Echo Global Logistics, Inc.
Form 10-Q
May 01, 2014

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

FORM 10-Q

x Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2014

o 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 (State or Other Jurisdiction of Incorporation or Organization)	20-5001120 (I.R.S. Employer Identification No.)

600 West Chicago Avenue
Suite 725
Chicago, Illinois 60654
Phone: (800) 354-7993
(Address (including zip code) and telephone number (including area code) of registrant's principal executive offices)

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: x No: o

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

Indicate by check mark whether the Registrant is an a large accelerated filer, an accelerated filer, or non-accelerated filer. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer: o Accelerated filer: x Non-accelerated filer: o Smaller reporting company o

(Do not check if a smaller
reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: o No: x

As of April 30, 2014, the Registrant had 23,487,379 shares of Common Stock, par value $0.0001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statements of Income
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
REVENUE	$247,670,217	$203,977,378
COSTS AND EXPENSES:		
Transportation costs	205,460,091	165,526,099
Selling, general, and administrative expenses	35,272,320	31,007,144
Depreciation and amortization	2,956,104	2,595,311
INCOME FROM OPERATIONS	3,981,702	4,848,824
Interest expense	—	(717)
Other expense	(54,927)	(93,499)
OTHER EXPENSE, NET	(54,927)	(94,216)
INCOME BEFORE PROVISION FOR INCOME TAXES	3,926,775	4,754,608
INCOME TAX EXPENSE	(1,496,816)	(1,777,976)
NET INCOME	$2,429,959	$2,976,632
Basic net income per share	$0.11	$0.13
Diluted net income per share	$0.10	$0.13

See accompanying notes.

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Echo Global Logistics, Inc. and Subsidiaries
Consolidated Balance Sheets

	March 31, 2014 (Unaudited)	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$42,642,907	$52,506,560
Accounts receivable, net of allowance for doubtful accounts of $1,873,798 and $1,792,012 at March 31, 2014 and December 31, 2013, respectively	135,286,860	109,662,529
Income taxes receivable	519,579	1,337,180
Prepaid expenses	2,117,596	2,510,791
Deferred income taxes	946,480	943,740
Other current assets	98,403	121,403
Total current assets	181,611,825	167,082,203
Property and equipment, net	18,115,946	15,536,831
Intangible assets:		
Goodwill	58,116,653	51,650,060
Intangible assets, net of accumulated amortization of $11,821,383 and $11,120,733 at March 31, 2014 and December 31, 2013, respectively	17,096,596	10,647,246
Other assets	235,253	230,253
Total assets	$275,176,273	$245,146,593
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$90,822,015	$65,322,807
Due to seller-short term	5,176,201	5,763,779
Accrued expenses	9,490,928	8,322,117
Total current liabilities	105,489,144	79,408,703
Due to seller-long term	1,833,723	1,386,653
Other noncurrent liabilities	1,572,692	1,573,780
Deferred income taxes	4,021,475	3,547,426
Total liabilities	112,917,034	85,916,562
Stockholders' equity:		
Common stock, par value $0.0001 per share, 100,000,000 shares authorized, 23,005,318 and 22,900,471 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively	2,302	2,291
Additional paid-in capital	107,431,040	106,831,802
Retained earnings	54,825,897	52,395,938
Total stockholders' equity	162,259,239	159,230,031
Total liabilities and stockholders' equity	$275,176,273	$245,146,593

See accompanying notes.

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Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
	2014	2013
Operating activities		
Net income	$2,429,959	$2,976,632
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	471,309	374,700
Noncash stock compensation expense	1,308,313	1,071,938
Increase in contingent consideration due to seller	224,162	758,695
Depreciation and amortization	2,956,104	2,595,311
Change in assets, net of acquisitions:		
Accounts receivable	(19,192,003)	(7,280,834)
Taxes receivable (payable)	817,601	(589,784)
Prepaid expenses and other assets	417,142	648,288
Change in liabilities, net of acquisitions:		
Accounts payable	20,505,739	6,841,258
Accrued expenses and other	253,591	(1,152,824)
Net cash provided by operating activities	10,191,917	6,243,380
Investing activities		
Purchases of property and equipment	(4,316,741)	(2,205,498)
Payments for acquisitions, net of cash acquired	(13,785,095)	(1,958,236)
Net cash used in investing activities	(18,101,836)	(4,163,734)
Financing activities		
Principal payments on capital lease obligations	—	(7,764)
Tax benefit of stock options exercised	126,222	315,657
Payment of contingent consideration	(1,244,670)	—
Issuance of shares, net of issuance costs	17,428	648,140
Employee tax withholdings related to net share settlements of equity-based awards	(852,714)	(734,535)
Net cash (used in) provided by financing activities	(1,953,734)	221,498
(Decrease) increase in cash and cash equivalents	(9,863,653)	2,301,144
Cash and cash equivalents, beginning of period	52,506,560	41,780,984
Cash and cash equivalents, end of period	$42,642,907	$44,082,128
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$—	$720
Cash paid during the period for income taxes	81,684	1,662,444
Non-cash financing activity		
Due to seller	880,000	—

See accompanying notes.

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Echo Global Logistics, Inc. and Subsidiaries
Consolidated Statement of Stockholders' Equity
Three Months Ended March 31, 2014
(Unaudited)

	Common Stock		Additional Paid-In Capital	Retained Earnings	Total
	Shares	Amount			
Balance at December 31, 2013	22,900,471	$2,291	$106,831,802	$52,395,938	$159,230,031
Share compensation expense	—	—	1,308,313	—	1,308,313
Exercise of stock options	1,600	—	17,428	—	17,428
Common stock issued for vested restricted stock	146,964	15	(15)	—	—
Common shares withheld and retired to satisfy employee tax withholding obligations upon vesting of restricted stock	(43,717)	(4)	(852,710)	—	(852,714)
Tax benefit from exercise of stock options	—	—	126,222	—	126,222
Net income	—	—	—	2,429,959	2,429,959
Balance at March 31, 2014	23,005,318	$2,302	$107,431,040	$54,825,897	$162,259,239

See accompanying notes.

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Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Three Months Ended March 31, 2014 and 2013

1. Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements include the accounts of Echo Global Logistics, Inc. and its subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in the consolidation. The consolidated statements of income include the results of entities or assets acquired from the effective date of the acquisition for accounting purposes.

The preparation of the consolidated financial statements is in conformity with the rules and regulations of the Securities and Exchange Commission ("SEC") and accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to such rules or regulations. In the opinion of management, the accompanying unaudited financial statements reflect all adjustments considered necessary for a fair presentation of the results for the period and those adjustments are of a normal recurring nature. The operating results for the three month period ended March 31, 2014 are not necessarily indicative of the results expected for the full year of 2014. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's most recent audited financial statements.

Preparation of Financial Statements and Use of Estimates

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

Fair Value of Financial Instruments

The carrying values of the Company's financial investments, which consist of cash and cash equivalents, accounts receivable and accounts payable, approximate their fair values due to their short term nature. The fair value of due to seller is determined based on the likelihood of contingent earn-out payments.

2. New Accounting Pronouncements

In July 2013, the FASB issued authoritative guidance under Accounting Standard Update ("ASU") 2013-11, which provides guidance on the financial statement presentation of an unrecognized tax benefit when a net operating loss (“NOL”) carryforward, a similar tax loss, or a tax credit carryforward exists. ASU 2013-11 requires entities to present an unrecognized tax benefit as a reduction of a deferred tax asset for a NOL or tax credit carryforward whenever the NOL or tax credit carryforward would be available to reduce the additional taxable income or tax due if the tax position is disallowed. This accounting standard update requires entities to assess whether to net the unrecognized tax benefit with a deferred tax asset as of the reporting date. The provisions of this new guidance were effective as of the beginning of the Company's 2014 fiscal year and did not have a material impact on its financial statements.

Echo Global Logistics, Inc. and Subsidiaries
Notes to Unaudited Consolidated Financial Statements
Three Months Ended March 31, 2014 and 2013

3. Acquisitions

2014 Acquisitions

Online Freight Services, Inc.

Effective January 1, 2014, the Company acquired Online Freight Services, Inc. ("OFS"), a non-asset-based truckload transportation brokerage based in Mendota Heights, Minnesota, and the results of OFS have been included in the unaudited consolidated financial statements since that date. The Company agreed to purchase the assets and assume certain liabilities of OFS for $9,460,742 in cash payable at closing and an additional $1,500,000 in cash consideration that may become payable upon achievement of certain performance measures on or prior to December 31, 2017. As a result of the preliminary purchase accounting for the acquisition, the Company recorded $4,286,440 of goodwill, of which $880,000 is related to contingent consideration, and $4,850,000 of intangible assets, primarily customer relationships and trade names. This allocation is subject to change as the Company finalizes purchase accounting. The amount of goodwill deductible for U.S. income tax purposes is approximately $3,406,440, excluding future contingent consideration payments. For the three month period ended March 31, 2014, the Company recorded an increase of $60,000 to the contingent consideration obligation to reflect the change in fair value, which was primarily the result of adjustments to the forecasted financial performance of OFS resulting in a liability due to seller of $940,000 at March 31, 2014. Pro forma results of the acquisition were not presented as they are not material to the financial statements.

Comcar Logistics, LLC

Effective February 1, 2014, the Company acquired Comcar Logistics, LLC ("Comcar"), a non-asset-based truckload brokerage with offices in Jacksonville, Florida and Denver, Colorado, and the results of Comcar have been included in the unaudited consolidated financial statements since that date. The Company agreed to purchase the assets and assume certain liabilities of Comcar for $4,900,930 in cash. There is no contingent consideration associated with the purchase of Comcar. As a result of the preliminary purchase accounting for the acquisition, the Company recorded $2,180,153 of goodwill, which is approximately the amount of goodwill deductible for U.S. income tax purposes, and $2,300,000 of intangible assets, primarily customer relationships. This allocation is subject to change as the Company finalizes purchase accounting. Pro forma results of the acquisition were not presented as they are not material to the financial statements.

4. Fair Value Measurement

The Company applies ASC Topic 820 Fair Value Measurements and Disclosures for its financial assets and financial liabilities. The guidance requires disclosures about assets and liabilities measured at fair value. The Company's financial liabilities primarily relate to contingent earn-out payments of $7,009,924. The potential earnout payments and performance are defined in the individual purchase agreement for each acquisition. Earnings before interest, taxes, depreciation and amortization ("EBITDA") is the performance target defined and measured to determine the earnout payment due, if any, after each defined measurement period.

ASC Topic 820 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on observable or unobservable inputs to valuation techniques that are used to measure fair value. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions. The fair value hierarchy consists of the following three levels:

- Level 1: Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, and inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3: Inputs that are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

The significant inputs used to derive the fair value of the amounts due to seller include financial forecasts of future operating results, the probability of reaching the forecast and an appropriate discount rate for each contingent liability. The probability of paying the contingent consideration ranges from 15% to 60%, with discount rates used in determining the fair value of the contingent consideration ranging between 3% and 12%. Historical results of the respective acquisitions serve as the basis for the financial forecasts used in the valuation. Quantitative factors are also considered in these forecasts, including acquisition synergies, growth and sales potential and potential operational efficiencies gained. Changes to the significant inputs used in determining the fair value of the contingent consideration could result in a change in the fair value of the contingent consideration. However, the correlation and inverse relationship between higher projected financial results to the discount rate applied and probability of meeting the financial targets mitigates the effect of any changes to the unobservable inputs.

The following table sets forth the Company's financial liabilities measured at fair value on a recurring basis and the basis of measurement at March 31, 2014 and December 31, 2013:

	Fair Value Measurements as of March 31, 2014			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration obligation	$(7,009,924)	$—	$—	$(7,009,924)

	Fair Value Measurements as of December 31, 2013			
	Total	Level 1	Level 2	Level 3
Liabilities:				
Contingent consideration obligation	$(7,150,432)	$—	$—	$(7,150,432)

The following table provides a reconciliation of the beginning and ending balances for the liabilities measured at fair value using significant unobservable inputs (Level 3):

	Due to Seller
Balance at December 31, 2013	$(7,150,432)
Increase related to acquisition of OFS	(880,000)
Change in fair value	(224,162)
Payment of contingent consideration	1,244,670