

Roadrunner Transportation Systems, Inc.

CONSOLIDATED BALANCE SHEETS

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

	2022	2021
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,048	\$ 24,981
Restricted cash	15,468	10,497
Accounts receivable, net of allowances of \$1,750 and \$3,730, respectively	36,745	47,508
Prepaid expenses and other current assets	7,047	14,064
Total current assets	68,308	97,050
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$47,501 and \$43,166, respectively	20,372	27,269
OTHER ASSETS:		
Operating lease right-of-use asset	66,701	75,660
Other noncurrent assets	4,634	6,551
Total other assets	71,335	82,211
Total assets	\$ 160,015	\$ 206,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current finance lease liability	\$ 2,832	\$ 3,898
Current operating lease liability	18,063	17,631
Accounts payable	10,804	11,445
Accrued expenses and other current liabilities	39,831	43,143
Total current liabilities	71,530	76,117
Long-term debt	29,186	28,871
Note payable to affiliate	10,093	-
Long-term finance lease liability	4,027	6,963
Long-term operating lease liability	53,969	63,010
Total liabilities	168,805	174,961
COMMITMENTS AND CONTINGENCIES (Note 11)		
STOCKHOLDERS' EQUITY (DEFICIT)		
Common stock \$.01 par value; 100,000 shares authorized; 38,292 and 37,264 shares issued and outstanding, respectively	383	383
Preferred Stock \$.01 par value; 45,000 shares authorized; 28,571 issued and outstanding, net of issuance costs of \$227	49,773	49,773
Additional paid-in capital	857,689	850,329
Retained deficit	(916,635)	(868,916)
Total stockholders' equity (deficit)	(8,790)	31,569
Total liabilities and stockholders' equity (deficit)	\$ 160,015	\$ 206,530

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)**

	2022	2021
Revenues	\$ 397,732	\$ 418,734
Operating expenses:		
Purchased transportation costs	276,060	293,423
Personnel and related benefits	78,317	85,658
Other operating expenses	80,040	80,299
Depreciation and amortization	7,144	11,162
Operations restructuring costs	-	378
Total operating expenses	441,561	470,920
Operating loss	(43,829)	(52,186)
Interest expense	3,832	3,881
Loss before income taxes	(47,661)	(56,067)
Income tax expense (benefit)	58	(10)
NET LOSS	\$ (47,719)	\$ (56,057)

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)

	Series A Convertible Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Deficit	Total Stockholders' Investment (Deficit)
	Shares	Amount	Shares	Amount			
Balance, December 31, 2019	-	\$ -	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)
Common stock issuance costs	-	-	-	-	-	-	-
Share-based compensation	-	-	-	-	3,294	-	3,294
Net loss	-	-	-	-	-	(14,508)	(14,508)
Balance, December 31, 2020	-	-	38,263,588	383	837,047	(812,859)	24,571
Issuance of restricted stock units, net of taxes paid	-	-	28,345	-	(60)	-	(60)
Preferred Stock Issuance	28,571,429	50,000	-	-	-	-	50,000
Preferred Stock Issuance Costs	-	(227)	-	-	-	-	(227)
Share-based compensation	-	-	-	-	13,342	-	13,342
Net loss	-	-	-	-	-	(56,057)	(56,057)
Balance, December 31, 2021	<u>28,571,429</u>	<u>\$ 49,773</u>	<u>38,291,933</u>	<u>\$ 383</u>	<u>\$ 850,329</u>	<u>\$ (868,916)</u>	<u>\$ 31,569</u>
Issuance of restricted stock units, net of taxes paid	-	-	15,573	-	(20)	-	(20)
Share-based compensation	-	-	-	-	7,380	-	7,380
Net loss	-	-	-	-	-	(47,719)	(47,719)
Balance, December 31, 2022	<u>28,571,429</u>	<u>\$ 49,773</u>	<u>38,307,506</u>	<u>\$ 383</u>	<u>\$ 857,689</u>	<u>\$ (916,635)</u>	<u>\$ (8,790)</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)**

	2022	2021
Cash flows from operating activities:		
Net loss	\$ (47,719)	\$ (56,057)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	7,459	11,484
Gain on disposal of property and equipment	(85)	(606)
Loss on abandonment	22	234
Other non-cash items	93	-
Share-based compensation	7,380	13,282
Provision for bad debts	407	(2,271)
Deferred tax benefit	-	-
Changes in:		
Accounts receivable	10,356	16,051
Income tax receivable	326	1,245
Prepaid expenses and other assets	28,051	8,346
Accounts payable	(640)	(10,803)
Accrued expenses and other liabilities	(21,354)	(17,121)
	(15,704)	(36,216)
Cash flows from investing activities:		
Capital expenditures	(492)	(1,890)
Proceeds from sale of property and equipment	307	2,312
	(185)	422
Cash flows from financing activities:		
Borrowings from affiliate	10,000	-
Proceeds from issuance of preferred stock	-	50,000
Preferred stock issuance costs	-	(227)
Issuance of restricted stock units, net of taxes paid	(20)	-
Proceeds from insurance premium financing	3,237	4,704
Payments on insurance premium financing	(4,288)	(5,991)
Payments of finance lease obligation	(4,002)	(7,622)
	4,927	40,864
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,962)	5,070
Cash and cash equivalents:		
Beginning of period	35,478	30,408
End of period	\$ 24,516	\$ 35,478

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>2022</u>		<u>2021</u>
Supplemental cash flow information:			
Cash paid for interest	\$ 2,762	\$	4,001
Cash refunds from income taxes, net	(245)		(995)

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, 2022 and 2021

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 ("U.S. 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.

Use of Estimates

The preparation of financial statements, in conformity with U.S. 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. The Company had a restricted cash balance of \$15.5 million and \$10.5 million as of December 31, 2022 and 2021, respectively.

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 \$1.7 million and \$3.7 million as of December 31, 2022 and 2021, 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 20% of revenues and 19% of accounts receivable as of December 31, 2021.

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

December 31, 2022 and 2021

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

	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 3,730	\$ 7,229
Provision, charged to expense	407	(2,271)
Write-offs, less recoveries	(2,387)	(1,228)
Ending balance	\$ 1,750	\$ 3,730

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	1-15 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.

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.

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.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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 estimated fair values of the Company's financial instruments including its cash and cash equivalents, accounts receivable, and accounts payable approximate the carrying values of these instruments as they approximate the amounts for which they could be sold, and the liabilities could be settled.

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 Accounting Standards Codification 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.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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 U.S. GAAP. A performance obligation is created once a customer agreement with an agreed upon transaction price exists. The transaction price is typically fixed and determinable and is not contingent upon the occurrence or non-occurrence of any other event. The transaction price is generally due 30 to 60 days from the date of invoice. The Company's transportation service is a promise to move freight to a customer's destination, with the transit period typically being less than one week. The Company views the transportation services it provides to its customers as a single performance obligation. 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 \$4.4 million and \$7.9 million of unbilled amounts recorded in accounts receivable and \$3.2 million and \$5.3 million of accrued freight costs recorded in accounts payable as of December 31, 2022 and 2021, 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.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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 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.

NOTE 2 – LIQUIDITY AND GOING CONCERN

The Company's ability to continue as a going concern is dependent upon it generating profitable operations in the future. To allow for more profitable growth, the Company has and continues to implement strategic initiatives including building a more diversified customer base, shifting away from more expensive modes of transportation, and improving its customer image through rebranding and improved service quality. However, there can be no assurance that these initiatives will generate sufficient cash flows to fund operations. With our present cash and cash equivalents along with our current credit facilities, management expects to be able to continue our operations for at least the next twelve months.

NOTE 3 - PROPERTY AND EQUIPMENT

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

	2022	2021
Buildings and leasehold improvements	\$ 5,323	\$ 5,362
Computer equipment	3,686	3,781
Internal use software	14,939	14,883
Office equipment, furniture, and fixtures	2,834	2,839
Dock, warehouse, and other equipment	10,008	9,737
Tractors and trailers	31,083	33,833
Property and equipment, gross	67,873	70,435
Less: accumulated depreciation	(47,501)	(43,166)
Property and equipment, net	\$ 20,372	\$ 27,269

Assets not yet placed into service of \$0.1 million have been included in the line items above as of December 31, 2021. Depreciation expense related to property and equipment was \$7.1 million and \$11.2 million for the years ended December 31, 2022 and 2021, respectively.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE 4 - LEASES

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

	December 31, 2022	December 31, 2021
Assets:		
Finance lease assets, net (included in property and equipment)	\$ 6,554	\$ 10,084
Operating lease right-of-use asset	66,701	75,660
Total lease assets	\$ 73,255	\$ 85,744
Liabilities:		
Current finance lease liability	\$ 2,832	\$ 3,898
Current operating lease liability	18,063	17,631
Long-term finance lease liability	4,027	6,963
Long-term operating lease liability	53,969	63,010
Total lease liabilities	\$ 78,891	\$ 91,502

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 years ended December 31, 2022 and 2021 are as follows (in thousands):

Lease component	Classification	Year ended December 31, 2022	Year ended December 31, 2021
Rent expense - operating leases	Other operating expenses	\$ 25,730	\$ 21,965
Amortization of finance lease assets	Depreciation and amortization	3,139	4,721
Interest on finance lease liabilities	Interest expense	537	998

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 \$25.7 million and \$22.0 million for the years ended December 31, 2022 and 2021, 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 recognized rental income of \$2.2 million for the year ended December 31, 2022, related to operating leases the Company entered into with its ICs. The Company also recognized \$1.0 million in rental income for the year ended December 31, 2022 related to a subleased building. The sublease ends December 31, 2023. The Company records rental income from leases as a reduction to rent expense - operating leases.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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.

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, 2022 (in thousands):

<u>Year Ending:</u>	<u>Operating Leases</u>	<u>Finance leases</u>	<u>Total</u>
2023	\$ 21,794	\$ 3,359	\$ 25,153
2024	17,981	2,997	20,978
2025	16,404	1,262	17,666
2026	11,309	16	11,325
2027	5,835	0	5,835
Thereafter	9,814	0	9,814
Total	83,137	7,634	90,772
Less: Interest	(11,105)	(775)	(11,880)
Present value of lease liabilities	<u>\$ 72,032</u>	<u>\$ 6,859</u>	<u>\$ 78,891</u>

Weighted average remaining lease term and discount rate used in computing the lease liabilities as of December 31, 2022 were as follows:

Weighted average remaining lease term (in years)		
Operating leases		4.7
Finance leases		2.4
Weighted average discount rate		
Operating leases		6.1%
Finance leases		9.5%

Supplemental cash flow information related to leases for the year ended December 31, 2022 is as follows (in thousands):

Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows for operating leases		\$ 23,591
Operating cash flows for finance leases		826
Financing cash flows for finance leases		4,004
Right-of-use assets added for operating leases:		
Operating leases		\$ 10,485

Lease transactions with related parties are disclosed in Note 12 - Related Party Transactions to the consolidated financial statements.

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

December 31, 2022 and 2021

NOTE 5 - DEBT

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

	December 31, 2022	December 31, 2021
ABL Credit Facility	30,000	30,000
Subordinated Promissory Note with Affiliate	\$ 10,093	\$
Total debt	40,093	30,000
Less: debt issuance costs and discount	(814)	(1,129)
Total debt, net of debt issuance costs and discount	39,279	28,871
Less: current maturities	-	-
Total debt, net of current maturities	\$ 39,279	\$ 28,871

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 up through August 06, 2022. As of December 31, 2022, the Company has borrowed \$10 million
- \$10 million revolving line of credit, undrawn as of December 31, 2022

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.

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 9.1% for the year ended December 31, 2021.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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, 2022, the Company's liquidity had not fallen below the amount specified.

Subordinated Promissory Note with Affiliate

The Company executed a subordinated revolving promissory note (the "Note") on November 7th, 2022 with Ascent Global Logistics, Inc. ("Ascent"), an affiliated related party.

The Note provides for revolving advances up to an aggregate amount of \$35.0 million with an interest rate of 9.99% per annum to be paid in cash or in kind. The Note matures on November 7th, 2027 and does not require any principal or interest payments prior to maturity. As of December 31st, 2022, the Company drew \$10.0 million for working capital purposes.

The Note contains no affirmative or negative covenants but various customary events of default, the occurrence of which would permit the lenders to require immediate payment of all amounts outstanding.

In addition, SLR Credit Solutions, Ascent, and the Company signed a Subordination Agreement dated November 7th, 2022, which precludes the Company from making any cash payments of interest or principal to Ascent until the full, final and indefeasible payment in cash for the ABL Credit Facility is made.

Insurance Premium Financing

In July 2022 and 2021, the Company executed insurance premium financing agreements with a premium finance company in order to finance certain of its annual insurance premiums of \$2.4 million and \$4.7 million, respectively. Beginning on September 1 of each year, the financing agreements are payable in monthly installments of principal and interest of approximately \$0.2 million and \$0.5 million for 2022 and 2021, respectively. The agreements incurred interest at 5.5% and 4.8% for 2022 and 2021, respectively.

In December 2022, the Company executed two additional insurance premium financing agreements to finance annual insurance premiums totaling \$0.8 million. The agreements incurred interest of 6.8% and are payable in monthly installments of principal and interest of \$0.1 million. In December 2021, the Company executed an additional insurance premium financing agreement to finance annual insurance premiums of \$0.7 million. The agreement incurred interest of 3.4% and is payable in ten monthly installments of principal and interest of approximately \$0.1 million.

The balance of the insurance premium payable as of December 31, 2022 and 2021 was \$2.2 million and \$3.3 million, respectively, and was recorded in accrued expenses and other current liabilities.

NOTE 6 - PREFERRED STOCK

On January 30, 2021, the Company's Board of Directors authorized the creation of a series of preferred stock, par value \$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 \$50.0 million of proceeds. Series A preferred shares are convertible to common stock and have voting rights in proportion to common shares. Elliott Associates, L.P. and Elliott International, L.P. (Majority shareholder, "Elliott") purchased 7,018,572 Series A shares of the total for \$12.3 million.

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

December 31, 2022 and 2021

No preferred shares were granted during 2022.

NOTE 7 - 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.

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.

In February 2021, the Company filed a Second Amended and Restated Certificate of Incorporation (the "Second Amendment and Restatement") with the State of Delaware to restate, integrate and further amend the prior Amended and Restated Certificate of Incorporation in its entirety. The Company filed a Second Amendment and Restated Certificate of Incorporation to increase the number of authorized shares of its common stock from 44,000,000 shares to 75,000,000 shares, to increase the number of authorized shares of its preferred stock from 15,005,000 shares to 45,000,000 shares, and to increase its total authorized shares of capital stock from 44,600,200 shares to 120,000,000 shares.

On December 16, 2021, the Company filed a Certificate of Amendment to the Second Amended and Restated Certificate of Incorporation with the State of Delaware to increase the number of authorized shares of its capital stock from 120,000,000 shares to 145,000,000 shares and to increase the number of authorized shares of its common stock from 75,000,000 shares to 100,000,000 shares.

NOTE 8 - SHARE-BASED COMPENSATION

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. The 2010 Plan permitted the grant of stock options, restricted stock units, performance stock units, and other awards.

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. 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 it. Under the 2018 Plan,

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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, such number of shares of the Company's common stock was increased by 7.5% of the shares issued 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. Outstanding awards granted under the 2018 Plan will continue to be governed by the terms of the 2018 Plan, but no further awards will be made under it.

If any shares subject to any award granted under the 2010 Plan are forfeited, expire, or otherwise terminate without issuance of such shares, or if any of the same shares are settled for cash or otherwise do not result in the issuance of all or a portion of the shares, 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, will 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 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.

On February 26, 2021, the Company's board of directors adopted a 2021 Incentive Compensation Plan (the "2021 Plan"), authorizing the issuance of options to purchase shares of Common Stock, par value \$0.01 per share, of Roadrunner Transportation Systems, Inc. ("Common Stock"), and other equity or equity-based incentive awards to eligible employees, directors, consultants or other service providers selected for participation in the 2021 Plan in order to provide incentives to such eligible persons.

Restricted Stock Units

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.

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

December 31, 2022 and 2021

The following table summarizes the nonvested restricted stock units as of December 31, 2022 and 2021:

	Number of Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2020	106,623	\$ 11.73	1.9
Granted	-	-	
Vested	(41,255)	12.07	
Forfeitures	(23,901)	11.40	
Nonvested as of December 31, 2021	41,467	11.58	1.2
Granted	-	-	
Vested	(21,867)	11.62	
Forfeitures	(600)	12.26	
Nonvested as of December 31, 2022	<u>19,000</u>	\$ 11.52	0.3

Unrecognized share-based compensation expense for restricted stock units was \$0.1 million and \$0.3 million as of December 31, 2022 and 2021, respectively. The expense is expected to be recognized over a weighted-average period of less than one year.

Performance Restricted Stock Units

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, 2022 and 2021

The following table summarizes the nonvested performance restricted stock units as of December 31, 2022 and 2021:

	Number of Performance Restricted Stock Units	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2020	169,200	\$ 12.04	1.9
Granted	-		
Vested	-		
Forfeitures	(65,800)	12.32	
Nonvested as of December 31, 2021	103,400	11.64	1.2
Granted	-	-	
Vested	-	-	
Forfeitures	(16,400)	12.26	
Nonvested as of December 31, 2022	87,000	\$ 11.52	0.4

Unrecognized stock compensation expense for performance restricted stock units was \$0.1 million and \$0.5 million as of December 31, 2022 and 2021, respectively. The expense is expected to be recognized over a weighted-average period of less than one year.

Stock Options

Under the 2021 and 2018 Plan, the Company awarded stock options to certain key employees. With the exception of two grants partially vesting immediately, the 2021 stock options generally vest ratably over four years. The 2018 stock options generally vest ratably over a three year service period. Both the 2021 and 2018 stock options 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 550,000 and 18,315,000 for the years ended 2022 and 2021, respectively.

Stock option fair value assumption ranges for the stock options granted during the year ended December 31, 2022 are as follows:

Option life (years)	7 years
Risk free interest rate	2.9%
Dividend yield	-
Expected volatility	36.4%
Expected life (years)	4 – 5 years
Weighted average fair value of stock options granted	\$1.24

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

December 31, 2022 and 2021

A summary of the option activity for the years ended December 31, 2022 and 2021 is as follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
Nonvested as of December 31, 2020	243,028	\$ 4.58	4.8
Granted	18,315,000	2.47	
Forfeited	<u>(30,009)</u>	9.12	
Nonvested as of December 31, 2021	18,528,019	2.53	6.3
Granted	550,000	2.61	
Forfeitures	<u>(670,000)</u>	3.50	
Nonvested as of December 31, 2022	<u>18,408,019</u>	\$ 2.49	5.3

Unrecognized stock compensation expense for stock options was \$15.7 million and \$22.9 million as of December 31, 2022 and 2021, respectively. The expense is expected to be recognized over a weighted-average period of approximately two years.

All outstanding options are non-qualified options. There were 9,254,269 and 209,082 options exercisable as of December 31, 2022 and 2021, respectively. As of December 31, 2022, for exercisable options, the weighted-average exercise price was \$2.29, the weighted average remaining contractual term was approximately five years and there was no estimated aggregate intrinsic value per share. As of December 31, 2022, 9,153,750 options were unvested.

Stock-based compensation expense for restricted stock units, performance restricted stock units and stock options was \$7.4 million and \$13.3 million for the years ended December 31, 2022 and 2021, respectively. The related estimated income tax benefit recognized in the accompanying consolidated statements of operations, net of estimated forfeitures, was \$1.8 million and \$3.2 million for the years ended December 31, 2022 and 2021, respectively. The Company recorded tax deficiencies on vested shares of \$0.1 million and \$0.1 million in benefit from income taxes for the years ended December 31, 2022 and 2021, 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 during August 2020, the exercise price of outstanding option awards granted prior to the spinoff were adjusted by the "RTS 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 9 - INCOME TAXES

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

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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

	Year Ended December 31,	
	2022	2021
Current tax benefit	\$ 58	\$ (10)
Deferred tax benefit	-	-
Benefit from income taxes	\$ 58	\$ (10)

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, primarily due to the effect of the valuation allowance. The change (increase) in valuation allowance was \$10.9 million and \$1.5 million for December 31, 2022 and 2021, respectively.

The Company recorded assets for refundable income taxes of \$0.1 million as of December 31, 2022 and \$0.4 million as of December 31, 2021. These amounts were classified within prepaids and other current assets.

The Company's net deferred income tax liabilities of \$0 as of December 31, 2022 and 2021 are summarized as follows:

	December 31,	
	2022	2021
Deferred tax assets	\$ 84,273	\$ 76,478
Valuation allowance	(64,648)	(53,751)
Deferred tax assets, net of valuation allowance	19,625	22,727
Deferred tax liabilities	(19,625)	(22,727)
Net deferred tax liabilities	\$ -	\$ -

The Company's deferred tax assets consist primarily of temporary differences related to allowances for bad debts, accrued expenses and other current liabilities, operating lease liabilities, as well as tax carryforwards (net operating loss and interest expense). The Company's deferred tax liabilities consist primarily of temporary differences related to prepaid expenses and other current assets, property and equipment, and operating lease right-of-use assets.

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, 2022 and 2021. 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 \$64.6 million and \$53.8 million as of December 31, 2022 and 2021, 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 \$210.6 million of federal net operating loss carryforwards as of December 31, 2022 (\$44.2 million tax-effected), generated subsequent to January 1, 2018, which can be carried forward indefinitely. These losses can be utilized to offset taxable income in future years, to the extent of 80% of

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

taxable income generated in those years, until exhausted. The Company also has a \$7.6 million deferred tax asset for state net operating loss carryforwards that will generally expire between 2023 and 2042. 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.

The Company has a \$20.3 million interest expense carryforward as of December 31, 2022 (\$4.8 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, 2022 and 2021 (including related interest or penalties). The effect of unrecognized tax benefits on the benefit from income taxes for 2022 and 2021 is also not material. Income tax related penalties and interest (including those related to unrecognized tax benefits) are included within benefit from income taxes, and were not material for the years ended December 31, 2022 and 2021.

As of December 31, 2022, the Company generally would be subject to federal tax examination for tax years after December 31, 2017 (based on a 3-year statute of limitations). Tax years 2016 and 2017 may also be subject to examination, since a portion of the net operating loss carryforward generated in those years was utilized in 2020. However, tax years 2016 through 2018 have previously been examined by the Internal Revenue Service, so such examination is unlikely.

As of December 31, 2022, the Company generally may be subject to state tax examinations for tax years after December 31, 2017 (based on an average 4-year statute of limitations). However, the Company continues to carry forward losses generated in 2013 through 2021, so tax years 2013 through 2016 could still be examined in future years in which the net operating losses are utilized.

NOTE 10 - 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 \$2.4 million as of December 31, 2022. Upon an IC default, the Company has the option to purchase the tractor or return the tractor to the leasing company if the residual value is greater than the Company's guarantee. Alternatively, the Company can contract another IC to assume the lease. The Company estimated the fair value of its liability under this on-going guarantee to be \$1.4 million and \$0.6 million as of December 31, 2022 and 2021, respectively, and it is included in accrued expenses and other current liabilities.

The Company paid \$1.2 million and \$2.4 million under these lease guarantees during the years ended December 31, 2022 and 2021, respectively.

Lease Purchase Guarantor

As of December 31, 2022, the Company remains a guarantor of certain operating leases related to divested subsidiaries.

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

NOTE 11 - 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. Total contributions under this plan was \$0 for the years ended December 31, 2022 and December 31, 2021.

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, 2022 and 2021, the Company had reserves for estimated uninsured losses of \$14.0 million and \$20.4 million, respectively, included in accrued expenses and other current liabilities.

Lorenzo White ("White") filed an action in the State Court of Clayton County in connection with a collision he was involved in with an independent contractor driver of Roadrunner that occurred on or about January 11, 2018 in Rockdale County, Georgia. In consideration of a full release of claims, Roadrunner agreed to pay settlement funds totaling Seven Hundred and Fifty Thousand Dollars (\$750,000.00) on the below schedule:

- Three Hundred and Fifty Thousand Dollars (\$350,000) on or before December 31, 2022
- Two Hundred Thousand Dollars (\$200,000) or before March 1, 2023; and
- Two Hundred Thousand Dollars (\$200,000) on or before April 1, 2023.

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

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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-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 reached a settlement agreement in March 2022 and made the final payment of \$0.1 million in June 2022.

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. Mr. Gomez passed away in July 2021, but a new named Plaintiff has been substituted in by Counsel. 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 March 2021, a class action lawsuit was brought against the Company in the Superior Court of the State of California by Griselda Jauregui, on behalf of herself and other similarly situated individuals, alleging various violations of California Labor Code. The Company has filed an answer denying all claims and has filed a motion to remove to Federal Court. 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 September 2021, a class action lawsuit was brought against the Company in the United States District Court for the Eastern District of Wisconsin by Gabe Placide, on behalf of himself and similarly situated individuals, alleging the Plaintiff was misclassified as an independent contractor and seeking to recover minimum wage under Federal law and employment related expenses under Ohio law. The Company settled this case in August 2022 and made the final payment of less than \$0.1 million in October 2022.

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. As of December 31, 2022 and 2021, the Company recorded a liability for settlements, litigation, and defense costs related to all labor matters of \$0.6 million and \$0.2 million, respectively, which are recorded in accrued expenses and other current liabilities.

Securities Litigation Proceedings

Subsequent to the Company's 2017 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

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

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. On July 29, 2021 the Company's former Chief Financial Officer was found guilty on counts V, VI, VIII and XIII. He was acquitted of the other charges. The other former employees were acquitted on all charges.

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. It has an obligation to indemnify the former employees and directors. In February 2021, the Company entered into a settlement with the former Chief Financial Officer, settling all claims and possible claims with respect to the Company's obligation to indemnify Mr. Armbruster in legal proceedings. The settlement and legal expenses were fully paid during 2021, and the DOJ has communicated it has closed its investigation of the Company. On February 14, 2023 the SEC announced settled proceedings against Roadrunner. Without admitting or denying the findings, Roadrunner agreed to cease and desist from committing or causing any future violations of Section 17(a) of the Securities Act of 1933 and Sections 10(b), 13(a), 13(b)(2)(A) and 13(b)(2)(B) of the Securities Exchange Act of 1934 and Rules 10b-5, 12b-20, 13a-1, 13a-11, and 13a-13 thereunder and to pay disgorgement of \$7,096,092 and prejudgment interest of \$2,539,820, which were deemed satisfied by the 2019 settlement payment Roadrunner made in the case *In re Roadrunner Transportation Systems, Inc. Securities Litigation*, Case No. 2:17-cv-00144 (E.D. Wis. Jan. 31, 2017).

NOTE 12 - RELATED PARTY TRANSACTIONS

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 (the "Original Agreement") with Ascent to provide the Company with certain support services, primarily related to I.T. infrastructure. In 2021,

Roadrunner Transportation Systems, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

December 31, 2022 and 2021

the Company entered into an amended tax agreement with Ascent and received \$1.4 million associated with that amended agreement. Upon the expiration of the Original Agreement on June 30, 2022, an Amended and Restated Business Agreement was executed on June 30, 2022 to amend and restate the Original Agreement in its entirety. The Amended and Restated Business Agreement expires on June 30, 2024. No payments for services were made to Ascent during 2022 or 2021. The Company had a net liability of \$13.5 million and \$5.8 million for the years ended December 31, 2022 and 2021, respectively, which is recorded in accrued expenses and other current liabilities.

In December 2021, the Company and Ascent mutually terminated a sublease agreement whereby Ascent paid the Company roughly \$21,000 per month for a portion of approximately 10,000 rentable square feet and 30 parking spaces. The "Sublease Agreement", originally executed in August 2020, had an original termination date of July 31, 2022. The fee charged to Ascent for the early termination was \$0.1 million and was recorded as sublease income.

Ascent is both a customer to the Company as well as a transportation service provider. Revenues from Ascent totaled \$2.1 million and \$3.3 million for the years ended December 31, 2022 and 2021, respectively.

Transportation services purchased from Ascent totaled \$0.4 million and \$2.6 million for the years ended December 31, 2022 and 2021, respectively.

In addition, the Company executed a subordinated revolving promissory note on November 7th, 2022 with Ascent. All details can be found in the Subordinated Promissory Note with Affiliate section under Note 5 – Debt.

The Company's operating companies have contracts with certain purchased transportation and outside service providers that are considered related parties. The Company paid an aggregate of \$2.3 million and \$3.5 million to these providers during the years ended December 31, 2022 and 2021, respectively.

On December 21, 2020, the Company entered into a sale-leaseback transaction with LyonIX Holdings, LLC ("LyonIX"), which is controlled by the Company's Executive Chairman and Chief Executive Officer. Simultaneously, the Company entered into an operating lease agreement with LyonIX for transportation related equipment, such as trailers, forklifts and yard hostlers in two tranches that have termination dates of November 2025 and November 2027. The leases have an average remaining life of 2.8 years. The Company paid an aggregate of \$1.2 million for both years ended December 31, 2022 and 2021.

During 2021, the Company granted 10.0 million units of stock options under the 2021 Compensation Plan to LyonIX.

NOTE 13 - SUBSEQUENT EVENTS

Subsequent events were reviewed through March 29, 2023, the date the financial statements were available to be issued.

On January 20, 2023, the Company drew an additional \$5.0 million against the Note.

On February 17, 2023, the Company drew an additional \$5.0 million against the Note.

On March 9, 2023, the Company and SLR Credit Solutions amended certain provisions of the ABL Credit Facility agreement, including updating the benchmark rate from LIBOR to SOFR.