

RADIANT LOGISTICS, INC
Form 10-K
September 28, 2015

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended June 30, 2015

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	(IRS Employer
of incorporation or organization)	Identification Number)

405 114th Avenue S.E., Third Floor

Bellevue, WA 98004

(Address of Principal Executive Offices)

(425) 943-4599

(Registrant's Telephone Number, Including Area Code)

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

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Title of Each Class Name of Exchange on which Registered
Common Stock, \$.001 Par Value NYSE MKT

Securities registered under Section 12(g) of the Exchange Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes No

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

Indicate by check mark whether the registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this form 10-K.

Indicate by check mark whether the registrant 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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based on the closing share price of the registrant's common stock on December 31, 2014 as reported on the NYSE MKT was \$70,145,337. Shares of common stock held by each current executive officer and director and by each person who is known by the registrant to own 5% or more of the outstanding common stock have been excluded from this computation in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not a conclusive determination for other purposes.

As of September 24, 2015, 48,728,827 shares of the registrant's common stock were outstanding.

Documents Incorporated by Reference: Portions of the registrant's proxy statement for the 2015 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year

ended June 30, 2015.

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CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING STATEMENTS

Cautionary Statement for Forward-Looking Statements

This report contains “forward-looking statements” within the meaning set forth in United States securities laws and regulations – that is, statements related to future, not past, events. In this context, forward-looking statements often address our expected future business, financial performance and financial condition, and often contain words such as “anticipate,” “believe,” “estimates,” “expect,” “future,” “intend,” “may,” “plan,” “see,” “seek,” “strategy,” or “will” or the negative of any variation thereon or similar terminology or expressions. These forward-looking statements are not guarantees and are subject to known and unknown risks, uncertainties and assumptions about us that may cause our actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. We have developed our forward-looking statements based on management’s beliefs and assumptions, which in turn rely upon information available to them at the time such statements were made. Such forward-looking statements reflect our current perspectives on our business, future performance, existing trends and information as of the date of this report. These include, but are not limited to, our beliefs about future revenue and expense levels, growth rates, prospects related to our strategic initiatives and business strategies, express or implied assumptions about, among other things: the continued retention of our relationships with our independent agents; the performance of our historic business, as well as the businesses we have recently acquired, at levels consistent with recent trends and reflective of the synergies we believe will be available to us as a result of such acquisitions; our ability to successfully integrate our recently acquired businesses; our ability to locate suitable acquisition opportunities and secure the financing necessary to complete such acquisitions; the occurrence of no adverse developments effecting domestic and international economic, political or competitive conditions within our industry; transportation costs remaining in-line with recent levels and expected trends; our ability to mitigate, to the best extent possible, our dependence on current management and certain of our larger strategic operating partners; the absence of any adverse laws or governmental regulations affecting the transportation industry in general, and our operations in particular; and such other factors that may be identified from time to time in our Securities and Exchange Commission (“SEC”) filings and other public announcements including those set forth below under the caption “Risk Factors” in Part 1 Item 1A of this report. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the foregoing. Readers are cautioned not to place undue reliance on our forward-looking statements, as they speak only as of the date made. We disclaim any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

ITEM 1. BUSINESS

Our Company

Radiant Logistics, Inc. (the “Company,” “we” or “us”), operates as a third party logistics company, providing multi-modal transportation and logistics services primarily in the United States and Canada. We service a large and diversified account base consisting of consumer goods, food and beverage, manufacturing and retail customers which we support from an extensive network of over 150 operating locations across North America. We provide these services through a multi-brand network comprised of approximately 31 Company owned offices and 128 locations operated by our independent agents, as well as an integrated international service partner network located in other key markets around the globe. As a third party logistics company, we have approximately 10,000 asset-based transportation companies, including motor carriers, railroads, airlines and ocean lines in our carrier network. We believe shippers value our services because we are able to objectively arrange the most efficient and cost-effective means, type and provider of transportation service since we are not influenced by the ownership of transportation assets. In addition, our minimal investment in physical assets affords us the opportunity for higher return on invested capital and net cash flows than our asset-based competitors.

Through our operating locations across North America, we offer 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. Our primary business operations involve arranging the shipment, on behalf of our 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. We also provide other value-added logistics services, including customs brokerage, order fulfillment, inventory management and warehousing services to complement our core transportation service offering.

We expect to grow our business organically and by completing acquisitions of other companies with complementary geographical and logistics service offerings. Our organic growth strategy will continue to focus on strengthening existing and expanding new customer relationships leveraging the benefit of our new truck brokerage and intermodal service offerings, while continuing our efforts on the organic build-out of our network of strategic operating partner locations. In addition to our focus on organic growth, we continue to search for acquisition candidates that bring critical mass from a geographical standpoint, purchasing power and/or complementary service offerings to the current platform. As we continue to grow and scale the business, we remain focused on leveraging our back-office infrastructure to drive productivity improvement across the organization. In addition, as we continue to grow and scale the business we are creating density in our trade lanes which creates opportunities for us to more efficiently source and manage our transportation capacity.

Recent Developments

During our fourth fiscal quarter of 2015 (ended June 30, 2015), we completed the following three acquisitions:

- Wheels Group, Inc. (“Wheels”), our most significant acquisition to date, is one of the largest third party logistics providers in Canada. Wheels significantly expands our scale and provides geographic and service line expansion through its truck brokerage and intermodal service offering throughout the United States and Canada. Based on its historical financial statements, Wheels generated approximately CAN\$375 million in revenue for the twelve months ended December 31, 2014.

- Service by Air, Inc. (“SBA”) is a domestic and international air freight forwarder serving manufacturers, distributors and retailers through a combination of three company-owned operating locations and forty independent agency locations across North America. Based on its historical financial statements, SBA generated approximately \$130.7 million in revenue for the twelve months ended August 31, 2014, including revenue attributable to the operations of SBA’s Highways and Skyways independent agency.
- Highways and Skyways, Inc. (“Highways and Skyways”) is a provider of a full range of domestic and international transportation and logistics services, and former agent of SBA. Based on management generated internal historical financial statements, Highways and Skyways generated approximately \$11.5 million in revenue for the twelve months ended December 31, 2014, \$7.5 million of which was reported as SBA revenue and \$4.0 million of which was reported as Highways and Skyways revenue.

Competitive Strengths

As a non-asset based third-party logistics provider, we believe that we are well-positioned to provide cost-effective and efficient solutions to address the demand in the marketplace for transportation and logistics services. We believe that the most important

competitive factors in our industry are quality of service, including reliability, responsiveness, expertise and convenience, scope of operations, geographic coverage, information technology and price. We believe our primary competitive advantages are as follows:

Non-asset based business model

As a non-asset based provider, we own only a minimal amount of equipment. By not owning the transportation equipment used to transport the freight, which results in relatively no dedicated or fixed operating costs, we are able to leverage our network of locations to offer competitive pricing and flexible solutions to our customers. Moreover, our balanced product offering provides us with revenue streams from multiple sources and enables us to retain customers even as they shift from priority to deferred shipments of their products. We believe our low capital intensity model allows us to provide low-cost solutions to our customers, operate our business with strong cash flow characteristics, and retain significant flexibility in responding to changing industries and economic conditions.

Offer significant advantages to our strategic operating partners

Our current network is predominantly represented by independent agents, who we also refer to as our “strategic operating partners”, who rely on us for operating authority, technology, sales and marketing support, access to working capital, our carrier and international partner networks, and collective purchasing power. Through this strategic alliance, our strategic operating partners have the ability to focus on the operational and sales support aspects of the business without diverting costs or expertise to the structural aspect of their operations, thus, providing our strategic operating partners with the regional, national and global brand recognition that they would not otherwise be able to achieve acting alone.

Lower-risk operation of network of strategic operating partners

We derive a substantial portion of our revenue pursuant to agreements with our strategic operating partners operating under our various brands. These arrangements afford us with a relatively low risk growth model as each operating partner is responsible for its own sales and costs of operations. Under shared economic arrangements with our operating partners, we are responsible to provide centralized back-office infrastructure, transportation and accounting systems, billing and collection services.

Diverse customer base

We service a large and diversified account base of over 12,000 accounts consisting of consumer goods, food and beverage, manufacturing and retail customers. As of the date of this report, no single customer and no strategic operating partner represented more than 5% of our net revenues, reducing risks associated with any particular industry, geographic or customer concentration.

Information technology resources

A primary component of our business strategy is the continued development of advanced information systems to provide accurate and timely information to our management, strategic operating partners and customers. We believe that the ability to provide accurate real-time information on the status of shipments has and will become increasingly more important in our industry. Our customer delivery tools enable connectivity with our customers’ and trading partners’ systems, which leads to more accurate and up-to-date information on the status of shipments. Our centralized transportation management system (rating, routing, tender and financial settlement process) drives significant productivity improvement across our network.

Global network of transportation providers

We provide worldwide supply chain services, which today include international air and ocean services that complement our domestic service offerings. These offerings include heavyweight and small package air services, providing same day (next flight out) air charters, next day a.m./p.m., second day a.m./p.m. as well as time definite surface transport moves. Our non-asset based business model allows us to use commercial passenger and cargo flights. Thus, we have thousands of daily flight options to choose from, and our pickup and delivery network provides us with zip code to zip code coverage throughout North America.

Sourcing and managing transportation

As we continue to grow and scale the business, we are developing density in our trade lanes which creates opportunities for us to more efficiently source and manage our transportation capacity. Through our acquisition of On Time Express, Inc. (“On Time”) in 2013 we have a dedicated line haul network that provides transportation capacity to our operating locations in certain key trade lanes across North America. In addition, with our recent acquisition of Wheels our network now has access to truck brokerage and intermodal capabilities. We believe the benefit of our relative purchasing power along with our recent service line expansion will serve as a catalyst for margin expansion in our existing business and a competitive differentiator in the marketplace to help us secure new customers and attract additional strategic operating partners to our network.

Value added Services

In addition to our core transportation service offerings, we also provide value added supply chain services including customs brokerage, order fulfillment, inventory management and warehouse and distribution services. We believe that our value added services allow us to leverage our transportation services in order to generate additional revenue and provide additional convenience to our customers. With our recent acquisition of Wheels, we have expanded the scope of our value added services to include warehouse and distribution services in support of U.S. shippers looking to access the Canadian markets, along with an expanded analytical consulting and reporting services capability. With our recent acquisition of SBA, we have also expanded our customs brokerage capabilities.

Industry Overview

The logistics industry is highly fragmented with thousands of companies of various sizes competing in the domestic and international markets. As business requirements for efficient and cost-effective logistics services have increased, so has the importance and complexity of effectively managing freight transportation. Businesses increasingly strive to minimize inventory levels, perform manufacturing and assembly operations in the lowest cost locations, and distribute their products in numerous global markets. As a result, companies are increasingly looking to third-party logistics providers to help them execute their supply chain strategies.

Shippers typically manage their supply chains using some combination of asset and non-asset based service providers. We operate principally as a non-asset based third party logistics provider competing in the three markets of freight forwarding, truck brokerage and intermodal transportation services. According to Armstrong and Associates, the market for third party logistics services in the United States and Canada is estimated at approximately \$170 billion.

Because non-asset based companies select from various transportation options in routing customer shipments, they are often able to serve customers less expensively and with greater flexibility than their asset based competitors, who are typically focused on maximizing the utilization of their own captive fleets of trucks, aircraft and ships rather than the specific needs of the customer. Over the past two decades, the U.S. third party logistics markets has grown at a cumulative annual growth rate of approximately 9%, higher than U.S. trade growth and the average growth in GDP.

We believe there are several factors that are increasing demand for global logistics solutions. These factors include:

- Outsourcing of non-core activities;
- Globalization of trade;
- Increased need for time-definite delivery;
- Consolidation of global logistics providers;
- Increasing influence of e-business and the Internet.

Our Growth Strategy

Our objective is to provide customers with comprehensive multi-modal transportation and logistics solutions offered by us through our Radiant®, Wheels™ Airgroup®, Adcom®, DBA™, Service By Air™ and On Time™ brands. Since inception of our business in 2006, we have executed a strategy to expand operations through a combination of organic growth and the strategic acquisition of non-asset based transportation and logistics providers meeting our acquisition criteria. We have successfully completed 14 acquisitions since our initial acquisition of Airgroup in January of 2006, including:

- Automotive Services Group, expanding our services into the automotive industry, in 2007;
- Adcom Express, Inc., (“Adcom”) adding domestic operating partner locations, in 2008;
- DBA Distribution Services, Inc., (“DBA”) adding two Company-owned locations and operating partner locations, in 2011;
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ISLA International Ltd., (“ISLA”) adding a Company-owned location in Laredo, Texas, providing us with bilingual expertise in both north and south bound cross-border transportation and logistics services, in 2011;

·Brunswicks Logistics, Inc., (“ALBS”) adding a strategic Company-owned location in New York-JFK, in 2012;

·Marvir Logistics, Inc., (“Marvir”) adding a Company location in Los Angeles from the conversion of a former operating partner since 2006, in 2012;

·International Freight Systems of Oregon, Inc., (“IFS”) adding a Company location in Portland, Oregon, from the conversion of a former operating partner since 2007, in 2012;

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- On Time Express, Inc., (“On Time”) adding three Company-owned locations in Phoenix, Arizona, Dallas, Texas and Atlanta, Georgia, to providing additional line haul and time critical logistics capabilities, in 2013;
- Phoenix Cartage and Air Freight, LLC, (“PCA”) opening a Company-owned location in Philadelphia, Pennsylvania, in 2014;
- Trans-NET, Inc. (“TNI”) expanding Company-owned operations in Seattle, Washington and providing a gateway of services to the Russian Far East, in 2014;
- Don Cameron and Associates, Inc. (“DCA”), a Minnesota based, privately held company that provides a full range of domestic and international transportation and logistics services across North America, in 2014;
- Wheels, one of the largest third party logistics providers in Canada, offering truck brokerage services and intermodal service offering throughout the United States and Canada along with value added warehouse and distribution service offerings in support of U.S. shippers looking to access the Canadian markets, in 2015;
- SBA, a privately-held corporation based in New York, adding three Company-owned operating locations and forty strategic operating partner locations across North America, in 2015; and
- Highways and Skyways, a privately held Kentucky-based company, adding a Company-owned location near the Cincinnati airport from the conversion of a former SBA operating partner in 2015.

We expect to grow our business organically and by completing acquisitions of other companies with complementary geographical and logistics service offerings. We will continue to make enhancements to our back-office infrastructure, transportation management, and accounting systems to support this growth. Our organic growth strategy will continue to focus on strengthening existing and expanding new customer relationships, while continuing our efforts on the organic build-out of our network of strategic operating partner locations. In addition, we will also be working to drive further productivity improvements enabled through our value-added truck brokerage and customs house brokerage service capabilities and the optimization of our own transportation capacity management opportunities available through On Time’s dedicated line haul network.

Our acquisition strategy has been designed to take advantage of shifting market dynamics. The third party logistics industry continues to grow as an increasing number of businesses outsource their logistics functions to more cost effectively manage and extract value from their supply chains. The industry is positioned for further consolidation as it remains highly fragmented, and as customers are demanding the types of sophisticated and broad reaching service offerings that can more effectively be handled by larger more diverse organizations. We believe the highly fragmented composition of the marketplace, the industry participants’ need for capital, and their owners’ desire for liquidity has and will continue to produce a large number of attractive acquisition candidates. For the most part, our target acquisition candidates are generally smaller than those identified as acquisition targets of larger public companies and have limited ability to conduct their own public offerings or obtain financing that will provide them with capital for liquidity or rapid growth. We believe that many of these “smaller” companies are receptive to our acquisition program as a vehicle for liquidation or growth. We intend to be opportunistic in executing our acquisition strategy with a goal of expanding both our domestic and international capabilities.

Our Operating Strategy

Leverage the People, Process and Technology Available through a Central Platform. A key element of our operating strategy is to maximize our operational efficiencies by integrating general and administrative functions into our back-office operations and reducing or eliminating redundant functions and facilities at acquired companies. This is designed to enable us to quickly realize potential savings and synergies, efficiently control and monitor operations of acquired companies, and allow acquired companies to focus on growing their sales and operations.

Develop and Maintain Strong Customer Relationships. We seek to develop and maintain strong interactive customer relationships by anticipating and focusing on our customers’ needs. We emphasize a relationship-oriented approach to business, rather than the transaction or assignment-oriented approach used by many of our competitors. To develop close customer relationships, we and our network of operating partners regularly meet with both existing and prospective customers to help design solutions for, and identify the resources needed to execute, their supply chain strategies. We believe that this relationship-oriented approach results in greater customer satisfaction and reduced

business development expense.

Operations

Through our operating locations across North America, we offer 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. As a third-party logistics provider, our primary business operations involve arranging the shipment, on behalf of our 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

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arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. We also provide other value-added logistics services, including customs brokerage, order fulfillment, inventory management and warehousing services to complement our core transportation service offering.

As a non-asset based provider we generally do not own the transportation equipment used to transport the freight. We generally expect to neither own nor operate any material transportation assets and, consequently, arrange for transportation of our customers' shipments via trucking companies, commercial airlines, air cargo carriers, railroads, ocean carriers and other non-asset based third-party providers. We select the carrier for a shipment based on route, departure time, available cargo capacity and cost. We may charter cargo aircraft and/or ocean vessel's from time to time depending upon seasonality, freight volumes and other factors. We generate our gross margin on the difference between what we charge to our customers for the services provided to them, and what we pay to the transportation providers to transport the freight.

The Company is organized functionally in two geographic operating segments: U.S. and Canada. Our transportation services for both the U.S. and Canada segments can be broadly placed into the categories of freight forwarding and freight brokerage services:

Freight Forwarding. As a freight forwarder, we operate as a non-asset based carrier providing domestic and international air and ocean freight forwarding services. Our freight forwarding operations involve obtaining shipment or material orders from customers, creating and delivering a wide range of logistics solutions to meet customers' specific requirements for transportation and related services, and arranging and monitoring all aspects of material flow activity utilizing advanced information technology systems. We arrange for transportation of our customers' shipments via trucking companies, commercial airlines, air cargo carriers, ocean carriers and other asset and non-asset based third-party providers. We select the carrier for a shipment based on route, departure time, available cargo capacity and cost. We charter cargo aircraft from time to time depending upon seasonality, freight volumes and other factors.

Freight Brokerage. We also provide significant bi-modal brokerage capabilities providing truck load ("TL"), less-than-truckload ("LTL") and intermodal services throughout the United States and Canada. We have a sales presence in approximately 25 key markets across North America which is managed through our centralized service centers in Chicago, Illinois and Toronto, Ontario. We offer temperature-controlled, dry van, intermodal drayage, and flatbed services and specialize in the transport of food and beverage, consumer packaged goods and frozen food and refrigerated products.

As a truck broker, we match the customers' needs with carriers' capacity to provide the most effective service and price combination. We have contracts with a substantial base of carriers allowing us to meet the varied needs of our customers. As part of the truck brokerage services, we negotiate rates, track shipments in transit and handle claims for freight loss and damage on behalf of our customers. For our LTL service, we employ a point-to-point model that we believe serves as a competitive advantage over the traditional hub and spoke LTL model in terms of faster transit times, lower incidence of damage, and reduced fuel consumption.

As an intermodal marketing company ("IMC"), we arrange for the movement of our customers' freight in containers, trailers and rail boxcars, typically over long distances of 750 miles or more. We contract with railroads to provide transportation for the long-haul portion of the shipment and with local trucking companies, known as "drayage companies," for pickup and delivery. As part of our intermodal services, we negotiate rail and drayage rates, electronically track shipments in transit, consolidate billing and handle claims for freight loss or damage on behalf of our customers.

To complement our core transportation service offerings, we also provide a number of value added, including customs brokerage, order fulfillment, inventory management and warehousing services.

Information Services

The regular enhancement of our information systems and ultimate migration of acquired companies and additional operating partner locations to a common set of back-office and customer facing applications is a key component of our growth strategy. We believe that the ability to provide accurate real-time information on the status of shipments has become increasingly important and that our efforts in this area will result in competitive service advantages. In addition, we believe that centralizing our transportation management system (rating, routing, tender and financial settlement processes) will drive significant productivity improvement across our network.

In our forwarding operations, we use a web-enabled third-party freight forwarding software (Cargowise) that is integrated to our third-party accounting system (SAP). These systems combine to form the foundation of our supply-chain technologies, which we call “Globalvision”, and which provides us with a common set of back-office operating, accounting and customer facing applications used across our network. In our brokerage operations, we utilize Wheels’ TEDS system for transportation management and Megatrans for intermodal services. In our warehousing operations, we use Microsoft’s Navision. These systems are connected to Epicor for accounting and financial reporting. All systems are integrated with “Wheelslink”, our online customer facing application providing information and reporting across all services. We have and will continue to assess and invest in technologies to maintain a “best-of-breed” technology solution set using a combination of owned and licensed technologies.

Sales and Marketing

We principally market our services through our network of Company-owned and strategic operating partner locations across North America. Each office is staffed with operational employees to provide support for the sales team, develop frequent contact with the customer's traffic department, and maintain customer service. Our current network is predominantly represented by strategic operating partners that rely on us for operating authority, technology, sales and marketing support, access to working capital, our carrier network, and collective purchasing power. Through this strategic alliance, our operating partners have the ability to focus on the operational and sales support aspects of the business without diverting costs or expertise to the structural aspect of their operations, providing our partners with the regional, national and global brand recognition that they would not otherwise be able to achieve by solely serving their local market. We have no customers or operating partners that separately account for more than 5% of our consolidated net revenues, although we do have a number of significant customers and operating partner locations with volume and stature, the loss of one or more of which could negatively impact our ability to retain and service our customers.

Research and Development

During the past two years, we have not spent any material amount on research and development activities.

Competition and Business Conditions

The logistics business is directly impacted by the volume of domestic and international trade. The volume of such trade is influenced by many factors, including economic and political conditions in the United States and abroad, major work stoppages, exchange controls, currency fluctuations, acts of war, terrorism and other armed conflicts, United States and international laws relating to tariffs, trade restrictions, foreign investments and taxation.

The global transportation and logistics services industry is intensively competitive and is expected to remain so for the foreseeable future. We will compete against asset based and other non-asset based third party logistics companies, consultants, information technology vendors and shippers' transportation departments. This competition is based primarily on rates, quality of service (such as damage-free shipments, on-time delivery and consistent transit times), reliable pickup and delivery and scope of operations. Certain of our competitors have substantially greater financial resources than we do. However, we believe the incremental service offerings enabled through our acquisition strategy (e.g. On Time's dedicated line haul network and Wheels' truck brokerage and intermodal capabilities) will serve as a catalyst for margin expansion in our existing business and a competitive differentiator in the marketplace to help us secure new customers and attract additional operating partners to our network.

Business Organization