

Echo Global Logistics, Inc.  
Form 10-K  
March 11, 2011  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

---

FORM 10-K

---

(Mark one)

Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 31, 2010 or

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

Commission file number 001-34470

ECHO GLOBAL LOGISTICS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

20-5001120

(State or Other Jurisdiction of  
Incorporation or Organization)

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

600 West Chicago Avenue, Suite 725

60654

Chicago, Illinois

(Zip Code)

(Address of Principal Executive Offices)

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

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

Title of each class

Name of each exchange on which registered

Common Stock, par value \$0.0001 per share

The Nasdaq Global Market

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

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

Yes  No

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

Yes  No

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)



Table of Contents

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

Yes  No

At June 30, 2010, there were 21,842,242 shares of common stock outstanding held by nonaffiliates of the registrant, and the aggregate market value of the common stock (based upon closing price of these shares on the Nasdaq Global Market) was \$127,278,896.

The number of shares of the registrant's common stock outstanding as of the close of business on March 10, 2011 was 22,361,433.

Documents incorporated by reference:

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

---

Table of Contents

## TABLE OF CONTENTS

## PART I

<u>Item 1.</u>	<u>Business</u>	<u>3</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>12</u>
<u>Item 1B.</u>	<u>Unresolved Staff comments</u>	<u>20</u>
<u>Item 2.</u>	<u>Properties</u>	<u>20</u>
<u>Item 3.</u>	<u>Legal Proceedings</u>	<u>21</u>
<u>Item 4.</u>	<u>Reserved</u>	<u>21</u>
Part II		
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	<u>22</u>
<u>Item 6.</u>	<u>Selected Consolidated Financial Data</u>	<u>24</u>
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	<u>36</u>
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>65</u>
<u>Item 9A.</u>	<u>Controls and Procedures</u>	<u>65</u>
Part III		
<u>Item 10.</u>	<u>Directors, Executive Offices and Corporate Governance</u>	<u>65</u>
<u>Item 11.</u>	<u>Executive Compensation</u>	<u>65</u>
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>65</u>
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>66</u>
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	<u>66</u>
Part IV		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	<u>67</u>

Table of Contents

Item 1. Business

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

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

Our Company

We are a leading provider of technology enabled transportation and supply chain management services, delivered on a proprietary technology platform serving the transportation and logistics needs of our clients. Our web-based technology platform compiles and analyzes data from our network of over 24,000 transportation providers to serve our clients' shipping and freight management needs. Our technology platform, composed of web-based software applications and a proprietary database, enables us to identify excess transportation capacity, obtain competitive rates, and execute thousands of shipments every day while providing high levels of service and reliability. We focus primarily on arranging transportation across truckload (TL) and less than truck load (LTL), and we also offer small parcel, inter-modal (which involves moving a shipment by rail and truck), domestic air, expedited and international transportation services. Our core logistics services include rate negotiation, shipment execution and tracking, carrier management, routing compliance, freight bill audit and payment and performance management and reporting, including executive dashboard tools.

We believe our ability to identify and utilize excess capacity solves a long-standing transportation industry problem of failing to match demand with available supply and benefits both our clients and the carriers in our network. Through our proprietary technology platform and the real-time market information stored in our database, we are able to identify and utilize transportation providers with unused capacity on routes that our clients can employ. Our carrier network consists of over 24,000 transportation providers that have been selected based on their ability to effectively serve our clients in terms of price, capabilities, geographic coverage and quality of service. We believe the carriers in our network also benefit from the opportunity to serve the transportation needs of our clients with minimal sales, marketing or customer service expense.

Our proprietary web-based technology platform, Evolved Transportation Manager (ETM), allows us to analyze our clients' transportation requirements and provide recommendations that can result in cost savings for our enterprise clients of approximately 5% to 15%. Our clients communicate their transportation needs to us electronically through our EchoTrak web portal, other computer protocols, or by phone. Using pricing, service and available capacity data derived from our carrier network, historical transaction information and external market sources, ETM analyzes the capabilities and pricing options of our carrier network and recommends cost-effective shipping alternatives. The prices we quote to our clients for their shipping needs include the market cost of fuel, which we pass through to our clients. After the carrier is selected, either by the client or us, we use our ETM technology platform to manage all aspects of the shipping process.

Our clients gain access to our carrier network through our proprietary web-based technology platform, which enables them to capitalize on our logistics knowledge, pricing intelligence and purchasing leverage. In some instances, our clients have eliminated their internal logistics departments altogether, allowing them to reduce overhead costs, redeploy internal resources and focus on their core businesses. Using our web-based software applications also

provides our clients with the ability to track individual shipments, transfer shipment-level data to their financial management systems and create customized dashboards and reports detailing carrier activity on an enterprise-wide basis. These features provide our clients with greater visibility, business analytics and control of their freight expenditures.

We procure transportation and provide logistics services for more than 22,800 clients across a wide range of industries, such as manufacturing, construction, consumer products and retail. Our clients fall into two categories, enterprise and transactional. We typically enter into multi-year contracts with our enterprise clients, which are often on an exclusive basis for a specific transportation mode or point of origin. As part of our value proposition, we also provide core logistics services to these

## Table of Contents

clients, including the management of both freight expenditures and logistical issues surrounding freight to be transported. We provide transportation and logistics services to our transactional clients on a shipment-by-shipment.

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

### Our Strategy

Our objective is to become the premier provider of transportation and logistics services to corporate clients in the United States. Our business model and technological advantage have been the main drivers of our historical results and have positioned us for continued growth. The key elements of our strategy include:

**Expand our client base.** We intend to develop new long-term client relationships by using our industry experience and expanding our sales and marketing activities. As of December 31, 2010, we had contracts with 148 enterprise clients, and the total number of enterprise clients increased by 30 and 32 in 2009 and 2010, respectively. We seek to attract new enterprise clients by targeting companies with substantial transportation needs and demonstrating our ability to reduce their transportation costs by using our ETM technology platform. In addition, we plan to continue to hire additional sales representatives to build our transactional business across all major modes. We believe our business model provides us with a competitive advantage in recruiting sales representatives as it enables our representatives to leverage our proprietary technology and carrier network to market a broader range of services to their clients at competitive prices.

**Further penetrate our established client base.** We believe our established client base presents a substantial opportunity for growth. As we demonstrate our ability to execute shipments with high levels of service and favorable pricing, we are able to strengthen our relationships with our clients, penetrate incremental modes and geographic areas and generate more shipments. As we become more fully integrated into the businesses of our transactional clients and are able to identify additional opportunities for efficiencies, we seek to further penetrate our client base by selling our enterprise services to those clients. Of our 148 enterprise clients as of December 31, 2010, 80 began as our transactional clients.

**Further invest in our proprietary technology platform.** We intend to continue to improve and develop Internet and software-based information technologies that are compatible with our ETM platform. In order to continue to meet our clients' transportation requirements, we intend to invest in specific technology applications and personnel in order to improve and expand our offering. As of December 31, 2010, we had approximately 1,200 individual active users of ETM and as the number of users expands, we will continue to invest in both IT development and infrastructure.

**Selectively pursue strategic acquisitions.** We have grown, in part, through acquisitions. We intend to selectively pursue strategic acquisitions that complement our business relationships and logistics expertise and expand our business into new geographic markets. Our objective is to increase our presence and capabilities in major commercial freight markets in the United States. We may also evaluate opportunities to access attractive markets outside the United States from time to time, or selectively consider strategic relationships that add new long-term client relationships, enhance our services or complement our business strategy.

### Our Proprietary Technology Platform

Our proprietary ETM technology platform allows us to analyze our clients' transportation requirements and provide customized shipping recommendations that can result in cost savings of approximately 5% to 15% for our enterprise clients. We collect and store pricing and market capacity data in our ETM database from each interaction with carriers, and our database expands as a result of these interactions. We have also developed data acquisition tools that retrieve information from both private and public transportation databases, including subscription-based sources and public transportation rate boards, and incorporate that information into the ETM database. Using pricing, service and available capacity data derived from our carrier network, historical transaction information and external market sources, we are able to analyze the capabilities of our carrier network to recommend cost-effective shipping alternatives. We believe that the carriers with the most available capacity typically offer the most competitive rates.

Our clients communicate their transportation needs to us electronically through our EchoTrak web portal, other computer protocols, or by phone. ETM generates pricing and carrier information for our clients by accessing pre-negotiated rates with preferred carriers or using present or historical pricing and capacity information contained in our database. If a client enters its own shipment, ETM automatically alerts the appropriate account executive. ETM's pricing algorithms are checked for accuracy before the rates are made available to our account executives. If an error occurs and an inaccurate rate is conveyed to a client, we will honor the quoted rate and correct the defective algorithm to ensure that all quoted rates going forward are accurately



Table of Contents

calculated. To date, any losses incurred as a result of an inaccurate quote have been negligible. After the carrier is selected, either by us or the client, our account executives use our ETM technology platform to manage all aspects of the shipping process.

We have developed specialized software applications to provide our transportation and logistics services across all major modes of transportation. The software applications shown below reflect the key elements of our ETM technology platform:

The key elements of our ETM technology platform include:

FastLane is an Internet-based web portal that allows our carriers to view the status of all unpaid invoices, unbilled shipments, shipments in transit and other information used to quickly resolve any billing discrepancies.

eConnect is a set of tools that allows our clients and carriers to interact directly with ETM electronically through any of several computer protocols, including EDI, XML and FTP. The eConnect tools serve as an electronic bridge between the other elements of our ETM technology platform and our clients' enterprise resource planning (ERP), billing, accounts receivable, accounts payable, order management, back office and e-commerce systems. Through eConnect, our clients are able to request shipping services and receive financial and tracking data using their existing systems.

EchoTrak is an Internet-based web portal that connects and integrates our clients with ETM. By entering a username and password, our clients are able to display historical and active shipments in the ETM system using configurable data entry screens sorted by carrier, price, delivery date, destination and other relevant specifications. EchoTrak also generates automatic alerts to ensure that shipments are moving in accordance with the client specifications and timeline.

RateIQ is a pricing engine that manages LTL tariffs and generates rate quotes and transit times for LTL shipments. RateIQ also provides integrated tools to manage dispatch, communications, data collection and management functions relating to LTL shipments.

LaneIQ is a pricing engine that generates rate quotes for TL shipments. LaneIQ also provides integrated tools to manage dispatch, communications, headhaul and backhaul data collection and management functions relating to TL shipments.

EchoPak is a small parcel pricing and audit engine. For each small parcel shipped, EchoPak audits carrier compliance with on-time delivery requirements and pricing tariffs. In addition, EchoPak tracks information for each parcel and is able to aggregate and analyze that data for clients. For instance, clients are able to view shipments by date, business unit, product line

## Table of Contents

and location, and clients can access information regarding service levels and pricing.

Shipment Tracking stores shipment information en-route and after final delivery. The shipment data is typically acquired through our carrier EDI integration, allowing our clients to track the location and status of all shipments on one screen, regardless of mode or carrier. Final delivery information is permanently archived, allowing us to provide our clients with carrier performance reporting by comparing actual delivery times with the published transit time standards.

Document Imaging allows us to store digital images of all shipping documents, including bills of lading and delivery receipts. We index the images with the shipment data so users are able to view documents associated with an executed transaction. We use Document Imaging internally to store carrier qualification documents, including W-9, U.S. Department of Transportation authority and proof of insurance.

CAS (Cost Allocation System) automatically audits carrier invoices against our rating engine and accounts payable accrual system. If the amounts match, the invoice is automatically released for payment. If the amounts do not match, the invoice is sent to various administrative personnel for manual processing and resolution. CAS also integrates to our general ledger, accounts receivable and accounts payable systems.

Accounting includes our general ledger, accounts receivable and accounts payable functions. Accounting is integrated with CAS and EchoIQ, which gives us the ability to access both financial and operational data in our data warehouse and reporting systems.

EchoIQ stores internally and externally generated data to support our reporting and analytic functions and integrates all of our core applications with ETM.

ETM fully supports our logistics services, which we provide to our clients as part of our value proposition. Our ETM technology platform is able to track individual shipments and provide customized data and reports throughout the lifecycle of the shipment, allowing us to manage the entire shipping process for our clients. Our customized reports also provide our clients with greater visibility and control over their transportation expenditures, and our ability to benchmark the performance of their internal operations helps identify opportunities for additional cost savings.

We recently began to market Flex TMS. Flex TMS is a software-as-a-service TMS (Transportation Management System) with integrated managed services. This "a-la-carte" product provides shippers with a customized, cost effective solution for their logistics needs. It offers clients a standard solution which includes routing guide management, automated load entry, tendering and acceptance, load visibility with customized reporting and analytics complemented by industry experts to assist with freight management.

In 2008, 2009 and 2010 we spent approximately \$3.0 million, \$2.5 million and \$5.1 million, respectively, on the development of ETM and related technologies.

Our IT infrastructure provides a high level of security for our proprietary software and database. The storage system for our proprietary data is designed to ensure that power and hardware failures do not result in the loss of critical data. The proprietary data is protected from unauthorized access through a combination of physical and logical security measures, including firewalls, encryption, antivirus software, anti-spy software, passwords and physical security, with access limited to authorized IT personnel. In addition to our security infrastructure, our system is backed up daily to prevent the loss of our proprietary data due to catastrophic failures or natural disasters.

### Our Services

We are a non-asset-based provider of technology enabled transportation and logistics services, meaning we do not own the transportation equipment used to transport our clients' freight or warehouse our clients' inventory. We believe this allows us to be flexible and seek shipping alternatives that are tailored to the specific needs of our clients, rather than the deployment of particular assets. Through our carrier network, we provide transportation services using a variety of modes of transportation.

### Transportation Services

Truckload (TL). We provide TL services across all TL segments, including dry vans, temperature-controlled units and flatbeds. Using our LaneIQ technology, we provide advanced dispatch, communication and data collection tools that enable our dedicated TL team to quickly disseminate critical pricing and capacity information to our clients on a real-time basis.

Less than Truckload (LTL). We provide LTL services involving the shipment of single or multiple pallets of freight. Using our RateIQ technology, we obtain real-time pricing and transit time information for every LTL shipment from our database of LTL carriers.

## Table of Contents

**Small Parcel.** We provide small parcel services for packages of all sizes. Using our EchoPak technology, we are often able to deliver cost saving opportunities to our clients that spend over \$500,000 annually to ship with major small parcel carriers.

**Inter-Modal.** Inter-modal transportation is the shipping of freight by multiple modes, typically using a container that is transferred between ships, railcars or trucks. We offer inter-modal transportation services for our clients that utilize both trucks and rail. Using our ETM technology, our dedicated inter-modal team can select, on a timely basis, the most advantageous combination of trucks and rail to meet our clients' individual shipping demands and pricing expectations.

**Domestic Air and Expedited Services.** We provide domestic air and expedited shipment services for our clients when traditional LTL services do not meet delivery requirements. We use ETM track and trace tools to ensure that up to date information is available to our clients via EchoTrak.

**International.** We provide air and ocean transportation services for our clients, offering a comprehensive international delivery option to our clients. Using ETM, our dedicated teams can consolidate shipments, coordinate routing, local pick-up and delivery methods and prearrange customs clearance to minimize the time and economic burdens associated with international transportation.

### Logistics Services

In addition to arranging for transportation, we provide logistics services, either on-site (in the case of some enterprise clients) or off-site, to manage the flow of those goods from origin to destination. Our core logistics services include:

- rate negotiation;
- procurement of transportation, both contractually and in the spot market;
- shipment execution and tracking;
- carrier management, reporting and compliance;
- executive dashboard presentations and detailed shipment reports;
- freight bill audit and payment;
- claims processing and service refund management;
- design and management of inbound client freight programs;
- individually configured web portals and self-service data warehouses;
- ERP integration with transactional shipment data;
- and integration of shipping applications into client e-commerce sites.

We believe that direct access to our web-based applications, process expertise and analytical capabilities is a critical component of our offering, and we provide our logistics services to our clients as part of our value proposition.

### Our Clients

We provide transportation and logistics services to corporate clients across a wide range of industries, such as manufacturing, construction, consumer products and retail. In 2010, we served over 22,700 clients using approximately 9,100 different carriers and, from January 2005 through December 31, 2010, we served over 37,000 clients using approximately 15,000 different carriers. Our clients fall into two categories: enterprise and transactional.

### Enterprise Clients

We typically enter into multi-year contracts with our enterprise clients, generally with terms of one to three years, to provide some, or substantially all, of their transportation requirements. Each new enterprise client is assigned one or more dedicated account executives, who are able to work on-site or off-site, as required by the client. To foster a strategic relationship with these clients, we typically agree to a negotiated level of cost savings compared to the client's historical shipping expenditures over a fixed period of time. Cost savings are estimated periodically during the term of our agreement and if the negotiated amount is not achieved, our clients may have the right to terminate our agreement.

Our enterprise contracts are often on an exclusive basis for a certain transportation mode or point of origin and may apply

## Table of Contents

to a single mode, such as LTL, several modes or all transportation modes used by the client. These contractual exclusivity provisions help ensure, but do not guarantee, that we receive a significant portion of the amount that our enterprise clients spend on transportation in the applicable mode or modes or from the applicable point of origin. In our experience, compliance with such provisions varies from client to client and over time. Reasons compliance may vary include the widely-dispersed nature of transportation decision-making in some clients' organizations and the learning process involved in implementing our services. We work with and expect our enterprise clients to maintain and improve compliance with any applicable exclusivity provisions.

We recently began to market Flex TMS, which is a contractual agreement enabling our client to utilize our technology in exchange for transaction fees. Our transaction fees may be reduced to the extent that we manage a portion of the client's transportation. As of December 31, 2010, two of our enterprise clients were part of our Flex TMS programs. We also provide small parcel consulting services to a limited number of our enterprise clients, which is included in our fee for service revenue. Under these arrangements, we review the client's small parcel shipping contracts and shipment data analyzing their volumes, distribution, rates and savings opportunities, prepare negotiation strategies and directly or indirectly participate in negotiations with carriers to improve the client's rates, charges, services and commitments.

Our annual revenue from individual enterprise clients typically ranges from \$100,000 to \$20.0 million. Our revenue from all enterprise clients increased in the last two years, from \$87.4 million in 2008 to \$109.1 million in 2009 and to \$165.4 million in 2010. Our revenue from enterprise clients as a percentage of total revenue was 43% in 2008, 42% in 2009 and 39% in 2010.

### Transactional Clients

We provide transportation and logistics services to our transactional clients on a shipment-by-shipment basis, which are typically priced to our carriers on a spot, or transactional, basis. Our annual revenue from individual transactional clients typically ranges from \$1,000 to \$50,000. Of our 50 largest transactional clients in 2009, 47 placed orders with us during 2010, which we believe demonstrates our ability to meet a variety of transportation requirements on a recurring basis.

### Our Carrier Network

Our carrier network provides our clients with substantial breadth and depth of offerings within each mode. In 2010, we used approximately 8,300 TL carriers, 100 LTL carriers, 10 small parcel carriers, 94 inter-modal carriers, 10 domestic air carriers and 80 international carriers. Our ability to attract new carriers to our network and maintain good relationships with our current carriers is critical to the success of our business. We rely on our carriers to provide the physical transportation services for our clients, valuable pricing information for our proprietary database and tracking information throughout the shipping process from origin to destination. We believe we provide value to our carriers by enabling them to fill excess capacity on traditionally empty routes, repositioning their equipment and therefore offsetting their substantial overhead costs to generate incremental revenue. In addition, we introduce many of our clients to new carriers and broaden each carrier's market presence by expanding its sales channels to a larger client base.

We select carriers based on their ability to effectively serve our clients with respect to price, technology capabilities, geographic coverage and quality of service. In the small parcel mode, we use nationally recognized carriers, such as FedEx and UPS. In other transportation modes, we maintain the quality of our carrier network by obtaining documentation to ensure each carrier is properly licensed and insured, and has an adequate safety rating. In addition, we continuously collect information on the carriers in our network regarding capacity, pricing trends, reliability, quality control standards and overall customer service. We believe this quality control program helps to ensure that our clients receive high-quality service regardless of the carrier that is selected for an individual shipment. In 2010, we used approximately 8,500 of the over 24,000 carriers in our network to provide shipping services to our clients.

The carriers in our network are of all sizes, including large national trucking companies, mid-sized fleets, small fleets and owner-operators of single trucks. We are not dependent on any one carrier, and our largest carriers by TL, LTL and small parcel accounted for less than 0.7, 6.2% and 5.3%, respectively, of our total transportation costs across all modes in 2010. For international shipments, we currently rely on one forwarder to provide substantially all of our transportation. We consider our relationship with this carrier to be strong. In 2009 and 2010, international shipments

accounted for 3% and 2% of our revenue, respectively.

**Sales and Marketing**

We market and sell our transportation and logistics services through our sales personnel located in four cities across the United States. As of December 31, 2010, our sales team consisted of 7 enterprise sales representatives, 375 transactional sales representatives and 199 sales agents. Our enterprise sales representatives typically have significant sales expertise and are

8

---

## Table of Contents

focused on building relationships with clients' senior management teams to execute enterprise contracts. Our transactional sales representatives, located at our headquarters in Chicago, as well as in our regional offices in Atlanta, Dallas, and Detroit, are focused on building new transactional client relationships and migrating transactional accounts to enterprise accounts. Our agents, located in regional shipping markets throughout the United States, are typically experienced industry sales professionals focused on building relationships with our clients' transportation managers. We support our sales team with account executives. These individuals are generally responsible for customer service, developing relationships with client personnel and managing the shipping process from origin to destination.

Our marketing efforts typically involve up to a six month selling cycle to secure a new enterprise client. Our efforts may begin in response to a perceived opportunity, a referral by an existing client, a request for proposal, a relationship between a member of our sales team and a potential client, new client prospects gained through acquisitions, an introduction by someone affiliated with our company, or otherwise. Our senior management team, sales representatives and agents are responsible for the sales process. An important aspect of this sales process is our analysis of a prospective client's historic transportation expenditures to demonstrate the potential savings that could be achieved by using our transportation and logistics services. Additionally, we demonstrate how our ETM system will add efficiency and information to our clients transportation management process. We also try to foster relationships between our senior management team and our clients' senior management, and many of our enterprise clients were secured by marketing our services to "C-level" management contacts. These relationships ensure that both parties are focused on seamless process integration and using our services to provide tangible cost savings.

As we become more knowledgeable about a client's business and processes, our ability to identify opportunities to create value for the client typically increases, and we focus on trying to expand the services we provide to our existing enterprise and transactional clients. As a relationship with a client grows, the time requirement to win an engagement for additional services typically declines and we are able to recognize revenue from our sales efforts more quickly. Historically, many of our clients have been more willing to turn over more of their transportation and logistics requirements to us as we demonstrate our capabilities.

Each new enterprise client is assigned one or more dedicated account executives, who are able to work on-site or off-site, as required by the client. Our dedicated account executives integrate the client's existing business processes with our proprietary technology platform to satisfy the client's transportation requirements, and assist our sales representatives and agents in targeting potential deficiencies in the client's operations that could lead to expanded service offerings. Because the account executives we hire generally have significant sales experience, they can also begin marketing our services after limited training on our model and systems. Our agreements with our account executives require them to market and sell our transportation and logistics services on an exclusive basis and contain non-compete and non-solicitation provisions that apply during and for a specified period after the term of their service.

Our transactional sales representatives, who focus on sales of our transportation and logistics services on a shipment-by-shipment basis, concentrate on building relationships with our transactional clients that could benefit from the competitive pricing and enhanced service associated with our services. Our ability to work with clients on a transactional basis provides us with an opportunity to demonstrate the cost savings associated with our technology-driven services before the client considers moving to a fully-outsourced enterprise engagement. Since January 2005, 80 transactional clients have migrated to an enterprise agreement.

Our sales team is critical to the success of our business and our ability to grow will depend on our ability to continue to attract, train and retain talented individuals. Candidates are recruited through search firms, Internet postings, advertisements in industry publications, industry event attendance, referrals and word-of-mouth networking. To attract these candidates, we will continue to offer attractive commission structures and highlight the advantages that our ETM technology platform provides in winning and maintaining new clients. We believe our business model provides us with a competitive advantage in recruiting sales representatives because it enables them to use our enhanced analytics technology and carrier network to market a broader range of services at competitive prices. Our services can be offered at no upfront cost and our clients are generally able to immediately realize tangible cost savings.

We had 24 sales representatives and agents as of December 31, 2005, and have grown to 581 as of December 31, 2010. We intend to continue to hire sales representatives and agents with established client relationships that we believe can be developed into new revenue opportunities. We also expect to augment our sales force through selective acquisitions of transportation and logistics service providers with experienced sales representatives and agents in strategic geographical locations.

Competition

The commercial freight transportation services and third-party logistics industries in which we operate are highly



## Table of Contents

competitive and fragmented. We have a number of competitors offering services similar to ours, which include:

- internal shipping departments at companies that have substantial transportation requirements, many of which represent potential sales opportunities;
- non-asset-based logistics companies, such as C.H. Robinson Worldwide, Freightquote.com, Ozburn-Hessey Logistics, Total Quality Logistics and Transplace, with whom we compete most often;
- asset-based logistics companies, such as Schneider, FedEx, JB Hunt and ABF;
- carriers that offer logistics services, such as Conway and UPS, some of whom we frequently purchase transportation services from on behalf of our clients;
- freight forwarders that dispatch shipments via asset-based carriers, typically arranging for shipments to or from international destinations, such as Expeditors International; and
- smaller, niche service providers that provide services in a specific geographic market, industry segment or service area.

We believe the principal elements of competition in transportation and logistics services are price, customer service and reliability. Some of our competitors, such as C.H. Robinson Worldwide, have larger client bases and significantly more resources than we do. In addition, some of our competitors may have more expertise in a single transportation mode that allows them to prepare and process documentation and perform related activities pertaining to that mode of transportation more efficiently than Echo. We compete against these entities by establishing ourselves as a leading technology enabled service provider with industry expertise in all major modes of transportation, which enables us to respond rapidly to the evolving needs of our clients related to outsourcing transportation.

Our clients may choose not to outsource their transportation business to us in the future by performing formerly outsourced services for themselves, either in-house or through offshore partnerships or other arrangements. We believe our key advantage over in-house business processes is that ETM gives us the ability to obtain favorable pricing and terms relative to in-house service departments. In addition, we believe we give companies the opportunity to focus on their core products and services while we focus on service, delivery and operational excellence.

We also face competition from some of the larger services companies, such as IBM or Accenture, because they offer transportation procurement and logistics services to their clients. Their well-established client relationships, industry knowledge, brand recognition, financial and marketing capabilities, technical resources and pricing flexibility may provide them with a competitive advantage over us. These companies may include service companies based in offshore locations, divisions of large IT service companies and global services companies located in the United States or offshore.

### Intellectual Property

We rely primarily on a combination of copyright, trademark and trade secret laws, as well as license agreements and other contractual provisions, to protect our intellectual property rights and other proprietary rights. To date, we have not registered any patents nor trademarks. Some of our intellectual property rights relate to proprietary business process enhancements. It is our practice to enter into confidentiality and invention assignment agreements with all of our employees and independent contractors that:

- include a confidentiality undertaking by the employee or independent contractor;
- ensure that all new intellectual property developed in the course of our relationship with employees or independent contractors is assigned to us;
- and require the employee or independent contractor to cooperate with us to protect our intellectual property during and after his or her relationship with us.

### Government Regulation

Subject to applicable federal and state regulation, we may arrange for the transport of most types of freight to and from any point in the United States. Certain of our U.S. domestic ground transportation operations may be subject to regulation by the Federal Motor Carrier Safety Administration (the FMCSA), which is an agency of the U.S.

Department of Transportation, and by various state agencies. The FMCSA has broad regulatory powers in areas such as safety and insurance relating to interstate motor carrier and broker operations. The ground transportation industry is also subject to possible regulatory and legislative changes (such as the possibility of more stringent environmental, safety or security regulations or limits on vehicle weight and



## Table of Contents

size) that could affect the economics of the industry by requiring changes in operating practices or the cost of providing transportation services.

Our international operations are impacted by a wide variety of U.S. government regulations. These include regulations of the U.S. Department of State, U.S. Department of Commerce and the U.S. Department of Treasury. Regulations cover matters such as what commodities may be shipped to what destination and to what end-user, unfair international trade practices and limitations on entities with whom we may conduct business.

Our air freight business in the United States is subject to regulation as an indirect air carrier by the Transportation Security Administration (the TSA) and the Department of Transportation. Our indirect air carrier security program has been approved by the TSA. Our officers also have completed the Security Threat Assessments required by TSA regulations. The airfreight industry is subject to regulatory and legislative changes that could affect the economics of the industry by requiring changes in operating practices or influencing the demand for, and the costs of providing, services to clients.

Our ocean transportation business in the United States is subject to regulation by the Federal Maritime Commission (the FMC). The FMC licenses persons acting as ocean transportation intermediaries, including ocean freight forwarders and non-vessel operating common carrier operators. Ocean freight forwarders are subject to surety bond requirements and required to retain a "qualified individual" as an officer of the company. Non-vessel operating common carriers are subject to FMC tariff publication requirements, and must submit for review and public notice certain shipping agreements reached with clients. Ocean freight forwarders are also subject to regulatory oversight, particularly those terms proscribing rebating practices. The FMC provides a forum for persons to challenge actions or practices of ocean transportation intermediaries through private actions.

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

### Risk Management and Insurance

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

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

We require all motor carriers we work with to carry at least \$1.0 million in auto and general liability insurance and \$100,000 in cargo insurance. We also maintain a broad cargo liability insurance policy to protect us against catastrophic losses that may not be recovered from the responsible carrier, and carry various liability insurance policies, including auto and general liability. Our collective insurance policies have a cap of \$20.0 million.

Employees

Edgar Filing: Echo Global Logistics, Inc. - Form 10-K

As of December 31, 2010, we had 709 employees, consisting of 7 enterprise sales representatives, 375 transactional sales representatives, 187 account executives, 46 technology personnel and 94 administrative personnel. We also had 199 independent contractors working as sales agents, and a 30-person workforce based at our build, operate, transfer (BOT) facilities in Pune and Kolkata, India. We consider our employee relations to be good.

## Table of Contents

### Our Website

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

### Item 1A. Risk Factors

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

#### Risks Related to Our Business

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

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

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

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

Competition could substantially impair our business and our operating results.

Competition in the transportation services industry is intense. We compete against other non-asset-based logistics companies as well as asset-based logistics companies; freight forwarders that dispatch shipments via asset-based carriers; carriers offering logistics services; internal shipping departments at companies that have substantial transportation requirements; large business process outsourcing (BPO) service providers; and smaller, niche service providers that provide services in a specific geographic market, industry segment or service area. We also compete against carriers' internal sales forces and shippers' transportation departments. At times, we buy transportation services from our competitors. Historically, competition has created a downward pressure on freight rates, and continuation of this rate pressure may adversely affect the Company's revenue and income from operations.

In addition, a software platform and database similar to ETM could be created over time by a competitor with sufficient financial resources and comparable experience in the transportation services industry. If our competitors are

able to offer comparable services, we could lose clients, and our market share and profit margin could decline. Our competitors may also establish cooperative relationships to increase their ability to address client needs. Increased competition may lead to revenue

12

---

Table of Contents

reductions, reduced profit margins or a loss of market share, any one of which could harm our business.

A significant portion of our revenue is derived from a relatively limited number of large clients and any loss of, or decrease in sales to, these clients could harm our results of operations.

A significant portion of our revenue is derived from a relatively limited number of large clients. Revenue from our five largest clients, collectively, accounted for 15% of our revenue in 2010, and revenue from our 10 largest clients, collectively, accounted for 23% of our revenue in 2010. We are likely to continue to experience ongoing customer concentration, particularly if we are successful in attracting large enterprise clients. It is possible that revenue from these clients, either individually or as a group, may not reach or exceed historical levels in any future period. The loss or significant reduction of business from one or more of our major clients would adversely affect our results of operations.

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

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

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

We may not be able to develop or implement new systems, procedures and controls that are required to support the anticipated growth in our operations.

Our revenue increased to \$426.4 million in 2010 from \$7.3 million in 2005, representing an annual revenue growth rate of 353% from 2005 to 2006, 188% from 2006 to 2007, 112% from 2007 to 2008 to 28% from 2008 to 2009 and 64% from 2009 to 2010. Between January 1, 2005 and December 31, 2010, the number of our employees, agents and independent contractors increased from 44 to 908. Continued growth could place a significant strain on our ability to:

- recruit, motivate and retain qualified sales representatives and agents, carrier representatives and management personnel;
- develop and improve our internal administrative infrastructure and execution standards; and
- expand and maintain the operation of our technology infrastructure in a manner that preserves a quality customer experience.

To manage our growth, we must implement and maintain proper operational and financial controls and systems.

Further, we will need to manage our relationships with various clients and carriers. We cannot give any assurance that we will be able to develop and implement, on a timely basis, the systems, procedures and controls required to support the growth in our operations or effectively manage our relationships with various clients and carriers. If we are unable to manage our growth, our business, operating results and financial condition could be adversely affected.

If we are unable to maintain ETM, our proprietary software, demand for our services and our revenue could decrease. We rely heavily on ETM, our proprietary software, to track and store externally and internally generated market data, analyze the capabilities of our carrier network and recommend cost-effective carriers in the appropriate transportation mode. To keep pace with changing technologies and client demands, we must correctly interpret and address market trends and enhance the features and functionality of our proprietary technology platform in response to these trends, which may lead to significant ongoing research and development costs. We may be unable to accurately determine the needs of our clients and the trends in the transportation services industry or to design and implement the appropriate features and functionality of our technology platform in a timely and cost-effective manner, which could result in decreased demand for our services and a corresponding decrease in our revenue. Despite testing, we may be unable to

detect defects in existing or new versions of our proprietary software, or errors may arise in our software. Any failure to identify and address such defects or errors could result in loss of revenue or market share, liability to clients or others, diversion of resources, injury to our reputation, and increased service and



Table of Contents

maintenance costs. Correction of such errors could prove to be impossible or very costly, and responding to resulting claims or liability could similarly involve substantial cost.

We have not registered any patents nor trademarks to date, and our inability to protect our intellectual property rights may impair our competitive position.

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

We may be sued by third-parties for alleged infringement of their intellectual or proprietary rights.

Our use of ETM or other technologies could be challenged by claims that such use infringes, misappropriates or otherwise violates the intellectual property rights of third-parties. Any intellectual property claims, with or without merit, could be time-consuming and costly to resolve, could divert management's attention from our business and could require us to pay substantial monetary damages. Any settlement or adverse judgment resulting from such a claim could require us to enter into a licensing agreement to continue using the technology that is the subject of the claim, or could otherwise restrict or prohibit our use of such technology. There can be no assurance that we would be able to obtain a license on commercially reasonable terms, if at all, from the party asserting an infringement claim, or that we would be able to develop or license a suitable alternative technology to permit us to continue offering the affected services to our clients. Our insurance coverage for claims of infringement, misappropriation, or other violation of the intellectual property rights of third-parties may not continue to be available on reasonable terms or in sufficient amounts to cover one or more large claims against us, and our insurers may disclaim coverage as to any future claims. An uninsured or underinsured claim could result in unanticipated costs thereby reducing operating results.

We have a long selling cycle to secure a new enterprise contract and a long implementation cycle, which require significant investments of resources.

We typically face a long selling cycle to secure a new enterprise contract, which requires significant investment of resources and time by both our clients and us. Before committing to use our services, potential clients require us to spend time and resources educating them on the value of our services and assessing the feasibility of integrating our systems and processes with theirs. Our clients then evaluate our services before deciding whether to use them.

Therefore, our enterprise selling cycle, which can take up to six months, is subject to many risks and delays over which we have little control, including our clients' decisions to choose alternatives to our services (such as other providers or in-house resources) and the timing of our clients' budget cycles and approval processes.

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

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

Our transactional clients, which accounted for approximately 58% and 61% of our revenue in 2009 and 2010, respectively, use our services on a shipment-by-shipment basis rather than under long-term contracts. These clients have no obligation to continue using our services and may stop using them at any time without penalty or with only limited penalties. Our contracts

Table of Contents

with enterprise clients typically have terms of one to three years and are subject to termination provisions negotiated on a contract-by-contract basis. These termination provisions typically provide the client with the ability to terminate upon 30 or 60 days' advance written notice in the event of a material breach. Included as a material breach is the Company's failure to provide the negotiated level of cost savings. In some cases, the enterprise contracts may be terminated by providing written notice within 60 days of execution or may be terminated upon 60 to 90 days' advanced written notice for any reason. Enterprise contracts accounting for 9.3% and 17.1% of our revenue in 2010 are scheduled to expire (subject to possible renewal) in 2011 and 2012, respectively.

The volume and type of services we provide each client may vary from year to year and could be reduced if the client were to change its outsourcing or shipping strategy. Our enterprise clients generally are not obligated to spend any particular amount with us, although our enterprise contracts are typically exclusive with respect to point of origin or one or more modes of transportation, meaning that the client is obligated to use us if it ships from the point of origin or uses those modes. These contractual exclusivity provisions help ensure, but do not guarantee, that we receive a significant portion of the amount that our enterprise clients spend on transportation in the applicable mode or modes or from the applicable point of origin. In our experience, compliance with such provisions varies from client to client and over time. Failure to comply with these exclusivity provisions may adversely affect our revenue.

If a significant number of our transactional or enterprise clients elect to terminate or not to renew their engagements with us, or if the volume of their shipping orders decreases, our business, operating results and financial condition could suffer. If we are unable to renew our enterprise contracts at favorable rates, our revenue may decline.

If we are unable to deliver agreed upon cost savings to our enterprise clients, we could lose those clients and our results could suffer.

Our contracts with enterprise clients typically commit us to deliver a negotiated level of cost savings compared to our clients' historical shipping expenditures over a fixed period of time. We then estimate cost savings periodically during the term of our engagement and if the negotiated amount is not achieved, the client has the right to terminate the contract. Any number of factors, including a downturn in the economy, increases in costs, or decreases in the availability of transportation capacity, could impair our ability to provide the agreed cost savings. Even if our enterprise clients do not terminate their contracts with us as a result, our results of operations will suffer, and it may become more difficult to attract new enterprise clients.

The current uncertainty economic conditions of the global and domestic economy may have a material adverse affect on our business, results of operations and financial condition.

Our business, results of operations and financial condition are materially affected by the conditions in the global and domestic economy. The stress experienced by the global capital markets that began in the second half of 2007, substantially increased during the second half of 2008 and continued during 2009. The current economic environment continues to be uncertain. Concerns over unemployment, the availability and cost of credit, the U.S. mortgage market and a declining real estate market in the United States have contributed to increased volatility and diminished expectations for the economy and the financial markets going forward. These factors, combined with volatile oil prices and low business and consumer confidence, have precipitated a recession.

These events may have an adverse affect on us, our carriers and our clients. Carriers may charge higher prices to cover higher operating expenses such as higher fuel prices, costs associated with regulatory compliance and other factors beyond our control. Our gross profits and income from operations may decrease if we are unable to pass through to our clients the full amount of these higher transportation costs. In addition, our business, results of operations and financial condition may be negatively impacted by decreases in the volume of freight shipped by our clients due to decreases in their business volume or price increases by our carriers. If we are not able to timely and appropriately adapt to changes resulting from the difficult economic environment, our business, results of operations and financial condition may be materially and adversely affected.

High fuel prices may increase carrier prices and volatility in fuel prices may make it more difficult to pass through this cost to our clients, which may impair our operating results.

Fuel prices recently reached historically high levels in the past couple years and continue to be volatile and difficult to predict. In the event fuel prices rise, carriers can be expected to charge higher prices to cover higher operating expenses, and our gross profits and income from operations may decrease if we are unable to continue to pass through

to our clients the full amount of these higher costs. Higher fuel costs could also cause material shifts in the percentage of our revenue by transportation mode, as our clients may elect to utilize alternative transportation modes, such as inter-modal. In addition, increased volatility in fuel prices may affect our gross profits and income from operations if we are not able to pass through to our clients any higher costs associated with such volatility. Any material shifts to transportation modes with respect to which we realize lower gross profit margins could impair our operating results.

Table of Contents

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

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

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

We use our proprietary technology platform to compile freight and logistics data from our network of over 24,000 carriers. In 2010, we used approximately 8,300 TL carriers, 100 LTL carriers, 10 small parcel carriers, 94 inter-modal carriers, 10 domestic air carriers and 80 international carriers. We expect to continue to rely on these carriers to fulfill our shipping orders in the future. However, these carriers are not contractually required to continue to accept orders from us. If shipping capacity at a significant number of these carriers becomes unavailable, we will be required to use fewer carriers, which could significantly limit our ability to serve our clients on competitive terms. The transportation industry has also experienced consolidation among carriers in recent years and further consolidations could result in a decrease in the number of carriers, which may impact our ability to serve our clients on competitive terms. In addition, we rely on price bids provided by our carriers to populate our database. If the number of our carriers decreases significantly, we may not be able to obtain sufficient pricing information for ETM, which could affect our ability to obtain favorable pricing for our clients.

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

In most cases, we take full risk of credit loss for the transportation services we procure from carriers. Our obligation to pay our carriers is not contingent upon receipt of payment from our clients. In 2009 and 2010, our revenue was \$259.6 million and \$426.4 million, respectively, and our top 10 clients accounted for 27% and 23% of our revenue, respectively. If any of our key clients fail to pay for our services, our profitability would be negatively impacted. We extend credit to certain clients in the ordinary course of business as part of our business model. By extending credit, we increase our exposure to uncollected receivables. The current economic conditions of the global and domestic economy have resulted in an increasing trend of business failures, downsizing and delinquencies, which may cause an increase in our credit risk. If we fail to monitor and manage effectively any increased credit risk, our immediate and long-term liquidity may be adversely affected. In addition, if one of our key clients defaults in paying us, our profitability would be negatively impacted.

A prolonged outage of our ETM database could result in reduced revenue and the loss of clients.

The success of our business depends upon our ability to deliver time-sensitive, up-to-date data and information. We rely on our Internet access, computer equipment, software applications, database storage facilities and other office equipment, which are mainly located in our Chicago headquarters. Our operations and those of our carriers and clients are vulnerable to interruption by fire, earthquake, power loss, telecommunications failure, terrorist attacks, wars, computer viruses, hacker attacks, equipment failure, physical break-ins and other events beyond our control, including disasters affecting Chicago. We attempt to mitigate these risks through various means, including system backup and security measures, but our precautions will not protect against all potential problems. We maintain fully redundant off-site backup facilities for our internet access, computer equipment, software applications, database storage and network equipment, but these facilities could be subject to the same interruptions that could affect our headquarters. If we suffer a database or network facility outage, our business could experience disruption, and we could suffer reduced revenue and the loss of clients.

Our ETM technology platform relies heavily on our telecommunication service providers, our electronic delivery systems and the Internet, which exposes us to a number of risks over which we have no control, including risks with respect to increased prices, termination, failures and disruptions of essential services.

Our ability to deliver our services depends upon the capacity, reliability and security of services provided to us by our telecommunication service providers, our electronic delivery systems and the Internet. We have no control over the operation, quality or maintenance of these services or whether the vendors will improve their services or continue to

provide services that are essential to our business. In addition, our telecommunication service providers may increase their prices at which they provide services, which would increase our costs. If our telecommunication service providers were to cease to provide essential services or to significantly increase their prices, we could be required to find alternative vendors for these services. With a limited number of vendors, we could experience significant delays in obtaining new or replacement services, which could significantly harm our reputation and could cause us to lose clients and revenue. Moreover, our ability to deliver information

Table of Contents

using the Internet may be impaired because of infrastructure failures, service outages at third-party Internet providers or increased government regulation. If disruptions, failures or slowdowns of our electronic delivery systems or the Internet occur, our ability to effectively provide technology enabled transportation and supply chain management services and to serve our clients may be impaired.

We are subject to claims arising from our transportation operations.

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

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

Our industry is subject to some degree of seasonal sales fluctuations as shipments generally are lower during and after the winter holiday season because many of our retail clients ship goods and stock inventories prior to the winter holiday season. If we were to experience lower-than-expected revenue during any such period, whether from a general decline in economic conditions or other factors beyond our control, our expenses may not be offset, which would have a disproportionately adverse impact on our operating results and financial condition for that period.

Our limited operating history makes it difficult to evaluate our business, prospects and future financial performance.

We formed our business in January 2005 and have a limited operating history, which makes evaluating our current business and prospects difficult. The revenue and income potential of our business is uncertain, which makes it difficult to accurately predict our future financial performance. We incurred net losses of \$0.5 million in 2005 and \$0.2 million in 2006, and we may incur net losses in the future. We may also face periods where our financial performance falls below investor expectations. As a result, the price of our common stock may decline.

Because many of the members of our management team have been employed with us for a short period of time, we cannot be certain that they will be able to manage our business successfully.

We are dependent on our management team for our business to be successful. Because of our limited operating history, many of our key management personnel have been employed by us for less than three years. Therefore, we cannot be certain that we will be able to allocate responsibilities appropriately and that the new members of our management team will succeed in their roles. Our inability to integrate recent additions to our current management team with our business model would make it difficult for us to manage our business successfully and to pursue our growth strategy.

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

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

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



Table of Contents

effect on our business and the market price of our common stock.

We may face difficulties as we expand our operations into countries in which we have limited operating experience. We provide transportation services within and between continents on an increasing basis. In 2009 and 2010, international transportation accounted for 3% and 2% of revenue, respectively. We intend to continue expanding our global footprint, specifically in international-air and ocean modes, in order to maintain an appropriate cost structure and meet our clients' delivery needs. This may involve expanding into countries other than those in which we currently operate or increasing our operations in countries which we currently have limited operations. Our business outside of the United States is subject to various risks, including:

- changes in economic and political conditions in the United States and abroad;
- changes in compliance with international and domestic laws and regulations;
- wars, civil unrest, acts of terrorism and other conflicts;
- natural disasters;
- changes in tariffs, trade restrictions, trade agreements and taxations;
- difficulties in managing or overseeing foreign operations;
- limitations on the repatriation of funds because of foreign exchange controls;
- less developed and less predictable legal systems than those in the United States; and
- intellectual property laws of countries which do not protect our intellectual property rights to the same extent as the laws of the United States.

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

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

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

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

Our business depends on compliance with many government regulations.

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

We are licensed by the U.S. Department of Transportation as a broker authorized to arrange for the transportation of general commodities by motor vehicle. We must comply with certain insurance and surety bond requirements to act in this capacity. The application for our ocean transportation intermediary license from the Federal Maritime Commission to act as an ocean freight forwarder and as a non-vessel operating common carrier has been submitted, and we expect to be issued the license upon the completion of certain compliance requirements.



## Table of Contents

We are currently providing customs broker services through contacts with licensed customs brokers. We are in the process of obtaining a license as a customs broker, and as a licensed customs broker we will be required to comply with applicable customs and customs broker regulations. We intend to register as an indirect air carrier with the Transportation Security Administration, and as a registered indirect air carrier we will be required to comply with air security regulations imposed by the Transportation Security Administration.

We may experience an increase in operating costs, such as security costs, as a result of governmental regulations that have been and will be adopted in response to terrorist activities and potential terrorist activities. No assurances can be given that we will be able to pass these increased costs on to our clients in the form of rate increases or surcharges. If the key members of our management team do not remain with us in the future, our business, operating results and financial condition could be adversely affected.

Our future success may depend to a significant extent on the continued services of Douglas R. Waggoner, our Chief Executive Officer; David B. Menzel, our Chief Financial Officer; and Samuel K. Skinner, our non-executive Chairman. The loss of the services of any of these or other individuals could adversely affect our business, operating results and financial condition and could divert other senior management time in searching for their replacements. We are subject to the internal control evaluation and attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002.

Section 404 of the Sarbanes-Oxley Act of 2002 requires that we include in our annual report our assessment of the effectiveness of our internal control over financial reporting as of the end of each fiscal year. Furthermore, our independent registered public accounting firm ("Firm") is required to report on whether it believes we maintained, in all material respects, effective internal control over financial reporting as of the end of each fiscal year. We successfully completed our assessment and obtained the Firm's report as to the effectiveness of our internal control over financial reporting as of December 31, 2010. In future years, if we fail to timely complete this assessment, or if we cannot obtain our Firm's report as to the effectiveness of our internal control over financial reporting, we could be subject to regulatory sanctions and a loss of public confidence in our internal control. In addition, any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to timely meet our regulatory reporting obligations.

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

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

### Risks Related to Ownership of Our Common Stock

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

The trading prices of many newly publicly-traded companies are highly volatile. Since our initial public offering in October 2009 through March 9, 2011, the closing sale price of our common stock as reported by the Nasdaq Global Market has ranged from a low of \$10.04 on November 11, 2010 to a high of \$15.81 on October 25, 2010.

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

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- changes in market valuations of similar companies;
- success of competitive products or services;
- changes in our capital structure, such as future issuances of debt or equity securities;
- announcements by us, our competitors, our clients or our suppliers of significant products or services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States or foreign countries;
- litigation involving our company, our general industry or both;



## Table of Contents

- additions or departures of key personnel;
- investors' general perception of us; and
- changes in general economic, industry and market conditions.

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

Because a limited number of stockholders control the majority of the voting power of our common stock, our other stockholders will not be able to determine the outcome of stockholder votes.

As of December 31, 2010, Eric P. Lefkofsky, Richard A. Heise, Jr., Bradley A. Keywell, affiliates of the Nazarian family and affiliates of New Enterprise Associates, directly or indirectly, beneficially own and have the ability to exercise voting control over, in the aggregate, approximately 44% of our outstanding common stock. As a result, these stockholders are able to exercise significant control over all matters requiring stockholder approval, including the election of directors, any amendments to our certificate of incorporation and significant corporate transactions. These stockholders may exercise this control even if they are opposed by our other stockholders. Without the consent of these stockholders, we could be delayed or prevented from entering into transactions (including the acquisition of our company by third-parties) that may be viewed as beneficial to us or our other stockholders. In addition, this significant concentration of stock ownership may adversely affect the trading price of our common stock if investors perceive disadvantages in owning stock in a company with controlling stockholders.

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

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

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

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

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

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

### Item 1B. Unresolved staff comments

None.

### Item 2. Properties

Our principal executive offices are located in Chicago, Illinois. As of December 31, 2010, we conducted our business from the following properties, all of which are leased:

20

---

Table of Contents

Location	Use
Chicago, Illinois	Corporate Headquarters
Matteson, Illinois	Business Development
Los Angeles, California	Business Development
Vancouver, Washington	Business Development
Park City, Utah	Business Development
Troy, Michigan	Business Development
Little Rock, Arkansas	Business Development
Buffalo, Minnesota	Business Development
Coon Rapids, Minnesota	Business Development
Atlanta, Georgia	Business Development
Andover, Minnesota	Business Development
Dallas, Texas	Business Development
Green Bay, Wisconsin	Business Development
Bend, Oregon	Business Development
San Francisco, California	Business Development

Item 3. Legal Proceedings

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

In October 2010, we filed a lawsuit against one of our former enterprise clients demanding payment of outstanding amounts due. Management believes all billed amounts, approximately \$2.7 million, are due and collectible and as such, the entire amount due is reflected in accounts receivable as of December 31, 2010 and the allowance for doubtful accounts has not been adjusted. Concurrently, a lawsuit was filed by this client against us alleging damages of approximately \$2.5 million. Management believes this lawsuit is without merit and intends to vigorously dispute this claim.

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

Item 4. Reserved

Table of Contents

## Part II

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

## Market Information

Our common stock is listed and has been traded on the Nasdaq Global Market under the symbol "ECHO" since October 2, 2009. The following table sets forth the high and low sales price for our common stock as reported by the Nasdaq Global Market for each of the periods listed.

2009	High	Low
Fourth Quarter (from October 2, 2009)	\$15.18	\$12.05
2010	High	Low
First Quarter	\$14.02	\$10.18
Second Quarter	\$14.00	\$11.80
Third Quarter	\$13.85	\$10.73
Fourth Quarter	\$16.09	\$9.85

## Holders

As of March 10, 2011, there were 19 holders of record of our common stock. The holders of our common stock are entitled to one vote per share.

## Dividends

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

## Recent Sales of Unregistered Securities

None.

## Use of Proceeds from Registered Securities

In connection with our initial public offering, we offered and sold 5,700,000 shares of common stock at price of \$14.00 per share. The offer and sale of the shares in the initial public offering were registered under the Securities Act of 1933, as amended, pursuant to a registration statement on Form S-1 (File No. 333-150514), which was declared effective by the Securities and Exchange Commission on October 1, 2009. The managing underwriters in this offering were Morgan Stanley & Co. Incorporated, Credit Suisse Securities (USA) LLC, William Blair & Company, L.L.C., Thomas Weisel Partners LLC, Barrington Research Associates, Inc. and Craig-Hallum Capital Group, Inc.

After deducting underwriting discounts and commissions and offering related expenses, our net proceeds from the initial public offering were approximately \$68.6 million. In connection with the offering, we paid underwriting discounts and commissions of approximately \$5.6 million and paid approximately \$5.6 million in offering expenses.

We used a portion of these net proceeds to repay all outstanding principal and accrued interest under our line of credit with JPMorgan Chase Bank, N.A., which bears interest at a rate of either the prime rate or LIBOR plus 2.25% and matured on July 31, 2010 (approximately \$14.0 million), and approximately \$6.9 million of our net proceeds from the offering to repay all outstanding principal and accrued interest under our term loan payable to EGL Mezzanine LLC, which bore interest at a rate of 13.0% and was set to mature on June 2, 2012, members of which included certain of our directors, officers and stockholders, and which we incurred in connection with our acquisition of RayTrans Distribution Services. In addition to the foregoing purposes, we used approximately \$3.5 million of the net proceeds to make required accrued dividend payments to the holders of our Series B and D preferred shares, which holders include certain of our director or entities owned or controlled by them.

In 2010, we used approximately \$6.7 million dollars on new business acquisitions. In addition, \$2.0 million dollars was used to fund earn-out payments made related to 2007 acquisitions as certain performance measurements were achieved. We plan to invest the remaining proceeds to further expand our sales force, continue to acquire or make strategic investments in complementary businesses and for working capital and other general corporate purposes.





Table of Contents

Issuer Purchases of Equity Securities  
None.

23

---

Table of Contents

## Item 6. Selected Consolidated Financial Data

The following table presents selected consolidated financial and other data as of and for the periods indicated. The share amounts and per share dollar amounts below give effect to the one-for-two reverse stock split retroactively. You should read the following information together with the more detailed information contained in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the accompanying notes.

	Years ended December 31,				
	2006	2007	2008	2009	2010
	(dollars and shares in thousands, except per share data)				
Consolidated statements of operations data:					
Revenue	\$33,195	\$95,461	\$202,807	\$259,561	\$426,374
Transportation costs	27,704	75,535	159,717	203,893	345,209
Net revenue	5,491	19,926	43,090	55,668	81,165
Operating expenses:					
Commissions	866	4,433	11,799	15,816	24,871
Selling, general and administrative	4,387	12,037	23,115	29,001	35,907
Depreciation and amortization	691	1,845	3,231	4,991	6,926
Total operating expenses	5,944	18,315	38,145	49,808	67,704
Income (loss) from continuing operations	(453)	1,611	4,945	5,860	13,461
Other income (expense)	201	191	(144)	(1,275)	(291)
Income (loss) before income taxes and discontinued operations	(252)	1,802	4,801	4,585	13,170
Income tax benefit (expense)	220	(749)	(1,926)	611	(4,765)
Income (loss) before discontinued operations	(32)	1,053	2,875	5,196	8,405
Loss from discontinued operations	(214)	—	—	—	—
Net income (loss)	(246)	1,053	2,875	5,196	8,405
Dividends on preferred shares	(749)	(1,054)	(1,054)	(807)	—
Net income (loss) applicable to common stockholders	\$(995)	\$(1)	\$1,821	\$4,389	\$8,405
Net income (loss) per share of common stock:					
Basic	\$(0.09)	\$—	\$0.15	\$0.30	\$0.38
Diluted	\$(0.09)	\$—	\$0.14	\$0.29	\$0.38
Shares used in per share calculations:					
Basic	11,194	11,713	12,173	14,703	21,863
Diluted	11,194	11,713	12,817	15,089	22,239
Unaudited pro forma income tax benefit (expense)(1)	\$(34)	)			
Unaudited pro forma net loss(1)	\$(280)	)			
Years ended December 31,					
	2006	2007	2008	2009	2010
	(dollars and shares in thousands, except per share data)				
Other data:					
Enterprise clients(2)	27	62	92	116	148
Transactional clients served in period(3)	650	4,566	11,952	15,259	22,617
Total clients(4)	677	4,628	12,044	15,375	22,765

Edgar Filing: Echo Global Logistics, Inc. - Form 10-K

Employees, agents and independent contractors(5)	105	344	664	835	908
--	-----	-----	-----	-----	-----

---

(1) Unaudited pro forma data presented gives effect to our conversion on June 7, 2006 into a corporation as if it occurred at the

24

---

Table of Contents

beginning of the period presented. Unaudited pro forma income tax benefit (expense) represents a combined federal and state effective tax rate of 40% and does not consider potential tax loss carrybacks, carryforwards or realizability of deferred tax assets. Unaudited pro forma net loss represents our net loss for the periods presented as adjusted to give effect to the pro forma income tax benefit (expense) prior to our conversion to a C corporation, as we were not subject to income tax due to our treatment as a partnership for tax purposes.

- (2) Reflects number of enterprise clients on the last day of the applicable period.
- (3) Reflects number of transactional clients served in the applicable period.
- (4) Reflects total number of enterprise clients determined on the last day of the applicable period and number of transactional clients served in the applicable period.
- (5) Reflects number of employees, agents and independent contractors on the last day of the applicable period.

	As of December 31,				
	2006	2007	2008	2009	2010
	(in thousands)				
Consolidated balance sheet data:					
Cash and cash equivalents	\$8,853	\$1,569	\$1,873	\$47,804	\$43,218
Working capital	7,891	3,556	3,209	65,637	63,591
Total assets	17,048	27,106	45,909	132,675	161,548
Total liabilities	5,602	12,540	27,082	38,885	56,570
Series D convertible preferred shares	17,648	18,695	19,742	—	—
Cash dividends per common share	—	—	—	—	—
Total stockholders' equity (deficit)	\$(6,202)	\$(4,129)	\$(915)	\$93,790	\$104,978

Table of Contents

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

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes and the information contained in this Annual Report on Form 10-K. It contains forward-looking statements that involve risks and uncertainties, and is based on the beliefs of our management, as well as assumptions made by, and information currently available to, our management. Our actual results could differ materially from those anticipated by our management in these forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Annual Report on Form 10-K, particularly under the heading "Risk Factors."

Overview

We are a leading provider of technology enabled transportation and supply chain management services, delivered on a proprietary technology platform serving the transportation and logistics needs of our clients. Our proprietary web-based technology platform compiles and analyzes data from our network of over 24,000 transportation providers to serve our clients' shipping and freight management needs. Our technology platform, composed of web-based software applications and a proprietary database, enables us to identify excess transportation capacity, obtain competitive rates, and execute thousands of shipments every day while providing high levels of service and reliability. We focus primarily on arranging transportation across the major modes, including truckload (TL), less than truck load (LTL) and small parcel, and we also offer inter-modal (which involves moving a shipment by rail and truck), domestic air, expedited and international transportation services.

We procure transportation and provide logistics services for more than 22,800 clients across a wide range of industries, such as manufacturing, construction, consumer products and retail. Our clients fall into two categories, enterprise and transactional. We typically enter into multi-year contracts with our enterprise clients, which are often on an exclusive basis for a specific transportation mode or point of origin. As part of our value proposition, we also provide core logistics services to these clients. We provide transportation and logistics services to our transactional clients on a shipment-by-shipment basis, typically with individual, or spot market, pricing.

Revenue

We generate revenue through the sale of transportation and logistics services to our clients. Revenue is recognized when the client's product is delivered by a third-party carrier. Our revenue was \$202.8 million, \$259.6 million and \$426.4 million for the years ended December 31, 2008, 2009 and 2010, respectively, reflecting growth rates of 112%, 28% and 64%, respectively, as compared to the corresponding prior year.

Our revenue is generated from two different types of clients: enterprise and transactional. Our enterprise accounts typically generate higher dollar amounts and volume than our transactional relationships. We categorize a client as an enterprise client if we have a contract with the client for the provision of services on a recurring basis. Our contracts with enterprise clients typically have a multi-year term and are often exclusive for a certain transportation mode or point of origin. In several cases, we provide substantially all of a client's transportation and logistics requirements. We categorize all other clients as transactional clients. We provide services to our transactional clients on a shipment-by-shipment basis. As of December 31, 2010, we had 148 enterprise clients and, for the year ended December 31, 2010 we served over 22,700 transactional clients. For the year ended December 31, 2010, we entered into contracts with 32 new enterprise clients. For the years ended December 31, 2008, 2009 and 2010, enterprise clients accounted for 43%, 42% and 39% of our revenue, respectively, and transactional clients accounted for 57%, 58% and 61% of our revenue, respectively. We expect to continue to grow both our enterprise and transactional client base in the future, although the rate of growth for each type of client will vary depending on opportunities in the marketplace.

Revenue recognized per shipment will vary depending on the transportation mode, fuel prices, shipment weight and density and mileage of the product shipped. The primary modes of shipment that we transact in are TL, LTL and small parcel. Other transportation modes include inter-modal, domestic air, expedited services and international. Typically, our revenue is lower for an LTL shipment than for a TL shipment, and revenue per shipment is higher for shipments in modes other than TL, LTL and small parcel. Material shifts in the percentage of our revenue by transportation mode could have a significant impact on our revenue growth. In 2010, LTL accounted for 45% of our revenue, TL accounted for 37% of our revenue, small parcel accounted for 6% of our revenue and other transportation modes accounted for 12% of our revenue.

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

## Table of Contents

### Transportation Costs and Net Revenue

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

Net revenue is the primary indicator of our ability to procure services provided by carriers and other third-parties and is considered by management to be the primary measurement of our growth. Although our transportation cost is typically lower for an LTL shipment than for a TL shipment, our net revenue margin is typically higher for an LTL shipment than for a TL shipment. Material shifts in the percentage of our revenue by transportation mode, including small parcel, could have a significant impact on our net revenue. The discussion of results of operations below focuses on changes in our net revenues and expenses as a percentage of net revenue - margin. In 2008, 2009 and 2010, our net revenue was \$43.1 million, \$55.7 million and \$81.2 million, respectively, reflecting growth rates of 29% and 46% in 2009 and 2010, respectively, compared to the corresponding prior year.

### Operating Expenses

Our costs and expenses excluding transportation costs consist of commissions paid to our sales personnel, selling, general and administrative expenses to run our business and depreciation and amortization.

Commissions paid to our sales personnel, including employees and agents, are a significant component of our operating expenses. These commissions are based on the net revenue we collect from the clients for which they have primary responsibility. In 2008, 2009 and 2010, commission expense was 27.4%, 28.4% and 30.6%, respectively, as a percentage of our net revenue. The percentage of net revenue paid as commissions will vary depending on the type of client, composition of the sales team and mode of transportation. Commission expense, stated as a percentage of net revenue, could increase or decrease in the future depending on the composition of our revenue growth and the relative impact of changes in sales teams and service offerings.

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

Our selling, general and administrative expenses, which excludes commission expense, primarily consist of compensation costs for our sales, operations, information systems, finance and administrative support employees and changes to contingent consideration liability. In 2008, 2009 and 2010, our general and administrative expenses were \$23.1 million, \$29.0 million and \$35.9 million, respectively. In 2008, 2009 and 2010, general and administrative expenses as a percentage of net revenue were 53.6%, 52.1% and 44.2%, respectively.

Our depreciation expense is primarily attributable to our depreciation of purchases of computer hardware and software, equipment, furniture and fixtures, and the capitalization of internally developed software. In 2008, 2009 and 2010, depreciation expense was \$2.5 million, \$4.0 million and \$5.1 million, respectively.

Our amortization expense is attributable to our amortization of intangible assets acquired from business combinations, including client relationships, tradenames and non-compete agreements. In 2008, 2009 and 2010, amortization expense was \$0.7 million, \$1.0 million and \$1.8 million, respectively.

### Reverse Stock Split and Recapitalization

Prior to our initial public offering, on September 25, 2009, we effectuated a one-for-two reverse stock split of all outstanding shares of our Series A common stock, Series B preferred stock and Series D preferred stock. Immediately following the reverse stock split, we exchanged all outstanding shares of our Series A common stock, Series B preferred stock and Series D preferred stock for newly issued shares of common stock on approximately a one-for-one basis.

### Income Taxes

On June 7, 2006, our company completed a conversion pursuant to which Echo Global Logistics, LLC, a limited liability company, converted to Echo Global Logistics, Inc., a corporation. As a limited liability company, we were



treated as a partnership for federal income tax purposes. As a result, all items of income, expense, gain and loss of Echo were generally reportable on the tax returns of members of Echo Global Logistics, LLC.

As a result of our conversion, we account for income taxes in accordance with ASC Topic 740 (previously SFAS No. 109,

27

---

## Table of Contents

Accounting for Income Taxes), under which deferred assets and liabilities are recognized based upon anticipated future tax consequences attributable to differences between financial statement carrying values of assets and liabilities and their respective tax bases. In connection with our conversion, we used \$9.4 million of our net proceeds from the issuance of our Series D preferred stock to redeem certain of our Series A common units. Because we redeemed the units as a limited liability company, the cash distribution was taxable to the members and our tax basis increased resulting in the recognition of a deferred tax asset of \$3.8 million, for which we recorded a valuation allowance of \$2.0 million and a corresponding net increase to additional paid in capital of \$2.0 million. The Company evaluated this valuation allowance as of December 31, 2009 and determined it was more likely than not that the existing deferred tax assets would be fully realized, thus the valuation allowance was reduced to zero with the corresponding income tax benefit recorded to income tax expense in 2009. There was no valuation allowance reversal in 2010.

### Critical Accounting Policies

#### Revenue Recognition

In accordance with ASC Topic 605-20 Revenue and Expense Recognition for Freight Services in Process, transportation revenue and related transportation costs are recognized when the shipment has been delivered by a third-party carrier. Fee for service revenue is recognized when the services have been rendered. At the time of delivery or rendering of services, as applicable, the Company's obligation to fulfill a transaction is complete and collection of revenue is reasonably assured.

In accordance with ASC Topic 605-45 Reporting Revenue Gross as a Principal versus Net as an Agent, the Company generally recognizes revenue on a gross basis, as opposed to a net basis similar to a commission arrangement, because it bears the risks and benefits associated with revenue-generated activities by, among other things: (1) acting as a principal in the transaction; (2) establishing prices; (3) managing all aspects of the shipping process; and (4) taking the risk of loss for collection, delivery, and returns. Certain transactions to provide specific services are recorded at the net amount charged to the client due to the following key factors: (a) the Company does not have latitude in establishing pricing; and (b) the Company has credit risk for only the net revenue earned from its client while the carrier has credit risk for the transportation costs.

#### Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are uncollateralized customer obligations due under normal trade terms. Invoices require payment within 30 to 90 days from the invoice date. Accounts receivable are stated at the amount billed to the customer.

Customer account balances with invoices past due 90 days are considered delinquent. The Company generally does not charge interest on past due amounts.

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

#### Goodwill and Other Intangibles

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. In accordance with ASC Topic 350 Intangibles - Goodwill and Other, goodwill is not amortized, but instead is tested for impairment annually, or more frequently if circumstances indicate a possible impairment may exist. The Company evaluates the recoverability of goodwill using a two-step impairment test. For goodwill impairment test purposes, the Company has one reporting unit. In the first step, the fair value for the Company is compared to its carrying value including goodwill. In the case that the fair value is less than the carrying value, a second step is performed that compares the implied fair value of goodwill to the carrying value of the goodwill. The fair value for the implied goodwill is determined based on the difference between the fair value of the reporting unit and the net fair values of the identifiable assets and liabilities excluding goodwill. If the implied fair value of the goodwill is less than the carrying value, the difference is recognized as an impairment charge. Absent any special circumstances that could require an interim test, the Company has elected to test for goodwill impairment during the fourth quarter of each year. This guidance also requires that intangible assets with finite lives be amortized over their respective estimated useful lives and reviewed for impairment whenever impairment indicators exist in accordance with ASC Topic 360 Property, Plant and Equipment. The Company's intangible assets consist of customer

relationships, noncompete agreements, and trade names, which are being amortized on the straight-line basis over their estimated weighted-average useful lives of 6 years, 3 years and 3 years, respectively.

**Contract Costs**

Cost of contracts represents the incremental direct costs incurred related to the acquisition or origination of certain

28

---

Table of Contents

customer contracts. Costs capitalized are amortized over the life of the contracts.

**Stock-Based Compensation**

In 2010, the Company granted 545,000 options to certain employees at exercise prices ranging from \$11.31 to \$13.00, of which 80,000 will vest ratably over 4 years. The remaining 465,000 options will vest ratably over 5 years.

The Company accounts for stock-based compensation in accordance with ASC Topic 718 Compensation - Stock Compensation which requires all share-based payments to employees, including grants of stock options, to be recognized in the income statement based upon their fair values. Share-based employee compensation costs are recognized as a component of selling, general and administrative expense in the consolidated statements of income. The Company recorded \$626,944, \$521,370 and \$592,372 in compensation expense for the years ended December 31, 2008, 2009 and 2010, respectively. For more information related to the Company's stock-based compensation programs, see "Note 14—Stock-Based Compensation Plans" for a description of the Company's accounting for stock-based compensation plans.

**Initial Public Offering Costs**

Costs associated with the initial public offering were reclassified to additional paid-in-capital upon completion of the initial public offering in October of 2009. At the end of 2009, approximately \$270,000 in costs that had been reclassified to additional paid-in-capital still had not been paid. These costs were paid in the first quarter of 2010 in addition to approximately \$50,000 in costs that had not been accrued for as of December 31, 2009.

**Results of Operations**

The following table sets forth our consolidated statements of income data for the periods presented in both thousands of dollars and as a percentage of our net revenue:

	Years Ended December 31,			
	2008	2009	2010	
	(dollars in thousands)			
Consolidated statements of operations data:				
Revenue	\$202,807	\$259,561	\$426,374	
Transportation costs	159,717	203,893	\$345,209	
Net revenue	\$43,090	\$55,668	\$81,165	
Operating expenses:				
Commissions	11,799	15,816	24,871	
Selling, general and administrative expenses	23,115	29,001	35,907	
Depreciation and amortization	3,231	4,991	6,926	
Total operating expenses	38,145	49,808	67,704	
Income from operations	\$4,945	\$5,860	\$13,461	
Stated as a percentage of net revenue:				
Net revenue	100.0	% 100.0	% 100.0	%
Operating expenses:				
Commissions	27.4	% 28.4	% 30.6	%
Selling, general and administrative expenses	53.6	% 52.1	% 44.2	%
Depreciation and amortization	7.5	% 9.0	% 8.5	%
Total operating expenses	88.5	% 89.5	% 83.3	%
Income from operations	11.5	% 10.5	% 16.7	%

**Comparison of years ended December 31, 2010 and 2009****Revenue**

Our revenue increased by \$166.8 million, or 64.3%, to \$426.4 million in 2010 from \$259.6 million in 2009. The increase was primarily attributable to the increase in the number of our clients, the total number of shipments executed on behalf of, and services provided to these clients. The increase was also partially due to an increase in transportation rates due to pricing



## Table of Contents

increases caused by a reduction in capacity in the truckload marketplace during 2010. In addition, \$68.2 million of revenue was generated in 2010 from acquisitions that were completed in 2009 and 2010 compared to \$23.9 million in 2009.

Our revenue from enterprise clients increased by \$56.3 million, or 51.6%, to \$165.4 million in 2010 from \$109.1 million in 2009, resulting from an increase in the number of enterprise clients and shipments executed and services provided. As we increased our number of transactional clients, our percentage of revenue from enterprise clients decreased to 39% of our revenue in 2010 from 42% of our revenue in 2009. As of December 31, 2010, we had 148 enterprise clients under contract, which was an increase of 32, compared to 116 enterprise clients under contract as of December 31, 2009.

Our revenue from transactional clients increased by \$110.5 million, or 73.4%, to \$260.9 million in 2010 from \$150.4 million in 2009. The growth in revenue from transactional clients during this period was driven by the increase in the number of our transactional clients due to the addition of transactional sales representatives and sales agents as well as an increase in the average revenue generated by transactional sales representatives and sales agents, including those acquired in 2010 acquisitions. Our percentage of revenue from transactional clients increased to 61% of our revenue in 2010 from 58% of our revenue in 2009. We served over 22,700 transactional in 2010, an increase of approximately 7,700 compared to the 15,000 transactional clients served in 2009.

### Transportation costs

Our transportation costs increased by \$141.3 million, or 69.3%, to \$345.2 million in 2010 from \$203.9 million in 2009. The growth in the total number of shipments executed to service of our clients accounted for most of the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue increased to 81.0% in 2010 from 78.6% in 2009, due to an increase in transportation rates, primarily in the truckload market.

### Net revenue

Net revenue increased by \$25.5 million, or 45.8%, to \$81.2 million in 2010 from \$55.7 million in 2009. The growth in the total number of shipments executed to service of our clients accounted for most of the increase in our net revenue during this period. The remaining increase in net revenue was the result of the \$11.4 million generated from acquisitions completed in 2009 and 2010. Net revenue margins decreased to 19.0% in 2010 from 21.4% in 2009. The decrease in net revenue margins was the result of tightening in capacity in the truckload market resulting in higher costs and higher mix of truckload revenue.

### Operating expenses

Commission expense increased by \$9.1 million, or 57.3%, to \$24.9 million in 2010 from \$15.8 million in 2009. This increase is attributable to the increase in net revenue.

Selling, general and administrative expenses increased by \$6.9 million, or 23.8%, to \$35.9 million in 2010 from \$29.0 million in 2009. The increase is primarily the result of hiring personnel to support our growth. This increase was offset by a \$4.7 million reduction to the contingent consideration due to seller primarily related to the acquisitions of RayTrans Distribution Services and FMI. As a percentage of net revenue, general and administrative expenses decreased to 44.2% in 2010 from 52.1% in 2009. The decrease, as a percentage of net revenue, is partially attributable to the reduction of contingent consideration due to seller as well as our ability to add clients and sales personnel in order to increase our net revenue without the same corresponding increase in our general and administrative expenses.

### Depreciation and amortization

Depreciation expense increased by \$1.1 million, or 28.4%, to \$5.1 million in 2010 from \$4.0 million in 2009. The increase in depreciation expense is primarily attributable to purchases of computer hardware and software, equipment, furniture and fixtures, and the capitalization of internally developed software. Amortization expense increased by \$0.8 million, or 72.5%, to \$1.8 million in 2010 from \$1.0 million in 2009. The increase in amortization expense is the result of the intangibles acquired as part of the acquisitions made in 2010.

### Income from operations

Income from operations increased by \$7.6 million to \$13.5 million in 2010 from \$5.9 million in 2009. \$4.7 million of the increase was attributable to the reduction in contingent consideration liability and the remaining \$2.9 million is attributable to the increase in net revenue in excess of the increase in operating expenses, due to improved leverage gained through the growth of our business.

Other expense and income tax

Other expense decreased to \$0.3 million in 2010 from \$1.3 million in 2009. The decrease is due to interest expense of

30

---

Table of Contents

approximately \$0.8 million related to additional borrowings on our line of credit and the subordinated debt agreement entered into in 2009. The subordinated debt agreement was paid in full upon our initial public offering. In addition, there was a \$200,000 increase in other expense related to miscellaneous tax expenses in 2009.

Provision for income taxes increased by \$5.4 million to \$4.8 million in 2010 from income tax benefit of \$0.6 million in 2009. The increase was the result of the 2009 reversal of the \$2.0 million valuation allowance recorded initially in June 2006. Periodically, we review the continuing need for the valuation allowance based on the factors existing at the time of review. We evaluated this valuation allowance as of December 31, 2009 and determined that the full valuation allowance was no longer needed. There was no valuation allowance reversal in 2010.

Net Income

Net income increased by \$3.2 million to \$8.4 million in 2010 from \$5.2 million in 2009 related to the items previously discussed.

Comparison of years ended December 31, 2009 and 2008

Revenue

Our revenue increased by \$56.8 million, or 28.0%, to \$259.6 million in 2009 from \$202.8 million in 2008. The increase was attributable to the increase in the number of our clients, the total number of shipments executed on behalf of, and services provided to these clients. This was partially offset by a decrease in the transportation rates due to pricing declines caused by a weaker economy. In addition, \$14.4 million of revenue was generated in 2009 from the RayTrans Distribution Services acquisition.

Our revenue from enterprise clients increased by \$21.7 million, or 24.8%, to \$109.1 million in 2009 from \$87.4 million in 2008, resulting from an increase in the number of enterprise clients and shipments executed and services provided. As we increased our number of transactional clients, our percentage of revenue from enterprise clients decreased to 42% of our revenue in 2009 from 43% of our revenue in 2008. As of December 31, 2009, we had 116 enterprise clients under contract, which was an increase of 24, compared to 92 enterprise clients under contract as of December 31, 2008. Our shipment volume and revenue per enterprise client decreased in 2009 due to the overall domestic economic climate.

Our revenue from transactional clients increased by \$35.1 million, or 30.4%, to \$150.5 million in 2009 from \$115.4 million in 2008. The growth in revenue from transactional clients during this period was driven by the increase in the number of our transactional clients due to the addition of transactional sales representatives and sales agents, including those acquired in connection with the acquisition of RayTrans Distribution Services. Our percentage of revenue from transactional clients increased to 58% of our revenue in 2009 from 57% of our revenue in 2008. We served over 15,000 transactional in 2009, an increase of approximately 3,000 compared to the 12,000 transactional clients served in 2008.

Transportation costs

Our transportation costs increased by \$44.2 million, or 27.7%, to \$203.9 million in 2009 from \$159.7 million in 2008. The growth in the total number of shipments executed on behalf of our clients accounted for most of the increase in our transportation costs during this period. Our transportation costs as a percentage of revenue decreased to 78.6% in 2009 from 78.8% in 2008.

Net revenue

Net revenue increased by \$12.6 million, or 29.2%, to \$55.7 million in 2009 from \$43.1 million in 2008. The growth in the total number of shipments executed on behalf of our clients accounted for most of the increase in our net revenue during this period. The remaining increase in net revenue was the result of the \$2.8 million generated from the RayTrans Distribution Services acquisition. Net revenue margins increased to 21.4% in 2009 from 21.2% in 2008. The increase in net revenue margins was the result of our ability to negotiate more favorable terms on our shipments and an increase in our transactional sales, which typically have higher net revenue margins.

Operating expenses

Commission expense increased by \$4.0 million, or 33.9%, to \$15.8 million in 2009 from \$11.8 million in 2008. This increase is attributable to the increase in net revenue.

General and administrative expenses increased by \$5.9 million, or 25.5%, to \$29.0 million in 2009 from \$23.1 million in 2008. The increase is primarily the result of hiring personnel to support our growth. As a percentage of net revenue,



general and

31

---

Table of Contents

administrative expenses decreased to 52.1% in 2009 from 53.6% in 2008. The decrease, as a percentage of net revenue, reflects our ability to add clients and sales personnel in order to increase our net revenue without the same corresponding increase in our general and administrative expenses.

**Depreciation and amortization**

Depreciation expense increased by \$1.4 million, or 55.9%, to \$3.9 million in 2009 from \$2.5 million in 2008. The increase in depreciation expense is primarily attributable to purchases of computer hardware and software, equipment, furniture and fixtures, and the capitalization of internally developed software. Amortization expense increased by \$0.4 million, or 49.4%, to \$1.1 million in 2009 from \$0.7 million in 2008. The increase in amortization expense the result of the intangibles acquired in the RayTrans and FMI acquisitions completed in 2009.

**Income from operations**

Income from operations increased by \$1.0 million to \$5.9 million in 2009 from \$4.9 million in 2008. The increase in income from operations is attributable to the increase in net revenue in excess of the increase in operating expenses, due to improved leverage gained through the growth of our business.

**Other expense and income tax**

Other expense increased to \$1.3 million in 2009 from \$0.1 million in 2008. The increase is due to interest expense of approximately \$0.8 million related to additional borrowings on our line of credit during and the subordinated debt agreement entered into in 2009. In addition, there was a \$200,000 increase in other expense related to miscellaneous tax expenses.

Provision for income taxes decreased by \$2.5 million to a benefit of \$0.6 million in 2009 from income tax expense of \$1.9 million in 2008. The decrease was the result of the reversal of the \$2.0 million valuation allowance recorded initially in June 2006. Periodically, we review the continuing need for the valuation allowance based on the factors existing at the time of review. We evaluated this valuation allowance as of December 31, 2009 and determined that the full valuation allowance is no longer needed. In addition, the decrease was the result of the impact of elections regarding research and development tax credits.

**Net Income**

Net income increased by \$2.2 million to \$5.2 million in 2009 from \$2.9 million in 2008 related to the items previously discussed.

**Quarterly Results of Operations**

The following table represents our unaudited statement of operations data for our most recent eight fiscal quarters. You should read the following table in conjunction with our consolidated financial statements and related notes appearing elsewhere in this Annual Report on Form 10-K. The results of operations of any quarter are not necessarily indicative of the results that may be expected for any future period. The per share dollar amounts below give effect to the one-for-two reverse stock split retroactively for all periods presented.

	Mar. 31, 2009	June 30, 2009	Sept. 30, 2009	Dec. 31, 2009	Mar. 31, 2010	June 30, 2010	Sept. 30, 2010	Dec. 31, 2010
	(in thousands, except per share data)							
Revenue	\$49,064	\$60,290	\$70,168	\$80,039	\$89,104	\$109,905	\$113,533	\$113,832
Net revenue	11,014	13,240	15,443	15,971	17,045	20,049	21,466	22,605
Operating Income	122	1,328	2,333	2,076	2,026	3,126	4,254	4,055
Net income	28	691	1,299	3,178	1,236	1,926	2,595	2,648
Net income (loss) applicable to common stockholders	(237)							