment	<u>\$ 174,401</u>	<u>\$ 176,593</u>
<b>% of total operating revenue</b>	<b>10.2 %</b>	<b>9.8 %</b>
% of revenue, before fuel surcharge	11.3 %	10.9 %

For 2019, vehicle rents increased \$1.4 million, or 1.8%, compared to 2018. The increase in vehicle rents was primarily due to increased trailers financed under operating leases compared to 2018. Depreciation and amortization decreased \$3.6 million, or 3.7%, compared to 2018. The decrease in depreciation and amortization is primarily due to a decrease in loss on sale of property and equipment of \$3.3 million compared to 2018. This reduction in our loss was primarily the result of a \$2.7 million gain related to the sale of our Laredo terminal and a \$1.2 million gain related to a sale leaseback transaction. Both of these transactions were executed in the fourth quarter of 2019. Looking forward to 2020, excluding any change in our percentage allocation of owned versus leased equipment due to available financing terms, we expect to spend approximately \$140.0 to \$150.0 million in net capital expenditures which will keep the average age of our equipment relatively constant. The balance of our equipment procurement will be funded through operating leases.

### **Purchased Transportation**

Purchased transportation consists of the payments we make to independent contractors, including fuel surcharge reimbursements paid to independent contractors, in our Truckload segment, and payments to third-party carriers in our Brokerage segment.

The following is a summary of our purchased transportation for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2019</b>	<b>2018</b>
	<b>(dollars in thousands)</b>	
Purchased transportation	\$ 481,589	\$ 481,945
<b>% of total operating revenue</b>	<b>28.2 %</b>	<b>26.7 %</b>
% of revenue, before fuel surcharge	31.3 %	29.7 %

For 2019, purchased transportation decreased \$0.3 million, or 0.1%, compared to 2018. The change in purchased transportation was primarily due to a \$57.0 million decrease in Brokerage revenue partially offset by a 27.1% increase in average independent contractors and a \$5.0 million increase in fuel surcharge reimbursement to independent contractors as compared to 2018.

Because we reimburse independent contractors for fuel surcharges we receive, we subtract fuel surcharge revenue reimbursed to them from our purchased transportation. The result, referred to as purchased transportation, net of fuel

surcharge reimbursements, is evaluated as a percentage of total operating revenue and as a percentage of revenue, before fuel surcharge, as shown below:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(dollars in thousands)	
Purchased transportation	\$ 481,589	\$ 481,945
Less: fuel surcharge revenue reimbursed to independent contractors	46,862	41,898
Purchased transportation, net of fuel surcharge reimbursement	<u>\$ 434,727</u>	<u>\$ 440,047</u>
<b>% of total operating revenue</b>	<b>25.5 %</b>	<b>24.4 %</b>
% of revenue, before fuel surcharge	28.3 %	27.1 %

For 2019, purchased transportation, net of fuel surcharge reimbursement, decreased \$5.3 million, or 1.2%, compared to 2018. This decrease was primarily due to the \$57.0 million decrease in Brokerage revenue offset by the 27.1% increase in average independent contractors compared to 2018. This expense category will fluctuate with the number and percentage of loads hauled by independent contractors and third-party carriers, as well as the amount of fuel surcharge revenue passed through to independent contractors. If industry-wide trucking capacity continues to tighten in relation to freight demand, we may need to increase the amounts we pay to third-party carriers and independent contractors, which could increase this expense category on an absolute basis and as a percentage of total operating revenue and revenue, before fuel surcharge, absent an offsetting increase in revenue. We continue to actively attempt to expand our Brokerage segment and recruit independent contractors. Our recent success in growing our lease-purchase program and independent contractor drivers have contributed to increased purchased transportation expense. If we are successful in continuing these efforts, we would expect this line item to increase as a percentage of total operating revenue and revenue, before fuel surcharge.

### **Operating Expenses and Supplies**

Operating expenses and supplies consist primarily of ordinary vehicle repairs and maintenance costs, driver on-the-road expenses, tolls and advertising expenses related to driver recruiting. Operating expenses and supplies are primarily affected by the age of our company-owned and leased fleet of tractors and trailers, the number of miles driven in a period and driver turnover.

The following is a summary of our operating expenses and supplies for the periods indicated:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(dollars in thousands)	
Operating expenses and supplies	\$ 118,394	\$ 118,064
<b>% of total operating revenue</b>	<b>6.9 %</b>	<b>6.5 %</b>
% of revenue, before fuel surcharge	7.7 %	7.3 %

For 2019, operating expenses and supplies increased \$0.3 million, or 0.3%, compared to 2018. Our Mexican operations accounted for \$0.3 million in operating expenses and supplies in 2019, compared to \$6.9 million in 2018. The primary factors driving the increase in operating expenses and supplies excluding our Mexico operations were increased driver hiring and recruiting costs and other operational expenses.

### **Insurance Premiums and Claims**

Insurance premiums and claims consists primarily of retained amounts for liability (personal injury and property damage), physical damage and cargo damage, as well as insurance premiums. The primary factors affecting our insurance premiums and claims are the frequency and severity of accidents, trends in the development factors used in our actuarial accruals and developments in large, prior year claims. The number of accidents tends to increase with the miles we travel. With our significant retained amounts, insurance claims expense may fluctuate significantly and impact the cost of insurance premiums and claims from period-to-period, and any increase in frequency or severity of claims or adverse loss development of prior period claims would adversely affect our financial condition and results of operations. We renewed our liability insurance policies on September 1, 2018 and reduced our deductible to \$3.0 million per occurrence.

The following is a summary of our insurance premiums and claims expense for the periods indicated:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(dollars in thousands)	
Insurance premiums and claims	\$ 88,959	\$ 85,075
<b>% of total operating revenue</b>	<b>5.2 %</b>	<b>4.7 %</b>
% of revenue, before fuel surcharge	5.8 %	5.2 %

For 2019, insurance premiums and claims increased \$3.9 million, or 4.6%, compared to 2018. Insurance premiums and claims increased primarily due to increased physical damage claims primarily as a result of adverse weather in the first quarter of 2019 as compared to 2018. During the fourth quarter of 2017, we began installing event recorders on our tractors, and we had installed event recorders in substantially all of our tractors in our fleet as of the second quarter of 2018. We believe we have an opportunity to reduce our insurance and claims expense over time as a result of 1) having completed the installation of event recorders in 2018, 2) the successful launch of our redeveloped driver training facilities, and 3) our decision to implement hair follicle testing for all of our drivers in the fourth quarter of 2019. While we have not yet seen measurable financial results from these initiatives, we believe our increase in expense in 2019 relative to 2018 would have been greater absent the combination of the above initiatives.

### **General and Other Operating Expenses**

General and other operating expenses consist primarily of driver recruiting costs, legal and professional services fees, general and administrative expenses and other costs.

The following is a summary of our general and other operating expenses for the periods indicated:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(dollars in thousands)	
General and other operating expenses	\$ 75,317	\$ 66,412
<b>% of total operating revenue</b>	<b>4.4 %</b>	<b>3.7 %</b>
% of revenue, before fuel surcharge	4.9 %	4.1 %

For 2019, general and other operating expenses increased \$8.9 million, or 13.4%, compared to 2018. General and other expenses increased primarily due to higher driver hiring costs combined with increased professional and administrative costs partially offset by \$5.1 million in lower expenses related to the divestiture of our Mexico business. We expect general and other operating expenses to increase in the future due in part to higher driver recruiting costs related to continued tightening of the driver market.

### **Impairment of Equity Method Investments and Note Receivable**

During 2019, we converted \$5.0 million of Arnold receivables to a note receivable and advanced an additional \$2.0 million. In the fourth quarter of 2019, we recorded an impairment charge of \$6.8 million as the collectability of the note is remote.

### **Interest**

Interest expense consists of cash interest, amortization of original issuance discount and deferred financing fees and purchase commitment interest related to our obligation to acquire the remaining equity interest in Xpress Internacional. In January 2019, we sold our equity interest in Xpress Internacional and were relieved of this obligation.

The following is a summary of our interest expense for the periods indicated:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	(in thousands)	
Interest expense, excluding non-cash items	\$ 21,000	\$ 33,330
Original issue discount and deferred financing amortization	635	1,728
Purchase commitment interest	—	(192)
Interest expense, net	<u>\$ 21,635</u>	<u>\$ 34,866</u>



For 2019, interest expense decreased \$13.2 million, primarily due to 2019 reflecting a full year of our new capital structure which resulted from our IPO in June 2018 as compared to 2018 which reflected only six months of the new capital structure. In addition, during 2019 we had decreased equipment and revolver borrowings combined with lower interest rates related to our term loan compared to 2018.

## LIQUIDITY AND CAPITAL RESOURCES

### *Overview*

Our business requires substantial amounts of cash to cover operating expenses as well as to fund capital expenditures, working capital changes, principal and interest payments on our obligations, lease payments, letters of credit to support insurance requirements and tax payments when we generate taxable income. Recently, we have financed our capital requirements with borrowings under our Credit Facility, cash flows from operating activities, direct equipment financing, operating leases and proceeds from equipment sales.

We make substantial net capital expenditures to maintain a modern company tractor fleet, refresh our trailer fleet and strategically expand our fleet. During 2020, we currently plan to replace owned tractors with new owned tractors as they reach approximately 475,000 miles. Additionally, we expect to replace our tractor lease maturities with a mix of owned and leased replacements as we convert a portion of our leased tractors to owned. As a result of our 2020 replacement cycle, we expect the average age of our tractor fleet to decline to approximately 1.6 years as we exit the year. Our mix of owned and leased equipment may vary over time due to tax treatment, financing options and flexibility of terms, among other factors.

We believe we can fund our expected cash needs, including debt repayment, in the short-term with projected cash flows from operating activities, borrowings under our Credit Facility and direct debt and lease financing we believe to be available for at least the next 12 months. Over the long-term, we expect that we will continue to have significant capital requirements, which may require us to seek additional borrowings, lease financing or equity capital. We have obtained a significant portion of our revenue equipment under operating leases, which are not reflected as net capital expenditures but are recorded as operating lease liabilities on our balance sheet. The availability of financing and equity capital will depend upon our financial condition and results of operations as well as prevailing market conditions.

### *Sources of Liquidity*

#### **Credit Facility**

In June 2018, we entered into a credit facility that contained a \$150.0 million revolving facility and a \$200.0 million term facility. At December 31, 2019, the revolving facility had issued collateralized letters of credit in the face amount of \$32.7 million, with \$0 borrowings outstanding and \$117.3 million available to borrow and the term facility had \$150.0 million outstanding. Our former credit facility was set to mature on June 18, 2023.

On January 28, 2020, we entered into the Credit Facility and contemporaneously with the funding of the Credit Facility paid off obligations under our then existing credit facility and terminated such facility. The Credit Facility is a \$250.0 million revolving credit facility, with an uncommitted accordion feature that, so long as no event of default exists, allows the Company to request an increase in the revolving credit facility of up to \$75.0 million.

The Credit Facility is a five-year facility scheduled to terminate on January 28, 2025. Borrowings under the Credit Facility are classified as either “base rate loans” or “eurodollar rate loans”. Base rate loans accrue interest at a base rate equal to the highest of (A) the Federal Funds Rate plus 0.50%, (B) the Agent’s prime rate, and (C) LIBOR plus 1.00% plus an applicable margin that is set at 0.50% through June 30, 2020 and adjusted quarterly thereafter between 0.25% and 0.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. Eurodollar rate loans accrue interest at LIBOR plus an applicable margin that is set at 1.50% through June 30, 2020 and adjusted quarterly thereafter between 1.25% and 1.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. The Credit Facility includes, within its \$250.0 million revolving credit facility, a letter of credit sub-facility in an aggregate amount of \$75.0 million and a swingline sub-facility in an aggregate amount of \$25.0 million. An unused line fee of 0.25% is applied to the average daily amount by which the lenders’ aggregate revolving commitments exceed the outstanding principal amount of revolver loans and aggregate undrawn amount of all outstanding letters of credit issued under the Credit Facility. The Credit Facility is secured by

a pledge of substantially all of the Company's assets, excluding, among other things, any real estate or revenue equipment financed outside the Credit Facility.

Borrowings under the Credit Facility are subject to a borrowing base limited to the lesser of (A) \$250.0 million; or (B) the sum of (i) 87.5% of eligible billed accounts receivable, plus (ii) 85.0% of eligible unbilled accounts receivable (less than 30 days), plus (iii) 85.0% of the net orderly liquidation value percentage applied to the net book value of eligible revenue equipment, plus (iv) the lesser of (a) 80.0% the fair market value of eligible real estate or (b) \$25.0 million. The Credit Facility contains a single springing financial covenant, which requires a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The financial covenant is tested only in the event excess availability under the Credit Facility is less than the greater of (A) 10.0% of the lesser of the borrowing base or revolving credit facility or (B) \$20.0 million.

The Credit Facility includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Facility may be accelerated, and the lenders' commitments may be terminated. The Credit Facility contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions, affiliate transactions, and other indebtedness.

See Notes 9 and 10 to the accompanying consolidated financial statements for additional disclosures regarding our debt and leases, respectively.

### *Cash Flows*

Our summary statements of cash flows for the periods indicated are set forth in the table below:

	<u>Year Ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
	<u>(in thousands)</u>	
Net cash provided by operating activities	\$ 103,749	\$ 112,347
Net cash used in investing activities	(81,630)	(166,089)
Net cash (used in) provided by financing activities	(38,108)	66,186

### *Operating Activities*

For 2019, we generated cash flows from operating activities of \$103.7 million, a decrease of \$8.6 million compared to 2018. The decrease was due primarily to a \$47.5 million decrease in net income adjusted for noncash items, partially offset by a \$31.4 decrease in our operating assets and liabilities and a \$7.5 million interest paid in kind decrease. Our operating assets and liabilities decreased \$31.4 million during 2019, as compared to 2018, due in part to increased accounts receivable collections, and decreased payments for accounts payable and other accrued liabilities partially offset by an increase in accrued wages and benefit payments related to timing of payments. Our net income adjusted for noncash items decreased in part due to decreased revenue per tractor, decreased gross margins within our Brokerage segment combined with increased driver wages and equipment costs partially offset by decreased interest expense.

### *Investing Activities*

For 2019, net cash flows used in investing activities were \$81.6 million, a decrease of \$84.5 million compared to 2018. This decrease is primarily the result of decreased equipment purchases as compared to 2018 combined with increased proceeds from sale of property and equipment. During the fourth quarter of 2019, we received proceeds in the amount of \$31.6 million related to a terminal sale and a sale leaseback transaction. We expect our net capital expenditures for calendar year 2020 will approximate \$140.0 million to \$150.0 million to execute our equipment replacement strategy and will be financed with cash from operations, borrowings on our line of credit and secured debt financing.

### *Financing Activities*

For 2019, net cash flows used in financing activities were \$38.1 million, compared to \$66.2 million provided by financing activities in 2018. The change is primarily due to increased debt repayments in excess of debt borrowings and IPO funds combined with the purchase of the remaining 10% of Total Transportation for \$8.7 million as compared to the same period in 2018. During June of 2018, we completed our IPO and received approximately \$246.6 million

in cash net of expenses. The proceeds from the IPO were primarily used to pay down existing debt resulting in a net decrease of \$236.2 million

### *Working Capital*

As of December 31, 2019, we had a working capital deficit of \$48.8 million, representing a \$70.1 million decrease in our working capital from December 31, 2018. Our current liabilities increased by \$69.9 million as a result of the adoption of the new lease standard. When we analyze our working capital, we typically exclude balloon payments in the current maturities of long-term debt as these payments are typically either funded with the proceeds from equipment sales or addressed by extending the maturity of such payments. We believe this facilitates a more meaningful analysis of our changes in working capital from period-to-period. Excluding balloon payments included in current maturities of long-term debt and the current portion of our operating lease liability as of December 31, 2019, we had a working capital surplus of \$36.8 million, compared with a working capital surplus of \$83.3 million at December 31, 2018. Excluding only the balloon payments included in current maturities of debt, we had a working capital deficit of \$33.0 million at December 31, 2019. The decrease in working capital was a result of decreased receivables and assets held for sale combined with increased accounts payable, claims and insurance accruals and current maturities of long term debt excluding balloon payments. Assets held for sale decreased primarily due to the divestiture of Xpress Internacional in January 2019.

Working capital deficits are common to many trucking companies that operate by financing revenue equipment purchases through borrowing or finance leases and who use operating leases. When we finance revenue equipment through borrowing or finance leases, the principal amortization scheduled for the next twelve months is categorized as a current liability, although the revenue equipment is classified as a long-term asset. Consequently, each purchase of revenue equipment financed with borrowing or finance leases decreases working capital. Similarly, our operating lease right of use assets are classified as long-term, while a portion of the corresponding lease liabilities are classified as a current liability. We believe a working capital deficit has little impact on our liquidity. Based on our expected financial condition, net capital expenditures, results of operations, related net cash flows, installment notes, and other sources of financing, we believe our working capital and sources of liquidity will be adequate to meet our current and projected needs and we do not expect to experience material liquidity constraints in the foreseeable future.

### **Contractual Obligations and Commercial Commitments**

The table below summarizes our contractual obligations as of December 31, 2019:

	Payments Due by Period				Total
	Less than 1 year	1-3 years	3-5 years (in thousands)	More than 5 years	
Long-term debt obligations(1)	\$ 91,597	\$ 129,216	\$ 189,403	\$ 24,459	\$ 434,675
Finance lease obligations(2)	5,217	5,504	1,720	—	12,441
Operating lease obligations(3)	80,627	130,872	63,834	35,523	310,856
Purchase obligations(4)	111,203	—	—	—	111,203
Other obligations(5)	1,023	—	—	—	1,023
Total contractual obligations(6)	<u>\$ 289,667</u>	<u>\$ 265,592</u>	<u>\$ 254,957</u>	<u>\$ 59,982</u>	<u>\$ 870,198</u>

- (1) Including interest obligations on long-term debt, excluding fees. The table assumes long-term debt is held to maturity and does not reflect events subsequent to December 31, 2019.
- (2) Including interest obligations on finance lease obligations.
- (3) We lease certain revenue and service equipment and office and service center facilities under long-term, non-cancelable operating lease agreements expiring at various dates through December 2034. Revenue equipment lease terms are generally three to five years for tractors and five to eight years for trailers. The lease terms and any subsequent extensions generally represent the estimated usage period of the equipment, which is generally substantially less than the economic lives. Certain revenue equipment leases provide for guarantees by us of a portion of the specified residual value at the end of the lease term. The maximum potential amount of future payments (undiscounted) under these guarantees is approximately \$91.5 million at December 31, 2019. The residual value of a portion of the related leased revenue equipment is covered by repurchase or trade agreements between us and the equipment manufacturer.

- (4) We had commitments outstanding at December 31, 2019 to acquire revenue equipment. The revenue equipment commitments are cancelable, subject to certain adjustments in the underlying obligations and benefits. These purchase commitments are expected to be financed by operating leases, long-term debt, proceeds from sales of existing equipment and cash flows from operating activities.
- (5) Represents a commitment to fund the remaining purchase price of a small truckload carrier we acquired in 2017.
- (6) Excludes deferred taxes and long or short-term portion of self-insurance claims accruals.

### **Off-Balance Sheet Arrangements**

The Company has letters of credit of \$32.7 million outstanding as of December 31, 2019. The letters of credit are maintained primarily to support the Company's insurance program.

The Company had cancelable commitments outstanding at December 31, 2019 to acquire revenue equipment for approximately \$111.2 million in 2020. These purchase commitments are expected to be financed by operating leases, long-term debt, proceeds from sales of existing equipment, and cash flows from operations.

### **INFLATION**

Inflation in the price of revenue equipment, tires, diesel fuel, health care, operating tolls and taxes and other items has impacted our operating costs over the past several years. A prolonged or more severe period of inflation in these or other items would adversely affect our results of operations unless freight rates correspondingly increase. Historically, the majority of the increase in fuel costs has been passed on to our customers through a corresponding increase in fuel surcharge revenue, making the impact of the increased fuel costs on our results of operations less severe. Inflation related to other costs is not directly covered from our customers through a surcharge mechanism. Because these potential cost increases would be relatively consistent across the industry, we would expect corresponding rate increases generally to offset these increased costs over time. If these and other costs escalate and we are unable to recover such costs timely with effective fuel surcharges and rate increases, it would have an adverse effect on our operations and profitability.

### **CRITICAL ACCOUNTING POLICIES**

In the ordinary course of business, we have made a number of estimates and assumptions relating to the reporting of results of operations and financial position in the preparation of our financial statements in conformity with GAAP. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to the portrayal of our financial condition and results of operations and require management's most difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

#### *Recognition of Revenue*

We adopted ASU 2014-09 effective January 1, 2018 by using the modified retrospective transition approach and recognizing the cumulative effect of the change in retained earnings for all contracts. The primary impact of adopting Accounting Standards Codification ("ASC") 606 is the earlier recognition of revenue for loads that are in route as of the balance sheet date. Under previous GAAP, we recognized revenue and direct costs when shipments were delivered. Under ASC 606, we are required to recognize revenue and related direct costs over time as the shipment is being delivered. The adoption of ASC 606 resulted in a positive cumulative adjustment to opening equity of approximately \$1.5 million.

We generate revenues primarily from shipments executed by our Truckload and Brokerage operations. Those shipments are our performance obligations, arising under contracts we have entered into with customers. Under the terms of a contract, revenue is recognized when obligations are satisfied, which occurs over time with the transit of shipments from origin to destination. Fuel, driver wages and purchased transportation are similarly accrued over time. This is appropriate as the customer simultaneously receives and consumes the benefits as we perform our obligation. Revenue is measured as the amount of consideration we expect to receive in exchange for providing services. The most significant judgment used in recognition of revenue is the determination of percent of total miles to be driven for a completed trip as the basis for determining the amount of revenue to be recognized for partially fulfilled



obligations. Accessorial charges for fuel surcharge, loading and unloading, stop charges, and other immaterial charges are part of the consideration we receive for the single performance obligation of delivering shipments. Contracts entered into with our customers do not contain material financing components.

Certain incremental revenue-related costs associated with obtaining a contract are capitalized. The majority of revenue contracts with our customers have a duration of one year or less and do not require any significant start-up costs, and as such, costs incurred to obtain contracts associated with these contracts are expensed as incurred. For contracts with durations exceeding one year, incremental start-up costs are capitalized and amortized on a straight line basis over the contract period which materially represents the period of revenue generation. Capitalized start-up costs are immaterial to us for all periods presented.

Through our Brokerage operations, we outsource the transportation of the loads to third-party carriers. We are a principal in these arrangements, and therefore records revenue associated with these contracts on a gross basis. We have the primary responsibility to meet the customer's requirements. We invoice and collect from our customers and also maintain discretion over pricing. Additionally, we are responsible for selection of third-party transportation providers to the extent used to satisfy customer freight requirements.

### *Income Taxes*

Significant management judgment is required in determining our provision for income taxes and in determining whether deferred tax assets will be realized in full or in part. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in years in which the temporary differences are expected to be recovered or settled. When it is more likely than not that all or some portion of specific deferred tax assets, such as state tax credit carry-forwards or state net operating loss carry-forwards will not be realized, a valuation allowance must be established for the amount of the deferred tax assets that are determined to be not realizable.

The determination of the combined tax rate used to calculate our provision for income taxes for both current and deferred income taxes also requires significant judgment by management. We value the net deferred tax asset or liability by using enacted tax rates that we believe will be in effect when these temporary differences are recovered or settled. We use the combined tax rates at the time the financial statements are prepared since more accurate information is not available. If changes in the federal statutory rate or significant changes in the statutory state and local tax rates occur prior to or during the reversal of these items or if our filing obligations were to change materially, this could change the combined rate and, by extension, our provision for income taxes. We account for uncertain tax positions in accordance with ASC 740, Income Taxes and record a liability when such uncertainties meet the more likely than not recognition threshold.

### *Property and Equipment*

Property and equipment are carried at cost. Depreciation of property and equipment is computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes over the estimated useful lives of the related assets (net of estimated salvage value or trade-in value). We generally use estimated useful lives of three to five years for tractors and 10 or more years for trailers with estimated salvage values ranging from 25% to 50% of the capitalized cost. The depreciable lives of our revenue equipment represent the estimated usage period of the equipment, which is generally substantially less than the economic lives. The residual value of a substantial portion of our equipment is covered by repurchase or trade agreements between us and the equipment manufacturer.

Periodically, we evaluate the useful lives and salvage values of our revenue equipment and other long-lived assets based upon, but not limited to, our experience with similar assets including gains or losses upon dispositions of such assets, conditions in the used equipment market and prevailing industry practices. Changes in useful lives or salvage value estimates, or fluctuations in market values that are not reflected in our estimates, could have a material impact on our financial results. Further, if our equipment manufacturer does not perform under the terms of the agreements for guaranteed trade-in values, such non-performance could have a materially negative impact on financial results. We review our property and equipment whenever events or circumstances indicate the carrying amount of the asset may not be recoverable. An impairment loss equal to the excess of carrying amount over fair value would be recognized if the carrying amount of the asset is not recoverable.

### *Goodwill and Other Intangible Assets*

When testing for goodwill impairment, we first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. We are not required to calculate the fair value of a reporting unit unless we determine, based on the qualitative review, that it is more likely than not that its fair value is less than its carrying amount. Current guidance includes events and circumstances for us to consider when conducting the qualitative assessment. In the fourth quarter of 2019, we evaluated goodwill using the qualitative factors prescribed to determine whether to perform the two-step quantitative goodwill impairment test. The assessment of qualitative factors requires judgment, including identification of reporting units, evaluation of macroeconomic conditions, analysis of industry and market conditions, measurement of cost factors and identification of entity-specific events (such as financial performance).

Trade names are valued based on various factors including the projected revenue stream associated with the intangible asset. The Company's trade names have an indefinite life. In 2013, we adopted ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment, which allows companies to waive comparing the fair value of indefinite-lived intangible assets to their carrying amounts in assessing the recoverability of these assets if, based on qualitative factors, it is more likely than not that the fair value of the indefinite-lived intangible assets is greater than their carrying amounts. In the fourth quarter of 2019, the Company performed the qualitative assessment of its indefinite-lived intangible assets and concluded it was more likely than not that the fair value of each of the assets is greater than its carrying amount. Therefore, the Company concluded it was not necessary to perform the quantitative impairment test.

### *Claims and Insurance Accruals*

Claims and insurance accruals consist of estimates of cargo loss, physical damage, group health, liability (personal injury and property damage) and workers' compensation claims and associated legal and other expenses within our established retention levels. Claims in excess of retention levels are generally covered by insurance in amounts we consider adequate. Claims accruals represent the uninsured portion of pending claims including estimates of adverse development of known claims, plus an estimated liability for incurred but not reported claims and the associated expense. Accruals for cargo loss, physical damage, group health, liability and workers' compensation claims are estimated based on our evaluation of the type and severity of individual claims and historical information, primarily our own claims experience, along with assumptions about future events combined with the assistance of independent actuaries in the case of workers' compensation and liability. Changes in assumptions as well as changes in actual experience could cause these estimates to change in the near future.

Workers' compensation and liability claims are particularly subject to a significant degree of uncertainty due to the potential for growth and development of the claims over time. Claims and insurance reserves related to workers' compensation and liability are estimated by a third-party actuary and we refer to these estimates in establishing the reserve. Liability reserves are estimated based on historical experience and trends, the type and severity of individual claims and assumptions about future costs. Further, in establishing the workers' compensation and liability reserves, we must take into account and estimate various factors, including, but not limited to, assumptions concerning the nature and severity of the claim, the effect of the jurisdiction on any award or settlement, the length of time until ultimate resolution, inflation rates in health care and in general, interest rates, legal expenses and other factors. Our actual experience may be different than our estimates, sometimes significantly. Changes in assumptions made in actuarial studies could potentially have a material effect on the provision for workers' compensation and liability claims. Additionally, if any claim were to exceed our coverage limits, we would have to accrue for and pay the excess amount, which could have a material adverse effect on our financial condition, results of operations and cash flows.

### *Lease Accounting Transactions*

We adopted ASC 842 using the modified retrospective approach and applied the transition provisions with an effective date as of January 1, 2019 for leases that existed on that date. Prior period results continue to be presented under ASC 840 based on the accounting originally in effect for such periods. We elected the "package of practical expedients" under ASC 842 which permits us to not reassess our historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. We also elected the practical expedient to not reassess certain land easements. We did not elect the use-of-hindsight practical expedient during the transition of ASC 842. Adoption of ASC 842 resulted in the recording of operating lease ROU assets and corresponding operating lease liabilities of approximately \$183.0 million.

We determine if an arrangement is a lease or contains a lease at inception and perform an analysis to determine whether the lease is an operating lease or a finance lease. We measure right-of-use ("ROU") assets and lease liabilities at the

lease commencement date based on the present value of the remaining lease payments. As most of our leases do not provide a readily determinable implicit rate, we estimate an incremental borrowing rate based on the credit quality of the Company and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease. We use this rate to discount the remaining lease payments in measuring the ROU asset and lease liability. We use the implicit rate when readily determinable. We recognize lease expense for operating leases on a straight-line basis over the lease term. For our finance leases, we recognize amortization expense from the amortization of the ROU asset and interest expense on the related lease liability. We do not separate lease and nonlease components of contracts, except for certain leased information technology assets that are embedded within various service agreements. The lease components included in those agreements are included in the ROU asset and lease liability, and the amounts are not significant.

Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

We are liable for residual value guarantees in connection with certain of our operating leases of certain revenue equipment. If we do not purchase this leased equipment from the lessor at the end of the lease term, we are liable to the lessor for an amount equal to the shortage (if any) between the proceeds from the sale of the equipment and an agreed value up to a maximum shortfall per unit. For certain of these tractors, we have residual value agreements from manufacturers at amounts sufficient to satisfy our residual obligation to the lessors. For all other equipment (or to the extent we believe any manufacturer will refuse or be unable to meet its obligation), we are required to recognize additional rental expense to the extent we believe the fair market value at the lease termination will be less than our obligation to the lessor. We believe that proceeds from the sale of equipment under operating leases would exceed the payment obligation on substantially all operating leases. The estimated values at lease termination involve management judgments.

#### **Recent Accounting Pronouncements**

See Note 2 of the accompanying consolidated financial statements for information about recent accounting pronouncements.

#### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our market risk is affected by changes in interest rates. Historically, we have used a combination of fixed rate and variable rate obligations to manage our interest rate exposure. Fixed rate obligations expose us to the risk that interest rates might fall. Variable rate obligations expose us to the risk that interest rates might rise. We currently do not have any interest rate swaps although we may enter into such swaps in the future.

We are exposed to variable interest rate risk principally from our Credit Facility. We are exposed to fixed interest rate risk principally from equipment notes and mortgages. At December 31, 2019, we had net borrowings totaling \$396.0 million comprised of \$150.0 million of variable rate borrowings and \$246.0 million of fixed rate borrowings. Accordingly, holding other variables constant (including borrowing levels), the earnings impact of a one-percentage point increase/decrease in interest rates would not have a significant impact on our consolidated financial statements.

Fuel is one of our largest expenditures. The price and availability of diesel fuel fluctuate due to changes in production, seasonality and other market factors generally outside our control. Most of our customer contracts contain fuel surcharge provisions to mitigate increases in the cost of fuel. Fuel surcharges to customers do not fully recover all fuel increases because customers generally pay surcharges on a mileage basis and therefore do not generally pay for fuel consumed while traveling out-of-route or non-revenue generating miles, while the tractor is idling and in certain other instances. We believe that our fuel surcharge program adequately protects us from risks relating to fluctuating fuel prices, and accordingly, we terminated all fuel purchase arrangements as of December 31, 2017, and do not expect to enter into fuel purchase arrangements in the near term. We cannot predict the extent to which fuel prices will increase or decrease in the future or the extent to which fuel surcharges could be collected.

#### **FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The consolidated financial statements of U.S. Xpress Enterprises, Inc. and subsidiaries, including the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of stockholders' deficit and of cash flows for each of the three years in the period ended December 31, 2019, together with the related notes, and the report of PricewaterhouseCoopers LLP, our independent registered public

accounting firm as of December 31, 2019 and 2018, for each of the three years in the period ended December 31, 2019 are set forth at pages 58 through 88 elsewhere in this report.

## **CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

On March 10, 2020, the Audit Committee dismissed PricewaterhouseCoopers LLP (“PwC”) as its independent registered public accounting firm.

The reports of PwC on the financial statements for the fiscal years ended December 31, 2019 and 2018 contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principle. During the fiscal years ended December 31, 2019 and December 31, 2018 and the subsequent interim period through March 10, 2020, there were no disagreements (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304) with PwC on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of PwC would have caused PwC to make reference thereto in its reports on the Company’s financial statements for such years. During the fiscal years ended December 31, 2019 and 2018 and the subsequent interim period through March 10, 2020, there have been no reportable events (as that term is defined in Item 304(a)(1)(v) of Regulation S-K), except for the material weaknesses identified in the Company’s internal control over financial reporting related to (1) ineffective information technology controls with respect to program development, change management, computer operations, and user access to programs and data, (2) the design of controls over income tax accounting, (3) evidential matter supporting the design and implementation of controls, and (4) the control activities component of the COSO framework. The material weaknesses described in (2), (3), and (4) were subsequently remediated as of December 31, 2019.

On March 11, 2020, the accounting firm of Grant Thornton was engaged by the Audit Committee as the Company’s new independent registered public accounting firm to perform independent audit services for the Company for the fiscal year ending December 31, 2020 (including with respect to the Company’s quarterly period ending March 31, 2020), effective immediately.

During the fiscal year ended December 31, 2019 and December 31, 2018 and through the subsequent interim period as of March 11, 2020, neither the Company, nor any party on behalf of the Company, consulted with Grant Thornton with respect to either (i) the application of accounting principles to a specified transaction, either completed or proposed, or the type of the audit opinion that might be rendered with respect to the Company’s consolidated financial statements, and no written report or oral advice was provided to the Company by Grant Thornton that was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue, or (ii) any matter that was subject to any “disagreement” (as that term is defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions) or a “reportable event” (as that term is defined in Item 304(a)(1)(v) of Regulation S-K).

## **CONTROLS AND PROCEDURES**

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

Our management, including our Chief Executive Officer (“CEO”) and our Chief Financial Officer (“CFO”), has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2019. This evaluation is performed to determine if our disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms. Due to the material weakness described below and the Company’s evaluation, the CEO and CFO have concluded that our disclosure controls and procedures were not effective to provide reasonable assurance as of December 31, 2019.

### **Management’s Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rules 13a-15(f) and 15d-15(f).



Internal control over financial reporting has inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements will not be prevented or detected on a timely basis by internal control over financial reporting. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Management, including our Chief Executive Officer and our Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in *Internal Control - Integrated Framework (2013)*. Based on this assessment, management has concluded that the Company did not maintain effective internal control over financial reporting as of December 31, 2019, due to the material weakness discussed below.

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 financial statements will not be prevented or detected on a timely basis.

We did not design effective information technology general computer controls with respect to program development, change management, computer operation, and user access to programs and data. This deficiency did not result in a material misstatement to our annual or interim consolidated financial statements. However, this deficiency could result in misstatements potentially impacting all financial statement accounts and disclosures that would result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Therefore, we concluded the deficiency is a material weakness.

The effectiveness of our internal control over financial reporting as of December 31, 2019 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears in this 2019 Annual Report.

### **Remediation of Previously Disclosed Material Weaknesses**

#### *Income Taxes*

We previously identified a material weakness in the design of controls over income tax accounting. During 2019, we implemented new control activities and enhanced the design of our existing quarterly and year-end control activities over income tax accounting. Based on the results of our testing, we have concluded that the controls are adequately designed and have operated effectively for a sufficient period of time during 2019. Accordingly, the material weakness in the design of controls over income tax accounting is remediated as of December 31, 2019.

#### *Evidential Matter*

We previously identified a material weakness in respect to the evidential matter supporting the design and implementation of our controls. During 2019, we designed, implemented, and enhanced controls over the retention of evidential matter supporting the design, implementation, and operating effectiveness of controls. Based on the results of our testing, we have concluded that there was sufficient evidential matter to support the design, implementation, and operating effectiveness of controls. Accordingly, the material weakness with respect to the evidential matter supporting the design and implementation of our controls is remediated as of December 31, 2019.

#### *Control Activities*

We previously identified a material weakness in respect to the control activities component of the COSO framework. During 2019, we designed, implemented, and enhanced control activities throughout our organization. Based on the results of our testing, we have concluded that these control activities are adequately designed and have operated effectively for a sufficient period of time during 2019. Accordingly, the material weakness with respect to the control activities component of the COSO framework is remediated as of December 31, 2019.

### **Remediation Efforts and Status of Remaining Material Weakness**

#### *Information Technology General Controls:*

During 2019, we implemented new or enhanced existing controls governing program development, change management, computer operations, and user access to programs and data. However, we believe additional time is needed to demonstrate the sustainability and effectiveness of the established controls before concluding on remediation.

### Changes in Internal Control Over Financial Reporting

During the fiscal quarter ended December 31, 2019, we made enhancements to our information technology controls governing change management and access to programs and data that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

### Equity Compensation Plan Information

The following table provides certain information, as of December 31, 2019, with respect to our compensation plans and other arrangements under which shares of our Class A common stock are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining eligible for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,548,379 (1)\$	11.93 (2)	3,988,937 (3)
Equity compensation plans not approved by security holders	—	—	—
Total	1,548,379	\$ 11.93	3,988,937

- (1) Represents 242,877 shares of Class A common stock underlying unvested Class A RSUs granted under our Restricted Membership Units Plan (the “RMUP”) prior to the IPO and 712,264 shares of Class A common stock underlying unvested Class A RSUs, 195,824 shares of Class A common stock underlying unvested Class A restricted stock awards and 397,414 shares of Class A common stock underlying unexercised Class A options granted under our 2018 Omnibus Incentive Plan (the “Incentive Plan”).
- (2) The weighted-average exercise price does not reflect the shares that will be issued in connection with the settlement of RSUs and restricted stock awards, since they have no exercise price.
- (3) Includes 1,768,877 Class A shares available for issuance under the Incentive Plan and 2,220,060 Class A shares available for issuance under our Employee Stock Purchase Plan of which 98,179 were subsequently issued on January 2, 2020.

The following table provides certain information, as of December 31, 2019, with respect to our compensation plans and other arrangements under which shares of our Class B common stock are authorized for issuance.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining eligible for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	600,011 (1)\$	— (2)	—
Equity compensation plans not approved by security holders	—	—	—
Total	600,011	\$ —	—

- (1) Represents unvested Class B RSUs granted under the RMUP prior to the IPO.

(2) There is no weighted-average exercise price since RSUs have no exercise price.

We incorporate by reference the information set forth under the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the Proxy Statement.

**A copy of our Annual Report on Form 10-K for the year ended December 31, 2019, as filed with the Securities and Exchange Commission, may be obtained by stockholders of record without charge upon written request to Nathan Harwell, Executive Vice President, Chief Legal Officer, and Secretary, at 4080 Jenkins Road, Chattanooga, Tennessee 37421.**

## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of U.S. Xpress Enterprises, Inc.

### ***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of U.S. Xpress Enterprises, Inc. and its subsidiaries (the "Company") as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income (loss), of stockholders' equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2019, including the related notes (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2019, 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO because a material weakness in internal control over financial reporting existed as of that date related to ineffective information technology general computer controls with respect to program development, change management, computer operation, and user access to programs and data.

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 annual or interim financial statements will not be prevented or detected on a timely basis. The material weakness referred to above is described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. We considered this material weakness in determining the nature, timing, and extent of audit tests applied in our audit of the 2019 consolidated financial statements, and our opinion regarding the effectiveness of the Company's internal control over financial reporting does not affect our opinion on those consolidated financial statements.

### ***Change in Accounting Principle***

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for leases in 2019.

### ***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in management's report referred to above. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (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 audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.



***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 (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) 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 (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP  
Birmingham, Alabama  
March 4, 2020

We have served as the Company's auditor since 2015.

**U.S. Xpress Enterprises, Inc.**  
**Consolidated Balance Sheets**  
**December 31, 2019 and 2018**

<i>(in thousands, except share amounts)</i>	<b>December 31, 2019</b>	<b>December 31, 2018</b>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 5,687	\$ 9,892
Customer receivables, net of allowance of \$63 and \$59 at December 31, 2019 and December 31, 2018, respectively	183,706	190,254
Other receivables	15,253	20,430
Prepaid insurance and licenses	11,326	11,035
Operating supplies	7,193	7,324
Assets held for sale	17,732	33,225
Other current assets	15,831	13,374
Total current assets	<u>256,728</u>	<u>285,534</u>
Property and equipment, at cost	880,101	898,530
Less accumulated depreciation and amortization	(388,318)	(379,813)
Net property and equipment	<u>491,783</u>	<u>518,717</u>
Other assets		
Operating lease right of use assets	276,618	—
Goodwill	57,708	57,708
Intangible assets, net	27,214	28,913
Other	30,058	19,615
Total other assets	<u>391,598</u>	<u>106,236</u>
Total assets	<u>\$ 1,140,109</u>	<u>\$ 910,487</u>
<b>Liabilities and Stockholder's Equity</b>		
Current liabilities		
Accounts payable	\$ 68,918	\$ 63,808
Book overdraft	1,313	—
Accrued wages and benefits	24,110	24,960
Claims and insurance accruals, current	51,910	47,442
Other accrued liabilities	9,127	8,120
Liabilities associated with assets held for sale	—	6,856
Current portion of operating lease liabilities	69,866	—
Current maturities of long-term debt and finance leases	80,247	113,094
Total current liabilities	<u>305,491</u>	<u>264,280</u>
Long-term debt, net of current maturities	315,797	312,819
Less unamortized discount and debt issuance costs	(1,223)	(1,347)
Net long-term debt	<u>314,574</u>	<u>311,472</u>
Deferred income taxes	20,692	19,978
Long-term liabilities associated with assets held for sale	—	8,353
Other long-term liabilities	5,249	7,713
Claims and insurance accruals, long-term	56,910	60,304
Noncurrent operating lease liabilities	206,357	—
Commitments and contingencies (Note 12)	—	—
Stockholders' Equity		
Common stock Class A, \$.01 par value, 140,000,000 shares authorized at December 31, 2019 and December 31, 2018, respectively, 33,314,141 and 32,859,292 issued and outstanding at December 31, 2019 and December 31, 2018, respectively	333	329
Common stock Class B, \$.01 par value, 35,000,000 authorized at December 31, 2019 and December 31, 2018, respectively, 15,687,101 and 15,486,560 issued and outstanding at December 31, 2019 and December 31, 2018, respectively	157	155
Additional paid-in capital	250,700	251,742
Accumulated deficit	(20,982)	(17,335)
Stockholders' equity	<u>230,208</u>	<u>234,891</u>
Noncontrolling interest	628	3,496
Total stockholders' equity	<u>230,836</u>	<u>238,387</u>
Total liabilities, redeemable restricted units and stockholders' equity	<u>\$ 1,140,109</u>	<u>\$ 910,487</u>

See Notes to Consolidated Financial Statements

**U.S. Xpress Enterprises, Inc.**  
**Consolidated Statements of Comprehensive Income (Loss)**  
**Years Ended December 31, 2019, 2018 and 2017**

(in thousands, except per share amounts)

	2019	2018	2017
<b>Operating revenue</b>			
Revenue, before fuel surcharge	\$ 1,538,450	\$ 1,622,083	\$ 1,417,173
Fuel surcharge	168,911	182,832	138,212
Total operating revenue	<u>1,707,361</u>	<u>1,804,915</u>	<u>1,555,385</u>
<b>Operating expenses</b>			
Salaries, wages, and benefits	530,885	535,994	543,735
Fuel and fuel taxes	189,800	227,525	219,515
Vehicle rents	80,064	78,639	74,377
Depreciation and amortization, net of (gain) loss on sale of property	94,337	97,954	93,369
Purchased transportation	481,589	481,945	308,624
Operating expenses and supplies	118,394	118,064	126,700
Insurance premiums and claims	88,959	85,075	77,430
Operating taxes and licenses	13,849	14,133	13,769
Communications and utilities	8,928	9,575	7,683
General and other operating expenses	75,317	66,412	61,575
Gain on sale of subsidiary	(831)	—	—
Impairment of assets held for sale	—	10,693	—
Total operating expenses	<u>1,681,291</u>	<u>1,726,009</u>	<u>1,526,777</u>
Operating income	<u>26,070</u>	<u>78,906</u>	<u>28,608</u>
<b>Other expense (income)</b>			
Interest expense, net	21,635	34,866	49,758
Early extinguishment of debt	—	7,753	—
Impairment of equity method investments or note receivable	6,793	1,804	—
Equity in loss of affiliated companies	270	381	1,350
Other, net	26	136	(1,376)
	<u>28,724</u>	<u>44,940</u>	<u>49,732</u>
Income (loss) before income tax provision	(2,654)	33,966	(21,124)
Income tax provision (benefit)	389	7,860	(17,187)
Net total and comprehensive income (loss)	<u>(3,043)</u>	<u>26,106</u>	<u>(3,937)</u>
Net total and comprehensive income (loss) attributable to noncontrolling interest	604	1,207	123
Net total and comprehensive income (loss) attributable to controlling interest	<u>\$ (3,647)</u>	<u>\$ 24,899</u>	<u>\$ (4,060)</u>
<b>Earnings (loss) per share</b>			
Basic earnings (loss) per share	\$ (0.07)	\$ 0.84	\$ (0.64)
Basic weighted average shares outstanding	48,788	29,470	6,385
Diluted earnings (loss) per share	\$ (0.07)	\$ 0.83	\$ (0.64)
Diluted weighted average shares outstanding	48,788	30,133	6,385

See Notes to Consolidated Financial Statements

**U.S. Xpress Enterprises, Inc.**  
**Consolidated Statements of Stockholders' Equity (Deficit)**  
**Years Ended December 31, 2019, 2018 and 2017**

<i>(in thousands, except share amounts)</i>	Class A Stock	Class B Stock	Additional Paid In Capital	Accumulated Deficit	Non Controlling Interest	Total Stockholders' Equity (Deficit)	Redeemable Restricted Units
<b>Balances at December 31, 2016</b>	\$ 64	—	\$ 1	\$ (39,399)	\$ 2,166	\$ (37,168)	\$ 3,131
Amortization of restricted stock	—	—	—	—	—	—	673
Dividend of repurchased membership units	—	—	—	—	—	—	(523)
Net income (loss)	—	—	—	(4,060)	123	(3,937)	—
<b>Balances at December 31, 2017</b>	\$ 64	—	\$ 1	\$ (43,459)	\$ 2,289	\$ (41,105)	\$ 3,281
Share based compensation	—	—	1,856	—	—	1,856	391
Adoption of ASC 606	—	—	—	1,459	—	1,459	—
Cancel 6,384,877 US Xpress Enterprises shares	(64)	—	—	64	—	—	—
Issuance of 16,046,624 shares of Class A Stock in Reorganization	160	—	(11)	(149)	—	—	—
Issuance of 15,486,560 shares of Class B Stock in Reorganization	—	155	(6)	(149)	—	—	—
Transfer from temporary equity to permanent equity	—	—	3,455	—	—	3,455	(3,455)
Issuance of 16,668,000 shares of Class A stock in Initial Public Offering, net of underwriting discounts and offering costs	167	—	246,449	—	—	246,616	—
Vesting of restricted stock	2	—	(2)	—	—	—	—
Dividend of repurchased membership units	—	—	—	—	—	—	(217)
Net income	—	—	—	24,899	1,207	26,106	—
<b>Balances at December 31, 2018</b>	329	155	251,742	(17,335)	3,496	238,387	—
Share based compensation	—	—	3,846	—	—	3,846	—
Vesting of restricted stock	3	2	(49)	—	—	(44)	—
Issuance of common stock under ESPP	1	—	348	—	—	349	—
Purchase of noncontrolling interest	—	—	(5,187)	—	(3,472)	(8,659)	—
Net income (loss)	—	—	—	(3,647)	604	(3,043)	—
<b>Balances at December 31, 2019</b>	\$ 333	\$ 157	\$ 250,700	\$ (20,982)	\$ 628	\$ 230,836	\$ —

See Notes to Consolidated Financial Statements



**U.S. Xpress Enterprises, Inc.**  
**Consolidated Statements of Cash Flows**  
**December 31, 2019, 2018 and 2017**

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
<b>Operating activities</b>			
Net income (loss)	\$ (3,043)	\$ 26,106	\$ (3,937)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Early extinguishment of debt	—	7,753	—
Impairments of assets held for sale and equity method investments and note receivable	6,793	12,497	—
Equity in loss of affiliated companies	270	381	1,350
Deferred income tax provision (benefit)	714	5,691	(20,156)
Depreciation and amortization	90,484	90,831	91,340
Losses on sale of equipment	3,853	7,123	2,029
Share based compensation	3,846	2,248	673
Other	660	(2,360)	2,067
Interest paid-in-kind	—	(7,516)	1,452
Gain on sale of subsidiary	(831)	—	—
Changes in operating assets and liabilities:			
Receivables	7,149	(8,972)	(32,051)
Prepaid insurance and licenses	(3,294)	(4,006)	45
Operating supplies	70	725	(510)
Other assets	(7,790)	(3,438)	(529)
Accounts payable and other accrued liabilities	5,572	(21,020)	41,930
Accrued wages and benefits	(704)	6,304	1,691
Net cash provided by operating activities	<u>103,749</u>	<u>112,347</u>	<u>85,394</u>
<b>Investing activities</b>			
Payments for purchases of property and equipment	(151,751)	(223,939)	(240,417)
Proceeds from sales of property and equipment	77,966	55,370	32,183
Acquisition of business	—	—	(2,219)
Other	(2,000)	2,480	(758)
Sale of subsidiary, net of cash	(5,845)	—	—
Net cash used in investing activities	<u>(81,630)</u>	<u>(166,089)</u>	<u>(211,211)</u>
<b>Financing activities</b>			
Borrowings under lines of credit	107,300	292,332	387,973
Payments under lines of credit	(107,300)	(321,665)	(358,640)
Borrowings under long-term debt	106,341	362,013	224,102
Payments of long-term debt	(136,228)	(504,180)	(118,834)
Payments of financing costs and original issue discount	(190)	(4,166)	(5,844)
Proceeds from IPO, net of issuance costs	—	246,616	—
Payments of long-term consideration for business acquisition	(990)	(1,010)	—
Purchase of noncontrolling interest	(8,659)	—	—
Tax withholding related to net share settlement of restricted stock awards	(44)	—	—
Proceeds from issuance of common stock under ESPP	349	—	—
Repurchase of membership units	—	(217)	(523)
Book overdraft	1,313	(3,537)	3,537
Net cash (used in) provided by financing activities	<u>(38,108)</u>	<u>66,186</u>	<u>131,771</u>
Cash included in assets held for sale	11,784	(11,784)	—
Net change in cash and cash equivalents	<u>(4,205)</u>	<u>660</u>	<u>5,954</u>
<b>Cash and cash equivalents</b>			
Beginning of year	9,892	9,232	3,278
End of period	<u>\$ 5,687</u>	<u>\$ 9,892</u>	<u>\$ 9,232</u>
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for interest	\$ 21,136	\$ 47,406	\$ 44,073
Cash paid (refunded) during the year for income taxes	58	1,603	(208)
<b>Supplemental disclosure of significant noncash investing and financing activities</b>			
Lease conversion	\$ —	\$ —	\$ 34,169
Finance lease additions	—	439	1,505
Finance lease extinguishments	40	1,146	222
Assumption of debt	—	—	5,377
Debt obligations relieved in conjunction with the divesture of Xpress Internacional	7,109	—	—
Financing costs accrued in accounts payable	—	—	1,162
Property and equipment amounts accrued in accounts payable	3,552	1,213	1,196
Uncollected proceeds from asset sales	62	2,671	424

See Notes to Consolidated Financial Statements

## **1. Organization and Operations**

U.S. Xpress Enterprises, Inc. and its consolidated subsidiaries (collectively, the “Company”, “we”, “us”, “our”, and similar expressions) provide transportation services throughout the United States and Mexico, with a focus in the densely populated and economically diverse eastern half of the United States. The Company offers its customers a broad portfolio of services using its own asset-based truckload fleet and third-party carriers through our non-asset-based truck brokerage network. The Company has two reportable segments, Truckload and Brokerage. Our Truckload segment offers asset-based truckload services, including over-the-road (“OTR”) trucking and dedicated contract services. Our Brokerage segment is principally engaged in non-asset-based freight brokerage services, where loads are contracted to third-party carriers.

U.S. Xpress Enterprises, Inc. completed its initial public offering in June 2018 (the “IPO” or the “offering”). Prior to the offering U.S. Xpress Enterprises, Inc. was wholly owned by New Mountain Lake Holdings, LLC (“New Mountain Lake”). New Mountain Lake was formed on October 12, 2007 solely for the purpose of taking U.S. Xpress Enterprises, Inc. private and holding 100% ownership of U.S. Xpress Enterprises, Inc. Immediately prior to the effectiveness of the offering, we completed a series of transactions (collectively, the “Reorganization”) pursuant to which New Mountain Lake merged with and into the Company, with the Company continuing as the surviving corporation.

In connection with the Reorganization, we adopted the Second Amended and Restated Certificate of Incorporation of the Company, and converted into and exchanged the issued and outstanding membership units of New Mountain Lake immediately prior to the Reorganization for the Company’s common stock. We provided for the issuance of 4.6666667 shares of Class A common stock for each Class B non-voting membership unit in New Mountain Lake and 4.6666667 shares of Class B common stock for each Class A voting membership unit in New Mountain Lake. The holders of Class A common stock are entitled to one vote per share and the holders of Class B common stock are entitled to five votes per share. In the offering, the Company sold 16,668,000 shares of Class A common stock at a price of \$16 per share to the public and received net proceeds of \$246.6 million, after deducting underwriting discounts and commissions and offering expenses.

Under our Articles of Incorporation, our authorized capital stock consists of 140,000,000 shares of Class A common stock, par value \$0.01 per share, 35,000,000 shares of Class B common stock, par value \$0.01 per share, and 9,333,333 shares of preferred stock, the rights and preferences of which may be designated by the Board of Directors.

## **2. Summary of Significant Accounting Policies**

### **Principles of Consolidation**

The consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

### **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (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 revenues and expenses during the reporting period. Actual results could differ from those estimates, and such differences could be material. Significant estimates include useful lives of property and equipment and related salvage value, claims reserves for liability and workers’ compensation claims and valuation allowance for deferred tax assets.

### **Cash and Cash Equivalents**

Cash and cash equivalents include all highly liquid investment instruments with an original maturity of three months or less.

### **Customer Receivables and Allowances**

Customer receivables are recorded at the invoiced amount, net of allowances for uncollectible accounts and revenue adjustments. The allowances for uncollectible accounts and revenue adjustments are based on historical experience as well as any known trends or uncertainties related to customer billing and account collectability. The Company reviews the adequacy of its allowance for doubtful accounts on a quarterly basis. Past due balances over contractual payment terms and exceeding specified amounts are reviewed individually for collectability. Receivable balances are written off when collection is deemed unlikely.

### **Operating Supplies**

Operating supplies consist primarily of parts, materials and supplies for servicing the Company's revenue and service equipment. Operating supplies are recorded at the lower of cost (on a first-in, first-out basis) or market. Tires purchased as part of revenue and service equipment are capitalized as part of the cost of the equipment. Replacement tires are charged to expense when placed in service.

### **Assets Held for Sale**

Assets held for sale are comprised primarily of revenue equipment no longer being utilized in continuing operations which are available and ready for sale. Assets held for sale are no longer subject to depreciation and are recorded at the lower of depreciated book value or fair market value less selling costs. The Company expects to sell these assets within the next twelve months. At December 31, 2019, assets held for sale was comprised of revenue equipment and a terminal. At December 31, 2018, assets held for sale included revenue equipment of approximately \$5.2 million and assets of a business held for sale of approximately \$28.0 million. See Note 4, Divestiture of Xpress International for more discussion related to the sale of our interest in Xpress Internacional S.A. de C.V. (Xpress Internacional) during January 2019.

### **Property and Equipment**

Property and equipment are carried at cost. Depreciation of property and equipment is computed using the straight-line method for financial reporting purposes and accelerated methods for tax purposes over the estimated useful lives of the related assets (net of salvage values ranging from 25.0% to 50.0% of revenue equipment). The Company periodically evaluates the estimated useful lives and salvage values of its revenue equipment, due to changes in business needs and expected usage of the equipment. Upon the retirement of property and equipment, the related asset cost and accumulated depreciation are removed from the accounts and any gain or loss is included in depreciation and amortization expense in the Company's consolidated statements of comprehensive income. Expenditures for normal maintenance and repairs are expensed. Renewals or betterments that affect the nature of an asset or increase its useful life are capitalized.

### **Leases**

We determine if an arrangement is a lease or contains a lease at inception and perform an analysis to determine whether the lease is an operating lease or a finance lease. We measure right-of-use ("ROU") assets and lease liabilities at the lease commencement date based on the present value of the remaining lease payments. As most of our leases do not provide a readily determinable implicit rate, we estimate an incremental borrowing rate based on the credit quality of the Company and by comparing interest rates available in the market for similar borrowings, and adjusting this amount based on the impact of collateral over the term of each lease. We use this rate to discount the remaining lease payments in measuring the ROU asset and lease liability. We use the implicit rate when readily determinable. We recognize lease expense for operating leases on a straight-line basis over the lease term. For our finance leases, we recognize amortization expense from the amortization of the ROU asset and interest expense on the related lease liability. We do not separate lease and nonlease components of contracts, except for certain leased information technology assets that are embedded within various service agreements. The lease components included in those agreements are included in the ROU asset and lease liability, and the amounts are not significant.

Leases with an initial term of twelve months or less are not recorded on the consolidated balance sheet. We recognize lease expense for these leases on a straight-line basis over the lease term.

### **Impairment of Long Lived Assets**

The Company reviews its long-lived assets, including property and equipment, for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Expected future cash flows are used to analyze whether an impairment has occurred. If the sum of the expected undiscounted cash flows is less than the carrying value of the long-lived asset, then an impairment loss is recognized. We measure the impairment loss by comparing the fair value of the asset to its carrying value. Fair value is determined based on a discounted cash flow analysis or the appraised value of the assets, as appropriate.

### **Goodwill**

In 2013, the Company adopted Accounting Standards Update (ASU) 2011-08, Testing Goodwill for Impairment, which allows companies to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this standard, the Company would not be required to calculate the fair value of a reporting unit unless the Company determines, based on the qualitative review, that it is more likely than not that its fair value is less than its carrying amount. The standard includes events and circumstances for the Company to consider when conducting the qualitative assessment.

The quantitative impairment test consists of two different steps. The first step identifies potential impairment by comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value exceeds its carrying amount, goodwill is not considered impaired and the second step of the test is unnecessary. If the carrying amount of a reporting unit's goodwill exceeds its fair value, the second step measures the impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

The Company performs an annual goodwill impairment analysis at the reporting unit level as of October 1 each year or when an event occurs which might cause or indicate impairment. The Company performed the qualitative assessment in the fourth quarter of 2019 and 2018 and concluded it was more likely than not that the fair value of the Truckload reporting unit was greater than its carrying amount.

### **Intangible Assets**

Customer relationships are valued as part of acquisition-related transactions using the income appraisal methodology. The income appraisal methodology includes a determination of the present value of future monetary benefits to be derived from the anticipated income, or ownership, of the subject asset. The value of customer relationships includes the value expected to be realized from existing contracts as well as from expected renewals of such contracts and is calculated using unweighted and weighted total undiscounted cash flows as part of the income appraisal methodology. Customer relationships are amortized over seven to fifteen years. The Company tests intangible assets with definite lives for impairment if conditions exist that indicate the carrying value may not be recoverable. There was no impairment of customer relationships in 2019 and 2018.

Trade names are valued based on various factors including the projected revenue stream associated with the intangible asset. The Company's trade names have an indefinite life and are not amortized. In the fourth quarter of 2019 and 2018, the Company performed the qualitative assessment of its trade name assets and concluded it was more likely than not that the fair value of each of the assets is greater than its carrying amount. Therefore, the Company concluded it was not necessary to perform the quantitative impairment test.



### **Book Overdraft**

Book overdraft represents outstanding checks in excess of current cash levels. The Company funds its book overdraft from its line of credit and operating cash flows.

### **Deferred Financing Costs**

The Company presents debt issuance costs as a direct deduction from the related debt, consistent with debt discounts. Debt issuance costs associated with revolving line-of-credit arrangements are presented as an asset. All such debt issuance costs are amortized ratably over the term of the arrangement. Term loan debt issuance costs excluding original issue discount, net of accumulated amortization were \$1.2 million and \$1.3 million at December 31, 2019 and 2018, respectively. Revolver gross debt issuance costs were \$1.5 million at December 31, 2019 and 2018, offset by accumulated amortization of \$0.5 million and \$0.2 million at December 31, 2019 and 2018, respectively. Debt issuance cost amortization expense excluding original issue discount was \$0.3 million, \$1.6 million and \$3.4 million in 2019, 2018 and 2017, respectively.

### **Recognition of Revenue**

The Company generates revenues primarily from shipments executed by the Company's Truckload and Brokerage operations. Those shipments are the Company's performance obligations, arising under contracts we have entered into with customers. Under such contracts, revenue is recognized when obligations are satisfied, which occurs over time with the transit of shipments from origin to destination. This is appropriate as the customer simultaneously receives and consumes the benefits as the Company performs its obligation. Revenue is measured as the amount of consideration the Company expects to receive in exchange for providing services. The most significant judgment used in recognition of revenue is the determination of miles driven as the basis for determining the amount of revenue to be recognized for partially fulfilled obligations. Accessorial charges for fuel surcharge, loading and unloading, stop charges, and other immaterial charges are part of the consideration we receive for the single performance obligation of delivering shipments. Contracts entered into with our customers do not contain material financing components.

The majority of revenue contracts with our customers have a duration of one year or less and do not require any significant start-up costs, and as such, costs incurred to obtain contracts associated with these contracts are expensed as incurred. For contracts with durations exceeding one year, incremental start-up costs are capitalized and amortized on a straight line basis over the contract period which materially represents the period of revenue generation. Incremental capitalized start-up costs totaled \$3.2 million and \$3.3 million at December 31, 2019 and 2018, respectively, and are included in other current assets in our consolidated balance sheets. Amortization expense associated with our start up costs was \$1.5 million and \$1.2 million in 2019 and 2018, respectively.

Through the Company's Brokerage operations, the Company outsources the transportation of the loads to third-party carriers. The Company is a principal in these arrangements, and therefore records revenue associated with these contracts on a gross basis. The Company has the primary responsibility to meet the customer's requirements. The Company invoices and collects from its customers and also maintains discretion over pricing. Additionally, the Company is responsible for selection of third-party transportation providers to the extent used to satisfy customer freight requirements.

The timing of revenue recognition, billings, cash collections, and allowance for doubtful accounts results in billed and unbilled receivables on our consolidated balance sheet. The Company receives the unconditional right to bill when shipments are delivered to their destination. We generally receive payment within 40 days of completion of performance obligations. Unbilled receivables recorded on the consolidated balance sheet were \$2.7 million and \$2.9 million at December 31, 2019 and 2018, respectively and are included in customer receivables in the consolidated balance sheets.

### **Income Taxes**

Income taxes are accounted for under the asset-and-liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date.

The Company evaluates the need for a valuation allowance on deferred tax assets based on whether it believes that it is more likely than not all deferred tax assets will be realized. A consideration of future taxable income is made as well as on-going prudent feasible tax planning strategies in assessing the need for valuation allowances. In the event it is determined all or part of a deferred tax asset would not be able to be realized, management would record an adjustment to the deferred tax asset and recognize a charge against income at that time.

The Company's estimate of the potential outcome of any uncertain tax issue is subject to its assessment of relevant risks, facts and circumstances existing at that time. The Company accounts for uncertain tax positions in accordance with ASC 740, Income Taxes, and records a liability when such uncertainties meet the more likely than not recognition threshold. Potential accrued interest and penalties related to unrecognized tax benefits are recognized as a component of income tax expense.

### **Concentration of Credit Risk**

Concentrations of credit risk with respect to customer receivables are limited due to the large number of entities comprising the Company's customer base and their dispersion across many different industries. Revenues from the Company's largest customer accounted for 12.3% of total consolidated revenues before fuel surcharge during 2019. The Company performs ongoing credit evaluations and generally does not require collateral.

### **Stock-Based Compensation**

The Company has stock-based compensation plans that provide for grants of equity to its management in the form of stock options, stock appreciation rights, stock awards, restricted stock units, performance awards, performance units, and any other form established by the Compensation Committee. Stock-based compensation is recognized over the period for which an employee is required to provide service in exchange for the award. Stock-based compensation expense is included in salaries, wages, and benefits in the consolidated statements of comprehensive income.

### **Claims and Insurance Accruals**

Claims and insurance accruals consist of cargo loss, physical damage, group health, liability (personal injury and property damage) and workers' compensation claims and associated legal and other expenses within the Company's established retention levels. Claims in excess of retention levels are generally covered by insurance in amounts the Company considers adequate. Claims accruals represent the uninsured portion of the loss and if we are the primary obligor, the insured portion of pending claims at December 31, 2019 and 2018, plus an estimated liability for incurred but not reported claims and the associated expense. Accruals for cargo loss, physical damage, group health, liability and workers' compensation claims are estimated based on the Company's evaluation of the type and severity of individual claims and future development based on historical trends. At December 31, 2019 and 2018, the amount recorded for both workers' compensation and auto liability were based in part upon actuarial studies performed by a third-party actuary.

At December 31, 2019 and 2018, the Company had a claim accrual and corresponding receivable for the amount above its self-insured retention of \$0.4 million, which the Company believes should be sufficient to resolve the remaining claims. The Company believes the insurers will provide their portion of the remaining claims.

### Recently Issued Accounting Standards

In June 2016, the FASB issued ASU No. 2016-13 Financial Instruments -Credit Losses (Topic 326) amending how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The guidance requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. The new guidance is effective for interim and annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company believes the adoption of this guidance will not have a material impact on its financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,” which eliminates Step 2 from the goodwill impairment testing process. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount. Under the new standard, a goodwill impairment loss is measured as the excess of the carrying value of a reporting unit over its fair value. The provisions of this update are effective for fiscal years beginning after December 15, 2019. The Company has evaluated the provisions of the pronouncement and does not expect the adoption of this guidance will have a material impact on the consolidated financial statements.

On December 18, 2019, the FASB issued ASU 2019-12, which modifies ASC 740 to simplify the accounting for income taxes. The amendments in ASU 2019-12 are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods therein. Early adoption of the standard is permitted, including adoption in interim or annual periods for which financial statements have not yet been issued. The Company has not early adopted this guidance and will continue to evaluate the impact on its financial statements.

### Recently Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” and has subsequently issued supplemental and/or clarifying ASUs (collectively “ASC 842”), in order to increase transparency and comparability by recognizing lease assets and liabilities on the balance sheet and disclosing key information about leasing arrangements. We adopted ASC 842 using the modified retrospective approach and applied the transition provisions with an effective date as of January 1, 2019 for leases that existed on that date. Prior period results continue to be presented under ASC 840 based on the accounting originally in effect for such periods. We elected the “package of practical expedients” under ASC 842 which permits us to not reassess our historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. We also elected the practical expedient to not reassess certain land easements. We did not elect the use-of-hindsight practical expedient during the transition of ASC 842. Adoption of ASC 842 resulted in the recording of operating lease ROU assets and corresponding operating lease liabilities of approximately \$183.0 million. The adoption of ASC 842 also resulted in increased disclosure, including qualitative and quantitative disclosures about the nature, amount, timing, and uncertainty of cash flows arising from leases. See the “Leases” section of this note and Note 10, *Leases* for additional information.

### 3. Income Taxes

The components of income (loss) before income taxes are as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Domestic	\$ (2,848)	\$ 27,262	\$ (27,722)
Mexico	194	6,704	6,598
Income (loss) before Income Taxes	<u>\$ (2,654)</u>	<u>\$ 33,966</u>	<u>\$ (21,124)</u>

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The income tax provision (benefit) for 2019, 2018 and 2017 consists of the following (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Current</b>			
Federal	\$ —	\$ (1,358)	\$ (31)
State	(325)	911	605
Mexico	—	2,616	2,396
	<u>(325)</u>	<u>2,169</u>	<u>2,970</u>
<b>Deferred</b>			
Federal	(546)	5,113	(21,190)
State	1,260	788	79
Mexico	—	(210)	954
	<u>714</u>	<u>5,691</u>	<u>(20,157)</u>
Income tax provision (benefit)	<u>\$ 389</u>	<u>\$ 7,860</u>	<u>\$ (17,187)</u>

A reconciliation of the income tax provision (benefit) as reported in the consolidated statements of comprehensive income to the amounts computed by applying federal statutory rate of 21% for 2019 and 2018 and 35% for 2017, respectively is as follows (in thousands):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Federal income tax at statutory rate	\$ (558)	\$ 7,132	\$ (7,437)
State income taxes, net of federal income tax benefit	1,633	1,319	(597)
Nondeductible per diem paid to drivers	1,173	1,182	2,476
Xpress Internacional activity	(71)	1,616	76
Tax credits	(1,341)	(1,611)	(970)
Provision to return adjustment	(138)	35	248
Valuation allowance	567	2,433	950
Foreign transition tax on deemed distribution	—	(30)	2,315
Global intangible low-taxed income (GILTI)	—	1,217	—
Tax Act impact of federal rate change	—	—	(14,723)
Basis difference on assets held for sale	—	(2,524)	—
Change in reserve for uncertain tax positions and settlements	(755)	(3,278)	146
Affirmative issue - imputed interest expense	—	1,223	(1,223)
Non-taxable life insurance death benefit	—	(1,004)	—
Expiration of federal capital loss carryforward	—	1,826	—
Excess tax benefits on share-based compensation	(459)	(651)	—
Deferred Mexican withholding tax	—	(876)	876
Other, net	338	(149)	676
Income tax provision (benefit)	<u>\$ 389</u>	<u>\$ 7,860</u>	<u>\$ (17,187)</u>

At December 31, 2018, our analysis is complete for amounts recorded related to the Act. The final amount of the one-time transition tax imposed by the Act was favorably adjusted by \$0.2 million from the original provision provided in the December 31, 2017 financial statements. There were no other material adjustments related to the impact of the Act.

Prior to the enactment of the Tax Act, the Company was indefinitely reinvested with respect to undistributed earnings of foreign subsidiaries. At December 31, 2017, the Company changed its assertion and established a deferred tax liability of \$0.9 million related to foreign withholding taxes that it would incur should it repatriate these historic earnings. As of December 31, 2018, the Company had an executed letter of intent to sell the stock of the foreign subsidiaries for which it had previously reflected the \$0.9 million deferred tax liability. Since the Company no longer expects to repatriate these earnings in the future and, instead, sold the stock of these foreign subsidiaries on January 17, 2019, it has fully reversed the related deferred tax liability. As a result of the Company's



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disposal of its interests in all foreign subsidiaries on January 17, 2019, there are no longer any undistributed earnings from foreign subsidiaries that can be indefinitely reinvested,

The tax effect of temporary differences that give rise to significant portions of deferred tax assets and liabilities at December 31, 2019 and 2018, consists of the following (in thousands):

	<u>2019</u>	<u>2018</u>
<b>Deferred tax assets</b>		
Allowance for doubtful accounts	\$ 2,075	\$ 1,333
Insurance and claims reserves	21,657	22,503
Compensation and employee benefits	3,394	2,973
Net operating loss and credit carryforwards	31,983	53,552
Net capital loss carryforward	4,860	—
Finance lease obligations	2,660	4,782
Investment in subsidiaries	151	6,660
Operating lease liabilities	67,860	—
Notes receivable reserve	2,639	—
Other	231	551
Valuation allowance	(6,393)	(5,826)
Total deferred tax assets	<u>\$ 131,117</u>	<u>\$ 86,528</u>
<b>Deferred tax liabilities</b>		
Property and equipment	\$ 75,014	\$ 97,073
Intangibles	7,541	8,007
Prepaid license fees	1,011	974
Right of use assets	67,958	—
Other	285	452
Total deferred tax liabilities	<u>\$ 151,809</u>	<u>\$ 106,506</u>
Net deferred tax liability	<u>\$ 20,692</u>	<u>\$ 19,978</u>

The Company had approximately \$22.0 million and \$0 of federal capital loss carryforwards, \$64.3 million and \$177.7 million of federal operating loss carryforwards, \$138.8 million and \$122.3 million of state operating loss carryforwards and \$0.5 million and \$0.6 million of state tax credit carryforwards at December 31, 2019 and 2018, respectively. Federal operating losses created before 2018 of \$24.6 million expire in 2037 while federal losses created in 2019 of \$39.7 million do not expire and may be carried forward indefinitely. The federal credit carryforward of \$11.0 million will begin to expire in the years 2031 through 2039. The state loss carryforwards of \$138.8 million begin to expire in the years 2020 and forward, depending on the state and may be used to offset otherwise taxable income. State tax credit carryforwards of \$0.5 million expire in the years 2020 through 2028.

The Company has a valuation allowance of \$6.4 million and \$5.8 million at December 31, 2019 and 2018, respectively, to offset the tax benefit of certain state operating loss carryforwards, state credit carryforwards, and federal capital loss carryforwards. The valuation allowance increased by \$0.6 million and \$2.4 million during the years ended December 31, 2019 and December 31, 2018, respectively, due to the addition of capital loss carryforwards, and the change in certain separate company state operating loss carryforwards and certain state tax credit carryforwards which the Company does not currently believe it will be able to utilize before the applicable expiration date of each item.

Deferred tax valuation allowances	Balance at beginning of period					Balance at end of period
	Balance at beginning of period	Charges to costs and expenses	Charges to other accounts	Deductions	Balance at end of period	
<b>Fiscal year ended</b>						
December 31, 2017	\$ 3,530	\$ 1,081	\$ —	\$ 1,218	\$ 3,393	
December 31, 2018	\$ 3,393	\$ 5,654	\$ —	\$ 3,221	\$ 5,826	
December 31, 2019	\$ 5,826	\$ 1,839	\$ —	\$ 1,272	\$ 6,393	

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For the years ended December 31, 2019, 2018 and 2017, the Company had a balance of unrecognized tax benefits of \$0, \$0.8 million and \$5.5 million respectively, which is a component of other long-term liabilities.

	2019	2018	2017
<b>Beginning balance</b>	\$ 829	\$ 5,506	\$ 5,200
Additions based on tax positions taken in prior years	—	829	306
Reductions due to settlements	(829)	—	—
Reductions as a result of a lapse of the applicable statute of limitations	—	(5,506)	—
<b>Balance at December 31</b>	<b>\$ —</b>	<b>\$ 829</b>	<b>\$ 5,506</b>

Interest and penalties related to uncertain tax positions are classified as income tax expense in the consolidated statement of comprehensive income. This amounted to \$0, \$0.1 million and \$0.1 million for 2019, 2018 and 2017, respectively.

Only tax years 2015 and forward remain subject to examination by federal and state tax jurisdictions, other than the current IRS audit. This audit is focused on amended federal income tax returns filed for 2009-2012 and relates only to reported changes in fuel tax credits and agricultural chemicals security credits. Due to events related to this IRS exam that occurred in 2018, the Company has released the reserve related to these items.

As of December 31, 2019, the Company has settled all uncertain tax positions with the applicable tax authorities.

**4. Divestiture of Xpress Internacional**

On January 17, 2019, we sold our 95% interest in Xpress Internacional as well as our equity method investments with operations in Mexico (Dylka Distribuciones Logisti-K, S.A. DE C.V. and XPS Logisti-K Systems, S.A.P.I. de C.V.). The purchase price was \$4.5 million in cash, a \$6.0 million note receivable and approximately \$2.5 million in contingent consideration related to the completion of selling 110 tractors. The fair value of the tractors approximated \$2.5 million on January 17, 2019. During 2019, we updated the fair value of the tractors to \$1.7 million from the previously recorded \$2.5 million and recorded an additional net cash receivable for \$1.6 million as a result of lower than expected purchase expenses at Xpress Internacional. The results of operations from the business classified as assets held for sale were not material to our consolidated revenues or consolidated operating income. During 2018, we recognized a held for sale impairment in the amount of \$11.6 million related to the disposal group as the net carrying value exceeded the fair value. We recognized a subsequent gain during 2019 of \$0.8 million.

Amounts classified as assets and liabilities held for sale at December 31, 2018 related to the disposal group outlined above within the consolidated balance sheet are as follows (in thousands):

Total current assets of business held for sale	\$ 28,038
Property, plant and equipment	10,635
Other assets	994
Total disposal group assets held for sale	<u>\$ 39,667</u>
Total current liabilities associated with assets held for sale	\$ 6,856
Long-term liabilities associated with assets held for sale	8,353
Total liabilities associated with assets of business held for sale	<u>\$ 15,209</u>
Held for sale impairment charge	11,629
Fair value of disposal group held for sale	<u>\$ 12,829</u>

**5. Property and Equipment**

The cost and lives at December 31, 2019 and 2018, are as follows (in thousands):

	Approximate Lives	Cost	
		2019	2018
Land and land improvements		\$ 15,229	\$ 22,130
Buildings and building improvements	10 – 40 years	56,008	85,317
Revenue and service equipment	3 – 15 years	645,808	648,648
Furniture and equipment	3 – 7 years	48,682	47,482
	lesser of useful life or		
Leasehold improvements	lease terms	24,324	23,027
Computer software	1 – 7 years	90,050	71,926
		<u>\$ 880,101</u>	<u>\$ 898,530</u>

The Company recognized \$84.6 million, \$85.9 million and \$86.0 million in depreciation expense in 2019, 2018 and 2017, respectively. The Company recognized \$3.9 million, \$7.1 million and \$2.0 million of losses on the sale of equipment in 2019, 2018 and 2017, respectively, which is included in depreciation and amortization expense in the consolidated statements of comprehensive income. The Company enters into finance leases for certain revenue equipment with terms ranging from 24 - 100 months. At December 31, 2019 and 2018, property and equipment included finance leases with costs of \$29.5 million and \$39.5 million, and accumulated amortization of \$15.9 million and \$18.1 million, respectively. Amortization of finance leases is also included in depreciation expense. The Company recognized \$4.1 million, \$3.1 million and \$3.8 million of computer software amortization expense in 2019, 2018 and 2017, respectively. Accumulated amortization for computer software was \$64.2 million and \$60.2 million as of December 31, 2019 and 2018, respectively.

**6. Goodwill**

Our U.S. Xpress and Total Transportation of Mississippi (“Total”) reporting units, both of which aggregate into our Truckload reportable segment, are the only reporting units that have goodwill. The carrying amounts of goodwill are \$52.8 million at U.S. Xpress and \$4.9 million at Total at December 31, 2019 and 2018.

**7. Intangible Assets**

The gross amount of the customer relationships was \$21.7 million as of December 31, 2019 and 2018, respectively. The Company recognized \$1.7 million, \$1.8 million and \$1.6 million of amortization expense in 2019, 2018 and 2017, respectively and accumulated amortization was \$17.8 million and \$16.1 million as of December 31, 2019 and 2018, respectively. The weighted average remaining useful life for the customer relationships was 3.3 and 4.0 years at December 31, 2019 and 2018, respectively.

The gross carrying value of the indefinite lived trade names was \$23.3 million as of December 31, 2019 and 2018, respectively.

Scheduled amortization expense related to customer relationships for future years is as follows (in thousands):

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	<b>Customer Relationship</b>
2020	\$ 1,679
2021	1,393
2022	345
2023	345
2024	115
Thereafter	—
	<u>\$ 3,877</u>

**8. Equity Investments**

At December 31, 2018 the Company had a 38% ownership in XPS Logisti-K Systems, S.A.P.I. de C.V. (“Logisti-K”), a Mexican based third party logistics business with the remaining 62% interest is owned by management of Logisti-K, and a 30% neutral investment in Dylka (Distribuciones Logisti-K S.A. de C. V. (“Dylka”), an intra-Mexican carrier with the remaining 70% interest owned by the management of Dylka with these shareholders also representing 42% ownership of Logisti-K. The Company had provided the combined companies a \$5.0 million working capital loan. At December 31, 2018, the outstanding amount of the working capital loan was \$4.9 million plus accrued interest. On January 17, 2019, we sold our investments in Logisti-K and Dylka in conjunction with the sale of Xpress Internacional and entered into promissory notes for the working capital loan plus interest. The notes have scheduled monthly payments and mature in April 2029. As of December 31, 2019, Logisti-K and Dylka were in compliance with the terms of the notes.

During 2011 and 2012, the Company obtained common unit ownership interests in DriverTech, LLC (DriverTech). DriverTech is a provider of onboard computers designed for in-cab use and related software for the trucking industry. The Company owns 20.73% and certain members of management of the Company own 12.00%. The remaining 67.27% is owned by other investors. The carrying value of our investment in DriverTech was \$0 at December 31, 2019 and 2018, respectively.

In conjunction with the sale of Arnold Transportation, Inc. (Arnold) to Parker Global Enterprises, Inc. (Parker), the Company received common stock representing 45% of the outstanding equity interests of Parker. The investment in Parker is accounted for under the equity method of accounting and was initially recognized at fair value of \$10.4 million on January 2, 2013. The carrying amount of the Company’s investment in Parker was \$0 as of December 31, 2019 and 2018. In February 2020, we sold our interest in Parker to the management of Parker.

In April 2015, we sold our interest in XGS and received common stock representing 10% of the outstanding equity interests of XGS valued at \$0.2 million, and \$5.0 million preferred stock. The investment in XGS was accounted for under the equity method of accounting and was initially recognized at fair value of \$5.2 million on April 13, 2015. During December 2018, the Company’s residual 10% investment along with our preferred stock was extinguished and we recognized an impairment charge of \$0.9 million.

Summarized financial information for the Company’s equity investments aggregated as of December 31, 2019, 2018 and 2017 is as follows (in thousands):

(in thousands)	<b>As of December 31,</b>	
	<b>2019</b>	<b>2018</b>
Current assets	\$ 12,976	\$ 23,325
Non-current assets	14,704	29,297
Total Assets	<u>27,680</u>	<u>52,622</u>
Current liabilities	34,302	54,733
Non-current liabilities	62,058	83,085
Total Liabilities	<u>96,360</u>	<u>137,818</u>
Net Liabilities	<u>\$ (68,680)</u>	<u>\$ (85,196)</u>



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	<b>For the Years Ended December 31,</b>		
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total operating revenue	\$ 115,501	\$ 158,414	\$ 243,311
Operating expenses	122,459	151,523	247,384
Operating income (loss)	(6,958)	6,891	(4,073)
Net loss	\$ (12,512)	\$ (3,679)	\$ (12,023)

**9. Long-Term Debt**

Long-term debt at December 31, 2019 and 2018 consists of the following (in thousands):

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Line of credit, maturing June 2023	\$ —	\$ —
Term loan agreement, interest rate of 4.3% and 4.8% at December 31, 2019 and December 31, 2018, respectively, maturing June 2023	150,000	195,000
Revenue equipment installment notes with finance companies, weighted average interest rate of 4.7% and 5.0% at December 31, 2019 and 2018, due in monthly installments with final maturities at various dates through February 2026, secured by related revenue equipment with a net book value of \$220.4 million and \$197.1 million at December 31, 2019 and 2018	208,252	184,867
Mortgage note payables, interest rates ranging from 6.26% to 6.99% at December 31, 2019 and 2018 due in monthly installments with final maturities at various dates through September 2031, secured by real estate with a net book value of \$20.2 million and \$24.1 million at December 31, 2019 and 2018	17,776	18,861
Other	<u>8,795</u>	<u>6,872</u>
	384,823	405,600
Less: Debt issuance costs	(1,223)	(1,347)
Less: Current maturities of long-term debt	(75,596)	(106,383)
	<u>\$ 308,004</u>	<u>\$ 297,870</u>

**Credit Facilities**

In June 2018, we entered into a credit facility that contained a \$150.0 million revolving component and a \$200.0 million term loan component. The credit facility contained an accordion feature that, so long as no event of default existed, allowed us to request an increase in the borrowing amounts under the revolving facility or the term facility by a combined maximum amount of \$75.0 million. Borrowings under the credit facility were classified as either “base rate loans” or “Eurodollar rate loans.” Base rate loans accrued interest at a base rate equal to the agent’s prime rate plus an applicable margin that was set at 1.25% through September 30, 2018 and adjusted quarterly thereafter between 0.75% and 1.50% based on our consolidated net leverage ratio. Eurodollar rate loans will accrue interest at London Interbank Offered Rate, or a comparable or successor rate approved by the administrative agent, plus an applicable margin that was set at 2.25% through September 30, 2018 and adjusted quarterly thereafter between 1.75% and 2.50% based on our consolidated net leverage ratio. The credit facility required payment of a commitment fee on the unused portion of the revolving facility commitment of between 0.25% and 0.35% based on our consolidated net leverage ratio. In addition, the revolving facility included, within its \$150.0 million revolving credit facility, a letter of credit sub facility in an aggregate amount of \$75.0 million and a swingline sub facility in an aggregate amount of \$15.0 million. The term facility had scheduled quarterly principal payments between 1.25% and 2.50% of the original face amount of the term facility plus any additional amount borrowed pursuant to the accordion feature of the term facility, with the first such payment occurring on the last day of our fiscal quarter ending September 30, 2018. The Credit Facility was scheduled to mature on June 18, 2023.

Borrowings under the credit facility were prepayable at any time without premium and are subject to mandatory prepayment from the net proceeds of certain asset sales and other borrowings. The credit facility was secured by a pledge of substantially all of our assets, excluding, among other things, certain real estate and revenue equipment financed outside the credit facility.

The credit facility contained restrictive covenants including, among other things, restrictions on our ability to incur additional indebtedness or issue guarantees, to create liens on our assets, to make distributions on or redeem equity interests, to make investments, to transfer or sell properties or other assets and to engage in mergers, consolidations, or acquisitions. In addition, the credit facility required us to meet specified financial ratios and tests, including a maximum leverage ratio and a minimum interest coverage ratio.

At December 31, 2019, the Revolving Facility had issued collateralized letters of credit in the face amount of \$32.7 million, with \$0 borrowings outstanding and \$117.3 million available to borrow and the Term Facility had \$150.0 million outstanding.

On January 28, 2020, we entered into a new credit facility (the “Credit Facility”) and contemporaneously with the funding of the Credit Facility paid off obligations under our then existing credit facility and terminated such facility. The Credit Facility is a \$250.0 million revolving credit facility, with an uncommitted accordion feature that, so long as no event of default exists, allows the Company to request an increase in the revolving credit facility of up to \$75.0 million.

The Credit Facility is a five-year facility scheduled to terminate on January 28, 2025. Borrowings under the Credit Facility are classified as either “base rate loans” or “eurodollar rate loans”. Base rate loans accrue interest at a base rate equal to the highest of (A) the Federal Funds Rate plus 0.50%, (B) the Agent’s prime rate, and (C) LIBOR plus 1.00% plus an applicable margin that is set at 0.50% through June 30, 2020 and adjusted quarterly thereafter between 0.25% and 0.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. Eurodollar rate loans accrue interest at LIBOR plus an applicable margin that is set at 1.50% through June 30, 2020 and adjusted quarterly thereafter between 1.25% and 1.75% based on the ratio of the daily average availability under the Credit Facility to the daily average of the lesser of the borrowing base or the revolving credit facility. The Credit Facility includes, within its \$250.0 million revolving credit facility, a letter of credit sub-facility in an aggregate amount of \$75.0 million and a swingline sub-facility in an aggregate amount of \$25.0 million. An unused line fee of 0.25% is applied to the average daily amount by which the lenders’ aggregate revolving commitments exceed the outstanding principal amount of revolver loans and aggregate undrawn amount of all outstanding letters of credit issued under the Credit Facility. The Credit Facility is secured by a pledge of substantially all of the Company’s assets, excluding, among other things, any real estate or revenue equipment financed outside the Credit Facility.

Borrowings under the new Credit Facility are subject to a borrowing base limited to the lesser of (A) \$250.0 million; or (B) the sum of (i) 87.5% of eligible billed accounts receivable, plus (ii) 85.0% of eligible unbilled accounts receivable (less than 30 days), plus (iii) 85.0% of the net orderly liquidation value percentage applied to the net book value of eligible revenue equipment, plus (iv) the lesser of (a) 80.0% the fair market value of eligible real estate or (b) \$25.0 million. The Credit Facility contains a single springing financial covenant, which requires a consolidated fixed charge coverage ratio of at least 1.0 to 1.0. The financial covenant is tested only in the event excess availability under the Credit Facility is less than the greater of (A) 10.0% of the lesser of the borrowing base or revolving credit facility or (B) \$20.0 million

The Credit Facility includes usual and customary events of default for a facility of this nature and provides that, upon the occurrence and continuation of an event of default, payment of all amounts payable under the Credit Facility may be accelerated, and the lenders’ commitments may be terminated. The Credit Facility contains certain restrictions and covenants relating to, among other things, dividends, liens, acquisitions and dispositions, affiliate transactions, and other indebtedness.

#### **Old Term Loan Agreement**

At December 31, 2017, the Company had an outstanding term loan in the amount of \$193.2 million.

In June 2018, the Company repaid this term loan with proceeds from the offering and incurred a loss on early extinguishment of debt. The loss resulted from the write-off of unamortized discount and debt issuance costs of \$0.6 million and \$5.3 million, respectively, payment of fees to lenders of \$1.4 million and third party fees of \$0.1 million.

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**Old Line of Credit**

At December 31, 2017, the Company had \$29.3 million outstanding on its \$155.0 million senior secured revolving credit facility.

In June 2018, in connection with the offering and entering into the New Credit Facility, the Company repaid and terminated this revolving credit facility and incurred a loss on early extinguishment of debt. The loss resulted from the write-off of debt issuance costs of \$0.2 million and payment of fees to lenders of \$0.1 million.

**Debt Maturities**

As of December 31, 2019, the scheduled principal payments of long-term debt, excluding unamortized discount and debt issuance costs and finance leases are as follows (in thousands):

2020	\$ 75,596
2021	42,602
2022	61,874
2023	179,403
2024	3,904
Thereafter	21,444
	<u>\$ 384,823</u>

**10. Leases**

We have operating and finance leases with terms of 1 year to 15 years for certain revenue and service equipment and office and terminal facilities.

The table below presents the lease-related assets and liabilities recorded on the balance sheet (in thousands):

Leases	Classification	December 31, 2019
<b>Assets</b>		
Operating	Operating lease right-of-use assets	\$ 276,618
Finance	Property and equipment, net	13,641
Total leased assets		<u>\$ 290,259</u>
<b>Liabilities</b>		
Current		
Operating	Current portion of operating lease liabilities	\$ 69,866
Finance	Current maturities of long-term debt and finance leases	4,651
Noncurrent		
Operating	Noncurrent operating lease liabilities	206,357
Finance	Long-term debt and finance leases, net of current maturities	6,570
Total lease liabilities		<u>\$ 287,444</u>

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The table below presents certain information related to the lease costs for finance and operating leases (in thousands):

Lease Cost	Classification	Year Ended December 31, 2019
Operating lease cost	Vehicle rents and General and other operating	\$ 81,467
Finance lease cost:		
Amortization of finance lease assets	Depreciation and amortization	3,102
Interest on lease liabilities	Interest expense	1,093
Short-term lease cost	General and other operating	4,111
<b>Total lease cost</b>		<b>\$ 89,773</b>

Cash Flow Information	Year Ended December 31, 2019
Cash paid for operating leases included in operating activities	\$ 81,467
Cash paid for finance leases included in operating activities	\$ 1,093
Cash paid for finance leases included in financing activities	\$ 9,049
Operating lease right-of-use assets obtained in exchange for lease obligations	\$ 170,855
Operating lease right-of-use assets and liabilities relieved in conjunction with divestiture of Xpress Internacional	\$ 2,018

Lease Term and Discount Rate	Weighted Average Remaining Lease Term (years)	Weighted-Average Discount Rate
Operating leases	5.0	4.4 %
Finance leases	3.3	5.4 %

As of December 31, 2019, future maturities of lease liabilities were as follows (in thousands):

	December 31, 2019	
	Finance	Operating
2020	\$ 5,217	\$ 80,628
2021	4,081	71,656
2022	1,423	59,215
2023	1,423	43,588
2024	296	20,245
Thereafter	—	35,523
	12,440	310,855
Less: Amount representing interest	(1,219)	(34,632)
<b>Total</b>	<b>\$ 11,221</b>	<b>\$ 276,223</b>

During the fourth quarter of 2019, the Company entered into a sale leaseback transaction involving three terminals. The Company received proceeds of \$23.5 million from the sale of the terminals which was used to pay down our term loan. The Company will lease back the terminals with an initial lease term of fifteen years at an approximate initial annual rate of \$1.7 million that increases by 1.7% per year throughout the term. The Company accounted for the leases as operating leases and recorded a right of use asset and operating lease liability in the amount of \$20.8 million. The transaction resulted in a gain of approximately \$1.2 million which is included in (gain) loss on sale of property.



Rental expense under noncancelable operating leases during 2018 and 2017 was approximately \$78.5 million and \$75.7 million, respectively. Certain revenue equipment leases provide for guarantees by the Company of a portion of the specified residual value at the end of the lease term. The maximum potential amount of future payments (undiscounted) under these guarantees is approximately \$91.5 million at December 31, 2019. The residual value of a portion of the related leased revenue equipment is covered by repurchase or trade agreements between the Company and the equipment manufacturer.

#### **11. Related-Party Transactions**

The Company had a \$25.5 million note payable to a limited liability company controlled by certain officers of the Company as of December 31, 2017. The Company repaid the note in the amount of \$26.6 million which included paid in kind interest of \$8.6 million as of June 2018.

The Company leased a terminal facility from entities owned by the two principal stockholders of New Mountain Lake and their respective family trusts. The lease agreement was set to expire in 2020. Rent expense of approximately \$0.5 million and \$0.9 million was recognized in connection with these leases during 2018 and 2017, respectively. In June 2018, the Company purchased the terminal facility for \$7.5 million with proceeds from the offering.

The Company and two principal stockholders of the Company collectively own 32.73% of the outstanding stock of DriverTech. Total payments by the Company to this provider were \$2.4 million, \$1.5 million and \$1.5 million in 2019, 2018 and 2017, respectively, primarily for communications hardware. This product is designed specifically for in-cab use on a Windows platform to enhance communications with the driver.

In connection with the sale of Arnold to Parker, the Company entered into a number of agreements with Parker. Under the Transition Services Agreement, the Company agreed to perform certain services for Parker, such as accounting, payroll, human resources, information technology and others. Parker paid the Company approximately \$0.2 million, \$0.2 million and \$0.2 million under this agreement during 2019, 2018 and 2017, respectively.

The Company entered into a ten-year lease with Arnold for the use of real property located in Grand Prairie, Texas. Arnold paid the Company approximately \$0.4 million, \$0.4 million and \$0.4 million under these agreements during 2019, 2018 and 2017, respectively.

During 2019, the Company converted \$5.0 million in trade receivables to a promissory note and under the note advanced an additional \$2.0 million. In the fourth quarter of 2019, Company recorded a \$6.8 million impairment charge as the collectability of the note was remote. At December 31, 2019 and 2018, \$0.2 million and \$3.1 million was due from Arnold and was included in other receivables in the accompanying consolidated balance sheets, respectively.

#### **12. Commitments and Contingencies**

The Company is party to certain legal proceedings incidental to its business. The ultimate disposition of these matters, in the opinion of management, based in part on the advice of legal counsel, is not expected to have a materially adverse effect on the Company's financial position or results of operations.

For the cases described below, management is unable to provide a meaningful estimate of the possible loss or range of loss because, among other reasons, (1) the proceedings are in various stages; (2) damages have not been sought; (3) damages are unsupported and/or exaggerated; (4) there is uncertainty as to the outcome of the proceedings, including pending appeals; and/or (5) there are significant factual issues to be resolved. For these cases, however, management does not believe, based on currently available information, that the outcomes of these proceedings will have a material adverse effect on our financial condition, though the outcomes could be material to our operating results for any particular period, depending, in part, upon the operating results for such period.

*California Wage and Hour Class Action Litigation*

On December 23, 2015, a class action lawsuit was filed against us and our subsidiary U.S. Xpress, Inc. in the Superior Court of California, County of San Bernardino. The case was transferred to the U.S. District Court for the Central District of California. The putative class includes current and former truck drivers employed by us who worked or work in California after the completion of their training while residing in California since December 23, 2011 to present. The case alleges that class members were not paid for off-the-clock work, were not provided duty free meal or break times, and were not paid premium pay in their absence, were not paid minimum wage for all hours worked, were not provided accurate and complete time and pay records and were not paid all accrued wages at the end of their employment, all in violation of California law. The class seeks a judgment for compensatory damages and penalties, injunctive relief, attorney fees and costs and pre- and post-judgment interest. On May 2, 2019, the court dismissed on grounds of preemption the claims alleging failure to provide duty free meal and rest breaks or to pay premium pay for failure to provide such breaks under California law. The parties have also filed cross-motions for summary judgment on the remaining claims, and the Company has filed a motion to decertify the class. The parties are completing supplemental briefing on those motions, and the court has scheduled oral argument on the motions. The matter is currently in discovery, and a jury trial has set to begin on September 1, 2020. We are currently not able to predict the probable outcome or to reasonably estimate a range of potential losses, if any. We intend to vigorously defend the merits of these claims.

*Stockholder Claims*

As set forth below, between November 2018 and April 2019, eight substantially similar putative securities class action complaints were filed against us and certain other defendants: five in the Circuit Court of Hamilton County, Tennessee (“Tennessee State Court Cases”), two in the U.S. District Court for the Eastern District of Tennessee (“Federal Court Cases”), and one in the Supreme Court of the State of New York (“New York State Court Case”). Two of the Tennessee State Court Cases and one of the Federal Court Cases have been voluntarily dismissed. All of these matters are in preliminary stages of litigation, and discovery has not yet begun. We are currently not able to predict the probable outcome or to reasonably estimate a range of potential losses, if any.

On November 21, 2018, a putative class action complaint was filed in the Circuit Court of Hamilton County, Tennessee against us, five of our officers or directors, and the seven underwriters who participated in our June 2018 initial public offering (“IPO”), alleging violations of Sections 11 and 15 of the Securities Act of 1933 (the “Securities Act”). The class action lawsuit is based on allegations that the Company made false and/or misleading statements in the registration statement and prospectus filed with the Securities and Exchange Commission (“SEC”) in connection with the IPO. The lawsuit is purportedly brought on behalf of a putative class of all persons or entities who purchased or otherwise acquired the Company’s Class A common stock pursuant and/or traceable to the IPO, and seeks, among other things, compensatory damages, costs and expenses (including attorneys’ fees) on behalf of the putative class.

On January 23, 2019, a substantially similar putative class action complaint was filed in the Circuit Court of Hamilton County, Tennessee, by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018. On March 7, 2019, this case was voluntarily dismissed by the plaintiff.

On January 30, 2019, a substantially similar putative class action complaint was filed in the Circuit Court of Hamilton County, Tennessee, by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018, and also alleging a claim under Section 12 of the Securities Act.

On February 5, 2019, a substantially similar putative class action complaint was filed in the Circuit Court of Hamilton County, Tennessee, by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018, and also alleging a claim under Section 12 of the Securities Act.

On February 6, 2019, a substantially similar putative class action complaint was filed in the Circuit Court of Hamilton County, Tennessee, by different plaintiffs alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018. On March 19, 2019, this case was voluntarily dismissed by the plaintiff.

On March 8, 2019, a substantially similar putative class action complaint was filed in the U.S. District Court for the Eastern District of Tennessee by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018. On May 9, 2019, this case was voluntarily dismissed by the plaintiff.

On March 14, 2019, a substantially similar putative class action complaint was filed in the Supreme Court of the State of New York, County of New York, by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against the same defendants as in the action commenced on November 21, 2018. The parties have stipulated to extend the time for defendants to respond to the complaint in this matter pending resolution of the motions to dismiss filed (or to be filed) in the remaining of the Tennessee State Court Cases and the Federal Court Cases.

On April 2, 2019, a substantially similar putative class action complaint was filed in the U.S. District Court for the Eastern District of Tennessee, by a different plaintiff alleging claims under Sections 11 and 15 of the Securities Act against us and the same five of our officers and directors as in the action commenced on November 21, 2018. Unlike the previously filed complaints, this complaint did not name as defendants any of the seven underwriters who participated in our IPO; however, an amended complaint was filed on October 8, 2019 (“Amended Federal Complaint”) which added all underwriters who participated in the IPO as defendants.

The three remaining Tennessee State Court Cases have been consolidated, and discovery is currently stayed pending a decision on a motion to dismiss filed by the Company and the other defendants. On July 18, 2019, the court presiding over the remaining of the Federal Court Cases issued an order appointing lead plaintiff and lead counsel. Pursuant to a stipulation entered in that matter, the appointed lead plaintiff filed the Amended Federal Complaint on October 8, 2019.

The Amended Federal Complaint is made on behalf of a putative class that consists of all persons who purchased or otherwise acquired the Class A common stock of USX between June 14, 2018 and November 1, 2018 and who were allegedly damaged thereby. In addition, the Amended Federal Complaint alleges additional violations of Section 10(b) and 20(a) of the Securities Exchange Act of 1934 (“Exchange Act”) against the Company, its Chief Executive Officer and its Chief Financial Officer. On December 23, 2019, the defendants filed a motion to dismiss the Amended Federal Complaint in its entirety for failure to allege facts sufficient to state a claim under either the Securities Act or the Exchange Act.

The complaints in all the actions listed above allege that the Company made false and/or misleading statements in the registration statement and prospectus filed with the SEC in connection with the IPO, and that, as a result of such alleged statements, the plaintiffs and the members of the putative classes suffered damages. The Amended Federal Complaint additionally alleges that the Company, its Chief Executive Officer and its Chief Financial Officer made false and/or misleading statements and/or material omissions in press releases, earnings calls, investor conferences, television interviews, and filings made with the SEC subsequent to the IPO. We believe the allegations made in the complaints are without merit and intend to defend ourselves vigorously in these matters.

#### *Stockholder Derivative Action*

On June 7, 2019, a stockholder derivative lawsuit was filed in the District Court for Clark County, Nevada against five of our executives and all five of our independent board members (collectively, the “Individual Defendants”), and naming the Company as a nominal defendant. The complaint alleges that the Company made false and/or misleading statements in the registration statement and prospectus filed with the SEC in connection with the IPO and that the Individual Defendants breached their fiduciary duties by causing or allowing the Company to make such statements. The complaint alleges that the Company has been damaged by the alleged wrongful conduct as a result of, among other things, being subjected to the time and expense of the securities class action lawsuits that

have been filed relating to the IPO. In addition to a claim for alleged breach of fiduciary duties, the lawsuit alleges claims against the Individual Defendants for unjust enrichment, abuse of control, gross mismanagement, and waste of corporate assets. The parties have stipulated to a stay of this proceeding pending the filing of an answer or a dismissal in the remaining of the Tennessee State Court Cases or the Federal Court Cases. This matter is in the preliminary stages of litigation and discovery has not yet begun. We are currently not able to predict the probable outcome or to reasonably estimate a range of potential losses, if any. We believe the allegations made in the complaint are without merit and intend to defend ourselves vigorously in these matters.

#### *Independent Contractor Class Action*

On March 26, 2019, a putative class action complaint was filed in the U.S. District Court for the Eastern District of Tennessee against us and our subsidiaries U.S. Xpress, Inc. and U.S. Xpress Leasing, Inc. The putative class includes all individuals who performed work for U.S. Xpress, Inc. or U.S. Xpress Leasing, Inc. as lease drivers from March 26, 2016 to present. The complaint alleges that independent contractors are improperly designated as such and should be designated as employees and thus subject to the Fair Labor Standards Act (“FLSA”). The complaint further alleges that U.S. Xpress, Inc.’s pay practices with regard to the putative class members violated the minimum wage provisions of the FLSA for the period from March 26, 2016 to present. The complaint further alleges that we violated the requirements of the Truth in Leasing Act with regard to the independent contractor agreements and lease purchase agreements we entered into with the putative class members. The complaint further alleges that we failed to comply with the terms of the independent contractor agreements and lease purchase agreements entered into with the putative class members, that we violated the provisions of the Tennessee Consumer Protection Act in advertising, describing and marketing the lease purchase program to the putative class members, and that we were unjustly enriched as a result of the foregoing allegations. The defendants filed a Motion to Compel Arbitration on October 18, 2019. On January 17, 2020, the court granted defendants’ motion, in part, compelling arbitration on all of plaintiff’s claims and denying plaintiff’s motion for conditional certification of a collective action. The court further stayed the matter pending arbitration, rather than dismissing it entirely. There has been no discovery in this matter, and we are currently not able to predict the probable outcome or to reasonably estimate a range of potential losses, if any. We believe the allegations made in the complaint are without merit and intend to defend ourselves vigorously against the complaints relating to such actions.

The Company has letters of credit of \$32.7 million outstanding as of December 31, 2019. The letters of credit are maintained primarily to support the Company’s insurance program.

The Company had cancelable commitments outstanding at December 31, 2019 to acquire revenue equipment for approximately \$111.2 million in 2020. These purchase commitments are expected to be financed by operating leases, long-term debt, proceeds from sales of existing equipment, and cash flows from operations.

### **13. Share-based Compensation**

#### **2018 Omnibus Incentive Plan**

In June 2018, the Board approved the 2018 Omnibus Incentive Plan (the “Incentive Plan”) to become effective in connection with the offering. The Company has reserved an aggregate of 3.2 million shares of its Class A common stock for issuance of awards under the Incentive Plan. Participants in the Incentive Plan will be selected by the Compensation Committee from the executive officers, directors, employees and consultants of the Company. Awards under the Incentive Plan may be made in the form of stock options, stock appreciation rights, stock awards, restricted stock units, performance awards, performance units, and any other form established by the Compensation Committee pursuant to the Incentive Plan.

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The following is a summary of the Incentive Plan restricted stock and restricted stock unit activity from June 13, 2018 to December 31, 2019:

	<u>Number of Units</u>	<u>Weighted Average Grant Date Fair Value</u>
<b>Unvested at June 13, 2018</b>	—	\$ —
Granted	287,232	14.30
Forfeited	<u>(16,490)</u>	16.00
<b>Unvested at December 31, 2018</b>	<u>270,742</u>	\$ 14.20
Granted	902,285	7.53
Vested	(125,621)	11.42
Forfeited	<u>(139,318)</u>	9.17
<b>Unvested at December 31, 2019</b>	<u>908,088</u>	\$ 8.73

Service based restricted stock grants vest over periods of one to five years and account for 648,088 of the unvested shares. Performance based awards account for 260,000 of the unvested shares and vest based upon achievement of certain performance goals, as defined by the Company. The Company recognized compensation expense related to service based awards of \$2.2 million and \$1.0 million during 2019 and 2018, respectively. The Company recognized compensation expense of \$0.3 million related to performance awards. At December 31, 2019, the Company had \$4.3 million in unrecognized compensation expense related to the service based restricted stock awards which is expected to be recognized over a weighted average period of approximately 2.6 years.

The following is a summary of the Incentive Plan stock option activity from June 13, 2018 to December 31, 2019:

	<u>Number of Units</u>	<u>Weighted Average Grant Date Fair Value</u>
<b>Unvested at June 13, 2018</b>	—	\$ —
Granted	192,203	6.09
Forfeited/Canceled	<u>(14,943)</u>	6.09
<b>Unvested at December 31, 2018</b>	<u>177,260</u>	\$ 6.09
Granted	244,785	4.41
Vested	(44,312)	6.09
Forfeited/Canceled	<u>(18,474)</u>	6.09
<b>Unvested at December 31, 2019</b>	<u>359,259</u>	\$ 4.95

The stock options vest over a period of four years and expire ten years from the date of grant. The Company recognized compensation expense of \$0.6 million and \$0.3 million during 2019 and 2018, respectively. The fair value of the stock option grant was estimated using the Black-Scholes method as of the grant date using the following assumptions:

	<u>2019</u>	<u>2018</u>
Strike price	\$ 9.40	\$ 16.00
Risk-free interest rate	2.50 %	2.91 %
Expected dividend yield	0 %	0 %
Expected volatility	45.65 %	32.67 %
Expected term (in years)	6.25	6.25

At December 31, 2019, the Company had \$1.2 million in unrecognized compensation expense related to the stock option awards which is expected to be recognized over a period of approximately 2.9 years. As of December 31, 2019, 38,155 options were exercisable with an exercise price of \$16.00 and a remaining contractual life of 8.5 years.



### Stock Appreciation Rights

In June 2015, the Company approved the 2015 Stock Appreciation Rights Plan. The purpose of the plan was to attract and retain the best available personnel for positions of substantial responsibility and to provide incentive to employees to promote the success of the Company's business. Each holder of an award had the right to receive a cash payment amounting to the difference between the grant price and the fair market value of the Company's Class A common stock on the exercise date. These awards were subject to time-based and performance-based vesting conditions. For each grant, the number of shares awarded was determined based on a performance condition relating to certain financial results of the Company. Awards granted vested ratably over a service period of 5 years. The awards were accounted for as liability classified compensatory awards under ASC 710 and valued using the intrinsic value method, as permitted by ASC 718 for nonpublic entities, with changes to the value recognized as compensation expense during each reporting period.

In conjunction with the offering, the Company vested all remaining stock appreciation rights ("SARS") and settled the resulting liabilities related thereto. As a result, the Company recorded additional compensation expense in the amount of \$3.2 million in the second quarter of 2018.

The following is a summary of the Company's SARS activity for 2018 and 2017:

	<b>Number of Units</b>	<b>Grant Date Exercise Price</b>
<b>Outstanding at December 31, 2016</b>	72,500	9.95
Granted	—	—
Exercised	(2,175)	9.95
Canceled or expired	(5,075)	9.95
<b>Outstanding at December 31, 2017</b>	65,250	9.95
Granted	—	—
Exercised	(63,250)	9.95
Canceled or expired	(2,000)	9.95
<b>Outstanding at December 31, 2018</b>	—	—

The Company recognized compensation expense of \$3.4 million and \$0.3 million during 2018 and 2017, respectively.

### Restricted Stock Units

In August 2008, the U.S. Xpress Enterprises board approved the 2008 Restricted Stock Plan that provided for restricted membership unit awards in New Mountain Lake in order to compensate the Company's employees and to promote the success of the Company's business.

Redeemable restricted units were subject to certain put rights at the option of the holder or upon the occurrence of an event that was not solely under the control of the Company. Under the terms of the stock plan, a portion of the units held by employees of the Company for at least nine months could be put back to the Company at the option of the holder during a specified period each year and under certain circumstances after termination. These equity instruments were redeemable at fair value and were classified as temporary equity on the 2017 consolidated balance sheets in accordance with ASC 480.

As part of the Reorganization (see Note 1), all of the redeemable restricted units of New Mountain Lake were converted into restricted stock units of the Company, with the same vesting schedules. Therefore, we refer to redeemable restricted units issued prior to the Reorganization as restricted stock units. At the time of conversion, the restricted stock unit amounts were reclassified to additional paid in capital. The following is a summary of the Company's restricted stock unit activity for 2019, 2018 and 2017:

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	<u>Number of Units</u>	<u>Weighted Average</u>
<b>Unvested at December 31, 2016</b>	237,500	\$ 6.79
Granted	292,500	10.37
Vested	(69,333)	6.62
Forfeited	(14,667)	7.69
<b>Unvested at December 31, 2017</b>	446,000	9.14
Granted	—	—
Vested-pre IPO	(105,307)	7.74
Forfeited-pre IPO	(6,667)	7.52
Unvested at June 13, 2018	334,026	9.62
Conversion in connection with IPO	4.6666667	
Unvested-post IPO	1,558,787	2.06
Vested-post IPO	(144,667)	2.67
Forfeited-post IPO	(12,446)	1.99
<b>Unvested at December 31, 2018</b>	1,401,674	2.00
Vested	(454,893)	1.70
Forfeited	(103,893)	2.15
<b>Unvested at December 31, 2019</b>	<u>842,888</u>	<u>\$ 2.14</u>

The vesting schedule for these restricted unit grants range from 3 to 7 years. The Company recognized compensation expense of \$0.5 million, \$0.9 million and \$0.7 million during 2019, 2018 and 2017, respectively. At December 31, 2019, the Company had approximately \$1.4 million in unrecognized compensation expense related to restricted units, which is expected to be recognized over a period of approximately 3.9 years. The fair value of the restricted units and corresponding compensation expense was determined using the income approach.

**Employee Stock Purchase Plan**

In June 2018, our Employee Stock Purchase Plan (the “ESPP”) became effective. The Company has reserved an aggregate of 2.3 million shares of its Class A common stock for issuance of under the ESPP. Eligible employees may elect to purchase shares of our Class A common stock through payroll deductions up to 15% of eligible compensation. The purchase price of the shares during each offering period will be 85% of the lower of the fair market value of our Class A common stock on the first trading day of each offering period or the last trading day of the offering period. The common stock will be purchased in January and July of each year. The first offering period commenced on January 1, 2019 and we recognized compensation expense of \$0.2 million during 2019, associated with the plan. In July 2019, employees purchased 79,940 shares of the Company’s Class A common stock for \$4.37 per share.

**14. Employee Benefit Plan**

The Company has a 401(k) retirement plan covering substantially all employees of the Company, whereby participants may contribute a percentage of their compensation, as allowed under applicable laws. The Plan provides for discretionary matching contributions by the Company. Participants are 100% vested in participant contributions. The Company recognized \$2.3 million, \$1.7 million and \$1.7 million in expense under this employee benefit plan each year for 2019, 2018 and 2017, respectively.

The Company has a nonqualified deferred compensation plan that allows eligible employees to defer a portion of their compensation. Participants can defer up to 85% of their base salary and up to 100% of their bonus for the year. Each participant is fully vested in all deferred compensation and earnings; however, these amounts are subject to general creditor claims until distributed to the participant. The total liability under the deferred compensation plan was \$3.3 million and \$3.0 million as of December 31, 2019 and 2018, and is included in other long-term liabilities in the accompanying consolidated balance sheets. The Company purchased life insurance policies to fund the future liability. The life insurance policies had a value of \$2.8 million and \$2.9 million as of December 31,

2019 and 2018, respectively and are included in other assets in the consolidated balance sheets. During 2018, the Company recorded a death benefit gain of \$4.0 million for one of its insured.

## 15. Fair Value Measurements

Accounting standards, among other things, define fair value, establish a framework for measuring fair value and expand disclosure about such fair value measurements. Assets and liabilities measured at fair value are based on one or more of three valuation techniques provided for in the standards.

The standards clarify that fair value is an exit price, representing the amount that would be received to sell an asset, based on the highest and best use of the asset, or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for evaluating such assumptions, the standards establish a three-tier fair value hierarchy, which prioritizes the inputs in measuring fair value as follows:

- Level 1 Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market is defined as a market in which transactions for the assets or liabilities occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 Inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active (markets with few transactions), inputs other than quoted prices that are observable for the asset or liability (i.e., interest rates, yield curves, etc.), and inputs that derived principally from or corroborated by observable market data correlation or other means (market corroborated inputs).
- Level 3 Unobservable inputs, only used to the extent that observable inputs are not available, reflect the Company's assumptions about the pricing of an asset or liability.

The following table summarizes the changes in the fair value of assets and liabilities measured at fair value using significant unobservable inputs (Level 3) for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	Year Ended December 31,		
	2019	2018	2017
<b>Balance at beginning of year</b>	\$ 1,793	\$ 1,985	\$ 2,683
Divestiture of Xpress Internacional	(1,793)	—	—
Forward Contract Adjustment	—	(192)	(698)
<b>Balance at end of period</b>	<u>\$ —</u>	<u>\$ 1,793</u>	<u>\$ 1,985</u>

During 2016, the Company purchased a 5% interest in Xpress Internacional for \$2.2 million and had a commitment to purchase the remaining 5% interest no later than 2020, based on an earnings calculation. The obligation was considered a physically settled forward contract and the commitment liability was included in other accrued liabilities and other long-term liabilities on the accompanying balance sheets. In January 2019, the Company disposed of its interest in Xpress Internacional and the commitment was reclassified to long term liabilities associated with assets held for sale at December 31, 2018. This liability is classified as Level 3 under the fair value hierarchy and is based on earnings calculation. The carrying amount of this commitment is accreted through interest to equal the settlement amount at each reporting date.

The carrying values of cash and cash equivalents, customer and other receivables and accounts payable are reasonable estimates of their fair values because of the short maturity of these financial instruments. Interest rates that are currently available to us for issuance of long-term debt with similar terms and remaining maturities are used to estimate the fair value of our long-term debt, which primarily consists of revenue equipment installment notes. The fair value of our revenue equipment installment notes approximated the carrying value at December 31,

**U.S. Xpress Enterprises, Inc.**  
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2019, as the weighted average interest rate on these notes approximates the market rate for similar debt. Borrowings under our revolving Credit Facility approximate fair average interest rate on these notes approximates the market rate for similar debt.

**16. Income (Loss) per Share**

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to common stockholders by the weighted average shares of common stock outstanding during the period, without consideration for common stock equivalents. Prior to the offering, there were no common stock equivalents which could have had a dilutive effect on earnings (loss) per share. The Company excluded 2,148,390 and 448,002 equity awards from our diluted shares for the year ended December 31, 2019 and 2018, respectively as inclusion would be anti-dilutive.

The following is a summary of the Incentive Plan restricted stock and restricted stock unit activity from June 13, 2018 to December 31, 2019:

	Year Ended December 31,		
	2109	2108	2017
Net income (loss)	\$ (3,043)	\$ 26,106	\$ (3,937)
Net income attributable to noncontrolling interest	604	1,207	123
Net income (loss) attributable to common stockholders	<u>\$ (3,647)</u>	<u>\$ 24,899</u>	<u>\$ (4,060)</u>
Basic weighted average of outstanding shares of common stock	48,788	29,470	6,385
Dilutive effect of equity awards	—	663	—
Diluted weighted average of outstanding shares of common stock	<u>48,788</u>	<u>30,133</u>	<u>6,385</u>
Basic earnings (loss) per share	\$ (0.07)	\$ 0.84	\$ (0.64)
Diluted earnings (loss) per share	\$ (0.07)	\$ 0.83	\$ (0.64)

**17. Segment Information**

The Company's business is organized into two reportable segments, Truckload and Brokerage. The Truckload segment offers asset-based truckload services, including OTR trucking and dedicated contract services. These services are aggregated because they have similar economic characteristics and meet the aggregation criteria described in the accounting guidance for segment reporting. The Company's OTR service offering provides solo and expedited team services through one-way movements of freight over routes throughout the United States and cross-border into and out of Mexico. The Company's dedicated contract service offering devotes the use of equipment to specific customers and provides services through long-term contracts. The Company's dedicated contract service offering provides similar freight transportation services, but does so pursuant to agreements where it makes equipment, drivers and on-site personnel available to a specific customer to address needs for committed capacity and service levels.

The Company's Brokerage segment is principally engaged in non-asset-based freight brokerage services, where it outsources the transportation of loads to third-party carriers. For this segment, the Company relies on brokerage employees to procure third-party carriers, as well as information systems to match loads and carriers.

The following table summarizes our segment information (in thousands):

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	Year Ended December 31,		
	2019	2018	2017
<b>Revenues</b>			
Truckload	\$ 1,521,494	\$ 1,562,098	\$ 1,382,167
Brokerage	185,867	242,817	173,218
Total Operating Revenue	<u>\$ 1,707,361</u>	<u>\$ 1,804,915</u>	<u>\$ 1,555,385</u>
<b>Operating Income</b>			
Truckload	\$ 24,071	\$ 69,088	\$ 25,200
Brokerage	1,999	9,818	3,408
Total Operating Income	<u>\$ 26,070</u>	<u>\$ 78,906</u>	<u>\$ 28,608</u>

A measure of assets is not applicable, as segment assets are not regularly reviewed by the Chief Operating Decision Maker (CODM) for evaluating performance or allocating resources.

Information about the geographic areas in which the Company conducts business is summarized below (in thousands) as of and for the years ended December 31, 2019, 2018 and 2017. Operating revenues for foreign countries include revenues for (i) shipments with an origin or destination in that country and (ii) other services provided in that country. If both the origin and destination are in a foreign country, the revenues are attributed to the country of origin. As of December 31, 2018, the long-lived assets of our Mexican operations were impaired to a balance of \$0.

	Year Ended December 31,		
	2019	2018	2017
<b>Revenues</b>			
United States	\$ 1,704,989	\$ 1,751,556	\$ 1,504,926
Foreign countries			
Mexico	2,372	53,359	50,459
Total	<u>\$ 1,707,361</u>	<u>\$ 1,804,915</u>	<u>\$ 1,555,385</u>

**18. Quarterly Financial Data (Unaudited)**

<b>2019:</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Operating revenues	\$ 415,363	\$ 413,862	\$ 428,503	\$ 449,633
Operating income	12,638	8,787	3,282	1,363
Net income (loss) <sup>(1)</sup>	4,721	2,672	(1,446)	(9,594)
Basic earnings (loss) per share	0.10	0.05	(0.03)	(0.20)
Diluted earnings (loss) per share	0.10	0.05	(0.03)	(0.20)
<b>2018:</b>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
Operating revenues	\$ 425,708	\$ 449,758	\$ 460,227	\$ 469,222
Operating income <sup>(2)</sup>	14,854	20,018	22,892	21,142
Net income <sup>(2) (3)</sup>	1,159	615	16,129	6,996
Basic earnings per share	0.18	0.04	0.33	0.14
Diluted earnings per share	0.18	0.04	0.33	0.14

(1) Fourth quarter 2019 results include an impairment charge of \$6.8 million related to our Arnold note receivable.

(2) Fourth quarter 2018 results include an impairment charge of \$10.7 million related to assets of business held for sale

(3) Fourth quarter 2018 results include an impairment charge of \$1.8 million related to equity method investments





# Corporate Information

## EXECUTIVE MANAGEMENT

**Eric Fuller**  
President and Chief Executive Officer

**Max Fuller**  
Executive Chairman

**Eric Peterson**  
Chief Financial Officer and Treasurer

**Danna Bailey**  
Chief Brand Officer

**Joel Gard**  
President, Digital Transformation

**Jason Grear**  
Chief Accounting Officer

**Justin Harness**  
Chief Revenue Officer

**Nathan Harwell**  
EVP, Chief Legal Officer, and Secretary

**Matt Herndon**  
Chief Operating Officer

**Robert Pischke**  
Chief Information Officer

**Cameron Ramsdell**  
President, U.S. Xpress Ventures

**Amanda Thompson**  
Chief People Officer

## BOARD OF DIRECTORS

**Max Fuller**  
Executive Chairman and Director of the Company

**Jon F. Beizer**  
Director of the Company, Investment Partner at Western Technology Investments

**Edward "Ned" H. Braman**  
Director of the Company, Retired Audit Partner at Ernest & Young LLP

**Jennifer G. Buckner**  
Director nominee of the Company, Deputy Chief Information Security Officer and Senior Vice President, Corporate Security Governance, Risk, and Compliance for Mastercard Incorporated

**Eric Fuller**  
President, Chief Executive Officer and Director of the Company

**Dennis A. Nash**  
Director of the Company, Chief Executive Officer and Chairman of Kenan Advantage Group, Inc.

**John C. Rickel**  
Director of the Company, Senior Vice President and Chief Financial Officer of Group 1 Automotive, Inc.

## CORPORATE HEADQUARTERS

U.S. Xpress Enterprises, Inc.  
4080 Jenkins Road  
Chattanooga, TN 37421

## STOCK EXCHANGE

The Company's ticker symbol on the New York Stock Exchange is USX.

## STOCK TRANSFER AGENT

American Stock Transfer & Trust Company, LLC  
Telephone: 800.937.5449

## ANNUAL MEETING OF STOCKHOLDERS

U.S. Xpress Enterprises, Inc.'s stockholders are invited to attend our 2020 Annual Meeting of Stockholders, which will be held on Wednesday, May 27, 2020 at 11:30 a.m. Eastern Daylight Time. The meeting will be held at our corporate headquarters, located at 4080 Jenkins Road, Chattanooga, Tennessee 37421.

## INVESTOR RELATIONS

For additional financial documents and information, please visit our investor relations website at [investor.usxpress.com](http://investor.usxpress.com). Please contact us by phone at 833.879.7737 or by sending an e-mail to [investors@usxpress.com](mailto:investors@usxpress.com).

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