

**Roadrunner Transportation Systems, Inc.**

**CONSOLIDATED BALANCE SHEETS**

**December 31,  
(In thousands, except par value)**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 15,540	\$ 3,889
Restricted cash	14,868	-
Accounts receivable, net of allowances of \$7,229 and \$6,397, respectively	61,288	59,712
Prepaid expenses and other current assets	14,099	36,562
Current assets of discontinued operations	-	165,333
Total current assets	105,795	265,496
<b>PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$49,459 and \$51,152, respectively</b>	38,558	81,088
<b>OTHER ASSETS:</b>		
Operating lease right-of-use asset	55,575	47,893
Other noncurrent assets	4,577	3,062
Noncurrent assets of discontinued operations	-	464,101
Total other assets	60,152	515,056
Total assets	\$ 204,505	\$ 861,640
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of debt	\$ -	\$ 1,756
Current maturities of indebtedness to related party	-	9,234
Current finance lease liability	7,005	11,881
Current operating lease liability	12,414	13,222
Accounts payable	22,325	26,158
Accrued expenses and other current liabilities	51,021	62,314
Current liabilities of discontinued operations	-	150,565
Total current liabilities	92,765	275,130
Deferred tax liabilities	-	143
Other long-term liabilities	-	164,309
Long-term debt, net of current maturities	28,549	131,447
Long-term indebtedness to related party	-	61,695
Long-term finance lease liability	11,480	36,438
Long-term operating lease liability	47,140	38,218
Noncurrent liabilities of discontinued operations	-	98,428
Total liabilities	179,934	805,808
<b>COMMITMENTS AND CONTINGENCIES (Note 12)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock \$.01 par value; 44,000 shares authorized; 38,264 and 37,870 shares issued and outstanding, respectively	383	379
Additional paid-in capital	837,047	853,804
Retained deficit	(812,859)	(798,351)
Total stockholders' investment	24,571	55,832
Total liabilities and stockholders' equity	\$ 204,505	\$ 861,640

The accompanying notes are an integral part of these consolidated financial statements.

Roadrunner Transportation Systems, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31,  
(In thousands)

	<u>2020</u>	<u>2019</u>
<b>Supplemental cash flow information:</b>		
Cash paid for interest	\$ 9,051	\$ 18,252
Cash refunds from income taxes, net	(14,961)	(1,028)
Non-cash finance leases and other obligations to acquire assets	766	55,937
Capital expenditures, not yet paid	78	2,294

The accompanying notes are an integral part of these consolidated financial statements.

**Roadrunner Transportation Systems, Inc.**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

Years ended December 31,  
(In thousands, except per share amounts)

	<b>2020</b>	<b>2019</b>
<b>Revenues</b>	\$ 443,006	\$ 430,806
<b>Operating expenses:</b>		
Purchased transportation costs	320,304	302,605
Personnel and related benefits	88,931	113,630
Other operating expenses	104,761	116,831
Depreciation and amortization	14,308	15,104
Impairment charges	323	15,199
Operations restructuring costs	18,539	-
Total operating expenses	547,166	563,369
Operating loss	(104,160)	(132,563)
<b>Interest expense</b>	9,535	17,015
<b>Loss from debt restructuring</b>	4,178	2,270
Loss before income taxes	(117,873)	(151,848)
<b>Benefit from income taxes</b>	(14,746)	(578)
<b>NET LOSS FROM CONTINUING OPERATIONS</b>	(103,127)	(151,270)
<b>Income (loss) from discontinued operations, net of income tax benefit of (\$162) and (\$3,082), respectively</b>	88,619	(189,667)
<b>NET LOSS</b>	\$ (14,508)	\$ (340,937)

The accompanying notes are an integral part of these consolidated financial statements.

Roadrunner Transportation Systems, Inc.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (DEFICIT)

(In thousands, except shares)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Total Stockholders' Investment (Deficit)
	Shares	Amount			
<b>Balance, December 31, 2018</b>	1,555,868	16	405,243	(457,414)	(52,155)
Issuance of restricted stock units, net of taxes paid	314,280	3	(1,770)	-	(1,767)
Issuance of common stock	36,000,000	360	449,640	-	450,000
Common stock issuance costs	-	-	(11,985)	-	(11,985)
Share-based compensation	-	-	12,676	-	12,676
Net loss	-	-	-	(340,937)	(340,937)
<b>Balance, December 31, 2019</b>	37,870,148	379	853,804	(798,351)	55,832
Issuance of restricted stock units, net of taxes paid	393,440	4	(257)	-	(253)
Spin off of Ascent Global Logistics			(19,794)		(19,794)
Share-based compensation			3,294		3,294
Net loss				(14,508)	(14,508)
<b>Balance, December 31, 2020</b>	<u>38,263,588</u>	<u>\$ 383</u>	<u>\$ 837,047</u>	<u>\$ (812,859)</u>	<u>\$ 24,571</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Roadrunner Transportation Systems, Inc.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31,  
(In thousands)

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (14,508)	\$ (340,937)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	32,041	59,754
Loss on disposal of property and equipment	3,212	1,115
Gain on sale of businesses	(127,735)	(37,221)
Share-based compensation	3,296	12,676
Loss from debt restructuring	4,178	2,270
Provision for bad debts	5,941	4,093
Deferred tax benefit	(940)	(3,014)
Impairment charges	11,667	207,709
Changes in:		
Accounts receivable	30,374	35,629
Income tax receivable	1,199	1,049
Prepaid expenses and other assets	25,190	56,586
Accounts payable	(17,151)	(28,703)
Accrued expenses and other liabilities	(24,972)	(68,081)
	<u>(68,208)</u>	<u>(97,075)</u>
Net cash (used in) provided by operating activities		
<b>Cash flows from investing activities:</b>		
Capital expenditures	(19,417)	(27,745)
Proceeds from sale of property and equipment	5,739	3,859
Proceeds from sale of businesses	236,026	84,791
	<u>222,348</u>	<u>60,905</u>
Net cash provided by (used in) investing activities		
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facilities	49,863	633,441
Payments under revolving credit facilities	(148,343)	(597,660)
Term borrowings	30,000	52,592
Term payments	(37,345)	(52,395)
Debt issuance costs	(1,940)	(2,250)
Payment of debt extinguishment costs	(1,283)	(693)
Preferred stock payments	-	(402,884)
Proceeds from issuance of common stock	-	450,000
Common stock issuance costs	-	(10,514)
Issuance of restricted stock units, net of taxes paid	(254)	(1,767)
Proceeds from insurance premium financing	6,341	20,735
Payments on insurance premium financing	(12,892)	(19,072)
Payments of finance lease obligation	(12,656)	(39,765)
	<u>(128,509)</u>	<u>29,768</u>
Net cash provided by (used in) financing activities		
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>25,631</b>	<b>(6,402)</b>
<b>Cash and cash equivalents:</b>		
Beginning of period	4,777	11,179
End of period	<u>\$ 30,408</u>	<u>\$ 4,777</u>

The accompanying notes are an integral part of these consolidated financial statements.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2020 and 2019

#### NOTE 1 - ORGANIZATION, NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES

##### *Nature of Business*

Roadrunner Transportation Systems, Inc. (the "Company") is A Less-than-Truckload ("LTL") freight services provider headquartered in Downers Grove, Illinois with operations primarily in the United States. The Company's services involve the pickup, consolidation, linehaul, deconsolidation, and delivery of LTL shipments.

##### *Principles of Consolidation*

The accompanying consolidated financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the United States ("GAAP") pursuant to the rules and regulations of the American Institute of Certified Public Accountants ("AICPA"). All intercompany balances and transactions have been eliminated in consolidation.

##### *Change in Accounting Principle*

On January 1, 2019, the Company adopted Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842) ("ASU 2016-02"). The Company elected to adopt Topic 842 using an optional alternative method of adoption, referred to as the "Comparatives Under ASC 840 Approach," which allows companies to apply the new requirements to only those leases that existed as of January 1, 2019. Under the Comparatives ASC 840 Approach, the date of initial application is January 1, 2019 with no retrospective restatements. As such, there was no impact to historical comparative income statements and the balance sheet assets and liabilities have been recognized in 2019 in accordance with ASC 842. Upon adoption, the Company recognized a lease liability, initially measured at the present value of the lease payments, of \$135 million with a corresponding right-of-use asset for operating leases. The Company's accounting for finance leases is essentially unchanged. As part of its adoption of Topic 842 the Company elected the "package of three" practical expedient, which, among other things, does not require the Company to reassess lease classification for expired or existing contracts upon adoption. The Company also elected to not use hindsight in assessing existing lease terms at the transition date. Lessees can also make an accounting policy election to not recognize an asset and liability for leases with a term of twelve months or less, which the Company elected. The Company also elected the practical expedient to treat lease and non-lease components as a single lease component.

##### *Use of Estimates*

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

##### *Cash and Cash Equivalents*

Cash equivalents are defined as short-term investments that have an original maturity of three months or less at the date of purchase and are readily convertible into cash. The Company maintains cash in several banks and, at times, the balances may exceed federally insured limits.

##### *Restricted Cash*

The Company maintains a separate bank account to cash collateralize letters of credit and other banking services. As of December 31, 2020 the Company had a restricted cash balance of \$14.9 million.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

***Accounts Receivable and Concentration of Credit Risk***

Accounts receivable represent trade receivables from customers and are stated net of an allowance for doubtful accounts of approximately \$7.2 million and \$6.4 million as of December 31, 2020 and 2019, respectively. Management estimates the portion of accounts receivable that will not be collected and accounts are written off when they are determined to be uncollectible. Accounts receivable are uncollateralized and are generally due 30 to 60 days from the invoice date.

One customer accounted for 19% of revenues and 27% of accounts receivable as of December 31, 2020. The same customer accounted for 13% of revenues and 22% of accounts receivable as of December 31, 2019.

The rollforward of the allowance for doubtful accounts is as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Beginning balance	\$ 6,397	\$ 5,549
Provision, charged to expense	4,934	3,595
Write-offs, less recoveries	(4,102)	(2,747)
Ending balance	<u>\$ 7,229</u>	<u>\$ 6,397</u>

***Property and Equipment***

Property and equipment are stated at cost. Maintenance and repair costs are charged to expense as incurred. For financial reporting purposes, depreciation is calculated using the straight-line method over the following estimated useful lives:

Buildings and leasehold improvements	5-15 years
Computer equipment	3-5 years
Internal use software	3-7 years
Office equipment, furniture, and fixtures	3-10 years
Dock, warehouse, and other equipment	3-10 years
Tractors and trailers	3-15 years

Leasehold improvements are amortized over the shorter of their useful lives or the remaining lease term. Accelerated depreciation methods are used for tax reporting purposes.

Property and equipment and other long-lived assets are reviewed periodically for possible impairment. The Company evaluates whether current facts or circumstances indicate that the carrying value of the assets to be held and used may not be recoverable. If such circumstances are determined to exist, an estimate of undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured and recorded based on quoted market prices in active markets, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including discounted value of estimated future cash flows. The Company reports an asset to be disposed of at the lower of its carrying value or its fair value less the cost to sell.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Costs incurred to develop software for internal use are capitalized and amortized over the estimated useful life of the software. Costs related to maintenance of internal-use software are expensed as incurred.

#### ***Issuance Costs***

Debt issuance costs represent costs incurred in connection with the issuance of the Company's debt. Issuance costs associated with the Company's debt are capitalized and amortized over the expected maturity of the financing agreements using the effective interest rate method. Unamortized debt issuance costs have been classified as a reduction to debt in the consolidated balance sheets.

#### ***Share-Based Compensation***

The Company's share-based payment awards are comprised of stock options, restricted stock units, and performance restricted stock units. The cost for the Company's stock options is measured at fair value using the Black-Scholes option pricing model. The cost for the performance restricted stock units is measured at fair value using the Monte Carlo method. The cost for restricted stock units is measured using the stock price at the grant date. The cost is recognized over the vesting period of the award, which is typically between three and four years.

#### ***Income Taxes***

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes that these assets are more likely than not to be realized. In making such a determination, the Company generally considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. Given the Company's recent operating losses, projected future taxable income and tax-planning strategies cannot be considered as sources of future taxable income. A valuation allowance has been established related to deferred tax assets that will not "more likely than not" be realized in the future. If the Company determines that it would be able to realize its deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position, and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

#### ***Revenue Recognition***

The Company's revenues are derived from providing less than truckload transportation services domestically.

Performance Obligations - A performance obligation is a promise in a contract to transfer a distinct good or service to the customer, and is the basis of revenue recognition, in accordance with GAAP. A performance obligation is created once a customer agreement with an agreed upon transaction price exists. The

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

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

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

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

The Company's performance obligations represent the transaction price allocated to future reporting periods for freight services started but not completed at the reporting date. This includes the unbilled amounts and accrued freight costs for freight shipments in transit. The Company has \$7.3 million and \$4.4 million of unbilled amounts recorded in accounts receivable and \$5.2 million and \$3.2 million of accrued freight costs recorded in accounts payable as of December 31, 2020 and December 31, 2019, respectively.

#### ***Insurance***

The Company uses a combination of purchased insurance and self-insurance programs to provide for the cost of auto liability, general liability, cargo damage, workers' compensation claims, and benefits paid under employee health care programs. Insurance reserves are established for estimates of the loss that the Company will ultimately incur on reported claims, as well as estimates of claims that have been incurred but not yet reported.

The measurement and classification of self-insured costs requires the consideration of historical cost experience, demographic and severity factors, and judgments about the current and expected levels of cost per claim and retention levels. These methods provide estimates of the liability associated with claims incurred as of the balance sheet date, including claims not reported. The Company believes these methods are appropriate for measuring these self-insurance accruals.

#### ***Lease Purchase Guarantee***

In connection with leases of certain equipment used exclusively for the Company, the Company has a guarantee to perform in the event of default by the driver. The Company estimates the costs associated

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

with the guarantee by estimating the default rate at the inception of the lease. The Company records the liability and a corresponding asset, which is subsequently amortized over the life of the lease.

***New Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). The amendments in ASU 2016-13 require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. In addition, ASU 2016-13 amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendment is effective for public entities for annual reporting periods beginning after December 15, 2019, however early application is permitted for reporting periods beginning after December 15, 2018. The Company adopted ASU 2016-13 on January 1, 2020 and it did not have a material impact on the consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15, Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, which is effective for the Company in 2020. The amendments in ASU 2018-15 align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The Company adopted ASU 2018-15 on January 1, 2020 and it did not have a material impact on the consolidated financial statements.

In December 2019, the Financial Accounting Standards Board issued ASU No 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” (“ASU 2019-12”). ASU 2019-12 removes certain exceptions to the general principles in Topic 740 in Generally Accepted Accounting Principles. ASU 2019-12 is effective for public entities for fiscal years beginning after December 15, 2020, with early adoption permitted. ASU 2019-12 contains several simplification provisions, and an entity must adopt all amendments at the same time. The Company is early adopting the provisions of ASU 2019-12 as of January 1, 2020. See Note 10 – Income Taxes for a discussion of the impact of early adoption of ASU 2019-12 on the Company’s 2020 intraperiod tax allocation, which has been applied on a prospective basis. The remaining amendments within ASU 2019-12 did not have a material effect on the Company’s current financial position, results of operations or financial statement disclosures.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**NOTE 2 - PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of December 31 (in thousands):

	2020	2019
Buildings and leasehold improvements	\$ 6,552	\$ 5,652
Computer equipment	10,143	29,413
Internal use software	17,103	17,557
Office equipment, furniture, and fixtures	4,003	3,929
Dock, warehouse, and other equipment	9,359	9,095
Tractors and trailers	40,857	66,594
Property and equipment, gross	88,017	132,240
Less: Accumulated depreciation	(49,459)	(51,152)
Property and equipment, net	\$ 38,558	\$ 81,088

Assets not yet placed into service of \$0.7 million and \$14.5 million have been included in the line items above as of December 31, 2020 and December 31, 2019, respectively. Depreciation expense related to property and equipment was \$14.3 million and \$15.0 million for the years ended December 31, 2020 and December 31, 2019, respectively.

The Company recorded asset impairment charges of \$0.3 million and \$15.2 million for the years ended December 31, 2020 and December 31, 2019, respectively, which is primarily related to software development that was abandoned.

**NOTE 3 – DISCONTINUED OPERATIONS**

The Company undertook a significant plan of reorganization starting in 2019 with the decision to exit its Truckload business segment. All divestitures of Truckload businesses have been classified as discontinued operations.

- On November 5, 2019, the Company completed the sale of its Roadrunner Intermodal Services (“Intermodal”) business to Universal Logistics Holdings, Inc., based in Warren, Michigan, for \$51.3 million in cash, subject to customary purchase price and working capital adjustments and recognized a gain of \$20.0 million.
- On December 9, 2019, the Company completed the sale of its D&E Transport Flatbed business unit, for \$30.0 million in cash, subject to customary purchase price and working capital adjustments and recognized a gain of \$17.2 million.
- On April 1, 2020, the Company completed the sale of its Stagecoach Cartage and Distribution business, based in El Paso, Texas, for \$3.0 million, excluding working capital which was retained and collected by the Company. The divestiture of Stagecoach resulted in a loss of \$0.3 million
- On July 22, 2020, the Company completed the sale of its Rich Logistics and ISI business units. The Company contributed \$3.5 million to the Buyer of Rich Logistics as well as retained all pre-divestiture liabilities unless specifically assumed by the Buyer. Total payments to divest of the Rich and ISI business units are expected to approximate \$8.5 million to \$9.5 million. The Company recognized a loss of \$13.4 million on the sale of Rich Logistics and ISI.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

- On July 30, 2020, the Company completed the sale of its Roadrunner Temperature Controlled business unit to Laurel Oak Partners, Inc. for a total purchase price of \$15.0 million, subject to customary purchase price and working capital adjustments and recognized a loss of \$5.6 million.

During 2020, the Company expanded its reorganization plan with the decision to exit its Ascent Global Logistics business segment and focus exclusively on the LTL business.

- On March 2, 2020, the Company completed the sale of Prime Distribution Services, Inc. to C.H. Robinson Worldwide, Inc. for \$225 million, subject to customary purchase price and working capital adjustments, and recognized a gain of \$147.0 million. The proceeds received allowed the Company to repay all outstanding bank debt and significantly reduce both operating and finance lease obligations.
- On August 7, 2020, the Company completed a spinoff of Ascent Global Logistics, Inc. ("Ascent") by way of a pro rata distribution of the issued and outstanding shares of Ascent common stock to the stockholders of record of Roadrunner as of close of business on July 31, 2020. In addition to the distribution of the issued and outstanding shares of common stock, Roadrunner contributed the assets and liabilities of the Company at the historical value. The Company used the effective date of August 1, 2020 for accounting purposes. The other liabilities and taxes included in the opening balance sheet were based upon the Company's best estimates at the time of the spin and are not considered final as of December 31, 2020, and will be held open for up to one year subsequent to the date of spin.

The following table summarizes the results of our discontinued operations for the twelve months ended December 31, 2020 and 2019:

	2020	2019
Statement of Operations:		
Total revenue	\$ 480,552	\$ 1,417,056
Operating expenses	518,720	1,643,629
Gain on disposal	127,735	37,221
Operating income (loss)	89,567	(189,352)
Interest expense	1,110	3,397
Income (loss) before income taxes	88,457	(192,749)
Income tax expense (benefit)	(162)	(3,082)
Net income (loss) from discontinued operations, net of tax	88,619	(189,667)

The following table summarizes the major classes of assets and liabilities included as discontinued operations as of December 31, 2019:

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

		2019
<b>Assets:</b>		
Cash and equivalents	\$	888
Accounts receivable, net of allowance of \$1,882		157,671
Prepaid expenses and other current assets		6,774
Current assets of discontinued operations		165,333
Property and equipment, net of accumulated depreciation of \$91,702		79,546
Operating lease right-of-use asset		69,032
Goodwill		97,265
Intangible assets, net		25,983
Other noncurrent assets		192,275
Noncurrent assets of discontinued operations		464,101
Total assets of discontinued operations		629,434
<b>Liabilities:</b>		
Current maturities of debt	\$	535
Current finance lease liability		3,719
Current operating lease liability		25,343
Accounts payable		104,561
Accrued expenses and other current liabilities		16,407
Current liabilities of discontinued operations		150,565
Deferred tax liabilities		797
Other long-term liabilities		27,454
Long-term debt, net of current maturities		93
Long-term finance lease liability		14,900
Long-term operating lease liability		55,185
Noncurrent liabilities of discontinued operations		98,429
Total liabilities of discontinued operations		248,994
Net assets of discontinued operations		380,440

The depreciation, capital expenditures, and significant operating and investing noncash items of discontinued operations included in the Statement of Cash Flows are as follows

	2020	2019
Depreciation and amortization	\$ 16,371	\$ 35,648
Impairment	1,588	192,510
(Gain) from sale of businesses	(127,735)	(37,221)
Capital expenditures	5,828	11,267
Proceeds from sale of businesses	236,026	84,791

**Roadrunner Transportation Systems, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**NOTE 4 - LEASES**

Amounts recognized in the consolidated balance sheets related to the Company's lease portfolio are as follows (in thousands):

	December 31, 2020
<b>Assets:</b>	
Finance lease assets, net (included in property and equipment)	\$ 17,628
Operating lease right-of-use asset	55,575
Total lease assets	\$ 73,203
<b>Liabilities:</b>	
Current finance lease liability	\$ 7,005
Current operating lease liability	12,414
Long-term finance lease liability	11,480
Long-term operating lease liability	47,140
Total lease liabilities	\$ 78,039

The Company discounts lease payments using an estimate of its incremental borrowing rate based on information available at lease commencement. The incremental borrowing rate is derived using multiple inputs, including the Company's credit rating, the impact of full collateralization, lease term and denominated currency.

Amounts recognized in the consolidated statement of operations related to the Company's lease portfolio for the year ended December 31, 2020 are as follows (in thousands):

Lease component	Classification	Year Ended December 31, 2020
Rent expense - operating leases	Other operating expenses	\$ 17,573
Amortization of finance lease assets	Depreciation and amortization	7,575
Interest on finance lease liabilities	Interest expense	3,094

The Company leases terminals, office space, trucks, trailers, and other equipment under noncancelable operating leases expiring on various dates through 2031. The Company incurred rent expense from operating leases of \$17.6 million and \$12.9 million for the years ended December 31, 2020 and 2019, respectively.

Rent expense for operating leases relates primarily to long-term operating leases, but also includes amounts for variable lease costs and short-term leases. The Company also recognized rental income of \$3.4 million for the year ended December 31, 2020, related to operating leases the Company entered into with its ICs. The Company records rental income from leases as a reduction to rent expense - operating leases.

The Company also leases trucks, trailers, and other equipment under finance leases. Certain of the Company's lease agreements for trucks, trailers and other equipment contain residual value guarantees.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

Aggregate future minimum lease payments under noncancelable operating and finance leases with an initial term in excess of one year were as follows as of December 31, 2020 (in thousands):

<u>Year Ending:</u>	<u>Operating leases</u>	<u>Finance leases</u>	<u>Total</u>
2021	\$ 15,843	\$ 8,378	\$ 24,221
2022	13,474	5,399	18,873
2023	10,471	3,430	13,901
2024	7,269	3,068	10,337
2025	6,558	1,288	7,846
Thereafter	19,419	16	19,435
	<u>73,034</u>	<u>21,579</u>	<u>94,613</u>
Total	73,034	21,579	94,613
Less: Interest	<u>(13,480)</u>	<u>(3,094)</u>	<u>(16,574)</u>
Present value of lease liabilities	<u>\$ 59,554</u>	<u>\$ 18,485</u>	<u>\$ 78,039</u>

The weighted average remaining lease term and discount rate used in computing the lease liabilities as of December 31, 2020 were as follows:

Weighted average remaining lease term (in years)		
Operating leases		6.4
Finance leases		2.4
Weighted average discount rate		
Operating leases		6.8%
Finance leases		5.5%

Supplemental cash flow information related to leases for the year ended December 31, 2020 is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases		\$ 15,138
Operating cash flows for finance leases		184
Financing cash flows for finance leases		12,656
Right-of-use assets added for operating leases:		
Operating leases		\$ 25,855

Lease transactions with related parties are disclosed in Note 13, "Related Party Transactions" to the consolidated financial statements.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

**NOTE 5 - DEBT**

The Company's debt consisted of the following at December 31 (in thousands):

	December 31, 2020	December 31, 2019
ABL Credit Facility	\$ 30,000	\$ -
Prior Credit Facilities:		
Revolving credit facility	-	129,851
Term Loan Credit Facility	-	37,446
Third Lien Credit Facility	-	40,462
Total debt	30,000	207,759
Less: Debt issuance costs and discount	(1,451)	(3,092)
Total debt, net of debt issuance costs and discount	28,549	204,667
Less: Current maturities	-	(11,525)
Total debt, net of current maturities	\$ 28,549	\$ 193,142

***ABL Credit Facility***

On August 7, 2020, the Company and its direct and indirect domestic subsidiaries entered into an ABL Credit Facility with SLR Credit Solutions (*formerly Crystal Financial LLC*), as Administrative Agent and Lender. The ABL Credit Facility is composed of the following:

- \$20 million term loan which was drawn upon execution
- \$15 million delayed draw term loan, borrowable in \$5 million increments. As of December 31, 2020, the Company has borrowed \$10 million
- \$10 million revolving line of credit

The ABL Credit Facility matures on July 31, 2025 and does not require any principal payments prior to maturity.

The ABL Credit Facility contains negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The ABL Credit Facility also contains customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the ABL Credit Facility to be in full force and effect, and a change of control of the Company's business. Any judgements against the Company that require payment of criminal or civil penalties, restitution, or other obligations arising out of or in connection with the DOJ/SEC

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Investigation in an aggregate amount in excess of \$1.5 million is also an event of default. See Note 11 for discussion of Securities Litigation Proceedings.

Advances under the Company's ABL Credit Facility bear interest at the greater of the LIBOR Rate (as defined in the ABL Credit Facility) or 1%, plus an applicable margin ranging from 6.25% to 6.75%. The Company's average annualized interest rate for the ABL Credit Facility was 8.4% for the year ended December 31, 2020.

The obligations under the Company's ABL Credit Facility are guaranteed by each of its domestic subsidiaries pursuant to a guaranty included in the ABL Credit Facility. As security for the Company's and its subsidiaries' obligations under the ABL Credit Facility, each of the Company and its domestic subsidiaries have granted a first priority lien on substantially all its domestic subsidiaries' tangible and intangible personal property.

The ABL Credit Facility contains a minimum fixed charge coverage ratio financial covenant that must be maintained when liquidity (as defined in the ABL Credit Facility) falls below a specified amount. As of December 31, 2020, the Company's liquidity had not fallen below the amount specified.

#### ***Prior ABL Credit Facility***

On February 28, 2019, the Company and its direct and indirect domestic subsidiaries entered into a credit agreement with BMO Harris Bank N.A., as Administrative Agent, Lender, Letter of Credit Issuer and Swing Line Lender, Wells Fargo Bank, National Association and Bank of America, National Association, as Lenders, and the Joint Lead Arrangers and Joint Book Runners party thereto (the "Prior BMO ABL Credit Facility"). The Company initially borrowed \$91.5 million under the Prior ABL Credit Facility.

The Prior ABL Credit Facility consisted of a \$200.0 million asset-based revolving line of credit, of which up to (i) \$15.0 million could be used for First In, Last Out ("FILO") Loans (as defined in the Prior ABL Credit Facility), (ii) \$20.0 million could be used for Swing Line Loans (as defined in the Prior ABL Credit Facility), and (iii) \$30.0 million could be used for letters of credit. The Prior ABL Credit Facility provided that the revolving line of credit could be increased by up to an additional \$100.0 million under certain circumstances.

Advances under the Company's Prior ABL Credit Facility bore interest at either: (a) the LIBOR Rate (as defined in the Prior ABL Credit Facility), plus an applicable margin ranging from 1.50% to 2.00% for the non-FILO Loans and 2.50% to 3.00% for the FILO Loans; or (b) the Base Rate (as defined in the Prior ABL Credit Facility), plus an applicable margin ranging from 0.50% to 1.00% for the non-FILO Loans and 1.50% to 2.00% for the FILO Loans.

The obligations under the Company's Prior ABL Credit Facility were guaranteed by each of its domestic subsidiaries pursuant to a guaranty included in the Prior ABL Credit Facility. As security for the Company's and its subsidiaries' obligations under the Prior ABL Credit Facility, each of the Company and its domestic subsidiaries had granted: (i) a first priority lien on substantially all its domestic subsidiaries' tangible and intangible personal property (other than the assets described in the following clause (ii)), including the capital stock of certain of the Company's direct and indirect subsidiaries; and (ii) a second-priority lien on the Company's and its domestic subsidiaries' equipment and proceeds and accounts related thereto. The priority of the liens was described in an intercreditor agreement between BMO Harris Bank N.A. as ABL Agent and BMO Harris Bank N.A. as Term Loan Agent.

The Prior BMO ABL Credit Facility contained a minimum fixed charge coverage ratio financial covenant that must be maintained when excess availability fell below a specified amount. In addition, the Prior ABL Credit Facility contained negative covenants limiting, among other things, additional indebtedness,

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Prior ABL Credit Facility also contained customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Prior ABL Credit Facility to be in full force and effect, and a change of control of the Company's business.

On August 2, 2019, the Company and its direct and indirect domestic subsidiaries entered into a First Amendment to Credit Agreement (the "Prior ABL Facility Amendment"). Pursuant to the Prior ABL Facility Amendment, the Prior ABL Credit Facility was amended to, among other things, add Acceptable Letters of Credit (as defined in the Prior ABL Facility Amendment) to the Borrowing Base (as defined in the Prior ABL Credit Facility as amended by the Prior ABL Facility Amendment).

On September 17, 2019, the Company and its direct and indirect domestic subsidiaries entered into a Second Amendment to Credit Agreement, effective September 13, 2019 (the "Second Prior ABL Facility Amendment"). Pursuant to the Second Prior ABL Facility Amendment, the Prior ABL Credit Facility was amended to, among other things, (i) extend the deadline for providing a reasonably detailed plan for achieving the Company's stated liquidity goals and objectives in connection with its go-forward business plan and strategy, and (ii) eliminate one of the exceptions to the limitation on Dispositions (as defined in the Prior ABL Credit Facility).

On October 21, 2019, the Company and its direct and indirect domestic subsidiaries entered into a Third Amendment to Credit Agreement (the "Third Prior ABL Facility Amendment"). Pursuant to the Third Prior ABL Facility Amendment, the Prior ABL Credit Facility was amended to, among other things, (i) increase the amount of Acceptable Letters of Credit that could be added to the Borrowing Base from \$30 million to \$45 million, (ii) increase the Applicable Margin by 100 basis points, (iii) permit certain Specified Dispositions provided that the Net Cash Proceeds are used to pay down the Prior Revolving Credit Facility or the Prior Term Loan Obligations as specified, (iv) increase the Availability Block from the Specified Dispositions, (v) extend the applicable date for the Fixed Charge Trigger Period from October 31, 2019 to March 31, 2020, and (vi) add baskets for additional permitted Indebtedness consisting of Junior Lien Debt or unsecured Indebtedness in an aggregate amount not to exceed \$100 million provided that, among other things, such Junior Lien Debt or unsecured Indebtedness had a maturity date that is at least 180 days after February 28, 2024.

On November 27, 2019, the Company and its direct and indirect domestic subsidiaries entered in a Fourth Amendment to Credit Agreement (the "Fourth Prior ABL Facility Amendment"). Pursuant to the Fourth Prior ABL Facility Amendment, the Prior ABL Credit Facility was amended to, among other things, (i) revise certain schedules, and (ii) waive the Specified Defaults that arose from the failure to previously update a schedule of equipment owned by the Loan Parties (as defined in the Prior ABL Credit Facility).

This facility was fully repaid and terminated on March 2, 2020 with proceeds from the sale of Prime Distribution.

#### ***Prior Term Loan Credit Facility***

On February 28, 2019, the Company and its direct and indirect domestic subsidiaries entered into a credit agreement with BMO Harris Bank N.A., as Administrative Agent and Lender, Elliott Associates, L.P. and Elliott International, L.P. as Lenders, and BMO Capital Markets Corp., as Lead Arranger and Book Runner (the "Prior Term Loan Credit Facility"). The Company initially borrowed \$51.1 million under the Prior Term Loan Credit Facility.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The Prior Term Loan Credit Facility consisted of an approximately \$61.1 million term loan facility, consisting of:

- approximately \$40.3 million of Tranche A Term Loans (as defined in the Prior Term Loan Credit Facility),
- approximately \$2.5 million of Tranche A FILO Term Loans (as defined in the Prior Term Loan Credit Facility),
- approximately \$8.3 million of Tranche B Term Loans (as defined in the Prior Term Loan Credit Facility), and
- a \$10.0 million asset-based facility available to finance future capital expenditures.

Principal on each of the Tranche A Term Loans and the Tranche B Term Loans was due in quarterly installments based upon a 4.5-year amortization schedule (i.e. each installment is 1/18th of the original principal amount of the Tranche A Term Loans and the Tranche B Term Loans), commencing on September 1, 2019. Principal on the Tranche A FILO Term Loans was due on the maturity date of the Prior Term Loan Credit Facility, unless earlier accelerated thereunder. Principal on each draw under the capital expenditure facility was due in quarterly installments based upon a five-year amortization schedule (i.e. each installment shall be 1/20th of the original principal amount of any capital expenditure loan), commencing on the first day of the first full fiscal quarter immediately following the making of each such capital expenditure loan. The loans under the Term Loan Credit Facility bore interest at either: (a) the LIBOR rate (as defined in the Prior Term Loan Credit Agreement), plus an applicable margin of 7.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 8.50% for Tranche A FILO Term Loans; or (b) the Base Rate (as defined in the Term Loan Credit Agreement), plus an applicable margin of 6.50% for Tranche A Term Loans, Tranche B Term Loans and capital expenditure loans, and 7.50% for Tranche A FILO Term Loans.

The obligations under the Prior Term Loan Credit Facility were guaranteed by each of its domestic subsidiaries pursuant to a guaranty included in the Prior Term Loan Credit Facility. As security for the Company's and its subsidiaries' obligations under the Term Loan Credit Facility, each of the Company and its domestic subsidiaries had granted: (i) a first priority lien on its equipment and proceeds and accounts related thereto, and (ii) a second priority lien on substantially all of the Company's and its domestic subsidiaries' other tangible and intangible personal property, including the capital stock of certain of the Company's direct and indirect subsidiaries. The priority of the liens was described in an intercreditor agreement between BMO Harris Bank N.A. as ABL Agent and BMO Harris Bank N.A. as Term Loan Agent.

The Prior Term Loan Credit Facility contained negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such agreements. The Prior Term Loan Credit Facility also contained customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Prior Term Loan Credit Facility to be in full force and effect, and a change of control of the Company's business.

On August 2, 2019, the Company and its direct and indirect domestic subsidiaries entered into a First Amendment to Credit Agreement (the "First Prior Term Loan Facility Amendment"). Pursuant to the First Prior Term Loan Facility Amendment, the Prior Term Loan Credit Facility was amended to, among other things: (i) defer the September 1, 2019 quarterly amortization payments otherwise due thereunder to December 1, 2019, and (ii) provide that CapX Loans (as defined in the Prior Term Loan Credit Facility) shall not be available during the period commencing on August 2, 2019 and continuing until payment of the December 1, 2019 quarterly amortization payments.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

On September 17, 2019, the Company and its direct and indirect domestic subsidiaries entered into a Second Amendment to Credit Agreement, effective as of September 13, 2019 (the "Second Prior Term Loan Facility Amendment"). Pursuant to the Second Prior Term Loan Facility Amendment, the Prior Term Loan Credit Facility was amended to, among other things, (i) add a requirement to deliver a reasonably detailed plan for achieving the Company's stated liquidity goals and objectives in connection with its go-forward business plan and strategy, and (ii) eliminate one of the exceptions to the limitation on Dispositions (as defined in the Prior Term Loan Credit Facility).

On October 21, 2019, the Company and its direct and indirect domestic subsidiaries entered into a Third Prior Amendment to Credit Agreement (the "Third Term Loan Facility Amendment"). Pursuant to the Third Prior Term Loan Facility Amendment, the Prior Term Loan Credit Facility was amended to, among other things, (i) permit certain Specified Dispositions, (ii) eliminate the Company's ability to request new CapX Loans, and (iii) add baskets for additional permitted Indebtedness consisting of Junior Lien Debt or unsecured Indebtedness in an aggregate amount not to exceed \$100 million provided that, among other things, such Junior Lien Debt or unsecured Indebtedness has a maturity date that is at least 180 days after February 28, 2024.

On November 27, 2019, the Company and its direct and indirect domestic subsidiaries entered into a Fourth Amendment to Credit Agreement (the "Fourth Prior Term Loan Facility Amendment"). Pursuant to the Fourth Prior Term Loan Facility Amendment, the Prior Term Loan Credit Facility was amended to, among other things, (i) revise certain schedules and (ii) waive the Specific defaults that arose from the failure to previously update a schedule of equipment owned by the Loan parties (as defined in the Prior Term Loan Credit Facility).

On March 2, 2020, the Company repaid in full and terminated the Prior Term Loan Credit Agreement.

#### ***New BMO ABL Credit Agreement***

On March 2, 2020, the Company and its direct and indirect domestic subsidiaries entered into a new credit agreement (the "new BMO ABL Credit Agreement") with BMO Harris Bank N.A., as Administrative Agent, Lender, Letter of Credit Issuer and Swing Line Lender.

The New BMO ABL Credit Agreement consisted of a \$50.0 million asset-based revolving line of credit, of which up to (i) \$1.0 million may be used for Swing Line Loans (as defined in the New BMO ABL Credit Agreement), and (ii) \$13.0 million may be used for letters of credit. Advances under the New BMO ABL Credit Agreement bore interest at either: (a) the LIBOR Rate (as defined in the New BMO ABL Credit Agreement), plus an applicable margin of 4.00%; or (b) the Base Rate (as defined in the New BMO ABL Credit Agreement), plus an applicable margin of 3.00%. The New BMO ABL Credit facility was terminated on August 7, 2020.

#### ***Fee Letter***

On August 2, 2019, the Company entered into a fee letter with Elliott (the "Fee Letter"). Pursuant to the Fee Letter, Elliott agreed to arrange for standby letters of credit ("Letters of Credit") in an aggregate face amount of \$20 million (the "Face Amount") to support the Company's obligations under the Prior ABL Credit Facility. As consideration for Elliott providing the Letters of Credit, the Company agreed to (i) pay Elliott a fee (the "Letter of Credit Fee") on the LC Amount (as hereafter defined), accruing from the date of issuance through the date of expiration (or if drawn, the date of reimbursement by the Company of the LC Amount to Elliott), at a rate equal to the LIBOR Rate (as defined in the ABL Credit Facility) plus 7.5%, which was payable in kind by adding the amount then due to the then outstanding LC Amount, and (ii) reimburse Elliott for any draw on the Letters of Credit, including the amount of such draw and any taxes, fees, charges, or other costs or expenses reasonably incurred by Elliott in connection with such draw, promptly after receipt of notice of any such drawing under the Letters of Credit, in each case subject to the terms and conditions of

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

the Fee Letter. "LC Amount" means the Face Amount, as increased by the amount of payment in kind Letter of Credit Fee added to such amount on the last day of each interest period.

On August 20, 2019, the Company entered into a First Amendment to the Fee Letter (the "Fee Letter Amendment"), pursuant to which the maximum face amount of the Letters of Credit (as defined in the Fee Letter Amendment) that were used to support the Company's obligations under the Prior ABL Credit Facility was increased from \$20 million to \$30 million.

On October 21, 2019, the Company entered into a Second Amendment to the Fee Letter (the "Second Fee Letter Amendment"). Pursuant to the Second Fee Letter Amendment, the Fee Letter was amended to, among other things, increase the maximum face amount of the Letters of Credit (as defined in the Fee Letter Amendment) that was used to support its obligations under the Prior ABL Credit Facility from \$30 million to \$45 million.

The Fee Letter Agreement was terminated on August 7, 2020 simultaneous with the spinoff of Ascent.

#### ***Revolving Notes***

On September 20, 2019, the Company issued Multiple Advance Revolving Credit Notes (the "Revolving Notes") to entities affiliated with Elliott. Pursuant to the Revolving Notes, the Company could borrow from time to time up to \$20 million from Elliott on a revolving basis. Interest on any advances under the Revolving Notes bore interest at a rate equal to the LIBOR Rate (as defined therein) plus 7.50%, and interest was payable on a quarterly basis beginning on December 1, 2019.

The Revolving Notes Agreement was terminated on August 7, 2020 simultaneous with the spinoff of Ascent.

#### ***Third Lien Credit Facility***

On November 5, 2019, the Company entered into the Third Lien Credit Facility with U.S. Bank National Association, as the Administrative Agent, and Elliott Associates, L.P. and Elliott International, L.P., as Lenders. The Company used the initial \$20 million Term Loan Commitment (as defined in the Third Lien Credit Agreement) under the Third Lien Credit Facility to refinance its \$20 million principal amount of unsecured debt to the Lenders.

The loans under the Third Lien Credit Facility bore interest at either: (a) the LIBOR rate (as defined in the Third Lien Credit Agreement), plus an applicable margin of 7.50%; or (b) the Base Rate (as defined in the Third Lien Credit Agreement), plus an applicable margin of 6.50%. Interest under the Third Lien Credit Facility was paid in kind by adding such interest to the principal amount of the applicable Term Loans on the applicable Interest Payment Date; provided that to the extent permitted by the Prior ABL Credit Facility, the Prior Term Loan Credit Facility and an Intercreditor Agreement, the Company could elect that all or a portion of interest due on an Interest Payment Date could be paid in cash by providing written notice to the Administrative Agent at least five Business Days prior to the applicable Interest Payment Date specifying the amount of interest to be paid in cash.

The obligations under the Third Lien Credit Agreement were guaranteed by each of the Company's domestic subsidiaries pursuant to a guaranty included in the Third Lien Credit Agreement. As security for the Company's obligations under the Third Lien Credit Agreement, the Company had granted a third priority lien on substantially all of its assets and proceeds and accounts related thereto, and substantially all of its other tangible and intangible personal property, including the capital stock of certain of its direct and indirect subsidiaries.

The Third Lien Credit Agreement contained negative covenants limiting, among other things, additional indebtedness, transactions with affiliates, additional liens, sales of assets, dividends, investments and advances, prepayments of debt, mergers and acquisitions, and other matters customarily restricted in such

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

agreements. The Third Lien Credit Agreement also contained customary events of default, including payment defaults, breaches of representations and warranties, covenant defaults, events of bankruptcy and insolvency, failure of any guaranty or security document supporting the Third Lien Credit Agreement to be in full force and effect, and a change of control.

The Third Lien Credit Facility was terminated on August 7, 2020 simultaneous with the spinoff of Ascent.

#### ***Insurance Premium Financing***

In July 2020 and 2019, the Company executed insurance premium financing agreements with a premium finance company in order to finance certain of its annual insurance premiums of \$5.4 million and \$20.7 million, respectively. Beginning on September 1 of each year, the financing agreements are payable in nine monthly installments of principal and interest of approximately \$0.6 million and \$2.4 million for 2020 and 2019, respectively. The agreements incurred interest at 5.5% and 5.25% for 2020 and 2019, respectively.

In December 2020 the Company executed an additional insurance premium financing agreement to finance annual insurance premiums of \$0.9 million. The agreement incurred interest of 4.29% and is payable in eight monthly installments of principal and interest of approximately \$0.1 million.

The balance of the insurance premium payable as of December 31, 2020 and 2019 was \$3.9 million and \$11.7 million, respectively and was recorded in accrued expenses and other current liabilities.

#### **NOTE 6 - PREFERRED STOCK**

##### ***Rights Offering***

On February 26, 2019, the Company closed a \$450 million rights offering, pursuant to which the Company issued and sold an aggregate of 36 million new shares of its common stock at the subscription price of \$12.50 per share. An aggregate of 7,107,049 shares of the Company's common stock were purchased pursuant to the exercise of basic subscription rights and over-subscription rights from stockholders of record during the subscription period, including from the exercise of basic subscription rights by stockholders who are funds affiliated with Elliott. In addition, Elliott purchased an aggregate of 28,892,951 additional shares pursuant to the commitment from Elliott to purchase all unsubscribed shares of the Company's common stock in the rights offering pursuant to the Standby Purchase Agreement that the Company entered into with Elliott dated November 8, 2018, as amended. Overall, Elliott purchased a total of 33,745,308 shares of the Company's common stock in the rights offering between its basic subscription rights and the backstop commitment. Following the closing of the rights offering, Elliott beneficially owned approximately 90.4% of the Company's common stock.

The net proceeds from the rights offering and backstop commitment were used to fully redeem the outstanding shares of the Company's preferred stock and to pay related accrued and unpaid dividends. Proceeds were also used to pay fees and expenses in connection with the rights offering and backstop commitment. The Company retained in excess of \$30 million of funds to be used for general corporate purposes. The purpose of the rights offering was to improve and simplify the Company's capital structure in a manner that gave the Company's existing stockholders the opportunity to participate on a pro rata basis.

On March 1, 2018, the Company entered into the Series E-1 Preferred Stock Investment Agreement (the "Series E-1 Investment Agreement") with Elliott, pursuant to which the Company agreed to issue and sell to Elliott from time to time, an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock, par value \$0.01 per share ("Series E-1 Preferred Stock"), at a purchase price of \$1,000 per share for the first 17,500 shares of Series E-1

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Preferred Stock, \$960 per share for the next 18,228 shares of Series E-1 Preferred Stock, and \$920 per share for the final 19,022 shares of Series E-1 Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which the Company issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. On April 24, 2018, the parties held a closing pursuant to the Series E-1 Investment Agreement, pursuant to which the Company issued and sold to Elliott 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of approximately \$17.5 million. The proceeds from the sale of such shares of Series E-1 Preferred Stock were used to provide working capital to support the Company's current operations and future growth and to repay a portion of the indebtedness under the prior ABL Facility as required by the credit agreement governing that facility. The final 19,022 shares of Series E-1 Preferred Stock remained unissued when the Series E-1 Investment Agreement was terminated in connection with the closing of the rights offering.

On August 3, 2018, September 19, 2018, November 8, 2018, and January 9, 2019, the Company entered into amendments to the Series E-1 Investment Agreement, which, among other things, (i) extended the termination date thereunder from July 30, 2018 to March 2, 2019 for the remaining 19,022 shares available to issue and sell to Elliott for \$17.5 million, and (ii) provided that if the Series E-1 Investment Agreement was not already terminated, the Series E-1 Investment Agreement would automatically terminate upon the Rights Offering Effective Date (as defined in the Prior ABL Facility). Upon the closing of the rights offering described, the Series E-1 Investment Agreement was automatically terminated.

#### NOTE 7 - FAIR VALUE MEASUREMENT

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

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

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

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

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

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

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

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

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

The table below sets forth a reconciliation of the Company's beginning and ending Level 3 preferred stock liability balance as of December 31 (in thousands).

	2020	2019
Balance, beginning of period	\$ -	\$ 402,884
Issuance of preferred stock at fair value	-	-
Redemption of preferred stock	-	(402,884)
Change in fair value of preferred stock <sup>(1)</sup>	-	-
Balance, end of period	\$ -	\$ -

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

**8. STOCKHOLDERS' EQUITY (DEFICIT)**

***Common Stock***

The Company's common stock has voting rights - one vote for each share of common stock. In March 2007, the Company entered into a second amended and restated stockholders' agreement (the "Stockholders' Agreement"). The Stockholders' Agreement provided that, any time after the Company was eligible to register its common stock on a Form S-3 registration statement under the Securities Act, certain of the Company's stockholders, including entities affiliated with HCI Equity Partners, L.L.C. (the "HCI Stockholders"), could request registration under the Securities Act of all or any portion of their shares of common stock. These stockholders were limited to a total of two of such registrations. In addition, if the Company proposed to file a registration statement under the Securities Act for any underwritten sale of shares of any of its securities, certain of the Company's stockholders could request that the Company include in such registration the shares of common stock held by them on the same terms and conditions as the securities otherwise being sold in such registration. In connection with the closing of the transactions contemplated by the Investment Agreement, the Company, affiliates of Elliott, and the HCI Stockholders entered into a Registration Rights Agreement that, with respect to the HCI Stockholders, amended and restated the Stockholders' Agreement.

At the Company's annual meeting of stockholders held on December 19, 2018, the Company's stockholders approved certain amendments to its Amended and Restated Certificate of Incorporation (the "Certificate of Incorporation"). The amendments to the Company's Certificate of Incorporation are as follows:

- The Company filed a Certificate of Amendment to its Certificate of Incorporation to increase the number of authorized shares of its common stock from 4,200,000 shares to 44,000,000 shares and to increase its total authorized shares of capital stock from 4,800,200 shares to 44,600,200 shares.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit stockholder action by written consent.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to request that the Company call a special meeting of stockholders. The Certificate of Incorporation only permitted the chairman of the Company's board of directors or the board of directors to call a special meeting of stockholders.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to remove directors with or without cause. The Certificate of Incorporation previously provided that directors may only be removed for cause and by a vote of stockholders holding at least 66 2/3% of its common stock.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to amend or repeal its Certificate of Incorporation or any provision thereof. The Certificate of Incorporation previously provided that certain provisions of the Certificate of Incorporation could only be amended or repealed with the affirmative vote of stockholders holding 80% of its common stock, unless such amendment or repeal was declared advisable by its board of directors by the affirmative vote of at least 75% of the entire board of directors, notwithstanding the fact that a lesser percentage may be specified by the Delaware General Corporation Law.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to permit a majority of its stockholders to amend or repeal its Second Amended and Restated Bylaws or any provision thereof. The Certificate of Incorporation previously provided that the Second Amended and Restated Bylaws could only be amended or repealed with the affirmative vote of the stockholders holding 66 2/3% of the Company's common stock.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to designate the courts in the state of Delaware as the exclusive forum for all legal actions unless otherwise consented to by the Company.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to expressly opt-out of Section 203 of the Delaware General Corporation Law. The Certificate of Incorporation did not previously opt-out of Section 203 of the Delaware General Corporation Law. Section 203 is an anti-takeover provision that generally prohibits a person or entity who acquires 15% or more in voting power from engaging in certain transactions with a corporation for a period of three years following the date such person or entity acquired the 15% or more in voting power.
- The Company filed a Certificate of Amendment to its Certificate of Incorporation to renounce any interest or expectancy it may have in, or being offered an opportunity to participate in, any business opportunity that is presented to Elliott, or funds affiliated with Elliott, or any of its or their directors, officers, stockholders, or employees.

On January 8, 2019, the Company filed the Certificates of Amendment to the Certificate of Incorporation with the Secretary of State of the State of Delaware and the amendments to its Certificate of Incorporation became effective.

On February 26, 2019, the Company entered into a Stockholders' Agreement with Elliott (the "New Stockholders' Agreement"). The Company's execution and delivery of the New Stockholders' Agreement was a condition to Elliott's backstop commitment. Pursuant to the New Stockholders' Agreement, the Company granted Elliott the right to designate nominees to Company's board of directors and access to available financial information.

On February 26, 2019, the Company entered into an Amended and Restated Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners (the "A&R Registration Rights Agreement"), which amended and restated the Registration Rights Agreement, dated as of May 2,

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

2017, between the Company and the parties thereto. The Company's execution and delivery of the A&R Registration Rights Agreement was a condition to Elliott's backstop commitment. The A&R Registration Rights Agreement amended the Registration Rights Agreement to provide the Elliott Stockholders (as defined therein) and the HCI Stockholders (as defined therein) with unlimited Form S-1 registration rights in connection with Company securities owned by them.

On March 7, 2019, the Company's board of directors and the holders of a majority of the issued and outstanding shares of the Company's common stock approved a 1-for-25 reverse split of the Company's issued and outstanding shares of common stock. The 1-for-25 reverse stock split was effective upon the filing and effectiveness of a Certificate of Amendment to the Company's Certificate of Incorporation after the market closed on April 4, 2019, and the Company's common stock began trading on a split-adjusted basis on April 5, 2019. See Note 1, "Organization, Nature of Business and Significant Policies" to the consolidated financial statements for more information on the Reverse Stock Split.

In April 2020 the Company voluntarily withdrew its common stock from listing on the NYSE and voluntarily deregistered from reporting requirements of the Securities and Exchange Commission (the "SEC"). While continuing to qualify for listing on the NYSE, the Company made the decision to voluntarily deregister its shares because it has fewer than 300 stockholders of record and believes that it is in the best interest of the company's stakeholders to reduce legal and administrative costs associated with on-going SEC reporting requirements.

#### NOTE 9 - SHARE-BASED COMPENSATION

On November 7, 2018, the Company's board of directors adopted the Roadrunner Transportation Systems, Inc. 2018 Incentive Compensation Plan (the "2018 Plan"), which was approved by the Company's stockholders on December 19, 2018 at the 2018 Annual Meeting of Stockholders. Under the 2018 Plan, the total number of shares of the Company's common stock reserved and available for delivery at any time during the term of the 2018 Plan was 120,000 shares. However, pursuant to the terms of the 2018 Plan, such number of shares of the Company's common stock was increased by 7.5% of the shares of the Company's common stock issued by the Company in the rights offering (or 2,700,000 shares). Accordingly, the total number of shares of the Company's common stock reserved and available for delivery under the 2018 Plan is 2,820,000 shares.

The Company previously maintained the 2010 Incentive Compensation Plan (the "2010 Plan"), which reserved 2,500,000 shares of the Company's common stock for issuance under the 2010 Plan. The 2010 Plan permitted the grant of stock options, restricted stock units, performance stock units, and other awards. The 2018 Plan serves as the successor to the 2010 Plan. Outstanding awards granted under the 2010 Plan will continue to be governed by the terms of the 2010 Plan, but no further awards will be made under the 2010 Plan.

If any shares subject to any award granted under the 2010 Plan are forfeited, expire, or otherwise terminate without issuance of such shares, or any shares subject to any award granted under the 2010 Plan are settled for cash or otherwise do not result in the issuance of all or a portion of the shares subject to such award under the 2010 Plan, the shares to which those awards under the 2010 Plan were subject will, to the extent of such forfeiture, expiration, termination, non-issuance, or cash settlement, again be available for delivery with respect to awards under the 2018 Plan. In addition, in the event that any award granted under the 2010 Plan is exercised through the tendering of shares (either actually or by attestation) or by the withholding of shares by the Company, or withholding tax liabilities arising from any award granted under the 2010 Plan are satisfied by the tendering of shares (either actually or by attestation) or by the withholding of shares by the Company, then only the number of shares issued net of the shares tendered or withheld will be counted for purposes of determining the maximum number of shares available for grant under the 2018 Plan.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

The Company awards restricted stock units to certain key employees and independent directors. The restricted stock units vest ratably over a one, three or four-year service period from the grant date. Restricted stock units are valued based on the market price on the date of the grant and are amortized on a straight-line basis over the vesting period. Compensation expense for restricted stock units is based on fair market value at the grant date.

The following table summarizes the nonvested restricted stock units as of December 31, 2020 and 2019:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2018	28,565	\$ 113.66	2.3
Granted	1,314,940	11.40	
Vested	(510,513)	5.35	
Forfeitures	(128,630)	15.42	
Nonvested as of December 31, 2019	704,362	14.37	2.9
Granted	8,800	7.29	
Vested	(508,883)	11.65	
Forfeitures	(97,656)	14.35	
Nonvested as of December 31, 2020	106,623	\$ 11.73	1.9

Unrecognized share-based compensation expense for restricted stock units was \$0.9 million as of December 31, 2020. The expense is expected to be recognized over a weighted-average period of approximately two years.

The Company previously maintained a Key Employee Equity Plan ("Equity Plan"), a stock-based compensation plan that permitted the grant of stock options to Company employees and directors. Stock options under the Equity Plan were granted with an exercise price equal to or in excess of the fair value of the Company's stock on the date of grant. Such options vested ratably over a two or four year service period and were exercisable ten years from the date of grant, but only to the extent vested as specified in each option agreement. The Company no longer issues awards under this plan.

Under the 2010 Plan, the Company awarded stock options to certain key employees. The stock options vest ratably over a three to five-year service period and are exercisable four to seven years from the date of grant, but only to the extent vested as specified in each option agreement. Stock options awarded are valued based upon the Black-Scholes option pricing model and the Company recognizes this value as stock compensation expense over the periods in which the options vest. Use of the Black Scholes option-pricing model requires that the Company make certain assumptions, including expected volatility, risk-free interest rate, expected dividend yield, and the expected life of the options. The Company granted stock options to purchase 145,000 and 662,263 for the years ended 2020 and 2019, respectively.

The Company granted performance restricted stock units in 2019 to certain key employees. The performance restricted stock units are awarded based on the Company's total stockholder return or the Company's total stockholder return in relation to its peer group. Performance restricted stock units vest at the end of a three or four year service period as long as the Company achieves the minimum total stockholder return or relative stockholder return. The performance restricted stock units are amortized on a straight-line basis over the performance period. Compensation expense for restricted stock units is based on the fair value calculated using the Monte Carlo method.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

There were no grants of Performance restricted stock units during 2020.

The following table summarizes the nonvested performance restricted stock units as of December 31, 2020:

	Number of Performance Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2019	812,540	\$ 11.90	3.0
Granted	-		
Vested	-		
Forfeitures	<u>(643,340)</u>	11.41	
Nonvested as of December 31, 2020	<u>169,200</u>	\$ 12.04	1.9

Unrecognized stock compensation expense for performance restricted stock options was \$1.6 million as of December 31, 2020. The expense is expected to be recognized over a weighted-average period of approximately two years.

Stock option fair value assumptions for the stock options granted during the year ended December 31, 2020 are as follows:

Option life (years)	6 years
Risk free interest rate	0%
Dividend yield	-
Expected volatility	91.2%
Expected life (years)	3 years
Weighted average fair value of stock options granted	\$1.19

A summary of the option activity for the years ended December 31, 2020 and 2019 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Outstanding as of December 31, 2018	44,296	\$ 218.78	4.1
Granted	662,263	12.36	
Forfeited	<u>(299,535)</u>	28.90	
Outstanding as of December 31, 2019	407,024	22.63	6.2
Granted	145,000	1.52	
Forfeited	<u>(308,996)</u>	25.88	
Outstanding as of December 31, 2020	<u>243,028</u>	\$ 4.58	4.8

Unrecognized stock compensation expense for stock options was \$0.1 million as of December 31, 2020. The expense is expected to be recognized over a weighted-average period of approximately one year.

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

All outstanding options are non-qualified options. There were 215,145 and 69,055 options exercisable as of December 31, 2020 and 2019, respectively. As of December 31, 2020, for exercisable options, the weighted-average exercise price was \$6.27, the weighted average remaining contractual term was approximately five years and there was no estimated aggregate intrinsic value per share. As of December 31, 2020, 27,883 options were unvested.

Stock-based compensation expense for restricted stock units, performance restricted stock units and stock options was \$3.3 million and \$12.7 million for the years ended December 31, 2020 and 2019, respectively. The related estimated income tax benefit recognized in the accompanying consolidated statements of operations, net of estimated forfeitures, was \$0.8 million and \$3.2 million for the years ended December 31, 2020 and 2019, respectively. Following the adoption of ASU 2016-09, the Company recorded tax deficiencies on vested shares of \$1.0 million and \$1.0 million in benefit from income taxes for the years ended December 31, 2020 and December 31, 2019, respectively. Due to the Company's valuation allowance position, the impact of both the income tax benefit related to stock-based compensation expense and the income tax expense related to tax deficiencies from vested shares are offset by a corresponding adjustment through benefit from income taxes due to the change in valuation allowance for deferred tax assets.

In conjunction with the spinoff of Ascent, the exercise price of outstanding option awards was adjusted by the "RRTS Ratio", a quotient obtained by dividing the post-distribution share by the pre-distribution share value. The average exercise price prior to adjustment was \$6.27.

**NOTE 10 - INCOME TAXES**

The following disclosures are provided with respect to income taxes related to continuing operations only.

The components of the Company's benefit from income taxes were as follows (in thousands):

	Year Ended December 31,	
	2020	2019
Current:		
Federal	\$ (13,891)	\$ -
State, local, and foreign	(357)	(504)
Deferred:		
Federal	(430)	(43)
State, local, and foreign	(68)	(31)
Benefit from income taxes	\$ (14,746)	\$ (578)

The Company's benefit from income taxes varied from the amounts calculated by applying the 21 percent U.S. statutory income tax rate to the loss before income taxes as shown in the following reconciliations (in thousands):

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

	Year Ended December 31,	
	2020	2019
Statutory federal rate	\$ (24,754)	\$ (31,888)
State income taxes - net of federal benefit	(2,746)	(2,953)
Change in valuation allowance	27,100	34,822
Effect of 2020 CARES Act net operating loss carryback	(13,891)	-
Other	(455)	(559)
Total	\$ (14,746)	\$ (578)

ASU 2019-12 contains several simplifying provisions with respect to accounting for income taxes. The Company has adopted the provisions of ASU 2019-12 as of January 1, 2020. As a result, the allocation of the Company's \$14.9 million benefit from income taxes for 2020 is \$14.7 million for continuing operations and \$0.2 million for discontinued operations, using the general "with and without" methodology for intraperiod tax allocation. Had the Company not adopted the provisions of ASU 2019-12 as of January 1, 2020, the intraperiod allocation of the Company's \$14.9 million benefit from income taxes would have been a \$30.4 million benefit from income taxes for continuing operations and a \$15.5 million provision (expense) for income taxes for discontinued operations, given the Company's loss from continuing operations and income from discontinued operations.

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the "2020 CARES Act") was signed into federal law. The law included various tax provisions that affected the Company, including the opportunity for a five-year carry-back of net operating losses generated in 2018, 2019, and 2020 (after the Tax Cuts and Jobs Act of 2017, or "the TCJA", net operating losses could no longer be carried back; they only could be carried forward). Additionally, corporations were provided the opportunity to elect to claim any outstanding alternative minimum tax (AMT) credits as refundable credits in the 2018 tax year (after the repeal of the corporate AMT in the TCJA, cumulative AMT credits were allowed to offset future regular tax or be claimed on a refundable basis over a period of years on a set schedule). The IRS provided expedited procedures for making these net operating loss carryback and AMT credit refund claims. The Company was able to carry back \$39.7 million of its \$42.3 million 2018 net operating loss to 2013, as well as request all outstanding AMT credits, resulting in a combined refund claim of \$15.1 million, \$15.0 of which was received prior to December 31, 2020.

The Company recorded assets for refundable federal and state income taxes of \$1.7 million as of December 31, 2020 (classified within prepaids and other current assets) and \$3.2 million as of December 31, 2019 (\$2.9 million classified within prepaids and other current assets and \$0.3 million included within other noncurrent assets).

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

The tax rate effects of temporary differences that give rise to significant elements of deferred tax assets and deferred tax liabilities as of December 31 were as follows (in thousands):

	2020	2019
Deferred income tax assets:		
Accounts receivable	\$ 1,761	\$ 1,698
Accrued expenses and other current liabilities	8,512	8,798
Net operating loss carryforwards	40,767	46,911
Interest expense carryforwards	1,882	2,498
Operating lease liability	14,298	23,146
Other, net	1,137	1,195
Total	68,357	84,246
Valuation allowance	(52,242)	(54,259)
Total, net of valuation allowance	16,115	29,987
Deferred income tax liabilities:		
Prepaid expenses and other current assets	(1,379)	(4,563)
Goodwill and intangible assets	1,764	3,613
Property and equipment	(3,161)	(9,011)
Operating lease right-of-use asset	(13,339)	(20,169)
Total	(16,115)	(30,130)
Net deferred tax liabilities	\$ 0	\$ (143)

The net noncurrent deferred income tax liabilities of \$0.0 million as of December 31, 2020 and \$0.1 million as of December 31, 2019 (net of deferred tax assets and related valuation allowance) are classified as deferred tax liabilities.

Management assesses available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit use of the existing deferred tax assets, including through reversals of existing cumulative temporary differences. A significant piece of objective evidence evaluated was the cumulative losses incurred over the three-year periods ended December 31, 2020 and December 31, 2019. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, the Company has recorded a valuation allowance of \$52.2 million and \$54.2 million as of December 31, 2020 and 2019, respectively, related to federal and state net operating loss carryforwards, interest expense carryforwards, and other deferred tax assets that are not "more likely than not" to be realized in the future.

The Company has \$157.6 million of federal net operating loss carryforwards as of December 31, 2020 (\$33.1 million tax-effected), of which \$39.6 million was incurred in tax years prior to 2018 and will expire between 2036 and 2037. The remaining \$118.0 million of federal net operating losses incurred from 2018 through 2020 carries forward indefinitely and can be utilized to offset taxable income in future years, to the extent of 80% of taxable income generated in those years, until exhausted. The remaining \$7.7 million deferred tax asset for net operating loss carryforwards consists of the tax effect of various state net operating loss carryforwards that will generally expire between 2021 and 2040. Some of the Company's net operating loss carryforward amounts are subject to an annual section 382 limitation. However, the Company does not currently expect the annual section 382 limitation to materially impact its ability to utilize the net operating loss carryforward amounts.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

The Company has a \$7.8 million interest expense carryforward as of December 31, 2020 (\$1.9 million tax effected). Starting in 2018, annual net interest expense deductions are limited to 30% (50% for 2019 and 2020, pursuant to the 2020 CARES Act) of “adjusted taxable income” as defined in the tax code, and any interest expense not deducted in the current year due to said limitation carries forward indefinitely and can be utilized to offset taxable income in future years, to the extent of 30% of “adjusted taxable income” generated in those years, until exhausted.

The Company has no material unrecognized tax benefits as of December 31, 2020 and December 31, 2019. The related effect on the benefit from income taxes for 2020 and 2019 is also not material. Income tax related penalties and interest (including those related to unrecognized tax benefits) are included within benefit from income taxes.

As of December 31, 2020, the Company generally would be subject to federal tax examination for tax years after December 31, 2016 (based on a 3-year statute of limitations). The Internal Revenue Service (“IRS”) is currently examining the 2018 tax year (and, on a limited basis, the 2013 tax year, due to the 5-year net operating loss carryback claim made pursuant to the 2020 CARES Act). The Company’s 2013-2017 tax years have been examined by IRS, and audit adjustments were immaterial. The Company does not expect any material adjustments to 2018 (or 2013) with respect to the ongoing audit. Although the 2016 (statute expiration and prior closed examination) and 2017 (prior closed examination) tax years would generally be closed, since the Company has net operating loss carryforwards from 2016 and 2017, these years could still be re-examined in future years in which the net operating losses are utilized.

As of December 31, 2020, the Company generally may be subject to state tax examinations for tax years after December 31, 2015 (based on an average 4-year statute of limitations). However, the Company continues to carry forward losses generated in 2013 through 2020, so tax years 2013 through 2015 could still be examined in future years in which the net operating losses are utilized.

#### NOTE 11 - GUARANTEES

##### *Lease Purchase Guarantee*

The Company provides a guarantee for a portion of the value of certain IC leased tractors. The guarantees expire at various dates through 2022. The potential maximum exposure under these lease guarantees was approximately \$3.7 million as of December 31, 2020. Upon an IC default, the Company has the option to purchase the tractor or return the tractor to the leasing company if the residual value is greater than the Company’s guarantee. Alternatively, the Company can contract another IC to assume the lease. The Company estimated the fair value of its liability under this on-going guarantee to be \$0.9 million and \$1.4 million as of December 31, 2020 and 2019, respectively, and it is included in accrued expenses and other current liabilities.

In the fourth quarter of 2016, the Company began to offer a lease purchase program that did not include a guarantee, and offered newer equipment under factory warranty that was more cost effective. ICs began electing the newer lease purchase program over the legacy lease guarantee programs which led to an increase in unseated legacy tractors. In late 2016, management committed to a plan to divest of these older assets and recorded a loss reserve. The balance in this reserve was \$0.6 million as of December 31, 2019. The loss reserve for the guarantee and reconditioning costs associated with the planned divestiture was \$0.4 million as of December 31, 2020, which is included in accrued expenses and other current liabilities.

The Company paid \$0.6 million and \$1.0 million under these lease guarantees during the year ended December 31, 2020 and 2019, respectively.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

#### ***Lease Purchase Guarantee***

As of December 31, 2020, the Company remains a guarantor of certain operating leases related to divested subsidiaries.

#### **NOTE 12 - COMMITMENTS AND CONTINGENCIES**

##### ***Employee Benefit Plans***

The Company sponsors a defined contribution profit sharing plan for substantially all employees of the Company and its subsidiaries. The Company provides matching contributions on some of these plans. Total expense under this plan was \$0.3 million and \$0.9 for the years ended December 31, 2020 and December 31, 2019, respectively.

##### ***Auto, Workers Compensation, and General Liability Reserves***

In the ordinary course of business, the Company is a defendant in several legal proceedings arising out of the conduct of its business. These proceedings include claims for property damage or personal injury incurred in connection with the Company's services. Although there can be no assurance as to the ultimate disposition of these proceedings, the Company does not believe, based upon the information available at this time, that these property damage or personal injury claims, in the aggregate, will have a material impact on its consolidated financial statements. The Company maintains insurance for auto liability, general liability, and cargo claims. The Company maintains a limit of \$20 million including our self-insured retention on auto liability and general liability insurance. The Company maintains auto liability insurance coverage for claims in excess of \$1.0 million per occurrence and cargo coverage for claims in excess of \$100,000 per occurrence. The Company is self-insured up to \$1.0 million per occurrence for workers compensation. The Company believes it has adequate insurance to cover losses in excess of the self-insured and deductible amount. As of December 31, 2020 and 2019, the Company had reserves for estimated uninsured losses of \$26.0 million and \$31.1 million, respectively, included in accrued expenses and other current liabilities.

##### ***General Litigation Proceedings***

Jeffery Cox ("Cox") and David Chidester ("Chidester") filed a complaint against certain of the Company's subsidiaries in state court in California in a post-acquisition dispute (the "Central Cal Matter"). The complaint alleges contract, statutory and tort-based claims arising out of the Stock Purchase Agreement, dated November 2, 2012, between the defendants, as buyers, and the plaintiffs, as sellers, for the purchase of the shares of Central Cal Transportation, Inc. and Double C Transportation, Inc. (the "Central Cal Agreement"). The plaintiffs claim that a contingent purchase obligation payment is due and owing pursuant to the Central Cal Agreement, and that defendants have furnished fraudulent calculations to the plaintiffs to avoid payment. The plaintiffs also claim violations of California's Labor Code related to the plaintiffs' respective employment with Central Cal Transportation, LLC. On October 27, 2017, the state court granted the Company's motion to compel arbitration of all non-employment claims alleged in the complaint. The parties selected a settlement accountant to determine the contingent purchase obligation pursuant to the Central Cal Agreement. The settlement accountant provided a final determination that a contingent purchase obligation of \$2.1 million is due to the plaintiffs. On July 5, 2019, the Court entered a judgment confirming the arbitration award. The Company satisfied the principal amount of the judgment. On July 10, 2019, the plaintiffs filed an application for an award of their fees in costs, seeking a minimum of \$0.7 million in fees, and requesting that the Court apply a lodestar multiplier to enhance the fees to an award of either \$1.1 million or \$1.5 million based upon the complexity of the case. On January 17, 2020, the Court awarded the plaintiffs \$0.5 million. With outstanding interest, the total amount owed by the Company was \$0.6 million, which the Company paid on March 3, 2020. In February 2018, Chidester agreed to dismiss his employment-

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

related claims from the Los Angeles Superior Court matter, while Cox transferred his employment claims from Los Angeles Superior Court to the related employment case pending in the Eastern District of California. There have been two summary judgment motions filed thus far, one by Cox and one by the Company. The Company successfully defeated Cox's motion for summary judgment, which resulted in a Court Order holding that Cox's non-compete was enforceable as to time and limited to the geographic area of California, Nevada, and Oregon where Central Cal conducts business. Cox filed a motion for reconsideration of the Court's order, which was denied. The Court thereafter granted partial summary judgment as to all claims except for the two whistleblower/retaliation claims and the public policy wrongful termination claim. The court then vacated the pre-trial conference and trial dates and has not reset them.

The Company received a letter dated April 17, 2018 from legal counsel representing Warren Communications News, Inc. ("Warren") in which Warren made certain allegations against us of copyright infringement concerning an electronic newsletter published by Warren (the "Warren Matter"). The parties engaged in pre-litigation mediation in June 2019. The Warren Matter thereafter settled, with full releases of liability.

In December 2018, a class action lawsuit was brought against the Company in the Superior Court of the State of California by Fernando Gomez, on behalf of himself and other similarly situated persons, alleging violation of California labor laws. The Company has filed an answer denying all claims and the parties are engaged in discovery. The Company intends to vigorously defend against such claims; however, there can be no assurance that it will be able to prevail. The Company is unable to predict the potential costs or range of costs at this time if unsuccessful in defending the litigation.

In May 2020, a class action lawsuit was brought against the Company in the Superior Court of the State of California by Julian Garcia, on behalf of himself and other similarly situated individuals, alleging the plaintiff was misclassified as an independent contractor and seeking to recover employment related expenses under California law. In February 2021, a class action lawsuit was brought against the Company in the Superior Court of the State of California by Jose Francisco Sanchez and Jose Antonio Reyes, individually and on behalf of other similarly situated individuals. The allegations in the Sanchez/Reyes case are substantially identical to the Garcia case. The Company has filed a motion seeking to transfer the cases to the Eastern District of Wisconsin. The Company intends to vigorously defend against such claims; however, there can be no assurance that it will be able to prevail.

In addition to the legal proceeding described above, the Company is a defendant in various purported class-action lawsuits alleging violations of various California labor laws and one purported class-action lawsuit alleging violations of the Illinois Wage Payment and Collection Act that was settled in September 2020. Additionally, the California Division of Labor Standards and Enforcement has brought administrative actions against the Company alleging that the Company violated various California labor laws. In 2017 and 2018, the Company reached settlement agreements on a number of these labor related lawsuits and administrative actions. As of December 31, 2020 and 2019, the Company recorded a liability for settlements, litigation, and defense costs related to all labor matters of \$1.5 million and \$1.0 million, respectively, which are recorded in accrued expenses and other current liabilities.

#### ***Securities Litigation Proceedings***

In 2017, three putative class actions were filed in the United States District Court for the Eastern District of Wisconsin against the Company and its former officers, Mark A. DiBlasi and Peter R. Armbruster. On May 19, 2017, the Court consolidated the actions under the caption *In re Roadrunner Transportation Systems, Inc. Securities Litigation* (Case No. 17-cv-00144), and appointed Public Employees' Retirement System as lead plaintiff. On March 12, 2018, the lead plaintiff filed a Consolidated Amended Complaint (the "CAC") on behalf of a class of persons who purchased the Company's common stock between March 14, 2013 and January 30, 2017, inclusive. The CAC asserted claims arising out of the Company's January 2017 announcement that it would be restating its prior period financial statements and sought certification

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

as a class action, compensatory damages, and attorney's fees and costs. On March 29, 2019, the parties entered into a Stipulation of Settlement agreeing to settle the action for \$20 million, \$17.9 million of which will be funded by the Company's D&O carriers (\$4.8 million of which is by way of a pass through of the D&O carriers' payment to the Company in connection with the settlement of the Federal Derivative Action described below). On September 26, 2019, the Court entered an Order finally approving the settlement and final judgment. All settlements have been paid.

On May 25, 2017, Richard Flanagan filed a complaint alleging derivative claims on the Company's behalf in the Circuit Court of Milwaukee County, State of Wisconsin (Case No. 17-cv-004401) against Scott Rued, Mark DiBlasi, Christopher Doerr, John Kennedy, III, Brian Murray, James Staley, Curtis Stoelting, William Urkiel, Judith Vijums, Michael Ward, Chad Utrup, Ivor Evans, Peter Armbruster, and Brian van Helden (the "State Derivative Action"). The Complaint asserted claims arising out of the Company's January 2017 announcement that it would be restating its prior period financial statements. On October 15, 2019, the Court entered an Order dismissing the action with prejudice.

On June 28, 2017, Jesse Kent filed a complaint alleging derivative claims on the Company's behalf and class action claims in the United States District Court for the Eastern District of Wisconsin. On December 22, 2017, Chester County Employees Retirement Fund filed a complaint alleging derivative claims on the Company's behalf in the United States District Court for the Eastern District of Wisconsin. On March 21, 2018, the Court entered an order consolidating the Kent and Chester County actions under the caption Kent v. Stoelting et al (Case No. 17-cv-00893) (the "Federal Derivative Action"). On March 28, 2018, plaintiffs filed their Verified Consolidated Shareholder Derivative Complaint alleging claims on behalf of the Company against Peter Armbruster, Mark DiBlasi, Scott Dobak, Christopher Doerr, Ivor Evans, Brian van Helden, John Kennedy III, Ralph Kittle, Brian Murray, Scott Rued, James Staley, Curtis Stoelting, William Urkiel, Chad Utrup, Judith Vijums, and Michael Ward. The Complaint asserted claims arising out of our January 2017 announcement that the Company would be restating its prior period financial statements. The Complaint sought monetary damages, improvements to the Company's corporate governance and internal procedures, an accounting from defendants of the damages allegedly caused by them and the improper amounts the defendants allegedly obtained, and punitive damages. On March 28, 2019, the parties entered into Stipulation of Settlement, which provides for certain corporate governance changes and a \$6.9 million payment, \$4.8 million of which will be paid by the Company's D&O carriers into an escrow account to be used by the Company to settle the class action described above and \$2.1 million of which will be paid by the Company's D&O carriers to cover plaintiffs attorney's fees and expenses. On September 26, 2019, the Court entered an Order finally approving the settlement and a final judgment. All settlements have been paid.

In addition, subsequent to the Company's announcement that certain previously filed financial statements should not be relied upon, the Company was contacted by the SEC, Financial Industry Regulatory Authority ("FINRA"), and the Department of Justice ("DOJ"). The DOJ and Division of Enforcement of the SEC have commenced investigations into the events giving rise to the restatement. The Company has received formal requests for documents and other information. In June 2018, two of the Company's former employees were indicted on charges of conspiracy, securities fraud, and wire fraud as part of the ongoing DOJ investigation. In April 2019, the indictment was superseded with an indictment against those two former employees as well as the Company's former Chief Financial Officer. In the superseding indictment, Count I alleges that all defendants engaged in conspiracy to fraudulently influence accountants and make false entries in a public company's books, records and accounts. Counts II-V allege specific acts by all defendants to fraudulently influence accountants. Counts VI through IX allege specific acts by all defendants to falsify entries in a public company's books, records, and accounts. Count X alleges that all defendants engaged in conspiracy to commit securities fraud and wire fraud. Counts XI - XIII allege specific acts by all defendants of securities fraud. Counts XIV - XVII allege specific acts by all defendants of wire fraud. Count XVIII alleges bank fraud by the Company's former Chief Financial Officer. Count XIX alleges securities fraud by one of the former employees.

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Additionally, in April 2019, the SEC filed suit against the same three former employees. The SEC listed the Company as an uncharged related party. Counts I-V allege that all defendants engaged in a fraudulent scheme to manipulate the Company's financial results. In particular, Count I alleges that all defendants violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5(a) and (c). Count II alleges that the Company's former Chief Financial Officer and one of the former employees violated Section 17(a)(1) and (3) of the Securities Act. Count III alleges the Company's former Chief Financial Officer violated Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5(b). Count IV alleges that the two former employees aided and abetted the Company's violation of Section 10(b) of the Exchange Act and Exchange Act Rule 10-5(b). Count V alleges that the Company's former Chief Financial Officer and one of the former employees violated Section 17(a)(2) of the Securities Act. Count VI alleges that one of the former employees engaged in insider trading in violation of Section 10(b) of the Exchange Act and Exchange Act Rule 10b-5(a) and (c). Counts VII alleges that all defendants engaged in aiding and abetting the Company's reporting violations of Section 13(a) of the Exchange Act. Count VIII alleges that all defendants engaged in aiding and abetting the Company's record-keeping violations of Section 13(b)(2)(A) of the Exchange Act. Count IX alleges that the Company's former Chief Financial Officer engaged in aiding and abetting the Company's record-keeping violations of Section 13(b)(2)(B) of the Exchange Act. Count X alleges that all defendants engaged in falsification of records and circumvention of controls in violation of Section 13(b)(5) of the Exchange Act and Rule 13b2-1. Count XI alleges that all defendants engaged in false statements to accountants in violation of Rule 13b2-2 of the Exchange Act. Count XIII alleges that the Company's former Chief Financial Officer engaged in certification violations of rule 3a-14 of the Exchange Act. Count XIII alleges that uncharged party the Company violated (i) Section 10(b) of the Exchange Act and Rule 10b-5; (ii) Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, 13a-11, and 13a-13; and (iii) Sections 13(b)(2)(A) and 13(b)(2)(B) of the Exchange Act. It further alleges that the Company's former Chief Financial Officer acts subject him to control person liability for these violations. Count XIV alleges violation of Section 304 of the Sarbanes-Oxley Act of 2002 against the Company's former Chief Financial Officer.

The Company is cooperating fully with the joint DOJ and SEC investigation. Even though the Company is not named in this investigation, it has an obligation to indemnify the former employees and directors. However, given the status of this matter, the Company is unable to reasonably estimate the potential costs or range of costs at this time. Any costs will be the responsibility of the Company as it has exhausted all of its insurance coverage for costs related to legal actions as part of the restatement.

#### NOTE 13 - RELATED PARTY TRANSACTIONS

On March 1, 2018, the Company entered into the Series E-1 Preferred Stock Investment Agreement with Elliott, pursuant to which the Company agreed to issue and sell to Elliott from time to time an aggregate of up to 54,750 shares of a newly created class of preferred stock designated as Series E-1 Cumulative Redeemable Preferred Stock. On March 1, 2018, the parties held an initial closing pursuant to which the Company issued and sold to Elliott 17,500 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million and paid Elliott \$1.1 million of issuance costs. On April 24, 2018, the parties held an initial closing pursuant to which the Company issued and sold to Elliott 18,228 shares of Series E-1 Preferred Stock for an aggregate purchase price of \$17.5 million. This agreement was terminated in connection with the closing of the rights offering described in the following paragraph.

On November 8, 2018, the Company entered into a Standby Purchase Agreement with Elliott, pursuant to which Elliott agreed to backstop the Company's rights offering to raise \$450 million. Pursuant to the Standby Purchase Agreement, Elliott agreed to exercise their basic subscription rights in full. In addition, Elliott agreed to purchase from the Company, at the Subscription Price, all unsubscribed shares of common stock in the Rights Offering (the "Backstop Commitment"). The Company did not pay Elliott a fee for providing the Backstop Commitment, but agreed to reimburse Elliott for all documented out-of-pocket costs and expenses in connection with the rights offering, the Backstop Commitment, and the transactions contemplated thereby, including fees for legal counsel to Elliott. Elliott agreed to waive all preferred stock

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

dividends accrued and unpaid after November 30, 2018 once the rights offering was consummated. On February 26, 2019, the Company closed the rights offering and Elliott purchased a total of 33,745,308 shares of the Company's common stock in the rights offering between its basic subscription rights and the backstop commitment, and following the closing of the rights offering beneficially owned approximately 90.4% of the Company's common stock.

On February 26, 2019, the Company entered into the New Stockholders' Agreement with Elliott. The Company's execution and delivery of the New Stockholders' Agreement was a condition to Elliott's backstop commitment. Pursuant to the New Stockholders' Agreement, the Company granted Elliott the right to designate nominees to Company's board of directors and access to available financial information.

On February 26, 2019, the Company entered into the A&R Registration Rights Agreement with Elliott and investment funds affiliated with HCI Equity Partners, which amended and restated the Registration Rights Agreement, dated as of May 2, 2017, between the Company and the parties thereto. The Company's execution and delivery of the A&R Registration Rights Agreement was a condition to Elliott's backstop commitment. The A&R Registration Rights Agreement amended the Registration Rights Agreement to provide the Elliott Stockholders (as defined therein) and the HCI Stockholders (as defined therein) with unlimited Form S-1 registration rights in connection with Company securities owned by them.

On February 28, 2019, the Company and its direct and indirect domestic subsidiaries entered into the Term Loan Credit Facility which consists of an approximately \$61.1 million term loan facility. See Note 6, "Debt" to the consolidated financial statements for more information on the Term Loan Credit Facility. On August 2, 2019, the Company and its direct and indirect domestic subsidiaries entered into Term Loan Facility Amendment. On September 17, 2019, the Company and its direct and indirect subsidiaries entered into the Second Term Loan Facility Amendment. See Note 6, "Debt" to the consolidated financial statements for more information on the First Term Loan Facility Amendment and Second Term Loan Facility Amendment.

On August 2, 2019, the Company entered into the Fee Letter with Elliott. Pursuant to the Fee Letter, Elliott agreed to arrange for standby letters of credit ("Letters of Credit") in an aggregate face amount of \$20 million (the "Face Amount") to support the Company's obligations under the ABL Credit Facility. See Note 6, "Debt" to the consolidated financial statements for more information on the Fee Letter. On August 20, 2019, the Company entered into the Fee Letter Amendment, pursuant to which the maximum face amount of the Letters of Credit (as defined in the Fee Letter Amendment) that may be used to support the Company's obligations under the ABL Credit Facility was increased from \$20 million to \$30 million.

On September 20, 2019, the Company issued the Revolving Notes to entities affiliated with Elliott which allows the Company to borrow from time to time up to \$20 million from Elliott on a revolving basis.

On October 21, 2019, the Company and its direct and indirect domestic subsidiaries entered into the Third Term Loan Facility Amendment. Pursuant to the Third Term Loan Facility Amendment, the Term Loan Credit Facility was amended to, among other things, (i) permit certain Specified Dispositions, (ii) eliminate the Company's ability to request new CapX Loans, and (iii) add baskets for additional permitted Indebtedness consisting of Junior Lien Debt or unsecured Indebtedness in an aggregate amount not to exceed \$100 million provided that, among other things, such Junior Lien Debt or unsecured Indebtedness has a maturity date that is at least 180 days after February 28, 2024.

On October 21, 2019, the Company entered into the Second Fee Letter Amendment with Elliott. Pursuant to the Second Fee Letter Amendment, the Fee Letter was amended to, among other things, increase the maximum face amount of the Letters of Credit (as defined in the Second Fee Letter Amendment) that may be used to support the Company's obligations under the ABL Credit Facility from \$30 million to \$45 million.

On November 5, 2019, the Company and its direct and indirect domestic subsidiaries entered into the Third Lien Credit Facility. The Company used the initial \$20 million Term Loan Commitment (as defined in the

## Roadrunner Transportation Systems, Inc. and Subsidiaries

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2020 and 2019

Third Lien Credit Agreement) under the Third Lien Credit Facility to refinance its \$20 million principal amount of unsecured debt to the Lenders. The loans under the Third Lien Credit Facility bear interest at either: (a) the LIBOR rate (as defined in the Third Lien Credit Agreement), plus an applicable margin of 7.50%; or (b) the Base Rate (as defined in the Third Lien Credit Agreement), plus an applicable margin of 6.50%. Interest under the Third Lien Credit Facility shall be paid in kind by adding such interest to the principal amount of the applicable Term Loans on the applicable Interest Payment Date; provided that to the extent permitted by the ABL Credit Facility, the Term Loan Credit Facility and an Intercreditor Agreement, the Company may elect that all or a portion of interest due on an Interest Payment Date shall be paid in cash by providing written notice to the Administrative Agent at least five Business Days prior to the applicable Interest Payment Date specifying the amount of interest to be paid in cash.

On November 27, 2019, the Company and its direct and indirect domestic subsidiaries entered into the Fourth Term Loan Facility Amendment. Pursuant to the Fourth Term Loan Facility Amendment, the Term Loan Credit Facility was amended to, among other things, (i) revise certain schedules, and (ii) waive the Specified Defaults that arose from the failure to previously update a schedule of the Aircraft owned by the Loan Parties (as each such term is defined in the Term Loan Credit Facility).

On August 7, 2020, the Company completed the spinoff of Ascent to existing shareholders. In conjunction with the spinoff, the Company entered into a Business Services Agreement with Ascent to provide the Company with certain support services, primarily related to I.T. infrastructure. The Business Services Agreement ends on June 30, 2022. The Company can terminate services in whole or in part upon 30 days notice. No payments for services were made to Ascent during 2020. The Company has a net liability of \$0.9 million as of December 31, 2020, which is recorded in accrued expenses and other current liabilities.

Ascent is both a customer to the Company as well as a transportation service provider. Revenues from Ascent totaled \$2.5 million and \$2.8 million for the years ended December 31, 2020 and 2019, respectively. Transportation services purchased from Ascent totaled \$4.9 million and \$0.2 million for the years ended December 31, 2020 and 2019, respectively.

Elliott debt totaling \$71.8 million was discharged from Roadrunner and Ascent entered into a new facility directly with Elliott.

The Company's operating companies have contracts with certain purchased transportation providers that are considered related parties. The Company paid an aggregate of \$4.3 million and \$3.7 million to these purchased transportation providers during the years ended December 31, 2020 and 2019, respectively.

On December 21, 2020, the Company entered into a sale-leaseback transaction with LyonIX Holdings, LLC, which is controlled by the Company's Executive Chairman. The Company sold dry van trailers for \$1.7 million in gross proceeds and recognized a gain on sale of \$0.2 million. Simultaneously, the Company entered into an operating lease agreement with LyonIX in two tranches that have termination dates of November 2025 and November 2026.

Additionally, during December 2020 the Company entered into operating leases for other transportation related equipment with LyonIX, such as trailers, forklifts and yard hostlers. The leases have an average remaining life of 4.55 years.

On December 13, 2018, the Company entered into an agreement with HCI to resume the advancement of reasonable fees and expenses of up to \$7.1 million pursuant to the advisory agreement. In addition, the Company and HCI agreed to contribute \$1 million each to resolve the previously mentioned Securities Litigation Proceedings described in Note 14, "Commitments and Contingencies", to our 2019 consolidated financial statements included in this Annual Report for the year ended December 31, 2019. The Company reserves all rights to seek reimbursement for any fees or expense advanced to HCI, while HCI reserves all rights to seek indemnification for amounts above the \$7.1 million and the \$1 million that HCI will contribute

**Roadrunner Transportation Systems, Inc. and Subsidiaries**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED**

**December 31, 2020 and 2019**

to resolve the Securities Litigation Proceedings. The Company paid HCI \$0.1 million under this agreement during the year ended December 31, 2020.

**NOTE 14 - RESTRUCTURING COSTS**

In conjunction with our strategic decision to focus on the Less-Than-Truckload business and divest all non-core businesses, we incurred significant nonrecurring expenses as shown below (in thousands).

	<u>Business restructuring</u>
Abandonment of internally developed software	\$ 9,677
Business disposition and contract exit costs	4,940
Restructuring related separation and other	2,397
Incentive payments related to business restructuring and sales efforts	<u>1,525</u>
Ending balance at December 31, 2020	<u>\$ 18,539</u>

The Company has recorded a liability of \$3.2 million recorded as of December 31, 2020 which is expected to be paid over the next two years.

The Company also incurred corporate restructuring and restatement costs associated with legal, consulting and accounting matters, including internal and external investigations, SEC and accounting compliance, and restructuring of \$9.9 million and \$13.7 million for the years ended December 31, 2020 and 2019, respectively. These costs are included in other operating expenses.

**NOTE 15 - SUBSEQUENT EVENTS**

***Sale of Series A Preferred Stock***

On January 30, 2021, the Company's Board of Directors authorized the creation of a series of preferred stock, par value US\$0.01 per share, designated as "Series A Convertible Preferred Stock". The Company sold 28,571,429 shares of Series A Preferred Stock on February 1, 2021 to a group of investors for \$50 million of proceeds. Series A preferred shares are convertible to common stock and have voting rights in proportion to common shares. Elliott purchased 7,018,572 Series A shares of the total for \$12.3 million.

The Company intends to use proceeds of the preferred stock sale to support general corporate purposes and working capital. In addition to previously implemented cost mitigations such as headcount reductions, voluntary delisting and deregistration with the SEC, business restructuring, and sales of operating companies and other assets, the Company has implemented improved pricing plans with customers that is increasing revenue and operating profit. The Company believes its rates are lower than competitors even after the already implemented increases. The Company believes that these actions mitigate the liquidity risk raised by its historical operating results and will satisfy its estimated liquidity needs during the next 12 months from the date of the issuance of the consolidated financial statements.

***Settlement of Indemnification Obligations***

In February 2021, the Company entered into a settlement agreement with Peter Armbruster, settling all claims and possible claims with respect to the Company's obligation to indemnify Mr. Armbruster in legal proceedings.