RADIANT LOGISTICS, INC
Form 10-Q
November 09, 2016

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 2016

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number 001-35392

RADIANT LOGISTICS, INC.

(Exact name of Registrant as Specified in Its Charter)

Delaware	04-3625550
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

405 114th Ave S.E., Bellevue, WA 98004
(Address of principal executive offices)

(425) 943-4599
(Registrant's telephone number, including area code)

N/A
(Former name, former address, and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer	Accelerated filer
Non-accelerated filer	Smaller reporting company

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

There were 48,789,088 shares issued and outstanding of the registrant’s common stock, par value $.001 per share, as of November 4, 2016.

RADIANT LOGISTICS, INC.

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RADIANT LOGISTICS, INC.

Condensed Consolidated Balance Sheets

(unaudited)

(In thousands, except share and per share data)	September 30, 2016	June 30, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,804	$ 4,768
Accounts receivable, net of allowance of $1,852 and $1,806, respectively	114,051	101,035
Employee and other receivables	396	635
Income tax deposit	157	1,525
Prepaid expenses and other current assets	7,440	5,410
Total current assets	129,848	113,373
Technology and equipment, net	12,114	12,453
Acquired intangibles, net	69,917	71,941
Goodwill	62,888	62,888
Deposits and other assets	2,866	2,814
Total long-term assets	135,671	137,643
Total assets	$ 277,633	$ 263,469
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued transportation costs	$ 84,541	$ 75,071
Commissions payable	10,085	8,280
Other accrued costs	5,772	5,331
Due to former shareholders of acquired operations	—	50
Current portion of notes payable	2,419	2,416
Current portion of contingent consideration	3,834	3,387
Current portion of transition and lease termination liability	1,809	1,838
Other current liabilities	122	138
Total current liabilities	108,582	96,511
Notes payable, net of current portion	29,760	28,903
Contingent consideration, net of current portion	3,901	4,098
Transition and lease termination liability, net of current portion	463	658
Deferred rent liability	934	851
Deferred tax liability	12,151	12,525
Other long-term liabilities	1,071	742
Total long-term liabilities	48,280	47,777
Total liabilities	156,862	144,288

Stockholders' equity:		
Preferred stock, $0.001 par value, 5,000,000 shares authorized; 839,200 shares issued and outstanding, liquidation preference of $20,980	1	1
Common stock, $0.001 par value, 100,000,000 shares authorized; 48,880,391 and 48,857,506 shares issued, and 48,788,593 and 48,857,506 shares outstanding, respectively	30	30
Additional paid-in capital	114,692	114,392
Treasury stock, at cost, 91,798 and 0 shares, respectively	(253)	—
Deferred compensation	—	(1)
Retained earnings	5,932	4,581
Accumulated other comprehensive income	319	98
Total Radiant Logistics, Inc. stockholders' equity	120,721	119,101
Non-controlling interest	50	80
Total stockholders' equity	120,771	119,181
Total liabilities and stockholders' equity	$ 277,633	$ 263,469

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

RADIANT LOGISTICS, INC.

Condensed Consolidated Statements of Operations and Comprehensive Income

(unaudited)

(In thousands, except share and per share data)	Three Months Ended September 30, 2016	2015
Revenues	$195,133	$215,495
Cost of transportation	146,124	164,782
Net revenues	49,009	50,713
Operating partner commissions	23,351	22,298
Personnel costs	12,778	14,443
Selling, general and administrative expenses	5,782	6,463
Depreciation and amortization	3,006	3,105
Transition and lease termination costs	476	3,163
Change in contingent consideration	250	(412)
Total operating expenses	45,643	49,060
Income from operations	3,366	1,653
Other income (expense):		
Interest income	4	7
Interest expense	(639)	(1,418)
Foreign exchange gain	201	250
Other	194	95
Total other expense:	(240)	(1,066)
Income before income tax expense	3,126	587
Income tax expense	(1,252)	(233)
Net income	1,874	354
Less: Net income attributable to non-controlling interest	(12)	(15)
Net income attributable to Radiant Logistics, Inc.	1,862	339
Less: Preferred stock dividends	(511)	(511)
Net income (loss) attributable to common stockholders	$1,351	$(172)
Other comprehensive income		
Foreign currency translation gain	221	855
Comprehensive income	$1,572	$683
Net income (loss) per common share - basic and diluted	$0.03	$—

Weighted average shares outstanding:		
Basic shares	48,861,511	47,375,437
Diluted shares	49,534,395	47,375,437

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

RADIANT LOGISTICS, INC.

Condensed Consolidated Statement of Stockholders’ Equity

(unaudited)

	RADIANT LOGISTICS, INC. STOCKHOLDERS' EQUITY										
(In thousands, except share and per share data)	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Additional Paid-in Capital	Treasury Stock	Deferred Compensation	Retained Earnings	Accumulated Other Comprehensive Income	Non-Controlling Interest	Total Stockholders’ Equity
Balance as of June 30, 2016	839,200	$ 1	48,857,506	$ 30	$ 114,392	$ —	$ (1)	$ 4,581	$ 98	$ 80	$ 119,181
Repurchase of common stock	—	—	(91,798)		—	(253)	—	—	—	—	(253)
Share-based compensation	—	—	—	—	330	—	—	—	—	—	330
Amortization of deferred compensation	—	—	—	—	—	—	1	—	—	—	1
Cashless exercise of stock options	—	—	22,885	—	(30)	—	—	—	—	—	(30)
Preferred dividends paid	—	—	—	—	—	—	—	(511)	—	—	(511)
Distribution to non-controlling interest	—	—	—	—	—	—	—	—	—	(42)	(42)
Net income	—	—	—	—	—	—	—	1,862	—	12	1,874
Comprehensive income	—	—	—	—	—	—	—	—	221	—	221
Balance as of September 30, 2016	839,200	$ 1	48,788,593	$ 30	$ 114,692	$ (253)	$ —	$ 5,932	$ 319	$ 50	$ 120,771

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

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RADIANT LOGISTICS, INC.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(In thousands)	Three Months Ended September 30,	
	2016	2015
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES		
Net income	$1,874	$354
ADJUSTMENTS TO RECONCILE NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
share-based compensation expense	331	390
amortization of intangibles	2,074	2,195
depreciation and leasehold amortization	932	910
Deferred income tax benefit	(422)	(435)
amortization of loan fees	80	101
change in contingent consideration	250	(412)
transition and lease termination costs	21	2,522
loss on disposal of technology and equipment	9	54
change in (recovery of) provision for doubtful accounts	46	(178)
CHANGE IN OPERATING ASSETS AND LIABILITIES:		
accounts receivable	(13,294)	1,121
employee and other receivables	239	(98)
income tax deposit	1,380	(1,585)
prepaid expenses, deposits and other assets	(2,129)	1,793
accounts payable and accrued transportation costs	9,642	(1,185)
commissions payable	1,805	(445)
other accrued costs	451	(377)
other liabilities	327	268
deferred rent liability	85	(232)
transition and lease termination liability	(221)	(121)
Net cash provided by operating activities	3,480	4,640
CASH FLOWS USED FOR INVESTING ACTIVITIES:		
Acquisition during the fiscal year	(50)	—
Purchases of technology and equipment	(662)	(995)
Proceeds from sale of technology and equipment	37	66
Payments to former shareholders of acquired operations	(50)	(684)
Net cash used for investing activities	(725)	(1,613)
CASH FLOWS PROVIDED BY FINANCING ACTIVITIES:		
Proceeds from (repayments to) credit facility, net of credit fees	1,712	(37,708)
Repayments of notes payable	(585)	(42)
Proceeds from stock offering, net of offering costs	—	38,430

Purchases of treasury stock	(253)	—
Payment of preferred stock dividends	(511)	(511)
Distribution to non-controlling interest	(42)	—
Payments of employee tax withholdings related to cashless stock option exercises	(30)	(86)
Tax benefit from exercise of stock options	—	58
Net cash provided by financing activities	291	141
Effect of exchange rate changes on cash and cash equivalents	(10)	(205)
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,036	2,963
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,768	7,268
CASH AND CASH EQUIVALENTS, END OF PERIOD	$7,804	$10,231
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Income taxes paid	$333	$401
Interest paid	$570	$1,406

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

RADIANT LOGISTICS, INC.

Notes to the Condensed Consolidated Financial Statements

(unaudited)

(All amounts in these footnotes other than share amounts and per share amounts are in thousands)

NOTE 1 – THE COMPANY AND BASIS OF PRESENTATION

The Company

Radiant Logistics, Inc. (the "Company") operates as a third party logistics company, providing multi-modal transportation and logistics services primarily in the United States and Canada. The Company services a large and diversified account base consisting of consumer goods, food and beverage, manufacturing and retail customers which it supports from an extensive network of over 100 operating locations across North America, as well as an integrated international service partner network located in other key markets around the globe. The Company provides these services through a multi-brand network including 18 Company-owned offices. As a third party logistics company, the Company has approximately 10,000 asset-based transportation companies, including motor carriers, railroads, airlines and ocean lines, in its carrier network. The Company believes shippers value its services because it is able to objectively arrange the most efficient and cost-effective means, type and provider of transportation service since it is not influenced by the ownership of transportation assets. In addition, the Company's minimal investment in physical assets affords it the opportunity for higher return on invested capital and net cash flows than the Company's asset-based competitors.

Through its operating locations across North America, the Company offers domestic and international air and ocean freight forwarding services and freight brokerage services including truckload services, less than truckload services and intermodal services, which is the movement of freight in trailers or containers by combination of truck and rail. The Company's primary business operations involve arranging the shipment, on behalf of its customers, of materials, products, equipment and other goods that are generally larger than shipments handled by integrated carriers of primarily small parcels, such as FedEx, DHL and UPS, including arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. The Company also provides other value-added logistics services, including customs brokerage, order fulfillment, inventory management and warehousing services to complement its core transportation service offering.

The Company expects to grow its business organically and by completing acquisitions of other companies with complementary geographical and logistics service offerings. The Company's organic growth strategy will continue to focus on strengthening existing and expanding new customer relationships leveraging the benefit of the Company's new truck brokerage and intermodal service offerings, while continuing its efforts on the organic build-out of the Company's network of strategic operating partner locations. In addition, as the Company continues to grow and scale its business, the Company is creating density in its trade lanes which creates opportunities for the Company to more efficiently source and manage its transportation capacity.

In addition to its focus on organic growth, it will continue to search for acquisition candidates that bring critical mass from a geographic and purchasing power standpoint, along with providing complementary service offerings to the current platform. As the Company continues to grow and scale its business, it remains focused on leveraging its back-office infrastructure and technology systems to drive productivity improvement across the organization.

Interim Disclosure

The condensed consolidated financial statements included herein have been prepared, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations. The Company's management believes that the disclosures are adequate to make the information presented not misleading. These condensed financial statements should be read in conjunction with the financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2016.

The interim period information included in this Quarterly Report on Form 10-Q reflects all adjustments, consisting of normal recurring adjustments, that are, in the opinion of the Company's management, necessary for a fair statement of the results of the respective interim periods. Results of operations for interim periods are not necessarily indicative of results to be expected for an entire year.

Basis of Presentation

The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries as well as a single variable interest entity, Radiant Logistics Partners, LLC ("RLP"), which is 40% owned by Radiant Global Logistics, Inc. ("RGL"), and 60% owned by Radiant Capital Partners, LLC ("RCP", see Note 8), an affiliate of Bohn H. Crain, the Company's Chief Executive Officer, whose accounts are included in the condensed consolidated financial statements. All significant intercompany balances and transactions have been eliminated. All amounts in the condensed consolidated financial statements are stated in thousands, except share and per share amounts.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Use of Estimates

The preparation of financial statements and related disclosures in accordance 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. Such estimates include revenue recognition, accruals for the cost of purchased transportation, the fair value of acquired assets and liabilities, changes in contingent consideration, accounting for the issuance of shares and share-based compensation, the assessment of the recoverability of long-lived assets and goodwill, and the establishment of an allowance for doubtful accounts. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period that they are determined to be necessary. Actual results could differ from those estimates.

b) Fair Value Measurements

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs utilize observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the related assets or liabilities. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability.

c) Fair Value of Financial Instruments

The carrying values of the Company's receivables, accounts payable and accrued transportation costs, commissions payable, other accrued costs, and the income tax deposit approximate the fair values due to the relatively short maturities of these instruments. The carrying value of the Company's credit facility and other long-term liabilities would not differ significantly from fair value (based on Level 2 inputs) if recalculated based on current interest rates. Contingent consideration attributable to the Company's acquisitions are reported at fair value using Level 3 inputs.

d) Cash and Cash Equivalents

For purposes of the statements of cash flows, cash equivalents include all highly liquid investments with original maturities of three months or less that are not securing any corporate obligations. Cash balances may at times exceed federally insured limits. Checks issued by the Company that have not yet been presented to the bank for payment are reported as accounts payable and commissions payable in the accompanying condensed consolidated balance sheets. Accounts payable and commissions payable includes outstanding payments which had not yet been presented to the bank for payment in the amounts of $5,678 and $4,434 as of September 30, 2016 and June 30, 2016, respectively.

e) Concentrations

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally-insured limits. The Company has not experienced any losses in such accounts.

f) Accounts Receivable

The Company's receivables are recorded when billed and represent claims against third parties that will be settled in cash. The carrying value of the Company's receivables, net of the allowance for doubtful accounts, represents their estimated net realizable value. The Company evaluates the collectability of accounts receivable on a customer-by-customer basis. The Company records a reserve for bad debts against amounts due in order to reduce the net recognized receivable to an amount the Company believes will be reasonably collected. The reserve is a discretionary amount determined from the analysis of the aging of the accounts receivables, historical experience and knowledge of specific customers.

The Company derives a substantial portion of its revenue through independently-owned strategic operating partner locations operating under various Company brands. Each individual strategic operating partner is responsible for some or all of the bad debt expense related to the underlying customers being serviced by such operating partner. To facilitate this arrangement, certain strategic operating partners are required to maintain a security deposit with the Company that is recognized as a liability in the Company's financial statements. The Company charges each individual strategic operating partner's bad debt reserve account for any accounts receivable aged beyond 90 days. However, the bad debt reserve account may carry a deficit balance when amounts charged to this reserve exceed amounts otherwise available in the bad debt reserve account. In these circumstances, deficit bad debt reserve accounts, as well as other deficit balances owed to us by our strategic operating partners, are recognized as a receivable in the Company's financial statements. Other strategic operating partners are not responsible to establish a bad debt reserve, however, they are still responsible for deficits and their strategic operating partner agreements provide that the Company may withhold all or a portion of future commission checks payable to the individual strategic operating partner in satisfaction of any deficit balance. Currently, a number of the Company's strategic operating partners have a deficit balance in their bad debt reserve account. The Company expects to replenish these funds through the future business operations of these strategic operating partners. However, to the extent any of these operating partners were to cease operations or otherwise be unable to replenish these deficit accounts, the Company would be at risk of loss for any such amount.

g) Technology and Equipment

Technology (computer software, hardware, and communications), vehicles, furniture and equipment are stated at cost, less accumulated depreciation over the estimated useful lives of the respective assets. Depreciation is computed using three to fifteen year lives for vehicles, communication, office, furniture, and computer equipment using the straight line method of depreciation. Computer software is depreciated over a three to five year life using the straight line method of depreciation. For leasehold improvements, the cost is amortized over the shorter of the lease term or useful life on a straight line basis. Upon retirement or other disposition of these assets, the cost and related accumulated depreciation or amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in other income or expense. Expenditures for maintenance, repairs and renewals of minor items are charged to expense as incurred. Major renewals and improvements are capitalized.

h) Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of a business acquired. The Company typically performs its annual goodwill impairment test effective as of April 1 of each year, unless events or circumstances indicate impairment may have occurred before that time. The Company assesses qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. After assessing qualitative factors, the Company determined that no further testing was necessary. If further testing was necessary, the Company would have performed a two-step impairment test for goodwill. The first step requires the Company to determine the fair value of each reporting unit, and compare the fair value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and the Company must perform a second more detailed impairment assessment. The second impairment assessment involves allocating the reporting unit's fair value to all of its recognized and unrecognized assets and liabilities in order to determine the implied fair value of the reporting unit's goodwill as of the assessment date. The implied fair value of the reporting unit's goodwill is then compared to the carrying amount of goodwill to quantify an impairment charge as of the assessment date. As of September 30, 2016, management believes there are no indications of impairment.

i) Long-Lived Assets

Acquired intangibles consist of customer related intangibles, trade names and trademarks, and non-compete agreements arising from the Company's acquisitions. Customer related intangibles are amortized using the straight-line method over a period of up to 10 years, trademarks and trade names are amortized using the straight line method over

15 years, and non-compete agreements are amortized using the straight line method over the term of the underlying agreements.

The Company reviews long-lived assets to be held-and-used for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. If the sum of the undiscounted expected future cash flows over the remaining useful life of a long-lived asset is less than its carrying amount, the asset is considered to be impaired. Impairment losses are measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset. When fair values are not available, the Company estimates fair value using the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset. Assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. Management has performed a review of all long-lived assets and has determined no impairment of the respective carrying value has occurred as of September 30, 2016.

j) Business Combinations

The Company accounts for business combinations using the purchase method of accounting and allocates the purchase price to the tangible and intangible assets acquired and the liabilities assumed based upon their estimated fair values at the acquisition date. The difference between the purchase price and the fair value of the net assets acquired is recorded as goodwill. While the Company uses its best estimates and assumptions to accurately value assets acquired and liabilities assumed at the acquisition date, the estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded in the condensed consolidated statements of operations.

The fair values of intangible assets acquired are estimated using a discounted cash flow approach with Level 3 inputs. Under this method, an intangible asset's fair value is equal to the present value of the incremental after-tax cash flows (excess earnings) attributable solely to the intangible asset over its remaining useful life. To calculate fair value, the Company uses risk-adjusted cash flows discounted at rates considered appropriate given the inherent risks associated with each type of asset. The Company believes the level and timing of cash flows appropriately reflects market participant assumptions.

The Company determines the acquisition date fair value of the contingent consideration payable based on the likelihood of paying the contingent consideration as part of the consideration transferred. The fair value is estimated using projected future operating results and the corresponding future earn-out payments that can be earned upon the achievement of specified operating objectives and financial results by acquired companies using Level 3 inputs and the amounts are then discounted to present value. These liabilities are measured quarterly at fair value, and any change in the contingent liability is included in the condensed consolidated statements of operations.

k) Commitments

The Company has operating lease commitments for equipment rentals, office space, and warehouse space under non-cancelable operating leases expiring at various dates through March 2022. Rent expense is recognized straight line over the term of the lease. Minimum future lease payments (excluding the lease payments included in the lease termination liability) under these non-cancelable operating leases for each of the next five fiscal years ending June 30 and thereafter are as follows:

(In thousands)	
2017 (remaining portion)	$3,470
2018	3,960
2019	3,289
2020	3,030
2021	2,301
Thereafter	973
Total minimum lease payments	$17,023

Rent expense amounted to $1,217 and $1,228 for the three months ended September 30, 2016 and 2015, respectively.

l) Lease Termination and Transition Costs

Lease termination costs consist of expenses related to future rent payments for which the Company no longer intends to receive any economic benefit. A liability is recorded when we cease to use leased space. Lease termination costs are calculated as the present value of lease payments, net of expected sublease income, and the loss on disposition of assets. Transition costs consist of non-recurring personnel costs that will be eliminated in connection with the winding-down of the historical back-office of Service by Air, Inc. ("SBA") and other operating locations.

The transition and lease termination liability consists of the following:

(In thousands)	Lease Termination Costs	Retention and Severance Costs	Non-recurring Personnel Costs	Total
Balance as of June 30, 2016	$ 1,815	$ 681	$ —	$ 2,496
Lease termination and transitions costs	3	18	455	476
Payments and other	(245)	—	(455)	(700)
Balance as of September 30, 2016	$ 1,573	$ 699	$ —	$ 2,272

m) 401(k) Savings Plans
The Company has an employee savings plan under which the Company provides safe harbor matching contributions. The Company's contributions under the plans were $182 and $147 for the three months ended September 30, 2016 and 2015, respectively.

n) Income Taxes
Deferred income taxes are reported using the asset and liability method. Deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company reports a liability for unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. Estimated interest and penalties, if any, are recorded as a component of interest expense or other expense, respectively.

o) Revenue Recognition and Purchased Transportation Costs
The Company is the primary obligor responsible for providing the service desired by the customer and is responsible for fulfillment, including the acceptability of the service(s) ordered or purchased by the customer. At the Company's sole discretion, it sets the prices charged to its customers, and is not required to obtain approval or consent from any other party in establishing its prices. The Company has multiple suppliers for the services it sells to its customers, and has the absolute and complete discretion and right to select the supplier that will provide the product(s) or service(s) ordered by a customer, including changing the supplier on a shipment-by-shipment basis. In most cases, the Company determines the nature, type, characteristics, and specifications of the service(s) ordered by the customer. The Company also assumes credit risk for the amount billed to the customer.

As a non-asset based carrier, the Company generally does not own transportation assets. The Company generates the major portion of its freight forwarding revenues by purchasing transportation services from direct (asset-based) carriers and reselling those services to its customers. Based upon the terms in the contract of carriage, revenues related to shipments where the Company issues a House Airway Bill or a House Ocean Bill of Lading are recognized at the time the freight is tendered to the direct carrier at origin net of duties and taxes. Costs related to the shipments are also recognized at this same time based upon anticipated margins, contractual arrangements with direct carriers, and other known factors. The estimates are routinely monitored and compared to actual invoiced costs. The estimates are adjusted as deemed necessary by the Company to reflect differences between the original accruals and actual costs of purchased transportation.

This method generally results in recognition of revenues and purchased transportation costs earlier than the preferred methods under GAAP which does not recognize revenue until a proof of delivery is received or which recognizes revenue as progress on the transit is made. The Company's method of revenue and cost recognition does not result in a material difference from amounts that would be reported under such other methods.

All other revenue, including revenue from other value-added services including brokerage services, warehousing and fulfillment services, is recognized upon completion of the service.

p) Share-Based Compensation
The Company ha