

Echo Global Logistics, Inc.
Form 10-K
February 26, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark one)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2015 or

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

Commission file number 001-34470
ECHO GLOBAL LOGISTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

20-5001120

(State or Other Jurisdiction of
Incorporation or Organization)

(I.R.S. Employer Identification No.)

600 West Chicago Avenue, Suite 725
Chicago, Illinois

60654

(Address of Principal Executive Offices)

(Zip Code)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.0001 per share

The Nasdaq Global Select Market

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

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

Yes No

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

Yes No

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer
(Do not check if a smaller reporting company)

Smaller reporting company

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

Yes No

The aggregate market value of the common equity held by non-affiliates of the registrant as of June 30, 2015, the last business day of the registrant's most recent completed second quarter, was \$912,545,581 (based upon closing price of these shares on the Nasdaq Global Select Market).

The number of shares of the registrant's common stock outstanding as of the close of business on February 25, 2016 was 30,041,412.

Documents incorporated by reference:

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

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Part I

Item 1. Business

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

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

Our Company

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

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

On June 1, 2015, we acquired Command Transportation, LLC ("Command"), one of the largest privately held TL brokers and non-asset based transportation providers in the United States, for approximately \$409 million in cash and shares of Echo's common stock. We believe that the Command acquisition has made us a leading provider of technology-enabled transportation management solutions with enhanced scale in the TL market, and allows us to offer greater capacity and a broader network to our clients.

We were formed as a Delaware limited liability company in January 2005 and converted our legal form to a Delaware corporation in June 2006. In October 2009, we completed an initial public offering of our shares of common stock.

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

Our Clients

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

Transactional Clients

We service Transactional clients on a shipment-by-shipment basis. Pricing is often quoted according to pre-existing price agreements maintained with our LTL carriers, or pricing procured in the spot market for TL carriers. It is the objective of our

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sales representatives to expand client relationships by increasing the shipper's percentage of total freight spend directed to Echo. Transactional clients benefit from their access to our advanced technology, service quality and competitive pricing.

Our revenue from Transactional clients has continued to increase annually, totaling \$616.6 million in 2013, \$871.3 million in 2014 and \$1,225.3 million in 2015. Revenue from Transactional clients as a percentage of total revenue was 70%, 74% and 81% in 2013, 2014 and 2015, respectively.

Managed Transportation Clients

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

Dedicated account executives, together with account management and technology staff, form our Solutions and Integration team that initiates the on-boarding process for each new Managed Transportation client. This team reviews the client's existing business processes, develops a preliminary freight management plan and targets a percentage cost savings achievable for the client over the life of the contract. The team then develops an integration plan that links the client's back office processes to our proprietary technology platform.

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

Managed Transportation contracts often are on an exclusive basis for a certain transportation mode or point of origin and may apply to one or many modes used by the client. These contractual exclusivity provisions help ensure, but do not guarantee, that we receive a significant portion of a Managed Transportation client's transportation spend. In our experience, compliance with such provisions varies from client to client and over time. We work with our Managed Transportation clients and expect them to maintain and improve compliance with any applicable exclusivity provisions.

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

Our revenue from Managed Transportation clients was \$267.6 million in 2013, \$302.1 million in 2014 and \$287.0 million in 2015. Revenue from Managed Transportation clients as a percentage of total revenue was 30%, 26% and 19% in 2013, 2014 and 2015, respectively.

Our Proprietary Technology

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

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

When communicating their transportation needs to us, clients have the flexibility to do so electronically through our web portal ("EchoTrak"), by other computer protocols or by phone. Our system generates price and carrier options for our clients based on either rates pre-negotiated with preferred carriers or historical price and capacity data stored in our system. If a client enters its own shipment, EchoTrak automatically alerts the appropriate account executive. Once the carrier is selected, the client's account executive uses our system to manage all aspects of the shipping process through the life cycle of the shipment. Our clients use Optimizer's "track and trace" tools to monitor shipment status through EchoTrak.

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As our business has grown, our technology platform has continued to evolve in order to incorporate new multi-modal capabilities. We believe the agility of Optimizer is essential to keep pace with the changing needs of our business and offers us a critical advantage in the competitive transportation marketplace. Each mode involves different vendors exchanging unique order and price data that must be shared with multiple parties to any given transaction. Our technology engineers build mode-specific requirements into our system that support our ability to sell and service that mode on an enterprise-wide basis. In 2015, 2014 and 2013, we spent approximately \$8.2 million, \$9.6 million and \$8.4 million, respectively, on the development of Optimizer and related technologies.

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

Our Transportation Solutions

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

Mode-Specific Offerings

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

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

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

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

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

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

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

Logistics Services Offering

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

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

• Rate negotiation;

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Procurement of transportation, both contractually and in the spot market;
Shipment execution and tracking;
Carrier management, selection, reporting and compliance;
Executive dashboard presentations and detailed shipment reports;
Freight bill audit and payment;
Claims processing and service refund management;
Design and management of inbound client freight programs;
Individually configured web portals and self-service data warehouses;
Enterprise resource planning ("ERP") integration with transactional shipment data;
Integration of shipping applications into client e-commerce sites; and
Back-end reports customized to the internal reporting needs of the business

Our Employees

As of December 31, 2015, Echo had 2,335 employees, of which 1,620 were sales employees and agents. Our sales representatives and agents are located in more than thirty offices throughout the United States. Sales representatives are employees focused on identifying and growing relationships with shippers (our clients) and carriers. Sales agents work independently or in station offices and tend to be experienced industry sales professionals managing their own client relationships. Both sales employees and sales agents are primarily responsible for managing and servicing the client relationships whose business they secure. Candidates for employment are identified and screened through traditional means, such as career fairs, search firms, job postings, advertisements in industry publications and referrals. The majority of hires within our sales and service organization are recent college graduates. We invest extensively in their training and ongoing development to ensure their long term success as a part of our organization. Employees who join Echo as a result of an acquisition also participate in training tailored to their needs. We are confident that our employee training and development efforts contribute to longer tenure, increased productivity and a greater commitment to client satisfaction. We consider our employee relations to be good.

Our Carrier Network

In 2015, we continued to enhance our vast carrier network of motor, rail and air freight transportation providers. The acquisition of Command in June 2015 added significant depth to our carrier network. We select our carriers on the basis of their capabilities, geographic coverage, quality of service and price. Carriers selected to join our network provide physical transportation services to our clients. In our capacity as intermediary, we track our clients' shipments from origin to destination. Because we do not own any transportation equipment and do not employ those directly involved in the delivery of our clients' shipments, the nature of our carrier relationships is essential to our success. We believe we provide value to our carriers through our proprietary technology, which gives our carriers the flexibility to adjust pricing and freight by lane or season. Our carriers benefit by gaining access to our clients and our carrier communication tools, which allow us to match our clients' freight with our carriers' excess capacity. We maintain the quality of our carrier network by obtaining documentation from each carrier that ensures the carrier is properly licensed and insured and satisfies our safety requirements. Additionally, we continuously monitor data from our network on capacity, price trends, reliability, quality control standards and overall client service. We believe this quality control program helps to ensure shippers the highest quality service, regardless of the specific carrier selected for an individual shipment. The carriers in our network range in size from large national trucking companies to owner-operators of single trucks. We are not dependent on any one carrier. Our largest carrier accounted for approximately 4% of our total 2015 transportation costs.

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Competition

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

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

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

Government Regulation

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

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

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

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

Although Congress enacted legislation in 1994 that substantially preempts the authority of states to exercise economic regulation of motor-carriers and property brokers, some intrastate shipments for which we arrange transportation may be subject to additional licensing registration or permit requirements. Generally, we contractually require the carrier transporting the shipment to ensure compliance with these types of requirements. Although compliance with the regulations governing licenses in these areas has not had a material adverse effect on our operations or financial condition in the past, there can be no assurance that such regulations or changes will not adversely impact our operations in the future. Violation of these regulations could also subject us to fines as well as increased claims liability.

Risk Management and Insurance

If a shipment is damaged during the delivery process, our customer may file a claim for the damaged shipment with us, which we will pursue directly with the carrier on our client's behalf. In the cases where we have agreed (either contractually or otherwise) to pay for claims for damage to freight while in transit, we may pay the claim to our client while we independently

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pursue reimbursement from the carrier. If we are unable to recover all or any portion of the claim amount from our carrier, we may bear the financial loss of such claim. We mitigate this risk by using our quality control program to carefully select carriers with adequate insurance, quality control procedures and safety ratings. We also take steps to ensure that the coverage we provide to our clients for damaged shipments is substantially similar to the coverage that our carriers provide. In addition, we carry our own insurance to protect us against client claims for damaged shipments in certain situations where the damages may not be recovered from the responsible motor-carrier.

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

We require all motor carriers we work with to carry at least \$1,000,000 in auto liability insurance and \$100,000 in cargo insurance. We also maintain a broad cargo liability insurance policy to protect us against cargo damages that may not be recovered from the responsible motor-carrier. We carry various other liability insurance policies, including auto and general liability. Our collective insurance policies that relate to the transportation of goods have a cap of \$17,500,000.

Our Website

Our website is <http://www.echo.com>. We make available, free of charge through our website, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, including exhibits and any amendments to those reports, filed with or furnished to the SEC. We make these reports available through our website as soon as reasonably practical after our electronic filing of such materials with, or the furnishing of them to, the SEC. The information contained on our website is not a part of this Annual Report on Form 10-K and shall not be deemed incorporated by reference into this Annual Report on Form 10-K or any other public filing made by us with the SEC.

Item 1A. Risk Factors

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

Risks Related to Our Business

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

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

adversely affected, and our clients could utilize the services of our competitors temporarily or permanently. Many of these risks are beyond our control and difficult to anticipate, including:

- changes in rates charged by transportation providers;
- supply shortages in the transportation industry, particularly among TL carriers;