

Edgar Filing: Roadrunner Transportation Systems, Inc. - Form 10-Q

Roadrunner Transportation Systems, Inc.
Form 10-Q
November 07, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the Quarterly Period Ended September 30, 2018
Commission File Number 001-34734

ROADRUNNER TRANSPORTATION SYSTEMS, INC.
(Exact Name of Registrant as Specified in Its Charter)

| | |
|---|---|
| Delaware | 20-2454942 |
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| | |
|--|------------|
| 1431 Opus Place, Suite 530 | 60515 |
| Downers Grove, Illinois | |
| (Address of Principal Executive Offices) | (Zip Code) |
| (414) 615-1500 | |
| (Registrant's telephone number, including area code) | |

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|-------------------------|--------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/> | Accelerated filer | <input checked="" type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of October 31, 2018, there were outstanding 38,515,600 shares of the registrant's Common Stock, par value \$.01 per share.

ROADRUNNER TRANSPORTATION SYSTEMS, INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2018
TABLE OF CONTENTS

| | |
|--|---------------|
| <u>PART I. FINANCIAL INFORMATION</u> | <u>1</u> |
| <u>Item 1. Financial Statements (Unaudited)</u> | <u>1</u> |
| <u>Condensed Consolidated Balance Sheets</u> | <u>1</u> |
| <u>Condensed Consolidated Statements of Operations</u> | <u>2</u> |
| <u>Condensed Consolidated Statements of Cash Flows</u> | <u>3</u> |
| <u>Notes to Unaudited Condensed Consolidated Financial Statements</u> | <u>4</u> |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>19</u> |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | <u>34</u> |
| <u>Item 4. Controls and Procedures</u> | <u>35</u> |
| <u>PART II. OTHER INFORMATION</u> | <u>36</u> |
| <u>Item 1. Legal Proceedings</u> | <u>36</u> |
| <u>Item 1A. Risk Factors</u> | <u>37</u> |
| <u>Item 6. Exhibits</u> | <u>40</u> |
| <u>Signatures</u> | <u>41</u> |

Table of Contents

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

ROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

| (In thousands, except par value) | September 30, 2018 | December 31, 2017 |
|--|-----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 10,019 | \$25,702 |
| Accounts receivable, net of allowances of \$9,745 and \$10,891, respectively | 285,393 | 321,629 |
| Income tax receivable | 11,192 | 14,749 |
| Prepaid expenses and other current assets | 50,661 | 36,306 |
| Total current assets | 357,265 | 398,386 |
| Property and equipment, net of accumulated depreciation of \$122,383 and \$107,037, respectively | 175,322 | 159,547 |
| Other assets: | | |
| Goodwill | 264,826 | 264,826 |
| Intangible assets, net | 44,276 | 49,648 |
| Other noncurrent assets | 5,607 | 3,636 |
| Total other assets | 314,709 | 318,110 |
| Total assets | \$ 847,296 | \$876,043 |
| LIABILITIES AND STOCKHOLDERS' INVESTMENT | | |
| Current liabilities: | | |
| Current maturities of debt | \$ 10,088 | \$9,950 |
| Accounts payable | 161,329 | 171,905 |
| Accrued expenses and other current liabilities | 120,207 | 105,409 |
| Total current liabilities | 291,624 | 287,264 |
| Deferred tax liabilities | 5,536 | 14,282 |
| Other long-term liabilities | 26,243 | 10,873 |
| Long-term debt, net of current maturities | 149,241 | 189,460 |
| Preferred stock | 368,767 | 263,317 |
| Total liabilities | 841,411 | 765,196 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' investment: | | |
| Common stock \$.01 par value; 105,000 shares authorized; 38,514 and 38,423 shares issued and outstanding | 385 | 384 |
| Additional paid-in capital | 404,476 | 403,166 |
| Retained deficit | (398,976) | (292,703) |
| Total stockholders' investment | 5,885 | 110,847 |
| Total liabilities and stockholders' investment | \$ 847,296 | \$876,043 |
| See accompanying notes to unaudited condensed consolidated financial statements. | | |

Table of Contents

ROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| (In thousands, except per share amounts) | Three Months Ended | | Nine Months Ended | |
|--|--------------------|-------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2018 | 2017 | 2018 | 2017 |
| Revenues | \$536,584 | \$521,433 | \$1,664,594 | \$1,530,932 |
| Operating expenses: | | | | |
| Purchased transportation costs | 365,678 | 358,480 | 1,146,713 | 1,033,197 |
| Personnel and related benefits | 78,118 | 73,263 | 229,843 | 223,345 |
| Other operating expenses | 93,995 | 100,123 | 291,206 | 291,711 |
| Depreciation and amortization | 9,614 | 9,319 | 27,803 | 27,834 |
| Operations restructuring costs | — | — | 4,655 | — |
| Gain from sale of Unitrans | — | (35,440) | — | (35,440) |
| Impairment charges | — | 4,402 | — | 4,402 |
| Total operating expenses | 547,405 | 510,147 | 1,700,220 | 1,545,049 |
| Operating (loss) income | (10,821) | 11,286 | (35,626) | (14,117) |
| Interest expense: | | | | |
| Interest expense - preferred stock | 32,847 | 8,683 | 71,571 | 33,723 |
| Interest expense - debt | 2,951 | 1,819 | 8,002 | 11,659 |
| Total interest expense | 35,798 | 10,502 | 79,573 | 45,382 |
| Loss from debt extinguishment | — | 6,049 | — | 15,876 |
| Loss before income taxes | (46,619) | (5,265) | (115,199) | (75,375) |
| (Benefit from) provision for income taxes | (5,058) | 4,788 | (8,040) | (7,516) |
| Net loss | \$(41,561) | \$(10,053) | \$(107,159) | \$(67,859) |
| Loss per share: | | | | |
| Basic | \$(1.08) | \$(0.26) | \$(2.78) | \$(1.77) |
| Diluted | \$(1.08) | \$(0.26) | \$(2.78) | \$(1.77) |
| Weighted average common stock outstanding: | | | | |
| Basic | 38,512 | 38,420 | 38,490 | 38,399 |
| Diluted | 38,512 | 38,420 | 38,490 | 38,399 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of ContentsROADRUNNER TRANSPORTATION SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In thousands)

| | Nine Months Ended September 30, | |
|---|------------------------------------|------------|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net loss | \$(107,159) | \$(67,859) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 28,358 | 28,780 |
| Change in fair value of preferred stock | 70,451 | 10,716 |
| Amortization of preferred stock issuance costs | 1,120 | 16,112 |
| Loss on disposal of property and equipment | 1,853 | 1,066 |
| Gain on sale of Unitrans | — | (35,440) |
| Share-based compensation | 1,392 | 1,647 |
| Loss from debt extinguishment | — | 15,876 |
| Provision for bad debts | 2,275 | 2,847 |
| Deferred tax benefit | (9,041) | (10,193) |
| Impairment charges | — | 4,402 |
| Changes in: | | |
| Accounts receivable | 34,556 | (32,701) |
| Income tax receivable | 3,557 | 3,599 |
| Prepaid expenses and other assets | (15,636) | (768) |
| Accounts payable | (12,453) | (5,384) |
| Accrued expenses and other liabilities | 10,274 | 17,329 |
| Net cash provided by (used in) operating activities | 9,547 | (49,971) |
| Cash flows from investing activities: | | |
| Proceeds from sale of business | — | 88,512 |
| Capital expenditures | (16,922) | (11,212) |
| Proceeds from sale of property and equipment | 1,316 | 2,689 |
| Net cash (used in) provided by investing activities | (15,606) | 79,989 |
| Cash flows from financing activities: | | |
| Borrowings under revolving credit facilities | 60,746 | 236,905 |
| Payments under revolving credit facilities | (85,655) | (268,568) |
| Term debt payments | (16,285) | (278,819) |
| Term debt borrowings | 557 | 56,780 |
| Debt issuance costs and discount | — | (4,672) |
| Cash collateralization of letters of credit | — | (1,211) |
| Payments of debt extinguishment costs | — | (10,960) |
| Preferred stock issuance costs | (1,120) | (16,112) |
| Proceeds from issuance of preferred stock and warrants | 34,999 | 540,500 |
| Preferred stock payments | — | (293,000) |
| Issuance of restricted stock units, net of taxes paid | (81) | (230) |
| Payment of capital lease obligation | (2,785) | (3,078) |
| Net cash used in financing activities | (9,624) | (42,465) |
| Net decrease in cash and cash equivalents | (15,683) | (12,447) |
| Cash and cash equivalents: | | |
| Beginning of period | 25,702 | 29,513 |

Edgar Filing: Roadrunner Transportation Systems, Inc. - Form 10-Q

| | | |
|--|------------|------------|
| End of period | \$10,019 | \$17,066 |
| Supplemental cash flow information: | | |
| Cash paid for interest | \$7,436 | \$24,625 |
| Cash refunds from income taxes, net | \$(1,329) | \$(2,215) |
| Non-cash capital leases and other obligations to acquire assets | \$23,233 | \$— |
| Capital expenditures, not yet paid | \$1,877 | \$— |
| See accompanying notes to unaudited condensed consolidated financial statements. | | |

Table of Contents

Roadrunner Transportation Systems, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

1. Organization, Nature of Business and Significant Accounting Policies

Nature of Business

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

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). All intercompany balances and transactions have been eliminated in consolidation. In the Company's opinion, except as noted below with respect to the change in accounting principle, the change in segments, and the restructuring charges described in Note 14, these financial statements include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the operations for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

Change in Accounting Principle

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

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

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

Edgar Filing: Roadrunner Transportation Systems, Inc. - Form 10-Q

for the three and nine months ended September 30, 2018. The disclosure requirements of Topic 606 are included within the Company's revised revenue recognition accounting policy below.

Use of Estimates

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

Table of Contents

Segment Reporting

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

Revenue Recognition (effective January 1, 2018)

The Company's revenues are primarily derived from transportation services which includes providing freight and carrier services both domestically and internationally via land, air, and sea. The Company disaggregates revenue among its three segments, TES, LTL and Ascent, as presented in Note 13.

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

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

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

New Accounting Pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which will be effective for the Company in 2019. For financing leases, a lessee is required to: (1) recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments; (2) recognize interest on the lease liability separately from amortization of the right-of-use asset; and (3) classify repayments of the principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows. For operating leases, a lessee is required to: (1) recognize the right-to-use asset and a lease liability, initially measured at the present value of the lease payments; (2) recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term generally on a straight-line basis; and (3) classify all cash payments within operating activities in the statement of cash flows. For leases with a term of 12

months or less, a lessee is permitted to make an accounting policy election by class of underlying assets not to recognize lease assets and lease liabilities. In July 2018, the FASB issued an amendment to Topic 842 which provides an optional transition method that will give companies the option to use the effective date as the date of initial application upon transition. The Company plans to elect this transition method and, as a result, will not adjust comparative period financial information or make the new required lease disclosures for periods before the effective date. The Company has established an implementation team which is in the process of implementing Topic 842, including accumulating necessary information, assessing the current lease portfolio, and implementing software to meet the new reporting requirements. The Company is also evaluating current processes and controls and identifying necessary changes to support the adoption of the new standard. The Company anticipates it will exclude leases with a term of 12 months or less from accounting under Topic 842 and plans to elect the package of practical expedients upon transition that will retain lease classification and other accounting conclusions made in the assessment

Table of Contents

of existing lease contracts. The Company expects adoption of this guidance will have a material impact on the Company's consolidated balance sheets given the Company will be required to record operating leases with lease terms greater than 12 months within assets and liabilities on the consolidated balance sheets; however, the impact on the consolidated statements of operations and cash flows is not expected to be material.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740) Intra-Entity Transfers of Assets Other than Inventory ("ASU 2016-16"). Prior to ASU 2016-16, GAAP prohibited the recognition of current and deferred income taxes for intra-entity asset transfers other than inventory (e.g., property and equipment) until the asset had been sold to an outside party. Under ASU 2016-16, the FASB decided that an entity should recognize the income tax consequences of an intra-entity transfer of an asset when the transfer occurs. ASU 2016-16 does not include any new disclosure requirements; however, existing disclosure around the rate reconciliations and types of temporary differences and/or carryforward that give rise to a significant portion of deferred income taxes may be applicable. The Company adopted ASU 2016-16 effective January 1, 2018 and it did not have a material impact on the Company's condensed consolidated financial statements.

2. Divestitures

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

3. Goodwill and Intangible Assets

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

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

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

segments as indicated in Note 1, the Company reallocated \$5.8 million of goodwill between the TES and Ascent segments.

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

The following is a breakdown of the Company's goodwill as of September 30, 2018 by segment (in thousands):

Table of Contents

| | TES | LTL | Ascent | Total |
|----------|----------|------|-----------|-----------|
| Goodwill | \$92,926 | \$ — | \$171,900 | \$264,826 |

In connection with the change in segments as indicated in Note 1, the Company reallocated \$25.1 million of accumulated goodwill impairment between the TES and Ascent segments. The following is a breakdown of the Company's accumulated goodwill impairment losses as of September 30, 2018 by segment (in thousands):

| | TES | LTL | Ascent | Total |
|---|-----------|-----------|----------|-----------|
| Accumulated goodwill impairment charges | \$132,408 | \$197,312 | \$46,763 | \$376,483 |

Intangible assets consist primarily of customer relationships acquired from business acquisitions. In connection with the change in segments as indicated in Note 1, the Company reallocated net intangible assets of \$0.3 million between the TES and

Ascent segments.

Intangible assets as of September 30, 2018 and December 31, 2017 were as follows (in thousands):

| | September 30, 2018 | | | December 31, 2017 | | |
|--------|-----------------------|--------------------------|--------------------|-----------------------|--------------------------|--------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value | Gross Carrying Amount | Accumulated Amortization | Net Carrying Value |
| TES | \$55,008 | \$ (21,863) | \$ 33,145 | \$55,008 | \$ (18,470) | \$ 36,538 |
| LTL | 2,498 | (1,884) | 614 | 2,498 | (1,748) | 750 |
| Ascent | 27,152 | (16,635) | 10,517 | 27,152 | (14,792) | 12,360 |
| Total | \$84,658 | \$ (40,382) | \$ 44,276 | \$84,658 | \$ (35,010) | \$ 49,648 |

The customer relationships intangible assets are amortized over their estimated useful lives, ranging from five to 12 years. Amortization expense was \$1.8 million and \$2.0 million for the three months ended September 30, 2018 and 2017, respectively. Amortization expense was \$5.4 million and \$6.1 million for the nine months ended September 30, 2018 and 2017, respectively. Estimated amortization expense for each of the next five years based on intangible assets as of September 30, 2018 is as follows (in thousands):

| | |
|----------------|----------|
| Remainder 2018 | \$ 1,751 |
| 2019 | 6,819 |
| 2020 | 6,447 |
| 2021 | 6,265 |
| 2022 | 5,826 |
| Thereafter | 17,168 |
| Total | \$44,276 |

4. Debt

Debt as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

| | September 30, 2018 | December 31, 2017 |
|---|--------------------|-------------------|
| Revolving credit facility | \$ 122,128 | \$ 147,037 |
| Term loans | 40,130 | 55,858 |
| Total debt | \$ 162,258 | \$ 202,895 |
| Less: Debt issuance costs and discount | (2,929) | (3,485) |
| Total debt, net of debt issuance costs and discount | 159,329 | 199,410 |
| Less: Current maturities | (10,088) | (9,950) |
| Total debt, net of current maturities | \$ 149,241 | \$ 189,460 |

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

The ABL Facility consists of a:

7

Table of Contents

- \$200.0 million asset-based revolving line of credit, of which \$20.0 million may be used for swing line loans and \$30.0 million may be used for letters of credit;

\$56.8 million term loan facility; and

- \$35.0 million asset-based facility available to finance future capital expenditures, which was subsequently terminated before being utilized.

Principal on the term loan facility is due in quarterly installments commencing on March 31, 2018. Borrowings under the ABL Facility are secured by substantially all of the assets of the Company. Borrowings under the ABL Facility bear interest at either the (a) LIBOR Rate (as defined in the credit agreement) plus an applicable margin in the range of 1.5% to 2.25%, or (b) the Base Rate (as defined in the credit agreement) plus an applicable margin in the range of 0.5% to 1.25%. The ABL Facility contains a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability falls below a specified amount. The ABL Facility also provides for the issuance of up to \$30.0 million in letters of credit. As of September 30, 2018, the Company had outstanding letters of credit totaling \$14.4 million. As of September 30, 2018, total availability under the ABL Facility was \$42.2 million but the Company could not draw more than \$22.2 million as of that date to maintain at least \$20.0 million of Adjusted Excess Availability in order to avoid the commencement of a Fixed Charge Trigger Period. In addition, the ABL Facility contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted. The ABL Facility also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the credit agreement to be in full force and effect, and a change of control of the Company's business.

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

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

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

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

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

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

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

Table of Contents

The Company also has certain equipment and a building classified as capital leases. The Company's obligation under these capital leases was \$30.0 million and \$9.6 million as of September 30, 2018 and December 31, 2017, respectively.

5. Preferred Stock

Preferred stock as of as of September 30, 2018 and December 31, 2017 consisted of the following (in thousands):

| | September 30, 2018 | December 31, 2017 |
|-----------------------|-----------------------|----------------------|
| Preferred stock: | | |
| Series B Preferred | \$ 187,190 | \$ 146,649 |
| Series C Preferred | 94,358 | 76,096 |
| Series D Preferred | 1,159 | 6,672 |
| Series E Preferred | 43,387 | 33,900 |
| Series E-1 Preferred | 42,673 | — |
| Total Preferred stock | \$ 368,767 | \$ 263,317 |

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

On March 1, 2018, the Company entered into the Series E-1 Preferred Stock Investment Agreement (the "Series E-1 Investment Agreement") with affiliates of Elliott Management Corporation ("Elliott"), pursuant to which the Company agreed to issue and sell to Elliott from time to time until July 30, 2018 (the "Termination Date"), an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock, par value \$0.01 per share ("Series E-1 Preferred Stock"), at a purchase price of \$1,000 per share for the first 17,500 shares of Series E-1 Preferred Stock, \$960 per share for the next 18,228 shares of Series E-1 Preferred Stock, and \$920 per share for the final 19,022 shares of Series E-1 Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which the Company issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. The proceeds of the sale of such shares of Series E-1 Preferred Stock were used to provide working capital to support the Company's current operations and future growth and to repay a portion of the indebtedness under the ABL Facility as required by the credit agreement governing that facility. On April 24, 2018, pursuant to the Series E-1 Investment Agreement with Elliott, the Company issued and sold to Elliott an additional 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. The proceeds of the sale of such shares of Series E-1 Preferred Stock were used to provide working capital to support the Company's current operations and future growth and to repay a portion of the indebtedness under the ABL Facility as required by the credit agreement governing that facility. On August 3, 2018, in order to provide continued support to the Company's operating needs, the Company and Elliott entered into Amendment No. 1 to the Series E-1 Investment Agreement and Termination of Equity Commitment Letter (the "Series E-1 Amendment"), which, among other things, extended the Termination Date from July 30, 2018 to November 30, 2018 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million. On September 19, 2018, the Company and Elliott entered into Amendment No. 2 to the Series E-1 Investment Agreement which, among other things, further extended the Termination Date from November 30, 2018 to January 1, 2019 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million.

Certain terms of the Series E-1 Preferred Stock are as follows:

Rank. The Series E-1 Preferred Stock, with respect to payment of dividends, redemption payments, rights (including as to the distribution of assets) upon liquidation, dissolution or winding up of the affairs of the Company, or otherwise, ranks (i) senior and prior to the Company's common stock and other junior securities, and (ii) on parity with the Series B Preferred Stock, Series C Preferred Stock, Series D Preferred Stock, and Series E Preferred Stock.

Edgar Filing: Roadrunner Transportation Systems, Inc. - Form 10-Q

Liquidation Value. Each share of Series E-1 Preferred Stock has an initial liquidation preference equal to \$1,000 per share, plus accrued and unpaid dividends on such share (the “Series E-1 Liquidation Value”).

Dividends. Dividends are cumulative from May 2, 2017, which was the date of the Company’s original issuance of shares of preferred stock to Elliott (such date, the “Original Issuance Date”), as a percentage of the Series E-1 Liquidation Value as and when declared by the Company’s Board of Directors and accrue and compound if not paid in cash. Dividends accrue daily and

Table of Contents

compound quarterly, subject to any adjustments for Triggering Events (as defined in the Series E-1 Certificate of Designations). The annual dividend rate for the shares of Series E-1 Preferred Stock is equal to the sum of (i) Adjusted LIBOR (as defined in the Series E-1 Certificate of Designations), plus (ii) 5.25% per annum, plus (iii) an additional rate of 8.5%. The dividend rate increases by 3.0% per annum above the rates described in the preceding sentence upon and during any Triggering Events. Holders of shares of Series E-1 Preferred Stock are not entitled to participate in dividends or distributions of any nature paid on or in respect of the Common Stock.

Redemption at Maturity. On the sixth anniversary of the Original Issuance Date, the Company will have the obligation to redeem all outstanding shares of Series E-1 Preferred Stock for cash at the Series E-1 Liquidation Value.

Optional Redemption. The Company may redeem the shares of Series E-1 Preferred Stock at any time. The redemption of shares of Series E-1 Preferred Stock shall be at a purchase price per share, payable in cash, equal to (i) in the case of a an optional redemption effected on or after the 24 month anniversary of the Original Issuance Date, the Series E-1 Liquidation Value, (ii) in the case of an optional redemption effected on or after the 12 month anniversary of the Original Issuance Date and prior to the 24 month anniversary of the Original Issuance Date, 103.5% of the Series E-1 Liquidation Value and (iii) in the case of an optional redemption effected prior to the 12 month anniversary of the Original Issuance Closing Date, 106.5% of the Series E-1 Liquidation Value.

Change of Control. Upon the occurrence of a Change of Control (as defined in the Series E-1 Certificate of Designations), the holders of Series E-1 Preferred Stock may require redemption by the Company of the Series E-1 Preferred Stock at a purchase price per share, payable in cash, equal to either (i) 106.5% of the Series E-1 Liquidation Value if the Change of Control occurs prior to the 24 month anniversary of the Original Issuance Date, or (ii) the Series E-1 Liquidation Value if the Change of Control occurs after the 24 month anniversary of the Original Issuance Date.

Voting. The holders of Series E-1 Preferred Stock will generally not be entitled to vote on any matters submitted to a vote of the stockholders of the Company. So long as any shares of Series E-1 Preferred Stock are outstanding, the Company may not take certain actions without the prior approval of the Preferred Requisite Vote, voting as a separate class.

Certain Terms of the Preferred Stock

| | Series B | Series C | Series D | Series E | Series E-1 |
|--|--|--|--|--|--|
| Shares at \$0.01 Par Value at Issuance | 155,000 | 55,000 | 100 | 90,000 | 35,728 |
| Outstanding at September 30, 2018 | 155,000 | 55,000 | 100 | 37,500 | 35,728 |
| Price per Share | \$1,000 | \$1,000 | \$1.00 | \$1,000 | \$1,000/\$960 |
| Dividend Rate | Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events. | Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events. | Right to participate equally and ratably in all cash dividends paid on common stock. | Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events. | Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events. |
| Dividend Rate at September 30, 2018 | 17.573% | 17.573% | N/A | 15.823% | 15.823% |
| Redemption Term | 8 Years | 8 Years | 8 Years | 6 Years | 6 Years |

Edgar Filing: Roadrunner Transportation Systems, Inc. - Form 10-Q

| | | | | |
|----------------------|--------------------|--|-----------------------|-----------------------|
| Redemption Rights | From Closing Date: | 65% premium (subject to stock movement) | From Closing Date: | From Closing Date: |
| | 12-24 months: 105% | | 0-12 months: | 0-12 months: |
| | 24-36 months: 103% | | 106.5% | 106.5% |
| | | | 12-24 months: | 12-24 months: |
| | | | 103.5% | 103.5% |

Table of Contents

In connection with the repurchase of the Series F Preferred Stock and repurchase of a portion of the Series E Preferred Stock in the third quarter of 2017, the Company recorded a loss of \$6.0 million reported in loss from debt extinguishment in the statement of operations.

The Company incurred \$1.1 million of issuance costs for the nine months ended September 30, 2018, associated with the issuance of the Series E-1 Preferred Stock. The issuance costs are reflected in interest expense - preferred stock. The change in the fair value of the preferred stock, as indicated in Note 6, is reflected in interest expense - preferred stock.

6. Fair Value Measurement

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

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

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

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

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

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

• the Series B Preferred Stock using a lattice model that takes into consideration the Company's call right on the instrument based on simulated future interest rates;

• the Series C Preferred Stock using a lattice model that takes into consideration the future redemption value on the instrument, which is tied to the Company's stock price;

Table of Contents

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

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

The table below sets forth a reconciliation of the Company's beginning and ending Level 3 preferred stock liability balance for the three and nine months ended September 30, 2018 and 2017.

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|--|------------------------------------|------------|-----------------------------------|------------|
| | 2018 | 2017 | 2018 | 2017 |
| Balance, beginning of period | \$335,979 | \$546,858 | \$263,317 | \$— |
| Issuance of preferred stock at fair value | — | — | 34,999 | 537,930 |
| Redemption of preferred stock | — | (293,000) | — | (293,000) |
| Change in fair value of preferred stock ⁽¹⁾ | 32,788 | 1,788 | 70,451 | 10,716 |
| Balance, end of period | \$368,767 | \$255,646 | \$368,767 | \$255,646 |

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

7. Stockholders' Investment

Changes in stockholders' investment for the three and nine months ended September 30, 2018 and 2017 consisted of the following (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2018 | 2017 | 2018 | 2017 |
| Beginning balance | \$46,954 | \$143,286 | \$111,733 | \$197,468 |
| Net loss | (41,561) | (10,053) | (107,159) | (67,859) |
| Share-based compensation | 497 | 379 | 1,392 | 1,647 |
| Issuance of warrants | — | — | — | 2,571 |
| Issuance of restricted stock units, net of taxes paid | (5) | (15) | (81) | (230) |
| Ending balance | \$5,885 | \$133,597 | \$5,885 | \$133,597 |

The retained earnings balance as of January 1, 2018 was adjusted by \$0.9 million due to the modified retrospective application of the new revenue recognition principles.

8. Earnings Per Share

Basic loss per common share is calculated by dividing net loss by the weighted average number of shares of common stock outstanding during the period. Diluted loss per share is calculated by dividing net loss by the weighted average common stock outstanding plus stock equivalents that would arise from the assumed exercise of stock options, the conversion of warrants, and the delivery of stock underlying restricted stock units using the treasury stock method. There is no difference, for any of the periods presented, in the amount of net loss used in the computation of basic and diluted loss per share.

The Company had stock options and warrants outstanding of 1,535,771 as of September 30, 2018 and 1,903,467 as of September 30, 2017 that were not included in the computation of diluted loss per share because they were not

assumed to be exercised under the treasury stock method or because they were anti-dilutive. All restricted stock units were anti-dilutive for the three and nine months ended September 30, 2018 and 2017. Since the Company was in a net loss position for the three and nine

Table of Contents

months ended September 30, 2018 and 2017, there is no difference between basic and dilutive weighted average common stock outstanding.

9. Income Taxes

The effective income tax rate was 10.8% for the three months ended September 30, 2018 and 7.0% for the nine months ended September 30, 2018. In comparison, the effective income tax rate was (90.9)% for the three months ended September 30, 2017 and 10.0% for the nine months ended September 30, 2017. The (benefit from) provision for income taxes varies from the amount computed by applying the federal corporate income tax rate of 21.0% and 35.0% for 2018 and 2017, respectively, to the loss before income taxes primarily due to state income taxes (net of federal tax effect) and adjustments for permanent differences (primarily the non-deductible interest expense associated with the Company's preferred stock). In determining the (benefit from) provision for income taxes, the Company applied an estimated annual effective tax rate to its ordinary operating results, and calculated the tax benefit or provision, if any, of other discrete items individually as they occurred. The estimated annual effective tax rate was based on expected ordinary operating results, statutory tax rates, and the Company's best estimate of non-deductible and non-taxable items of ordinary income and expense.

No significant discrete items were recognized during the three and nine months ended September 30, 2018.

Significant discrete items recognized during the three and nine months ended September 30, 2017 included loss from debt extinguishment (no tax benefit for partial redemption of preferred stock), gain on the sale of Unitrans (tax provision), and goodwill impairment charges (primarily non-deductible for tax purposes). Significant discrete items recognized during the nine months ended September 30, 2017 also included loss from debt extinguishment (tax benefit for senior debt payoff) and preferred stock issuance costs (no tax benefit).

10. Guarantees

The Company provides a guarantee for a portion of the value of certain independent contractors' ("IC") leased tractors. The guarantees expire at various dates through 2022. The potential maximum exposure under these lease guarantees was approximately \$7.9 million as of September 30, 2018. Upon an IC default, the Company has the option to purchase the tractor or return the tractor to the leasing company if the residual value is greater than the Company's guarantee. Alternatively, the Company can contract another IC to assume the lease. The Company estimated the fair value of its liability under this on-going guarantee to be \$1.1 million and \$1.4 million as of September 30, 2018 and December 31, 2017, respectively, which was recorded in accrued expenses and other current liabilities.

The Company began to offer a lease purchase program that did not include a guarantee and offered newer equipment under factory warranty that was more cost effective. ICs began electing the newer lease purchase program over the legacy lease guarantee programs which led to an increase in unseated legacy tractors. In late 2016, management committed to a plan to divest these older assets and recorded a loss reserve. The loss reserve for the guarantee and reconditioning costs associated with the planned divestiture was \$0.5 million and \$1.8 million as of September 30, 2018 and December 31, 2017, respectively, which was recorded in accrued expenses and other current liabilities. The Company paid \$0.3 million and \$0.9 million under these lease guarantees during the third quarter of 2018 and 2017, respectively, and \$1.8 million and \$7.9 million during the first nine months of 2018 and 2017, respectively.

11. Commitments and Contingencies

Auto, Workers Compensation, and General Liability Reserves

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

of September 30, 2018, and December 31, 2017, the Company had reserves for estimated uninsured losses of \$26.0 million and \$28.4 million, respectively, included in accrued expenses and other current liabilities.

General Litigation Proceedings

Jeffrey Cox and David Chidester filed a Complaint against certain of the Company's subsidiaries in state court in California in a post-acquisition dispute (the "Central Cal Matter"). The Complaint alleges contract, statutory and tort-based claims arising out of the Stock Purchase Agreement, dated November 2, 2012, between the defendants, as buyers, and the plaintiffs, as sellers, for the purchase of the shares of Central Cal Transportation, Inc. and Double C Transportation, Inc. (the "Central Cal Agreement").

Table of Contents

The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California's Labor Code related to the plaintiffs' respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted the Company's motion to compel arbitration of all non-employment claims alleged in the Complaint. The plaintiffs are in the process of submitting the dispute to a Settlement Accountant as ordered, though on October 10, 2018, Plaintiffs filed a renewed motion requesting that the Los Angeles Superior Court reconsider its ruling. In February 2018, Plaintiff David Chidester agreed to dismiss his employment-related claims from the Los Angeles Superior Court matter, while Plaintiff Jeffrey Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. The parties are proceeding with discovery and the consolidated case is currently set for trial on November 5, 2019.

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

In addition to the legal proceeding described above, the Company is a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against the Company alleging that the Company violated various California labor laws. In 2017 and 2018, the Company reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of September 30, 2018, and December 31, 2017, the Company recorded a reserve for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter, and the Warren Matter of \$12.0 million and \$13.2 million, respectively, which are included in accrued expenses and other current liabilities.

Securities Litigation Proceedings

Following the Company's press release on January 30, 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against the Company and its former officers, Mark A. DiBlasi and Peter R. Armbruster. On May 19, 2017, the Court consolidated the actions under the caption In re Roadrunner Transportation Systems, Inc. Securities Litigation (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed a Consolidated Amended Complaint ("CAC") on behalf of a class of persons who purchased the Company's common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC alleges (i) the Company and Messrs. DiBlasi and Armbruster violated Section 10(b) of the Exchange Act and Rule 10b-5, and (ii) Messrs. DiBlasi and Armbruster, the Company's former Chairman Scott Rued, HCI Equity Partners, L.L.C., and HCI Equity Management, L.P. violated Section 20(a) of the Exchange Act, by making or causing to be made materially false or misleading statements, or failing to disclose material facts, regarding (a) the accuracy of the Company's financial statements; (b) the Company's true earnings and expenses; (c) the effectiveness of the Company's disclosure controls and controls over financial reporting; (d) the true nature and depth of financial risk associated with the Company's tractor lease guaranty program; (e) the Company's leverage ratios and compliance with its credit facilities; and (f) the value of the goodwill the Company carried on its balance sheet. The CAC seeks certification as a class action, compensatory damages, and attorney's fees and costs. On July 23, 2018, the Company and the individual defendants filed motions to dismiss to which Plaintiff responded on September 21, 2018. Defendants' time to file their reply has been extended pending the parties' mediation, which is ongoing.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on the Company's behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi,

Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vijums, Michael Ward, Chad Utrup, Ivor Evans, Peter Armbruster, and Brian van Helden. Count I of the Complaint alleges the Director Defendants breached their fiduciary duties by “knowingly failing to ensure that the Company implemented and maintained adequate internal controls over its accounting and financial reporting functions,” and seeks unspecified damages. Count II of the Complaint alleges the Officer Defendants DiBlasi, Armbruster, and van Helden received substantial performance-based compensation and bonuses for fiscal year 2014 that should be disgorged. The action has been stayed by agreement pending a decision on Defendants' motions to dismiss the Amended Complaint filed in the securities class action described above. While the case was stayed, Plaintiff obtained permission to file an Amended Complaint adding claims against two former Company employees: Bret Naggs and Mark Wogsland. The parties are currently engaged in mediation.

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

Table of Contents

Retirement Fund filed a Complaint alleging derivative claims on the Company's behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption In re Roadrunner Transportation Systems, Inc. Stockholder Derivative Litigation (Case No. 17-cv-00893). On March 28, 2018, Plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on behalf of the Company against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vijums, and Michael Ward. Count I alleges that several of the Defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 based upon alleged misrepresentations and omissions in several of the Company's proxy statements. Count II alleges that all the Defendants breached their fiduciary duty. Count III alleges that all the Defendants wasted corporate assets. Count IV alleges that certain of the Defendants were unjustly enriched. The Complaint seeks monetary damages, improvements to the Company's corporate governance and internal procedures, an accounting from Defendants of the damages allegedly caused by them and the improper amounts the Defendants allegedly obtained, and punitive damages. The parties are currently engaged in mediation.

Given the status of the matters above, the Company concluded in the third quarter of 2018 that a liability is probable and recorded the estimated loss of \$22 million and a corresponding insurance reimbursement receivable of \$20 million as of September 30, 2018.

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

12. Related Party Transactions

The Company had an advisory agreement with HCI Equity Management L.P. ("HCI") that required the Company to pay transaction fees and an annual advisory fee of \$0.1 million. On May 2, 2017, the Company and HCI entered into a Termination Agreement in which HCI waived the Company's payment of any and all unpaid fees and expenses accrued under the advisory agreement through May 2, 2017.

The Investment Agreement with Elliott required the Company to pay Elliott a daily payment in an amount equal to \$33,333.33 per calendar day from the closing date until the Refinancing Date (which is the date the Company entered into the ABL Facility). The Company paid \$0.7 million and \$2.7 million pursuant to this requirement for the three and nine months ended September 30, 2017, respectively.

The Company, as part of the \$293.0 million redemption of its Series F Preferred Stock (\$240.5 million) and a portion of its Series E Preferred Stock (\$52.5 million), paid to Elliott \$6.9 million in accrued dividends and \$6.0 million in early redemption premiums in the third quarter of 2017.

The Company's operating companies have contracts with certain purchased transportation providers that are considered related parties. The Company paid an aggregate of \$5.8 million and \$3.8 million to these purchased transportation providers during the three months ended September 30, 2018 and 2017, respectively. The Company paid an aggregate of \$19.0 million and \$9.5 million to these purchased transportation providers during the nine months ended September 30, 2018 and 2017, respectively.

The Company has a number of facility leases with related parties and paid an aggregate of \$0.3 million and \$0.8 million under these leases during the three months ended September 30, 2018 and 2017, respectively. The Company paid an aggregate of \$1.0 million and \$2.3 million under these leases during the nine months ended September 30, 2018 and 2017, respectively.

The Company owns 37.5% of Central Minnesota Logistics, Inc. ("CML"), which operates as one of the Company's brokerage agents. The Company paid CML broker commissions of \$0.8 million and \$0.7 million during the three

months ended September 30, 2018 and 2017. The Company paid CML broker commissions of \$2.2 million and \$1.9 million during the nine months ended September 30, 2018 and 2017, respectively.

The Company has a jet fuel purchase agreement with a related party and paid an aggregate of \$0.4 million and \$0.3 million under this agreement during the three months ended September 30, 2018 and 2017, respectively. The Company paid an aggregate of \$1.6 million and \$1.1 million under this agreement during the nine months ended September 30, 2018 and 2017, respectively.

Table of Contents

The Company leases certain equipment through leasing companies owned by related parties and paid an aggregate of \$1.2 million and \$0.3 million during the three months ended September 30, 2018 and 2017, respectively. The Company paid an aggregate of \$2.7 million and \$0.9 million for these leases during the nine months ended September 30, 2018 and 2017, respectively.

13. Segment Reporting

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

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

Table of Contents

The following table reflects certain financial data of the Company's segments for the three and nine months ended September 30, 2018 and 2017 and as of September 30, 2018 and December 31, 2017 (in thousands):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| TES | 280,335 | 260,536 | \$906,439 | \$750,820 |
| LTL | 113,948 | 117,618 | 344,237 | 348,362 |
| Ascent | 145,632 | 145,296 | 425,205 | 438,856 |
| Eliminations | (3,331) | (2,017) | (11,287) | (7,106) |
| Total | \$536,584 | \$521,433 | \$1,664,594 | \$1,530,932 |
| Operating (loss) income: | | | | |
| TES ⁽¹⁾ | (787) | (1,735) | \$2,863 | \$— |
| LTL | (5,040) | (8,169) | (17,467) | (14,154) |
| Ascent | 7,474 | 1,531 | 21,495 | 16,383 |
| Corporate ⁽²⁾ | (12,468) | 19,659 | (42,517) | (16,346) |
| Total | \$(10,821) | \$11,286 | \$(35,626) | \$(14,117) |
| Interest expense | 35,798 | 10,502 | 79,573 | 45,382 |
| Loss from debt extinguishment | — | 6,049 | — | 15,876 |
| Loss before income taxes | \$(46,619) | \$(5,265) | \$(115,199) | \$(75,375) |
| Depreciation and amortization: | | | | |
| TES | 6,456 | 6,484 | \$18,993 | \$18,957 |
| LTL | 876 | 924 | 2,689 | 2,838 |
| Ascent | 1,183 | 1,471 | 3,539 | 4,758 |
| Corporate | 1,099 | 440 | 2,582 | 1,281 |
| Total | \$9,614 | \$9,319 | \$27,803 | \$27,834 |
| Capital expenditures: ⁽³⁾ | | | | |
| TES | 2,477 | 1,924 | \$8,414 | \$7,315 |
| LTL | 505 | 270 | 760 | 901 |
| Ascent | 496 | 550 | 1,205 | 1,121 |
| Corporate | 16,719 | 1,190 | 31,653 | 1,875 |
| Total | \$20,197 | \$3,934 | \$42,032 | \$11,212 |

September 30, December 31,
2018 2017

| | | |
|-----------------------------|------------|------------|
| Assets: | | |
| TES | \$ 403,575 | \$ 458,945 |
| LTL | 78,410 | 79,065 |
| Ascent | 273,298 | 271,400 |
| Corporate | 93,730 | 68,445 |
| Eliminations ⁽⁴⁾ | (1,717) | (1,812) |
| Total | \$ 847,296 | \$ 876,043 |

(1) Operations restructuring charges of \$4.7 million are included within TES for the nine months ended September 30, 2018. See Note 14 for additional information.

(2) Gain from sale of Unitrans of \$35.4 million is included within Corporate for the three and nine months ended September 30, 2017.

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

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

Table of Contents

14. Restructuring Costs

In the second quarter of 2018, the Company restructured its temperature controlled truckload business by completing the integration of multiple operating companies into one business unit. As part of this integration, the Company also right-sized its temperature controlled fleets, facilities, and support functions. As a result, in the second quarter of 2018, the Company recorded operations restructuring costs of \$4.7 million, related to fleet and facilities right-sizing and relocation costs, severance costs, and the write-down of assets held-for-sale to fair market value. The write-down of assets held-for-sale to fair market value totaled \$1.3 million and was recorded to property and equipment, while the remaining \$3.4 million was recorded in accrued expenses and other liabilities. None of the remaining individual components are considered material to the overall cost. The Company paid \$1.3 million in operations restructuring costs for the three months ended September 30, 2018 which reduced the remaining reserve to \$2.1 million.

The Company also incurred corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, SEC and accounting compliance, and restructuring of \$4.7 million and \$6.8 million in the third quarter of 2018 and 2017, respectively, and costs of \$15.5 million and \$23.6 million in the first nine months of 2018 and 2017, respectively. These costs are included in other operating expenses.

15. Subsequent Events

On October 4, 2018 the Company received a notice from the New York Stock Exchange (the “NYSE”) that the Company had fallen below the NYSE’s continued listing standards relating to minimum average global market capitalization and total stockholders’ investment, which require that either its average global market capitalization be not less than \$50 million over a consecutive 30 trading day period, or its total stockholders’ investment be not less than \$50 million.

Pursuant to the NYSE continued listing standards, the Company timely notified the NYSE that it intends to submit a plan to the NYSE demonstrating how it intends to regain compliance with the continued listing standards within the required 18-month timeframe. The Company has 45 days to submit its plan to the NYSE. Upon receipt of the plan, the NYSE has 45 days to review and determine whether the Company has made a reasonable demonstration of its ability to come into conformity with the relevant continued listing standards within the 18-month cure period. During this process and during the 18-month cure period, the Company’s shares will continue to be listed and traded on the NYSE, subject to the Company’s compliance with other listing standards. The NYSE notification does not affect the Company’s business operations or its SEC reporting requirements.

The Company expects that the plan it will submit to the NYSE will include a discussion of the previously announced rights offering to existing holders of the Company’s common stock, which the Company believes would bring it into compliance with the NYSE’s continued listing standards relating to minimum average global market capitalization and total stockholders’ investment.

On October 12, 2018, the Company received a notice from the NYSE that it had fallen below the NYSE’s continued listing standard related to price criteria for common stock, which requires the average closing price of the Company’s common stock to equal at least \$1.00 per share over a 30 consecutive trading day period. Pursuant to the NYSE listing standards, the Company timely notified the NYSE that it intends to cure the deficiency and regain compliance with the continued listing standard.

The Company has six months from its receipt of the notice to regain compliance with this listing standard. The Company can regain compliance with the standard if, on the last trading day of any calendar month during the six-month period following receipt of the notice or on April 12, 2019, which is the date that is six months following receipt of the notice, the Company’s common stock has a closing price of at least \$1.00 per share and an average closing price of at least \$1.00 per share over the previous 30 consecutive trading day period.

During the six-month cure period, the Company’s shares of common stock will continue to be listed and traded on the NYSE, subject to the company’s compliance with other listing standards. The NYSE notification does not affect the company’s business operations or its SEC reporting requirements.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our unaudited condensed consolidated financial statements and the related notes and other financial information included in this Quarterly Report on Form 10-Q. This Quarterly Report on Form 10-Q contains "forward-looking statements" that involve substantial risks and uncertainties. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Exchange Act, including, but not limited to, statements regarding our strategy, prospects, plans, objectives, future operations, future revenue and earnings, projected margins and expenses, markets for our services, potential acquisitions or strategic alliances, financial position, and liquidity and anticipated cash needs and availability are forward-looking statements. The words "anticipates," "believes," "estimates," "expects," "intends," "may," "plans," "projects," "will," "would," and similar expressions and their negatives thereof are intended to identify forward-looking statements. However, not all forward-looking statements contain these identifying words. These forward-looking statements reflect our current views about future events and involve known risks, uncertainties, and other factors that may cause our actual results, levels of activity, performance, or achievement to be materially different from those expressed or implied by the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in this Quarterly Report on Form 10-Q and our Form 10-K for the year ended December 31, 2017. Furthermore, such forward-looking statements speak only as of the date on which they are made. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

This discussion and analysis should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations", set forth in our Annual Report on Form 10-K for the year ended December 31, 2017.

Overview

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

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

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

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

traditional hub and spoke LTL model in terms of lower incidence of damage and reduced fuel consumption. Ascent Global Logistics. Within our Ascent segment, we offer a full portfolio of domestic and international transportation and logistics solutions, including access to cost-effective and time-sensitive modes of transportation within our broad network. Ascent provides domestic freight management solutions including asset-backed truckload brokerage, specialized/heavy haul, LTL shipment execution, LTL carrier rate negotiations, access to our transportation management system and freight audit/payment. Ascent also provides clients with international freight forwarding, customs brokerage, regulatory compliance services and project management. We also specialize in retail consolidation, with 2.5 million square feet of our own food-grade warehousing space (both dry and temperature controlled) and full truckload consolidation to retailers to improve On Time In Full compliance. Ascent serves its customers through either its direct sales force or through a network of independent agents. Our customized Ascent

Table of Contents

offerings are designed to allow our customers to reduce operating costs, redirect resources to core competencies, improve supply chain efficiency, and enhance customer service.

Factors Important to Our Business

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

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

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

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

Personnel and Related Benefits. Personnel and related benefits costs are a large component of our overall cost structure. We employ approximately 1,400 company drivers who are paid either per mile or at an hourly rate. In addition, we employ approximately 900 dock and warehouse workers and approximately 2,200 operations and other administrative personnel to support our day-to-day business activities. Personnel and related benefits costs could vary significantly as we may be required to adjust staffing levels to match our business needs.

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

surcharges on our overall rate structure or the total price that we will receive from our customers. Depending on the changes in the fuel rates and the impact on costs in other fuel- and energy-related areas, our operating margins could be impacted.

Table of Contents

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

Sale of Unitrans

On September 15, 2017, we completed the sale of our wholly-owned subsidiary Unitrans, Inc. ("Unitrans"). The results of operations of Unitrans are included in our condensed consolidated financial statements within our Ascent segment through the date of completion of the sale.

Table of Contents

Results of Operations

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

(In thousands, except for %'s) Three Months Ended September 30, 2018

| | TES | % | LTL | % | Ascent | % | Corporate/ Eliminations | Total |
|---|-----------|---------|-----------|---------|-----------|--------|----------------------------|-------------|
| Revenues | \$280,335 | 52.2 % | \$113,948 | 21.2 % | \$145,632 | 27.1 % | \$ (3,331) | \$536,584 |
| Operating expenses: | | | | | | | | |
| Purchased transportation costs | 180,440 | 64.4 % | 81,422 | 71.5 % | 107,146 | 73.6 % | (3,330) | 365,678 |
| Personnel and related benefits | 41,680 | 14.9 % | 17,402 | 15.3 % | 12,687 | 8.7 % | 6,349 | 78,118 |
| Other operating expenses ⁽¹⁾ | 52,546 | 18.7 % | 19,288 | 16.9 % | 17,142 | 11.8 % | 5,019 | 93,995 |
| Depreciation and amortization | 6,456 | 2.3 % | 876 | 0.8 % | 1,183 | 0.8 % | 1,099 | 9,614 |
| Total operating expenses | 281,122 | 100.3 % | 118,988 | 104.4 % | 138,158 | 94.9 % | 9,137 | 547,405 |
| Operating income (loss) | (787) | (0.3)% | (5,040) | (4.4)% | 7,474 | 5.1 % | (12,468) | (10,821) |
| Total interest expense | | | | | | | | 35,798 |
| Loss before income taxes | | | | | | | | (46,619) |
| Benefit from income taxes | | | | | | | | (5,058) |
| Net loss | | | | | | | | \$(41,561) |

(In thousands, except for %'s) Three Months Ended September 30, 2017

| | TES | % | LTL | % | Ascent | % | Corporate/ Eliminations | Total |
|---|-----------|---------|-----------|---------|-----------|--------|----------------------------|-------------|
| Revenues | \$260,536 | 50.0 % | \$117,618 | 22.6 % | \$145,296 | 27.9 % | \$ (2,017) | \$521,433 |
| Operating expenses: | | | | | | | | |
| Purchased transportation costs | 169,103 | 64.9 % | 84,249 | 71.6 % | 107,156 | 73.8 % | (2,028) | 358,480 |
| Personnel and related benefits | 37,279 | 14.3 % | 17,597 | 15.0 % | 14,832 | 10.2 % | 3,555 | 73,263 |
| Other operating expenses ⁽²⁾ | 49,405 | 19.0 % | 23,017 | 19.6 % | 15,904 | 10.9 % | (23,643) | 64,683 |
| Depreciation and amortization | 6,484 | 2.5 % | 924 | 0.8 % | 1,471 | 1.0 % | 440 | 9,319 |
| Impairment charges | — | — % | — | — % | 4,402 | 3.0 % | — | 4,402 |
| Total operating expenses | 262,271 | 100.7 % | 125,787 | 106.9 % | 143,765 | 98.9 % | (21,676) | 510,147 |
| Operating income (loss) | (1,735) | (0.7)% | (8,169) | (6.9)% | 1,531 | 1.1 % | 19,659 | 11,286 |
| Total interest expense | | | | | | | | 10,502 |
| Loss from debt extinguishment | | | | | | | | 6,049 |
| Loss before income taxes | | | | | | | | (5,265) |
| Provision for income taxes | | | | | | | | 4,788 |
| Net loss | | | | | | | | \$(10,053) |

Table of Contents

| (In thousands) | Three Months Ended September 30, 2018 | | | | |
|---|---------------------------------------|-----------|---------|----------------------------|------------|
| | TES | LTL | Ascent | Corporate/ Eliminations | Total |
| Net (loss) income | \$(921) | \$(5,072) | \$7,319 | \$(42,887) | \$(41,561) |
| Plus: Total interest expense | 134 | 32 | 26 | 35,606 | 35,798 |
| Plus: (Benefit from) provision for income taxes | — | — | 129 | (5,187) | (5,058) |
| Plus: Depreciation and amortization | 6,456 | 876 | 1,183 | 1,099 | 9,614 |
| Plus: Long-term incentive compensation expenses | — | — | — | 951 | 951 |
| Plus: Corporate restructuring and restatement costs | — | — | — | 4,713 | 4,713 |
| Adjusted EBITDA ⁽³⁾ | \$5,669 | \$(4,164) | \$8,657 | \$(5,705) | \$4,457 |

| (In thousands) | Three Months Ended September 30, 2017 | | | | | Less: Unitrans | Total w/o Unitrans |
|---|---------------------------------------|-----------|---------|----------------------------|------------|-------------------|-----------------------|
| | TES | LTL | Ascent | Corporate/ Eliminations | Total | | |
| Net (loss) income | \$(1,720) | \$(8,206) | \$1,496 | \$(1,623) | \$(10,053) | \$1,339 | \$(11,392) |
| Plus: Total interest expense | (15) | 37 | 35 | 10,445 | 10,502 | — | 10,502 |
| Plus: Provision for income taxes | — | — | — | 4,788 | 4,788 | — | 4,788 |
| Plus: Depreciation and amortization | 6,484 | 924 | 1,471 | 440 | 9,319 | 230 | 9,089 |
| Plus: Impairment charges | — | — | 4,402 | — | 4,402 | — | 4,402 |
| Plus: Long-term incentive compensation expenses | — | — | — | 541 | 541 | — | 541 |
| Plus: Gain on sale of Unitrans | — | — | — | (35,440) | (35,440) | — | (35,440) |
| Plus: Loss on debt extinguishments | — | — | — | 6,049 | 6,049 | — | 6,049 |
| Plus: Corporate restructuring and restatement costs | — | — | — | 6,841 | 6,841 | — | 6,841 |
| Adjusted EBITDA ⁽³⁾ | \$4,749 | \$(7,245) | \$7,404 | \$(7,959) | \$(3,051) | \$1,569 | \$(4,620) |

Note: Adjusted EBITDA for the Ascent segment in the third quarter of 2017, excluding Unitrans, was \$5.8 million.

Table of Contents

(In thousands, except for %'s) Nine Months Ended September 30, 2018

| | TES | % | LTL | % | Ascent | % | Corporate/ Eliminations | Total |
|---|-----------|--------|-----------|---------|-----------|--------|----------------------------|--------------|
| Revenues | \$906,439 | 54.5 % | \$344,237 | 20.7 % | \$425,205 | 25.5 % | \$ (11,287) | \$1,664,594 |
| Operating expenses: | | | | | | | | |
| Purchased transportation costs | 599,743 | 66.2 % | 245,737 | 71.4 % | 312,520 | 73.5 % | (11,287) | 1,146,713 |
| Personnel and related benefits | 120,642 | 13.3 % | 52,965 | 15.4 % | 37,293 | 8.8 % | 18,943 | 229,843 |
| Other operating expenses ⁽¹⁾ | 164,198 | 18.1 % | 60,313 | 17.5 % | 50,358 | 11.8 % | 20,992 | 295,861 |
| Depreciation and amortization | 18,993 | 2.1 % | 2,689 | 0.8 % | 3,539 | 0.8 % | 2,582 | 27,803 |
| Total operating expenses | 903,576 | 99.7 % | 361,704 | 105.1 % | 403,710 | 94.9 % | 31,230 | 1,700,220 |
| Operating income (loss) | 2,863 | 0.3 % | (17,467) | (5.1)% | 21,495 | 5.1 % | (42,517) | (35,626) |
| Total interest expense | | | | | | | | 79,573 |
| Loss before income taxes | | | | | | | | (115,199) |
| Benefit from income taxes | | | | | | | | (8,040) |
| Net loss | | | | | | | | \$(107,159) |

(In thousands, except for %'s) Nine Months Ended September 30, 2017

| | TES | % | LTL | % | Ascent | % | Corporate/ Eliminations | Total |
|---|-----------|---------|-----------|---------|-----------|--------|----------------------------|-------------|
| Revenues | \$750,820 | 49.0 % | \$348,362 | 22.8 % | \$438,856 | 28.7 % | \$ (7,106) | \$1,530,932 |
| Operating expenses: | | | | | | | | |
| Purchased transportation costs | 471,581 | 62.8 % | 246,960 | 70.9 % | 321,751 | 73.3 % | (7,095) | 1,033,197 |
| Personnel and related benefits | 113,363 | 15.1 % | 52,334 | 15.0 % | 45,841 | 10.4 % | 11,807 | 223,345 |
| Other operating expenses ⁽²⁾ | 146,919 | 19.6 % | 60,384 | 17.3 % | 45,721 | 10.4 % | 3,247 | 256,271 |
| Depreciation and amortization | 18,957 | 2.5 % | 2,838 | 0.8 % | 4,758 | 1.1 % | 1,281 | 27,834 |
| Impairment charges | — | — % | — | — % | 4,402 | 1.0 % | — | 4,402 |
| Total operating expenses | 750,820 | 100.0 % | 362,516 | 104.1 % | 422,473 | 96.3 % | 9,240 | 1,545,049 |
| Operating income (loss) | — | — % | (14,154) | (4.1)% | 16,383 | 3.7 % | (16,346) | (14,117) |
| Total interest expense | | | | | | | | 45,382 |
| Loss on debt extinguishment | | | | | | | | 15,876 |
| Loss before income taxes | | | | | | | | (75,375) |
| Benefit from income taxes | | | | | | | | (7,516) |
| Net loss | | | | | | | | \$(67,859) |

Table of Contents

(In thousands)

Nine Months Ended September 30, 2018

| | TES | LTL | Ascent | Corporate/ Eliminations | Total |
|---|----------|------------|----------|----------------------------|-------------|
| Net (loss) income | \$2,710 | \$(17,555) | \$21,281 | \$(113,595) | \$(107,159) |
| Plus: Total interest expense | 153 | 88 | 85 | 79,247 | 79,573 |
| Plus: (Benefit from) provision for income taxes | — | — | 129 | (8,169) | (8,040) |
| Plus: Depreciation and amortization | 18,993 | 2,689 | 3,539 | 2,582 | 27,803 |
| Plus: Long-term incentive compensation expenses | — | — | — | 1,954 | 1,954 |
| Plus: Operations restructuring costs ⁽¹⁾ | 4,655 | — | — | — | 4,655 |
| Plus: Corporate restructuring and restatement costs | — | — | — | 15,537 | 15,537 |
| Adjusted EBITDA ⁽³⁾ | \$26,511 | \$(14,778) | \$25,034 | \$(22,444) | \$14,323 |

(In thousands)

Nine Months Ended September 30, 2017

| | TES | LTL | Ascent | Corporate/ Eliminations | Total | Less: Unitrans | Total w/o Unitrans |
|---|----------|------------|----------|----------------------------|------------|-------------------|-----------------------|
| Net (loss) income | \$51 | \$(14,317) | \$16,273 | \$(69,866) | \$(67,859) | \$5,792 | \$(73,651) |
| Plus: Total interest expense | (51) | 163 | 110 | 45,160 | 45,382 | — | 45,382 |
| Plus: Benefit from income taxes | — | — | — | (7,516) | (7,516) | — | (7,516) |
| Plus: Depreciation and amortization | 18,957 | 2,838 | 4,758 | 1,281 | 27,834 | 819 | 27,015 |
| Plus: Impairment charges | — | — | 4,402 | — | 4,402 | — | 4,402 |
| Plus: Long-term incentive compensation expenses | — | — | — | 1,810 | 1,810 | — | 1,810 |
| Plus: Gain on sale of Unitrans | — | — | — | (35,440) | (35,440) | — | (35,440) |
| Plus: Loss on debt extinguishments | — | — | — | 15,876 | 15,876 | — | 15,876 |
| Plus: Corporate restructuring and restatement costs | — | — | — | 23,591 | 23,591 | — | 23,591 |
| Adjusted EBITDA ⁽³⁾ | \$18,957 | \$(11,316) | \$25,543 | \$(25,104) | \$8,080 | \$6,611 | \$1,469 |

Note: Adjusted EBITDA for the Ascent segment for the nine months ended September 30, 2017, excluding Unitrans, was \$18.9 million.

(1) Operations restructuring costs of \$4.7 million are included in other operating expenses within the TES segment. See Note 14 to our condensed consolidated financial statements for additional information.

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

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

for analysis of our results as reported under GAAP. Some of these limitations are:

• Adjusted EBITDA does not reflect our cash expenditures, future requirements for capital expenditures, or contractual commitments;

• Adjusted EBITDA does not reflect changes in, or cash requirements for, our working capital needs;

• Adjusted EBITDA does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt or dividend payments on our preferred stock;

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future and Adjusted EBITDA does not reflect any cash requirements for such replacements; and

Table of Contents

Other companies in our industry may calculate Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

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

A summary of operating statistics for our LTL segment for the three and nine months ended September 30 is shown below:

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|-------------------------------------|-----------|-------------|------------------------------------|-----------|-------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| Revenue | \$113,948 | \$117,618 | (3.1)% | \$344,237 | \$348,362 | (1.2)% |
| Less: Backhaul Revenue | 2,267 | — | | 5,401 | — | |
| Less: Eliminations | (74) | (62) | | (220) | (178) | |
| Adjusted Revenue ⁽¹⁾ | 111,755 | 117,680 | (5.0 %) | 339,056 | 348,540 | (2.7 %) |
| Adjusted Revenue excluding fuel ⁽¹⁾ | 96,510 | 104,376 | (7.5 %) | 293,330 | 308,528 | (4.9 %) |
| Adjusted Revenue per hundredweight (incl. fuel) | \$21.89 | \$20.34 | 7.6 % | \$21.48 | \$19.81 | 8.4 % |
| Adjusted Revenue per hundredweight (excl. fuel) | \$18.96 | \$18.04 | 5.1 % | \$18.63 | \$17.54 | 6.2 % |
| Adjusted Revenue per shipment (incl. fuel) | \$254.53 | \$218.58 | 16.4 % | \$244.48 | \$213.95 | 14.3 % |
| Adjusted Revenue per shipment (excl. fuel) | \$220.50 | \$193.87 | 13.7 % | \$211.97 | \$189.39 | 11.9 % |
| Weight per shipment (lbs.) | 1,163 | 1,075 | 8.2 % | 1,138 | 1,080 | 5.4 % |
| Shipments per day | 7,111 | 8,546 | (16.8 %) | 7,377 | 8,529 | (13.5 %) |

(1) The Company's management uses Adjusted Revenue and Adjusted Revenue excluding fuel to calculate the above statistics as they believe it is a more useful measure to investors since backhaul revenue and eliminations do not have associated weights and shipments.

Table of Contents

Three Months Ended September 30, 2018 Compared to Three Months Ended September 30, 2017

Consolidated Results

Our consolidated revenues increased to \$536.6 million in the third quarter of 2018 compared to \$521.4 million in the third quarter of 2017. Higher revenues in the TES and Ascent segments contributed to the increase, partially offset by lower revenues in the LTL segment. Unitrans contributed \$19.3 million of revenue within the Ascent segment in the third quarter of 2017.

Our consolidated operating loss was \$10.8 million in the third quarter of 2018 compared to operating income of \$11.3 million in the third quarter of 2017. Consolidated operating results in the third quarter of 2017 included the gain on the sale of Unitrans of \$35.4 million, which was recorded within our Corporate results, and an impairment charge of \$4.4 million. Our TES, LTL and Ascent segments all experienced improved operating results in the third quarter of 2018 compared to the third quarter of 2017. Included in the operating results for Ascent in the third quarter of 2017 was operating income from Unitrans of \$1.3 million.

Our consolidated net loss was \$41.6 million in the third quarter of 2018 compared to \$10.1 million in the third quarter of 2017. In addition to the operating results within our segments and corporate, our net loss was also impacted by increased interest expense, partially offset by an income tax benefit and the absence of a loss from debt extinguishment of \$6.0 million that occurred in the third quarter of 2017.

Interest expense increased to \$35.8 million during the third quarter of 2018 from \$10.5 million during the third quarter of 2017, primarily as a result of higher interest associated with our preferred stock and higher interest expense on debt due to the ABL Facility commencing on July 21, 2017. Included in interest expense from preferred stock was higher expense of \$31.0 million due to the change in the fair value of the preferred stock.

Income tax benefit was \$5.1 million during the third quarter of 2018 compared to an income tax provision of \$4.8 million during the third quarter of 2017. The effective tax rate was 10.8% during the third quarter of 2018 and (90.9)% during the third quarter of 2017. The annual effective income tax rate varies from the federal statutory rate of 21.0% and 35.0%, respectively, primarily due to state income taxes (net of federal tax effect) and adjustments for permanent differences (primarily the non-deductible interest expense associated with our preferred stock). No significant discrete items were recognized during the third quarter of 2018. The tax effects of significant discrete items recognized during the third quarter of 2017 included loss from debt extinguishment (no tax benefit for partial redemption of preferred stock), gain on the sale of Unitrans (tax provision), and goodwill impairment charges (primarily non-deductible for tax purposes).

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

Truckload & Express Services

Operating results in our TES segment improved to an operating loss of \$0.8 million in the third quarter of 2018 compared to an operating loss of \$1.7 million in the third quarter of 2017. TES revenues increased \$19.8 million while purchased transportation costs increased \$11.3 million. Increases in TES revenue were due primarily to growth in ground and air expedited freight and related brokerage, coupled with a strong demand environment which drove higher rates across most of the segment. Purchase transportation costs and yield were negatively impacted by capacity reductions in intermodal services and over-the-road operations, including dry van and temperature controlled. TES personnel and related benefits increased \$4.4 million due primarily to higher driver wages, while other operating expenses increased \$3.1 million, due to increased equipment lease and maintenance costs of \$2.9 million and higher IT costs of \$1.6 million.

Less-than-Truckload

Operating results in our LTL segment improved to an operating loss of \$5.0 million in the third quarter of 2018 compared to an operating loss of \$8.2 million in the third quarter of 2017. LTL revenues decreased \$3.7 million and purchased transportation costs decreased \$2.8 million, both of which were driven by a decrease in shipping volumes. In addition to lower shipping volumes, LTL revenues were also impacted by a reduction in selected service areas in order to eliminate unprofitable freight and focus on key lanes, partially offset by higher rates and fuel surcharge revenue. LTL personnel and related benefits decreased \$0.2 million while other operating expenses decreased \$3.7 million. The decrease in LTL other operating expenses was primarily due to lower bad debt expense of \$0.9 million,

lower cargo claims expense of \$0.9 million and lower equipment lease costs of \$0.7 million.

Ascent Global Logistics

Operating results in our Ascent segment improved as operating income increased to \$7.5 million in the third quarter of 2018 from \$1.5 million in the third quarter of 2017. Operating results in the third quarter of 2017 included \$1.3 million of operating income from Unitrans which was sold in the third quarter of 2017 and an impairment charge of \$4.4 million which resulted from comparing the remaining carrying value of goodwill for the Ascent reporting unit after the sale of Unitrans. The improved operating results were driven by growth in retail consolidation business and our domestic freight management business, partially offset by

Table of Contents

a decline in international freight forwarding. Ascent revenues increased \$0.3 million in the third quarter of 2018 when compared to the the third quarter of 2017. Unitrans contributed \$19.3 million of revenue within the Ascent segment in the third quarter of 2017. Excluding Unitrans, Ascent revenues increased due to higher revenue from domestic freight management (truckload and LTL brokerage), retail consolidation (growth from existing and new customers) and international freight forwarding. Ascent personnel and related benefits decreased \$2.1 million primarily due to the absence of Unitrans. Excluding the impact of Unitrans, personnel and related benefit increased \$0.7 million. Other operating expenses increased \$1.2 million due to increased IT costs of \$0.9 million and higher commissions of \$0.5 million.

Other Operating Expenses

Other operating expenses that were not allocated to our TES, LTL, or Ascent segments increased to \$5.0 million in the third quarter of 2018 compared to operating income of \$23.6 million in the third quarter of 2017, primarily due to a \$35.4 million gain on the sale of Unitrans in September of 2017. Also included in other operating expenses are corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, and SEC and accounting compliance of \$4.7 million and \$6.8 million in the third quarter of 2018 and 2017, respectively. Also impacting the third quarter of of 2018 were lower insurance claims reserves of \$4.3 million.

Nine Months Ended September 30, 2018 Compared to Nine Months Ended September 30, 2017

Consolidated Results

Our consolidated revenues increased to \$1,664.6 million in the first nine months of 2018 compared to \$1,530.9 million in the first nine months of 2017. Higher revenues in the TES segment contributed to the increase, which were partially offset by lower revenues in the LTL and Ascent segments. Excluding the revenue from Unitrans of \$67.6 million in the first nine months of 2017, revenue increased in the Ascent segment.

Our consolidated operating loss increased to \$35.6 million in the first nine months of 2018 compared to \$14.1 million in the first nine months of 2017. The operating loss for the first nine months of 2017 included a \$35.4 million gain on the sale of Unitrans and impairment charges of \$4.4 million. The operating loss for the first nine months of 2018 included operations restructuring costs of \$4.7 million related to the restructuring of our temperature controlled truckload business. Lower consolidated operating results in the first nine months of 2018 were attributable to lower operating results in our LTL segment and higher corporate expenses, partially offset by an increase in operating results within our TES and Ascent segments. Excluding the operating income from Unitrans of \$5.8 million in the first nine months of 2017, our Ascent segment operating performance improved in the first nine months of 2018.

Our consolidated net loss was \$107.2 million in the first nine months of 2018 compared to \$67.9 million in the first nine months of 2017. In addition to the operating results within our segments and corporate, our net loss was also impacted by increased interest expense, partially offset by the absence of a loss from debt extinguishment of \$15.9 million that occurred in the first nine months of 2017.

Interest expense increased to \$79.6 million during the first nine months of 2018 from \$45.4 million during the first nine months of 2017 due to higher interest expense from our preferred stock, partially offset by lower interest expense on debt attributable to a lower principal balance. Included in interest expense from preferred stock was higher expense of \$59.7 million due to the change in the fair value of the preferred stock, partially offset by \$15.0 million of lower interest expense from preferred stock issuance costs.

Income tax benefit was \$8.0 million during the first nine months of 2018 compared to \$7.5 million during the first nine months of 2017. The effective tax rate was 7.0% during first nine months of 2018 and 10.0% during the first nine months of 2017. The annual effective income tax rate varies from the federal statutory rate of 21.0% and 35.0%, respectively, primarily due to state income taxes (net of federal tax effect) and adjustments for permanent differences (primarily the non-deductible interest expense associated with our preferred stock). No significant discrete items were recognized during the first nine months of 2018. The tax effects of significant discrete items recognized during the first nine months of 2017 included loss from debt extinguishment (tax benefit for senior debt payoff; no tax benefit for partial redemption of preferred stock), preferred stock issuance costs (no tax benefit), gain on the sale of Unitrans (tax provision), and goodwill impairment charges (primarily non-deductible for tax purposes).

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

Truckload & Express Services

Operating results in our TES segment improved to operating income of \$2.9 million in the first nine months of 2018 compared to a flat first nine months of 2017. TES revenues increased \$155.6 million while purchased transportation costs increased \$128.2 million. TES revenues were higher due primarily to increased ground and air expedited freight and related brokerage coupled with a strong demand environment which drove higher rates across most of the segment. Purchased transportation costs and yield

Table of Contents

were negatively impacted by capacity reductions in intermodal services and over-the-road operations, including dry van and temperature controlled. Operating results in the first nine months of 2018 included the restructuring of our temperature controlled truckload business, which resulted in operations restructuring costs of \$4.7 million related to fleet and facilities right-sizing and relocation costs, severance costs, and the write-down of assets held-for-sale to fair market value. TES personnel and related benefits increased \$7.3 million due primarily to higher driver wages, while other operating expenses increased \$17.3 million. The increase in TES operating expenses was due to increased equipment lease and maintenance costs of \$8.6 million, the previously mentioned operating restructuring costs of \$4.7 million and higher IT costs of \$4.4 million.

Less-than-Truckload

Operating results in our LTL segment declined to an operating loss of \$17.5 million in the first nine months of 2018 compared to an operating loss of \$14.2 million in the first nine months of 2017. LTL revenues decreased \$4.1 million due to a decrease in shipping volumes and a reduction in selected service areas in order to eliminate unprofitable freight and focus on key lanes, partially offset by higher rates and fuel surcharge revenue. Purchased transportation costs decreased \$1.2 million, which were driven by a decrease in shipping volumes, partially offset by market conditions resulting in rate increases from purchase power providers and higher spot prices paid to brokers which negatively impacted linehaul expense. LTL personnel and related benefits increased \$0.6 million while other operating expenses were essentially flat.

Ascent Global Logistics

Operating results improved in our Ascent segment as operating income was \$21.5 million in the first nine months of 2018 compared to \$16.4 million in the first nine months of 2017. Operating results in the first nine months of 2017 included \$5.8 million of operating income from Unitrans which was sold in the third quarter of 2017 and an impairment charge of \$4.4 million which resulted from comparing the remaining carrying value of goodwill for the Ascent reporting unit after the sale of Unitrans. Excluding Unitrans and the impact of the impairment charge, improved operating results were driven by growth in our retail consolidation business and our domestic freight management business, partially offset by a decline in international freight forwarding. Ascent revenues decreased \$13.7 million in the first nine months of 2018 compared to the first nine months of 2017 due to the divestiture of Unitrans, which generated \$67.6 million of revenue in the first nine months of 2017. Excluding Unitrans, Ascent revenues increased due to higher revenue from domestic freight management (truckload and LTL brokerage) and retail consolidation (growth from existing and new customers). Ascent personnel and related benefits decreased \$8.5 million primarily due to the absence of Unitrans in the first nine months of 2018. Excluding the impact of Unitrans, personnel and related benefit increased \$1.2 million. Other operating expenses increased \$4.6 million due to increased IT costs of \$3.0 million and higher commissions of \$1.8 million.

Other Operating Expenses

Other operating expenses that were not allocated to our TES, LTL, or Ascent segments increased to \$21.0 million in the first nine months of 2018 compared to \$3.2 million in the first nine months of 2017, primarily due to a \$35.4 million gain on the sale of Unitrans in September of 2017. Also included in other operating expenses are corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, and SEC and accounting compliance of \$15.5 million and \$23.6 million in the first nine months of 2018 and 2017, respectively. Also impacting first nine months of 2018 were lower insurance claims reserves of \$7.4 million and lower legal settlements of \$5.2 million.

Liquidity and Capital Resources

Our primary sources of cash have been borrowings under our credit facilities, the issuance of preferred stock, and cash flows from operations. Our primary cash needs are and have been to fund normal working capital requirements, repay our indebtedness, and finance capital expenditures. As of September 30, 2018, we had \$10.0 million in cash and cash equivalents.

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

capital to support our current operations and future growth.

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

Table of Contents

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

On August 3, 2018, in order to provide continued support to our operating needs, we entered into Amendment No. 1 to the Series E-1 Investment Agreement and Termination of Equity Commitment Letter with Elliott, which, among other things, extended the Termination Date from July 30, 2018 to November 30, 2018 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million.

On September 19, 2018, the Company and Elliott entered into Amendment No. 2 to the Series E-1 Investment Agreement which, among other things, further extended the Termination Date from November 30, 2018 to January 1, 2019 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million.

Certain terms of the outstanding preferred stock are as follows:

| | Series B | Series C | Series D | Series E | Series E-1 |
|--|--|--|--|--|--|
| Shares at \$0.01 | | | | | |
| Par Value at Issuance | 155,000 | 55,000 | 100 | 90,000 | 35,728 |
| Shares Outstanding at September 30, 2018 | 155,000 | 55,000 | 100 | 37,500 | 35,728 |
| Price per Share | \$1,000 | \$1,000 | \$1.00 | \$1,000 | \$1,000/\$960 |
| Dividend Rate | Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events. | Adjusted LIBOR + 3.00% + Additional Rate (4.75-12.50%) based on leverage. Additional 3.00% upon certain triggering events. | Right to participate equally and ratably in all cash dividends paid on common stock. | Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events. | Adjusted LIBOR + 5.25% + Additional Rate (8.50%). Additional 3.00% upon certain triggering events. |
| Dividend Rate at September 30, 2018 | 17.573% | 17.573% | N/A | 15.823% | 15.823% |
| Redemption Term | 8 Years | 8 Years | 8 Years | 6 Years | 6 Years |
| Redemption Rights | From Closing Date: 12-24 months: 105% 24-36 months: 103% | 65% premium (subject to stock movement) | | From Closing Date: 0-12 months: 106.5% 12-24 months: 103.5% | From Closing Date: 0-12 months: 106.5% 12-24 months: 103.5% |

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

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

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

ABL Facility matures on July 21, 2022.

The ABL Facility consists of a:

- \$200.0 million asset-based revolving line of credit, of which \$20.0 million may be used for swing line loans and \$30.0 million may be used for letters of credit;

Table of Contents

\$56.8 million term loan facility; and

\$35.0 million asset-based facility available to finance future capital expenditures, which was subsequently terminated before utilized.

We initially borrowed \$141.7 million under the revolving line of credit and \$56.8 million under the term loan facility. As of September 30, 2018, total availability under the ABL Facility was \$42.2 million but we could not draw more than \$22.2 million as of that date to maintain at least \$20.0 million of Adjusted Excess Availability in order to avoid the commencement of a Fixed Charge Trigger Period.

See Note 4, Debt, and Note 5, Preferred Stock, to our condensed consolidated financial statements in this Form 10-Q for additional information regarding the ABL Facility and preferred stock, respectively. We do not believe that the limitations imposed by the terms of our debt agreement or preferred stock investment agreements have any significant impact on our liquidity, financial condition, or results of operations. We believe that these resources will be sufficient to meet our working capital, debt service, and capital investment obligations for the foreseeable future.

Rights Offering

On September 19, 2018, we filed a registration statement on Form S-1 with the SEC for a rights offering to raise \$450 million. The purpose of the rights offering is to deleverage our balance sheet and provide us with additional liquidity to fund our operations. In the rights offering, we will distribute at no charge to the holders of our common stock on a record date to be set transferrable rights to purchase an aggregate of 900,000,000 new shares of our common stock. In connection with the rights offering, we are currently negotiating and expect to enter into a standby purchase agreement (the “Standby Purchase Agreement”) with funds affiliated with Elliott, pursuant to which we expect Elliott to agree to purchase all unsubscribed shares of common stock in the rights offering (the “backstop commitment”) to ensure that the rights offering is fully subscribed and that we raise the \$450 million.

Assuming we enter into the Standby Purchase Agreement with Elliott and consummate the rights offering, we intend to use the net proceeds received from the exercise of the rights and the backstop commitment to pay in cash all accrued and unpaid dividends on the outstanding shares of our preferred stock, other than dividends accrued after November 30, 2018 (which Elliott has agreed to waive if the rights offering is consummated on or prior to December 31, 2018), to redeem all of the outstanding shares of our preferred stock, at liquidation value together with all redemption premiums, other than redemption premiums on the accrued and unpaid dividends, to pay all expenses incurred by Elliott in connection with any backstop commitment, and to pay all of our fees and expenses in connection with the rights offering. We intend to use any remaining net proceeds for general corporate purposes, which amount will vary based upon the amount of rights exercised by stockholders other than Elliott because our transaction fees are structured such that we pay an additional fee for rights exercised and shares of common stock purchased by stockholders other than Elliott.

There can be no guarantee that we will receive stockholder approval or consummate the rights offering.

Consummation of the rights offering is, among other things, conditioned on the receipt of stockholder approval of (i) an amendment to our Amended and Restated Certificate of Incorporation authorizing additional shares for issuance in the rights offering, (ii) the rights offering, (iii) the Standby Purchase Agreement and potential change of control that may result from the purchase of shares of our common stock by Elliott, and (iv) amendments to our Amended and Restated Certificate of Incorporation to implement certain corporate governance changes requested by Elliott in connection with providing the backstop commitment. We intend to hold an annual meeting of stockholders in the fourth quarter of 2018 to approve these matters, among other things.

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

On October 4, 2018 we received a notice from the New York Stock Exchange (the “NYSE”) that we had fallen below the NYSE’s continued listing standards relating to minimum average global market capitalization and total stockholders’ investment, which require that either our average global market capitalization be not less than \$50 million over a consecutive 30 trading day period, or our total stockholders’ investment be not less than \$50 million. Pursuant to the NYSE continued listing standards, we timely notified the NYSE that we intend to submit a plan to the NYSE demonstrating how we intend to regain compliance with the continued listing standards within the required

18-month timeframe. We have 45 days to submit its plan to the NYSE. Upon receipt of the plan, the NYSE has 45 days to review and determine whether we have made a reasonable demonstration of its ability to come into conformity with the relevant continued listing standards within the 18-month cure period. During this process and during the 18-month cure period, our shares will continue to be listed and traded on the NYSE, subject to our compliance with other listing standards. The NYSE notification does not affect our business operations or our SEC reporting requirements.

Table of Contents

We expect that the plan we will submit to the NYSE will include a discussion of the previously mentioned rights offering to existing holders of our common stock, which we believe would bring us into compliance with the NYSE's continued listing standards relating to minimum average global market capitalization and total stockholders' investment.

On October 12, 2018, we received a notice from the NYSE that we had fallen below the NYSE's continued listing standard related to price criteria for common stock, which requires the average closing price of our common stock to equal at least \$1.00 per share over a 30 consecutive trading day period. Pursuant to the NYSE listing standards, we timely notified the NYSE that we intend to cure the deficiency and regain compliance with the continued listing standard.

We have six months from our receipt of the notice to regain compliance with the listing standard. We can regain compliance with the standard if, on the last trading day of any calendar month during the six-month period following receipt of the notice or on April 12, 2019, which is the date that is six months following receipt of the notice, our common stock has a closing price of at least \$1.00 per share and an average closing price of at least \$1.00 per share over the previous 30 consecutive trading day period.

During the six-month cure period, our shares of common stock will continue to be listed and traded on the NYSE, subject to our compliance with other listing standards. The NYSE notification does not affect our business operations or our SEC reporting requirements.

Cash Flows

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

| | Nine Months Ended | |
|---|-------------------|------------|
| | September 30, | |
| | 2018 | 2017 |
| Net cash (used in) provided by: | | |
| Operating activities | \$9,547 | (49,971) |
| Investing activities | (15,606) | 79,989 |
| Financing activities | (9,624) | (42,465) |
| Net change in cash and cash equivalents | \$(15,683) | \$(12,447) |

Cash Flows from Operating Activities

Cash used in operating activities primarily consists of net loss adjusted for certain non-cash items, including depreciation and amortization, share-based compensation, provision for bad debts, deferred taxes, and the effect of changes in working capital and other activities.

The difference between our \$107.2 million of net loss and the \$9.5 million of cash provided by operating activities during the nine months ended September 30, 2018 was primarily attributable to the change in the value of our preferred stock of \$70.5 million and \$28.4 million of depreciation and amortization expense, with the remainder attributable to changes in working capital.

The difference between our \$67.9 million of net loss and the \$50.0 million of cash used in operating activities during the nine months ended September 30, 2017 was primarily attributable to \$15.9 million of loss from debt extinguishment and \$28.8 million of depreciation and amortization expense, partially offset by a \$35.4 million gain from the sale of Unitrans with the remainder attributable to changes in working capital.

Cash Flows from Investing Activities

Cash used in investing activities was \$15.6 million during the nine months ended September 30, 2018, which was attributable to \$16.9 million of capital expenditures used to support our operations, partially offset by the proceeds from the sale of equipment of \$1.3 million.

Cash provided by investing activities was \$80.0 million during the nine months ended September 30, 2017, which reflects \$88.5 million of proceeds from the sale of Unitrans, which was partially offset by \$11.2 million of capital expenditures used to support our operations. These capital expenditures were offset by the proceeds from the sale of property and equipment of \$2.7 million.

Cash Flows from Financing Activities

Cash used in financing activities was \$9.6 million during the nine months ended September 30, 2018, which primarily reflects the issuance of Series E-1 Preferred Stock of \$35.0 million, partially offset by a reduction in borrowings of \$24.4 million.

Table of Contents

Cash used in financing activities was \$42.5 million during the nine months ended September 30, 2017, which primarily reflects issuance costs from debt and preferred stock of \$20.8 million, debt extinguishment costs of \$11.0 million, a net reduction of borrowings of \$6.2 million, and a reduction in our capital lease obligation of \$3.1 million.

Table of Contents

Critical Accounting Policies and Estimates

In preparing our condensed consolidated financial statements, we applied the same critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2017 that affect judgments and estimates of amounts recorded for certain assets, liabilities, revenues, and expenses. In accordance with the adoption of the new accounting standards Revenue from Contracts with Customers (Topic 606), we have revised our accounting policy for revenue recognition as follows:

Revenue Recognition (effective January 1, 2018)

Our revenues are primarily derived from transportation services which includes providing freight and carrier services both domestically and internationally via land, air, and sea. We disaggregate revenue among our three segments, TES, LTL and Ascent, as presented in Note 13, Segment Reporting, to our condensed consolidated financial statements.

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

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

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Commodity Risk

Our primary market risk centers on fluctuations in fuel prices, which can affect our profitability. Diesel fuel prices fluctuate significantly due to economic, political, and other factors beyond our control. Our ICs and purchased power providers pass along the cost of diesel fuel to us, and we in turn attempt to pass along some or all of these costs to our customers through fuel surcharge revenue programs. There can be no assurance that our fuel surcharge revenue programs will be effective in the future. Market pressures may limit our ability to pass along our fuel surcharges. We do not use derivative financial instruments for speculative trading purposes.

Interest Rate Risk

We have exposure to changes in interest rates on our preferred stock and ABL Facility. The interest rates on our preferred stock and ABL Facility fluctuate based on LIBOR plus an applicable margin. A 1.0% increase in the borrowing rate would increase our annual interest expense by \$5.3 million. We do not use derivative financial

instruments for speculative trading purposes and are not engaged in any interest rate swap agreements.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

In connection with the filing of this Form 10-Q for the quarter ended September 30, 2018, our Chief Executive Officer (“CEO”, serving as our Principal Executive Officer) and our Chief Financial Officer (“CFO”, serving as our Principal Financial Officer and Principal Accounting Officer) conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (“Exchange Act”). As a result of this evaluation, our CEO and CFO concluded that those material weaknesses previously identified in Item 9A. “Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2017 were still present as of September 30, 2018 (“the Evaluation Date”). Based on those material weaknesses, and the evaluation of our disclosure controls and procedures, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of the Evaluation Date.

Notwithstanding the identified material weaknesses, management believes that the unaudited condensed consolidated financial statements included in this Form 10-Q fairly present in all material respects our financial condition, results of operations, and cash flows as of September 30, 2018 based on a number of factors including, but not limited to, (a) substantial resources expended (including the use of internal audit personnel and external consultants) in response to the findings of material weaknesses, (b) internal reviews to identify material accounting errors, and (c) the remediation actions as discussed in Item 9A. “Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2017.

Changes in Internal Control Over Financial Reporting

There were no changes during the quarter ended September 30, 2018 in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Remediation Plan and Status

Our remediation efforts previously identified in Item 9A. “Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2017 are ongoing and we continue our initiatives to implement and document policies, procedures, and internal controls. Remediation of the identified material weaknesses and strengthening our internal control environment will require a substantial effort throughout 2018 and beyond, as necessary. We will test the operating effectiveness of certain new and existing controls in connection with our annual evaluation of the effectiveness of internal control over financial reporting; however, the material weaknesses cannot be considered completely remediated until the applicable controls have operated for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

While we believe the steps taken to date and those planned for implementation will improve the effectiveness of our internal control over financial reporting, we have not completed all remediation efforts. Accordingly, as we continue to monitor the effectiveness of our internal control over financial reporting in the areas affected by the material weaknesses, we have and will continue to perform additional procedures prescribed by management, including the use of manual mitigating control procedures and employing any additional tools and resources deemed necessary, to ensure that our consolidated financial statements are fairly stated in all material respects. The planned remediation activities described in Item 9A. “Controls and Procedures” of our Annual Report on Form 10-K for the year ended December 31, 2017 highlight our commitment to remediating our identified material weaknesses and remain largely unchanged through the date of filing this Quarterly Report on Form 10-Q.

Table of Contents

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Auto, Workers Compensation and General Liability Reserves

In the ordinary course of business, we are a defendant in several legal proceedings arising out of the conduct of our business. These proceedings include claims for property damage or personal injury incurred in connection with our services. Although there can be no assurance as to the ultimate disposition of these proceedings, we do not believe, based upon the information available at this time, that these property damage or personal injury claims, in the aggregate, will have a material impact on our consolidated financial statements. We maintain insurance for auto liability, general liability, and cargo damage claims. We maintain an aggregate of \$100 million of auto liability and general liability insurance. We maintain auto liability insurance coverage for claims in excess of \$1.0 million per occurrence and cargo coverage for claims in excess of \$100,000 per occurrence. We are self-insured up to \$1.0 million for workers compensation. We believe we have adequate insurance to cover losses in excess of our self-insured and deductible amount. As of September 30, 2018, and December 31, 2017, we had reserves for estimated uninsured losses of \$26.0 million and \$28.4 million, respectively, included in accrued expenses and other current liabilities on the condensed consolidated balance sheets.

General Litigation Proceedings

Jeffrey Cox and David Chidester filed a Complaint against certain of our subsidiaries in state court in California in a post-acquisition dispute (the “Central Cal Matter”). The Complaint alleges contract, statutory and tort-based claims arising out of the Stock Purchase Agreement, dated November 2, 2012, between the defendants, as buyers, and the plaintiffs, as sellers, for the purchase of the shares of Central Cal Transportation, Inc. and Double C Transportation, Inc. (the “Central Cal Agreement”). The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California’s Labor Code related to the plaintiffs’ respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted our motion to compel arbitration of all non-employment claims alleged in the Complaint. The plaintiffs are in the process of submitting the dispute to a Settlement Accountant as ordered, though on October 10, 2018, Plaintiffs filed a renewed motion requesting that the Los Angeles Superior Court reconsider its ruling. In February 2018, Plaintiff David Chidester agreed to dismiss his employment-related claims from the Los Angeles Superior Court matter, while Plaintiff Jeffrey Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. The parties are proceeding with discovery and the consolidated case is currently set for trial on November 5, 2019.

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

In addition to the legal proceeding described above, we are a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against us alleging that we violated various California labor laws. In 2017 and 2018, we reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of September 30, 2018, and December 31, 2017, we recorded a reserve for settlements, litigation, and defense costs related to these labor matters, the Central Cal Matter, and the Warren Matter of \$12.0 million and \$13.2 million, respectively, which are included in accrued expenses and other current liabilities on the condensed consolidated balance sheets.

Securities Litigation Proceedings

Following our press release on January 30, 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against us and our former officers, Mark A. DiBlasi and Peter R. Armbruster. On May 19, 2017, the Court consolidated the actions under the caption In re Roadrunner Transportation Systems, Inc. Securities Litigation (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed a Consolidated Amended Complaint ("CAC") on behalf of a class of persons who purchased our common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC alleges (i) we and Messrs. DiBlasi and Armbruster violated Section 10(b) of the Exchange Act and Rule 10b-5, and (ii) Messrs. DiBlasi and Armbruster, our former Chairman Scott Rued, HCI Equity Partners, L.L.C., and HCI Equity Management, L.P. violated Section 20(a) of the Exchange Act, by making or causing

Table of Contents

to be made materially false or misleading statements, or failing to disclose material facts, regarding (a) the accuracy of our financial statements; (b) our true earnings and expenses; (c) the effectiveness of our disclosure controls and controls over financial reporting; (d) the true nature and depth of financial risk associated with our tractor lease guaranty program; (e) our leverage ratios and compliance with its credit facilities; and (f) the value of the goodwill we carried on our balance sheet. The CAC seeks certification as a class action, compensatory damages, and attorney's fees and costs. On July 23, 2018, we and the individual defendants filed motions to dismiss to which Plaintiff responded on September 21, 2018. Defendants' time to file their reply has been extended pending the parties' mediation, which is ongoing.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on our behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi, Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vijums, Michael Ward, Chad Utrup, Ivor Evans, Peter Armbruster, and Brian van Helden. Count I of the Complaint alleges the Director Defendants breached their fiduciary duties by "knowingly failing to ensure that we implemented and maintained adequate internal controls over its accounting and financial reporting functions," and seeks unspecified damages. Count II of the Complaint alleges the Officer Defendants DiBlasi, Armbruster, and van Helden received substantial performance-based compensation and bonuses for fiscal year 2014 that should be disgorged. The action has been stayed by agreement pending a decision on Defendants' motions to dismiss the Amended Complaint filed in the securities class action described above. While the case was stayed, Plaintiff obtained permission to file an Amended Complaint adding claims against two former Company employees: Bret Naggs and Mark Wogsland. The parties are currently engaged in mediation.

On June 28, 2017, Jesse Kent filed a complaint alleging derivative claims on our behalf and class action claims in the United States District Court for the Eastern District of Wisconsin. On December 22, 2017, Chester County Employees Retirement Fund filed a Complaint alleging derivative claims on our behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption In re Roadrunner Transportation Systems, Inc. Stockholder Derivative Litigation (Case No. 17-cv-00893). On March 28, 2018, Plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on our behalf against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vijums, and Michael Ward. Count I alleges that several of the Defendants violated Section 14(a) of the Exchange Act and Rule 14a-9 based upon alleged misrepresentations and omissions in several of our proxy statements. Count II alleges that all the Defendants breached their fiduciary duty. Count III alleges that all the Defendants wasted corporate assets. Count IV alleges that certain of the Defendants were unjustly enriched. The Complaint seeks monetary damages, improvements to our corporate governance and internal procedures, an accounting from Defendants of the damages allegedly caused by them and the improper amounts the Defendants allegedly obtained, and punitive damages. The parties are currently engaged in mediation.

Given the status of the matters above, we concluded in the third quarter of 2018 that a liability is probable and recorded the estimate loss of \$22 million and a corresponding insurance reimbursement receivable of \$20 million as of September 30, 2018.

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

ITEM 1A. RISK FACTORS.

An investment in our common stock involves a high degree of risk. You should carefully consider the factors described in our Annual Report on Form 10-K for the year ended December 31, 2017 and the risk factors described

below in analyzing an investment in our common stock. If any such risks occur, our business, financial condition, and results of operations would likely suffer, the trading price of our common stock would decline, and you could lose all or part of the money you paid for our common stock. In addition, the risk factors and uncertainties could cause our actual results to differ materially from those projected in our forward-looking statements, whether made in this report or other documents we file with the SEC, or our annual report to stockholders, future press releases, or orally, whether in presentations, responses to questions, or otherwise.

Other than as set forth below, there have been no material changes to the Risk Factors described under “Part I - Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017.

Table of Contents

The NYSE could commence procedures to delist our common stock, in which case the market price of our shares might decline and become more volatile and our stockholders' ability to trade in our stock could be adversely affected. The continued listing of our common stock on the NYSE is subject to our compliance with a number of quantitative listing standards, including market capitalization criteria and price per share criteria. On October 4, 2018, we received notice from the NYSE that we were not in compliance with respect to the applicable listing standard set forth in Section 802.01B of the NYSE Listed Company Manual ("Section 802.01B") because our average global market capitalization over a consecutive 30 trading-day period was less than \$50,000,000, and at the same time stockholders' investment was less than \$50,000,000. The Company timely notified the NYSE that the Company will submit a plan within 45 calendar days from receipt of the notice, advising the NYSE of definitive action the Company is taking that will bring it into compliance with Section 802.01B within 18 months from receipt of the notice. There can be no guarantee that the NYSE will accept the plan or that the Company will regain compliance within the 18-month cure period. If the NYSE does not accept the plan or we are unable to regain compliance within the 18-month cure period, the Company will be subject to suspension and delisting procedures.

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

In addition to the above continued listing standards, if our average global market capitalization over any consecutive 30 trading-day period is less than \$15 million, the NYSE may promptly initiate procedures to suspend and delist our common stock from trading on the NYSE. As of October 31, 2018, our global market capitalization was approximately \$17.7 million.

If our common stock were delisted, there could be no assurance whether or when it would again be listed for trading on NYSE or any other exchange. A delisting of our common stock could negatively impact us by, among other things: reducing the liquidity and market price and increasing the volatility of our common stock, which may adversely affect the ability of stockholders to trade in our common stock; reducing the number of investors, including institutional investors, willing to hold or acquire our common stock, including institutions whose charters do not allow them to hold securities in unlisted companies, which might sell our shares, perhaps very promptly, which could negatively impact our ability to raise equity financing and have a further adverse effect on the price of our stock; decreasing the amount of news and analyst coverage of us; limiting our ability to issue additional securities, obtain additional financing or pursue strategic restructuring, refinancing or other transactions; impairing our ability to provide equity incentives to our employees; and impacting our reputation and, as a consequence, our ability to attract new business. In addition, if our common stock were delisted and we were unable to get our common stock listed for trading within one year, a Triggering Event (as defined in the Certificates of Designations for our Preferred Stock) would occur and, among other things, the dividend rate on certain series of our Preferred Stock would increase by 3.0%. However, if we redeem all of the preferred stock pursuant to this rights offering, this would no longer be a concern.

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

The efficient operation of our business depends on our information technology systems. We rely on our information technology systems to effectively manage our sales and marketing, accounting and financial and legal and compliance functions, communications, supply chain, order entry, and fulfillment and other business processes. We also rely on third parties and virtualized infrastructure to operate and support our information technology systems. Despite testing, external and internal risks, such as malware, code anomalies, "Acts of God," data leakage, and human error pose a direct threat to the stability or effectiveness of our information technology systems and operations. The failure of our information technology systems to perform as we anticipate has in the past, and could in the future, adversely affect our business through transaction errors, billing and invoicing errors, internal recordkeeping and reporting errors,

processing inefficiencies and loss of sales, receivables collection and customers, in each case, which could result in harm to our reputation and have an ongoing adverse impact on our business, results of operations and financial condition, including after the underlying failures have been remedied.

We have been, and in the future may be, subject to cybersecurity attacks and other intentional hacking. Any failure to identify and address such defects or errors or prevent a cyber-attack could result in service interruptions, operational difficulties, loss of revenues or market share, liability to our customers or others, the diversion of corporate resources, injury to our reputation and increased service and maintenance costs. On May 30, 2018, we became aware of unauthorized access into our information technology systems, and on July 2, 2018, we became aware of additional unauthorized access, each as a result of a phishing campaign attack upon our employees. After an investigation conducted by third party forensic investigators, we discovered a significant breach

Table of Contents

and loss of information regarding a substantial portion of our ICs and employees, including, but not limited to, their names, addresses, Social Security numbers, financial account information, medical information, insurance information, and other types of identifying or sensitive information. On other occasions, we have experienced other phishing attacks, social engineering and wire fraud affecting our employees and suppliers, which has resulted in leakage of personally identifiable information and loss of funds. Addressing such issues could prove to be impossible or very costly and responding to resulting claims or liability could similarly involve substantial cost. In addition, recently, there has also been heightened regulatory and enforcement focus on data protection in the United States and abroad, and failure to comply with applicable U.S. or foreign data protection regulations or other data protection standards may expose us to litigation, fines, sanctions or other penalties, which could harm our reputation and adversely impact our business, results of operations and financial condition.

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

Table of Contents

ITEM 6.EXHIBITS

| Exhibit Number | Exhibit |
|----------------|--|
| 10.33(D) | <u>Fourth Amendment to Credit Agreement, dated August 3, 2018, among Roadrunner Transportation Systems, Inc., BMO Harris Bank N.A., the Lenders (as defined therein) and the other parties thereto</u> (3) |
| 10.33(E) | <u>Fifth Amendment and Waiver to Credit Agreement, dated September 19, 2018, among Roadrunner Transportation Systems, Inc., BMO Harris Bank N.A., the Lenders (as defined therein) and the other parties thereto</u> (4) |
| 10.35(A) | <u>Amendment No. 1 to Investment Agreement and Termination of Equity Commitment Letter, dated as of August 3, 2018, by and among Roadrunner Transportation Systems, Inc., Elliott Associates, L.P., and Brockdale Investments LP</u> (3) |
| 10.35(B) | <u>Amendment No. 2 to Investment Agreement, dated as of September 19, 2018, by and among Roadrunner Transportation Systems, Inc., Elliott Associates, L.P., and Brockdale Investments LP</u> (4) |
| 10.43 | <u>Management Retention Agreement, dated July 9, 2018, between the Registrant and Curtis W. Stoelting</u> (1) |
| 10.44 | <u>Management Retention Agreement, dated July 9, 2018, between the Registrant and Michael L. Gettle</u> (1) |
| 10.45 | <u>Management Retention Agreement, dated July 9, 2018, between the Registrant and Terence R. Rogers</u> (1) |
| 10.46 | <u>Management Retention Agreement, dated July 9, 2018, between the Registrant and Scott B. Cousins</u> (1) |
| 10.47 | <u>Supplemental Pay Agreement, dated July 18, 2018, between the Registrant and Terence R. Rogers</u> (2) |
| 31.1 | <u>Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)</u> |
| 31.2 | <u>Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a)</u> |
| 32.1 | <u>Section 1350 Certification of Principal Executive Officer</u> |
| 32.2 | <u>Section 1350 Certification of Principal Financial Officer</u> |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 11, 2018.
- (2) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on July 19, 2018.
- (3) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on August 6, 2018.
- (4) Incorporated by reference to the registrant's Current Report on Form 8-K filed with the SEC on September 20, 2018.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

ROADRUNNER TRANSPORTATION SYSTEMS, INC.

Date: November 6, 2018 By: /s/ Terence R. Rogers

Terence R. Rogers

Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)