

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 0-51142

UNIVERSAL LOGISTICS HOLDINGS, INC.

(Exact Name of Registrant as Specified in Its Charter)

Michigan
(State or Other Jurisdiction of
Incorporation or Organization)

38-3640097
(I.R.S. Employer
Identification No.)

**12755 E. Nine Mile Road
Warren, Michigan 48089**
(Address, including Zip Code of Principal Executive Offices)
(586) 920-0100
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, no par value	ULH	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the 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 Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 29, 2019, the last business day of the registrant's most recently completed second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based upon the closing sale price of the common stock on June 28, 2019, as reported by The Nasdaq Stock Market, was approximately \$184.7 million (assuming, but not admitting for any purpose, that all (a) directors and executive officers of the registrant are affiliates, and (b) the number of shares held by such directors and executive officers does not include shares that such persons could have acquired within 60 days of June 29, 2019).

The number of shares of common stock, no par value, outstanding as of March 9, 2020, was 27,238,448.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the Registrant's 2020 Annual Meeting of Shareholders are incorporated by reference in Part III of this Form 10-K.

UNIVERSAL LOGISTICS HOLDINGS, INC.
2019 ANNUAL REPORT ON FORM 10-K
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DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (“Form 10-K”) contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in Part II, Item 7 of this Form 10-K under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as “future,” “anticipates,” “believes,” “estimates,” “expects,” “intends,” “will,” “would,” “could,” “can,” “may,” and similar terms. Forward-looking statements are not guarantees of future performance and the Company’s actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of this Form 10-K under the heading “Risk Factors,” which are incorporated herein by reference. All information presented herein is based on the Company’s fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company’s fiscal years ended December 31 and the associated quarters, months and periods of those fiscal years. Each of the terms “Universal,” the “Company,” “we,” “us” and “our” as used herein refers collectively to Universal Logistics Holdings, Inc. and its subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

PART I

ITEM 1: BUSINESS

Company Background

We are a leading asset-light provider of customized transportation and logistics solutions throughout the United States, and in Mexico, Canada and Colombia. We offer our customers a broad array of services across their entire supply chain, including truckload, brokerage, intermodal, dedicated, and value-added services.

We provide a comprehensive suite of transportation and logistics solutions that allow our customers to reduce costs and manage their global supply chains more efficiently. We market and deliver our services in several ways:

- Through a direct sales and marketing network focused on selling our portfolio of services to large customers in specific industry sectors;
- Through a network of agents who solicit freight business directly from shippers; and
- Through company-managed facilities and full service freight forwarding and customs house brokerage offices.

On February 1, 2018, we acquired Fore Transportation, Inc. and certain of its affiliates (collectively, “Fore”). Fore provides its customers with intermodal solutions, including local and regional drayage services in the Chicagoland area.

On August 10, 2018, we acquired Southern Counties Express, Inc. and certain of its affiliates (collectively, “Southern Counties”). Southern Counties provides full-service harbor drayage, transloading, warehousing, and project cargo services in southern California.

On October 12, 2018, we acquired Specialized Rail Service, Inc. (“Specialized Rail”). Specialized Rail offers local and regional intermodal drayage services from its operations in Clearfield, Utah and Las Vegas, Nevada.

On December 7, 2018, we acquired Deco Logistics, Inc., d/b/a Container Connection, and Oaktree Logistics, Inc. (collectively, “Container Connection”). Based in Riverside, California, Container Connection offers harbor drayage services to the Ports of Los Angeles and Long Beach for customers primarily located within the Inland Empire and Central Valley areas.

On April 22, 2019, the Company acquired Michael’s Cartage, Inc. (“Michael’s”). Headquartered in Bridgeview, Illinois, Michael’s provides intermodal drayage services to customers primarily within a 300-mile radius of the Chicagoland area.

On November 5, 2019, the Company acquired Roadrunner Intermodal Services, LLC, Morgan Southern, Inc., Wando Trucking, LLC, and Central Cal Transportation, LLC (collectively, “Roadrunner Intermodal”). Roadrunner Intermodal is a nationwide drayage provider, servicing major port and rail locations throughout the United States.

At December 31, 2019, we had an agent network totaling approximately 313 agents, and we operated 64 company-managed terminal locations and serviced 55 value-added programs at locations throughout the United States and in Mexico, Canada and Colombia.

We were incorporated in Michigan on December 11, 2001. We have been a publicly held company since February 11, 2005, the date of our initial public offering.

Our principal executive offices are located at 12755 E. Nine Mile Road, Warren, Michigan 48089.

Operations

We broadly group our revenues into the following service categories: truckload, brokerage, intermodal, dedicated and value-added services.

Truckload. Our truckload services include dry van, flatbed, heavy-haul and refrigerated operations. Truckload services represented approximately \$251.6 million, or 16.6%, of our operating revenues in 2019. We transport a wide variety of general commodities, including automotive parts, machinery, building materials, paper, food, consumer goods, furniture, steel and other metals on behalf of customers in various industries. Our transportation services are provided through a network of owner-operators and employee drivers.

Brokerage. We provide customers freight brokerage services by utilizing third-party transportation providers to transport goods. Brokerage services also include full service domestic and international freight forwarding, and customs brokerage. In 2019, brokerage services represented approximately \$354.9 million, or 23.5%, of our operating revenues.

Intermodal. Intermodal operations include steamship-truck, rail-truck, and support services. Intermodal support services represented \$390.3 million, or 25.8%, of our operating revenues in 2019. Our intermodal support services are primarily short-to-medium distance delivery of both international and domestic containers between the port or railhead and the customer and drayage services.

Dedicated. Our dedicated services are primarily provided in support of automotive customers using van equipment. Dedicated services also include our final mile and ground expedited services. In 2019, dedicated services represented approximately \$138.7 million, or 9.2%, of our operating revenues. Our dedicated services are primarily short run or round-trip moves within a defined geographic area provided through a network of union and non-union employee drivers, owner-operators, and contract drivers.

Value-Added. Our value-added services, which are typically dedicated to individual customer requirements, include material handling, consolidation, sequencing, sub-assembly, cross-dock services, kitting, repacking, warehousing and returnable container management. Value-added services represented approximately \$376.5 million, or 24.9%, of our operating revenues in 2019. Our facilities and services are often directly integrated into the production processes of our customers and represent a critical piece of their supply chains.

Business and Growth Strategy

The key elements of our strategy are as follows:

Make strategic acquisitions. The transportation and logistics industry is highly fragmented, with hundreds of small and mid-sized competitors that are either specialized in specific vertical markets, specific service offerings, or limited to local and regional coverage. We expect to selectively evaluate and pursue acquisitions that will enhance our service capabilities, expand our geographic network and/or diversify our customer base.

Expand our network of agents and owner-operators. Increasing the number of agents and owner-operators has been a driver of our historical growth in transactional transportation services. We intend to continue to recruit qualified agents and owner-operators in order to penetrate new markets, and expand our operations in existing markets. Our agents typically focus on a small number of shippers in a particular market and are attuned to the specific transportation needs of that core group of shippers, while remaining alert to growth opportunities.

Continue to capitalize on strong industry fundamentals and outsourcing trends. We believe long-term industry growth will be supported by manufacturers seeking to outsource non-core logistics functions to cost-effective third-party providers that can efficiently manage increasingly complex global supply chains. We intend to leverage our integrated suite of transportation and logistics services, our network of facilities, our long-term customer relationships, and our reputation for operational excellence to capitalize on favorable industry fundamentals and growth expectations.

Target further penetration of key customers in the North American automotive industry. The automotive industry is one of the largest users of global outsourced logistics services, providing us growth opportunities with both existing and new customers. Of our customers generating revenues greater than \$100,000 per year, this sector comprised approximately 27% of operating revenues in 2019. We intend to capitalize on anticipated continued growth in outsourcing of higher value logistics services in the automotive sector such as sub-assembly and sequencing, which link directly into production lines and require specialized capabilities, technological expertise and strict quality controls.

Continue to expand penetration in other vertical markets. We have a history of providing highly complex value-added logistics services to automotive and other industrial customers. We have developed standardized, modular systems for material handling processes and have extensive experience in rapid implementation and workforce training. These capabilities and our broad portfolio of logistics services are transferable across vertical markets. We believe we can leverage the expertise we initially developed in the automotive sector. In addition to automotive, our targeted industries include aerospace, energy, government services, healthcare, industrial retail, consumer goods, and steel and metals.

Competition and Industry

The transportation and logistics service industry is highly competitive and extremely fragmented. We compete based on quality and reliability of service, price, breadth of logistics solutions, and IT capabilities. We compete with asset and non-asset based truckload and less-than-truckload carriers, intermodal transportation, logistics providers and, in some aspects of our business, railroads. We also compete with other motor carriers for owner-operators and agents.

Our customers may choose not to outsource their logistics operations and, rather, to retain or restore such activities as their own internal operations. In our largest vertical market, the automotive industry, we compete more frequently with a relatively small number of privately-owned firms or with subsidiaries of large public companies. These vendors have the scope and capabilities to provide the breadth of services required by the large and complex supply chains of automotive original equipment manufacturers (OEMs).

We also encounter competition from regional and local third-party logistics providers, integrated transportation companies that operate their own aircraft, cargo sales agents and brokers, surface freight forwarders and carriers, airlines, associations of shippers organized to consolidate their members' shipments to obtain lower freight rates, and internet-based freight exchanges.

In December 2017, federal regulations mandated the use of electronic logging devices (ELDs) across our industry. In December 2019, the next phase of the ELD mandate went into effect requiring carriers previously grandfathered-in for the use of automatic on-board recording devices to switch to ELDs for logging hours of service. These devices have arguably reduced effective industry capacity to date by more strictly enforcing a driver's hours of service and, as a result, miles that can be driven each day. We are using ELDs in our entire fleet and have adapted our network and customer base to the utilization constraints.

The transportation industry is continuously impacted by new rules and regulations intended to improve the overall safety of the industry. Compliance with such increasingly complex rules continues to constrain the supply of qualified drivers. We believe that our industry will continue to be hindered by an insufficient quantity of qualified drivers which creates significant competition for this declining pool.

Customers

Revenue is generated from customers throughout the United States, and in Mexico, Canada and Colombia. Our customers are largely concentrated in the automotive, steel, oil and gas, alternative energy and manufacturing industries.

A significant percentage of our revenues is derived from the domestic auto industry. Of our customers generating revenues greater than \$100,000 per year, aggregate sales in the automotive industry totaled 27%, 36% and 40% of revenues during the fiscal years ended December 31, 2019, 2018 and 2017, respectively. During 2019, 2018 and 2017, General Motors accounted for approximately 12%, 13% and 16% of our total operating revenues, respectively. Sales to our top 10 customers, including General Motors, totaled 39% in 2019. A significant percentage of our revenue also results from our providing capacity to other transportation companies that aggregate loads from a variety of shippers in these and other industries.

Independent Contractor Network

We utilize a network of agents and owner-operators located throughout the United States and in Ontario, Canada. These agents and owner-operators are independent contractors.

A significant percentage of the interaction with our shippers is provided by our agents. Our agents solicited and controlled approximately 32% of the freight we hauled in 2019, with the balance of the freight being generated by company-managed terminals, full service freight forwarding and customs house brokerage offices. Our top 100 agents in 2019 generated approximately 21% of our annual operating revenues. Our agents typically focus on three or four shippers within a particular market and solicit most of their freight business from this core group. By focusing on a relatively small number of shippers, each agent is acutely aware of the specific transportation needs of that core group of shippers, while remaining alert to growth opportunities.

We also contract with owner-operators to provide greater flexibility in responding to fluctuations in customer demand. Owner-operators provide their own trucks and are contractually responsible for all associated expenses, included financing costs, fuel, maintenance, insurance, and taxes, among other things. They are also responsible for maintaining compliance with Federal Motor Carrier Safety Administration regulations.

Revenue Equipment

The following table represents our equipment used to provide transportation services as of December 31, 2019:

Type of Equipment	Company-owned or Leased	Owner-Operator Provided	Total
Tractors	1,514	3,517	5,031
Yard Tractors	217	-	217
Trailers	3,932	1,782	5,714
Chassis	3,293	1	3,294
Containers	738	-	738

Employees and Contractors

As of December 31, 2019, we had 6,541 employees. During the year ended December 31, 2019, we also engaged, on average, the full-time equivalency of 1,487 individuals on a contract basis. As of December 31, 2019, approximately 29% of our employees in the United States, Canada and Colombia and 86% of our employees in Mexico were members of unions and subject to collective bargaining agreements. We believe our union and employee relationships are good.

Risk Management and Insurance

Our customers and federal regulations generally require that we provide insurance for auto liability and general liability claims up to \$1.0 million per occurrence. Accordingly, in the United States, we purchase such insurance from a licensed casualty insurance carrier, which is a related party, providing a minimum \$1.0 million of coverage for individual auto liability and general liability claims. We are generally self-insured for auto and general liability claims above \$1.0 million, unless riders are sought to satisfy individual customer or vendor contract requirements. In certain of our businesses, we have secured additional auto liability coverage where we are self-insured for claims above \$7.0 million. In Mexico, our operations and investment in equipment are insured through an internationally recognized, third-party insurance underwriter.

We typically self-insure for the risk of motor cargo liability claims and material handling claims. Accordingly, we establish financial reserves for anticipated losses and expenses related to motor cargo liability and material handling claims, and we periodically evaluate and adjust those reserves to reflect our experience. Any such adjustments could have a materially adverse effect on our operations and financial results.

To reduce our exposure to claims incurred while a vehicle is being operated without a trailer attached or is being operated with an attached trailer which does not contain or carry any cargo, we require our owner-operators to maintain non-trucking use liability coverage (which the industry refers to as deadhead bobtail coverage) of \$2.0 million per occurrence.

In brokerage arrangements, our exposure to liability associated with accidents incurred by other third-party carriers who haul freight on our behalf is reduced by various factors, including the extent to which the third party providers maintain their own insurance coverage.

Technology

We use multifaceted software tools and hardware platforms that support seamless integration with the IT networks of our customers and vendors through electronic data exchange systems. These tools enhance our relationships and ability to effectively communicate with customers and vendors. Our tools and platforms provide real-time, web-based visibility into the supply chains of our customers.

In our logistics segment, we customize our proprietary Warehouse Management System (WMS) to meet the needs of individual customers. Our WMS allows us to send our customers an advance shipping notice through a simple, web-based interface that can be used by a variety of vendors. It also enables us to clearly identify and communicate to the customer any vendor-related problems that may cause delays in production. We also use cross-dock and container-return-management applications that automate the cycle of material receipt and empty container return.

Our proprietary and third-party transportation management system allows full operational control and visibility from dispatch to delivery, and from invoicing to receivables collections. For our employee drivers, the system provides automated dispatch to handheld devices, satellite tracking for quality control and electronic status broadcasts to customers when requested. Our international and domestic air freight and ocean forwarding services use similar systems with added functionalities for managing air and ocean freight transportation requirements. All of these systems have customer-oriented web interfaces that allow for full shipment tracking and visibility, as well as for customer shipment input. We also provide systems that allow agents to list pending freight shipments and owner-operators with available capacity, and track particular shipments at various points in the shipping route.

We believe that these tools improve our services and quality controls, strengthen our relationships with our customers, and enhance our value proposition. Any significant disruption or failure of these systems could have a materially adverse effect on our operations and financial results.

Government Regulation

Our operations are regulated and licensed by various U.S. federal and state agencies, as well as comparable agencies in Mexico, Canada, and Colombia. Interstate motor carrier operations are subject to the broad regulatory powers, to include drug and alcohol testing, safety and insurance requirements, prescribed by the Federal Motor Carrier Safety Administration (FMCSA), which is an agency of the U.S. Department of Transportation (DOT). Matters such as weight and equipment dimensions also are subject to United States federal and state regulation. We operate in the United States under operating authority granted by the DOT. We are also subject to regulations relating to testing and specifications of transportation equipment and product handling requirements. In addition, our drivers and owner-operators must have a commercial driver's license and comply with safety and fitness regulations promulgated by the FMCSA, including those relating to drug and alcohol testing.

Our international operations, which include not only facilities in Mexico, Canada and Colombia but also transportation shipments managed by our specialized service operations, are impacted by a wide variety of U.S. government regulations and applicable international treaties. These include regulations of the U.S. Department of State, U.S. Department of Commerce, and the U.S. Department of Treasury. Regulations also cover specific commodities, destinations and end-users. Part of our specialized services operations is engaged in the arrangement of imported and exported freight. As such, we are subject to the regulations of the U.S. Customs and Border Protection, which include significant notice and registration requirements. In various Canadian provinces, we operate transportation services under authority granted by the Ministries of Transportation and Communications.

Transportation-related regulations are greatly affected by U.S. national security legislation and related regulations. We believe we are in compliance with applicable material regulations and that the costs of regulatory compliance are an ordinary operating cost of our business that we may not be able to recoup from rates charged to customers.

Environmental Regulation

We are subject to various federal, state and local environmental laws and regulations that focus on, among other things: the emission and discharge of hazardous materials into the environment or their presence at our properties or in our vehicles; fuel storage tanks; transportation of certain materials; and the discharge or retention of storm water. Under specific environmental laws, we could also be held responsible for any costs relating to contamination at our past or present facilities and at third-party waste disposal sites, as well as costs associated with cleanup of accidents involving our vehicles. We do not believe that the cost of future compliance with current

environmental laws or regulations will have a material adverse effect on our operations, financial condition, competitive position or capital expenditures for fiscal year 2019. However, future changes to laws or regulations may adversely affect our operations and could result in unforeseen costs to our business.

Seasonality

Generally, demand for our value-added services delivered to existing customers increases during the second calendar quarter of each year as a result of the automotive industry's spring selling season. Conversely, such demand generally decreases during the third quarter of each year due to the impact of scheduled OEM customer plant shutdowns in July for vacations and changeovers in production lines for new model years.

Our value-added services business is also impacted in the fourth quarter by plant shutdowns during the December holiday period. Prolonged adverse weather conditions, particularly in winter months, can also adversely impact margins due to productivity declines and related challenges meeting customer service requirements.

Our transportation services business is generally impacted by decreased activity during the post-holiday winter season and, in certain states, during hurricane season. At these times, some shippers reduce their shipments, and inclement weather impedes trucking operations or underlying customer demand.

Available Information

We make available free of charge on or through our website, www.universallogistics.com, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed with or furnished to the Securities and Exchange Commission (SEC). The contents of our website are not incorporated into this filing.

ITEM 1A: RISK FACTORS

Set forth below, and elsewhere in this Report and in other documents we file with the SEC, are risks and uncertainties that could cause our actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report.

Risks Related to Our Business

Our business is subject to general economic and business factors that are largely beyond our control, any of which could have a material adverse effect on our operating results.

Our business is dependent upon a number of general economic and business factors that may adversely affect our results of operations. These factors include significant increases or rapid fluctuations in fuel prices, excess capacity in the transportation and logistics industry, surpluses in the market for used equipment, interest rates, fuel taxes, license and registration fees, insurance premiums, self-insurance levels, and difficulty in attracting and retaining qualified drivers and independent contractors.

We operate in a highly competitive and fragmented industry, and our business may suffer if we are unable to adequately address any downward pricing pressures or other factors that may adversely affect our ability to compete with other carriers.

Further, we are affected by recessionary economic cycles and downturns in customers' business cycles, particularly in market segments and industries, such as the automotive industry, where we have a significant concentration of customers. Economic conditions may also adversely affect our customers and their ability to pay for our services.

Deterioration in the United States and world economies could exacerbate any difficulties experienced by our customers and suppliers in obtaining financing, which, in turn, could materially and adversely impact our business, financial condition, results of operations and cash flows.

We operate in the highly competitive and fragmented transportation and logistics industry, and our business may suffer if we are unable to adequately address factors that may adversely affect our revenue and costs relative to our competitors.

Numerous competitive factors could impair our ability to maintain our current profitability. These factors include the following:

- we compete with many other truckload carriers and logistics companies of varying sizes, some of which have more equipment, a broader coverage network, a wider range of services and greater capital resources than we do;
- some of our competitors periodically reduce their rates to gain business, especially during times of reduced growth rates in the economy, which may limit our ability to maintain or increase rates, maintain our operating margins or maintain significant growth in our business;
- many customers reduce the number of carriers they use by selecting so-called “core carriers” as approved service providers, and in some instances we may not be selected;
- some companies hire lead logistics providers to manage their logistics operations, and these lead logistics providers may hire logistics providers on a non-neutral basis which may reduce the number of business opportunities available to us;
- many customers periodically accept bids from multiple carriers and providers for their shipping and logistic service needs, and this process may result in the loss of some of our business to competitors and/or price reductions;
- the trend toward consolidation in the trucking and third-party logistics industries may create other large providers with greater financial resources and other competitive advantages relating to their size and with whom we may have difficulty competing;
- advances in technology require increased investments to remain competitive, and our customers may not be willing to accept higher rates to cover the cost of these investments;
- competition from Internet-based and other brokerage companies may adversely affect our relationships with our customers and freight rates;
- economies of scale that may be passed on to smaller providers by procurement aggregation providers may improve the ability of smaller providers to compete with us;
- some areas of our service coverage requires trucks with engines no older than 2011 in order to comply with environmental rules; and
- an inability to continue to access capital markets to finance equipment acquisition could put us at a competitive disadvantage.

Our revenue is largely dependent on North American automotive industry production volume, and may be negatively affected by future downturns in North American automobile production.

A significant portion of our larger customers are concentrated in the North American automotive industry. For customers generating annual revenues over \$100,000, 27% of our revenues were derived from customers in the North American automotive industry during 2019. Our business and growth largely depend on continued demand for its services from customers in this industry. Any future downturns in North American automobile production, which also impacts our steel and metals customers, could similarly affect our revenues in future periods.

Our business derives a large portion of revenue from a few major customers, and the loss of any one or more of them as customers, or a reduction in their operations, could have a material adverse effect on our business.

A large portion of our revenue is generated from a limited number of major customers concentrated in the automotive, steel and metals, and energy industries. Our top 10 customers accounted for approximately 39% of our operating revenues during 2019. Our contracts with customers generally contain cancellation clauses, and there can be no assurance that these customers will continue to utilize our services or that they will continue at the same levels. Further, there can be no assurance that these customers will not be affected by a future downturn in demand, which would result in a reduction in their operations and corresponding need for our services. Moreover, our customers may individually lose market share, apart from general economic trends. If our major customers lose U.S. market share, they may have less need for services. A reduction in or termination of services by one or more of our major customers could have a material adverse effect on our business and results of operations.

We may be adversely impacted by fluctuations in the price and availability of diesel fuel.

Diesel fuel represents a significant operating expense for the Company, and we do not currently hedge against the risk of diesel fuel price increases. An increase in diesel fuel prices or diesel fuel taxes, or any change in federal or state regulations that results in such an increase, could have a material adverse effect on our operating results to the extent we are unable to recoup such increases from customers in the form of increased freight rates or through fuel surcharges. Historically, we have been able to offset, to a certain extent, diesel fuel price increases through fuel surcharges to our customers, but we cannot be certain that we will be able to do so in the future. We continuously monitor the components of our pricing, including base freight rates and fuel surcharges, and address individual account profitability issues with our customers when necessary. While we have historically been able to adjust our pricing to help offset changes to the cost of diesel fuel through changes to base rates and/or fuel surcharges, we cannot be certain that we will be able to do so in the future.

Difficulty in attracting drivers could affect our profitability and ability to grow.

The transportation industry routinely experiences difficulty in attracting and retaining qualified drivers, including independent contractors, resulting in intense competition for drivers. We have from time to time experienced under-utilization and increased expenses due to a shortage of qualified drivers. If we are unable to attract drivers when needed or contract with independent contractors when needed, we could be required to further adjust our driver compensation packages, increase driver recruiting efforts, or let trucks sit idle, any of which could adversely affect our growth and profitability.

If we are unable to retain our key employees, our business, financial condition and results of operations could be harmed.

We are highly dependent upon the services of our key employees and executive officers. The loss of any of their services could have a material adverse effect on our operations and future profitability. We must continue to develop and retain a core group of managers if we are to realize our goal of expanding our operations and continuing our growth. We cannot assure that we will be able to do so.

A significant labor dispute involving us or one or more of our customers, or that could otherwise affect our operations, could reduce our revenues and harm our profitability.

A substantial number of our employees and of the employees of our largest customers are members of industrial trade unions and are employed under the terms of collective bargaining agreements. Each of our unionized facilities has a separate agreement with the union that represents the workers at only that facility. During 2019, a labor strike by the United Auto Workers of its employees at the facilities of our largest customer, General Motors, caused an extended shutdown of General Motors' manufacturing operations and, in turn, materially and adversely impacted our operating results during the third and fourth quarters of 2019. Any future labor disputes involving either us or our customers could similarly affect our operations. If the UAW and our automotive customers and their suppliers are unable to negotiate new contracts in the future and our customers' plants experience slowdowns or closures as a result, our revenue and profitability could be negatively impacted. A labor dispute involving another supplier to our customers that results in a slowdown or closure of our customers' plants to which we provide services could also have a material adverse effect on our business. Significant increases in labor costs as a result of the renegotiation of collective bargaining agreements could also be harmful to our business and our profitability. As of December 31, 2019, approximately 29% of our employees in the United States, Canada and Colombia, and 86% of our employees in Mexico were members of unions and subject to collective bargaining agreements.

In addition, strikes, work stoppages and slowdowns by our employees may affect our ability to meet our customers' needs, and customers may do more business with competitors if they believe that such actions may adversely affect our ability to provide service. We may face permanent loss of customers if we are unable to provide uninterrupted service. The terms of our future collective bargaining agreements also may affect our competitive position and results of operations.

Ongoing insurance and claims expenses could significantly reduce our earnings and cash flows.

Our future insurance and claims expenses might exceed historical levels, which could reduce our earnings and cash flows. The Company is self-insured for health and workers' compensation insurance coverage up to certain limits. If medical costs continue to increase, or if the severity or number of claims increase, and if we are unable to offset the resulting increases in expenses with higher freight rates, our earnings could be materially and adversely affected.

We face litigation risks that could have a material adverse effect on the operation of our business.

We face litigation risks regarding a variety of issues, including without limitation, accidents involving our trucks and employees, alleged violations of federal and state labor and employment laws, securities laws, environmental liability and other matters. These proceedings may be time-consuming, expensive and disruptive to normal business operations. The defense of such lawsuits could result in significant expense and the diversion of our management's time and attention from the operation of our business. In recent years, several insurance companies have stopped offering coverage to trucking companies as a result of increases in the severity of automobile liability claims and higher costs of settlements and verdicts. Recent jury awards in the trucking industry have reached into the tens and even hundreds of millions of dollars. Trends in such awards, commonly referred to as nuclear verdicts, could adversely affect our ability to obtain suitable insurance coverage or could significantly increase our cost for obtaining such coverage, which would adversely affect our financial condition, results of operations, liquidity and cash flows. Costs we incur to defend or to satisfy a judgment or settlement of these claims may not be covered by insurance or could exceed the amount of that coverage or increase our insurance costs and could have a material adverse effect on our financial condition, results of operations, liquidity and cash flows.

Purchase price increases for new revenue equipment and/or decreases in the value of used revenue equipment could have an adverse effect on our results of operations, cash flows and financial condition.

During the last decade, the purchase price of new revenue equipment has increased significantly as equipment manufacturers recover increased materials costs and engine design costs resulting from compliance with increasingly stringent EPA engine emission standards. Additional EPA emission mandates in the future could result in higher purchase prices of revenue equipment which could result in higher than anticipated depreciation expenses. If we were unable to offset any such increase in expenses with freight rate increases, our cash flows and results of operations could be adversely affected. If the market price for used equipment continues to decline, then we could incur substantial losses upon disposition of our revenue equipment which could adversely affect our results of operations and financial condition.

We have significant ongoing capital requirements that could affect our liquidity and profitability if we are unable to generate sufficient cash from operations or obtain sufficient financing on favorable terms.

The transportation and logistics industry is capital intensive. If we are unable to generate sufficient cash from operations in the future, we may have to limit our growth, enter into unfavorable financing arrangements, or operate our revenue equipment for longer periods, any of which could have a material adverse effect on our profitability.

We have a significant amount of debt, which could restrict our growth, place us at a competitive disadvantage or otherwise materially adversely affect our financial health.

Our significant debt levels could have important consequences such as the following:

- impair our ability to obtain additional future financing for working capital, capital expenditures, acquisitions or general corporate expenses;
- limit our ability to use operating cash flow in other areas of our business due to the necessity of dedicating a substantial portion of these funds for payments on our indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- make it more difficult for us to satisfy our obligations;
- increase our vulnerability to general adverse economic and industry conditions; and
- place us at a competitive disadvantage compared to our competitors.

Our ability to make scheduled payments on, or to refinance, our debt and other obligations will depend on our financial and operating performance, which, in turn, is subject to our ability to implement our strategic initiatives, prevailing economic conditions and certain financial, business and other factors beyond our control. If our cash flow and capital resources are insufficient to fund our debt service and other obligations, we may be forced to reduce or delay expansion plans and capital expenditures, sell material assets or operations, obtain additional capital or restructure our debt. We cannot provide any assurance that our operating performance, cash flow and capital resources will be sufficient to pay our debt obligations when they become due. We also cannot provide assurance that we would be able to dispose of material assets or operations or restructure our debt or other obligations if necessary or, even if we were able to take such actions, that we could do so on terms that are acceptable to us.

Disruptions in the credit markets may adversely affect our business, including the availability and cost of short-term funds for liquidity requirements and our ability to meet long-term commitments, which could adversely affect our results of operations, cash flows and financial condition.

If cash from operations is not sufficient, we may be required to rely on the capital and credit markets to meet our financial commitments and short-term liquidity needs. Disruptions in the capital and credit markets, as have been experienced during recent years, could adversely affect our ability to draw on our revolving credit facilities. Our access to funds under the credit facilities is dependent on the ability of banks to meet their funding commitments. A bank may not be able to meet their funding commitments if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests from other borrowers within a short period of time.

Longer term disruptions in the capital and credit markets as a result of uncertainty, changing or increased regulation, reduced alternatives, or failures of significant financial institutions could adversely affect our access to liquidity needed for our business. Any disruption could require us to take measures to conserve cash until the markets stabilize or until alternative credit arrangements or other funding for our business needs can be arranged, which could adversely affect our growth and profitability.

We have substantial fixed costs and, as a result, our operating income fluctuates disproportionately with changes in our net sales.

A significant portion of our expenses are fixed costs that neither increase nor decrease proportionately with sales. There can be no assurance that we would be able to reduce our fixed costs proportionately in response to a decline in our sales and therefore our competitiveness could be significantly impacted. As a result, a decline in our sales would result in a higher percentage decline in our income from operations and net income.

We operate in a highly regulated industry and increased costs of compliance with, or liability for violation of, existing or future regulations could have a material adverse effect on our business.

The U.S. Federal Motor Carrier Safety Administration, or FMCSA, and various state and local agencies exercise broad powers over our business, generally governing such activities as authorization to engage in motor carrier operations, drug and alcohol testing, safety and insurance requirements. Our owner-operators must comply with the safety and fitness regulations promulgated by the FMCSA, including those relating to drug and alcohol testing and hours-of-service. There also are regulations specifically relating to the trucking industry, including testing and specifications of equipment and product handling requirements. These measures could disrupt or impede the timing of our deliveries and we may fail to meet the needs of our customers. The cost of complying with these regulatory measures, or any future measures, could have a materially adverse effect on our business or results of operations.

A determination that owner-operators are employees, rather than independent contractors, could expose us to various liabilities and additional costs.

Federal and state legislation as well as tax and other regulatory authorities often seek to assert that independent contractors in the transportation service industry, such as our owner-operators, are employees rather than independent contractors. For example, on September 18, 2019, the state of California passed Assembly Bill 5 (AB5) which codified a standard test for determining a worker's status as an employee or independent contractor for purposes of determining employee benefits such as paid vacation, sick leave, meals and rest breaks, and overtime, known as the ABC test. The ABC test is generally thought to lower the threshold for classifying a worker as an employee as opposed to an independent contractor. AB 5 was scheduled to go into effect on January 1, 2020; however, a California Federal District judge issued a preliminary injunction enjoining California from enforcing AB 5 as to motor carriers. California can appeal the decision to grant the preliminary injunction.

While new in California, versions of the ABC test have existed in a number of other states over the years and have been challenged in various courts as violating the federal government's exclusive right to regulate motor carriers in interstate commerce. There can be no assurance that these interpretations and tax laws that consider these persons independent contractors will not change, that other federal or state legislation will not be enacted or that various authorities will not successfully assert a position that reclassifies independent contractors to be employees. If our owner-operators are determined to be our employees, that determination could materially increase our exposure under a variety of federal and state tax, workers' compensation, unemployment benefits, labor, employment and tort laws, as well as our potential liability for employee benefits. In addition, such changes may be applied retroactively, and if so, we may be required to pay additional amounts to compensate for prior periods. Any of the above increased costs would adversely affect our business and operating results.

Further changes in U.S. tax laws and regulations may impact our effective tax rate and may adversely affect our business, financial condition, and operating results.

The Tax Cuts and Jobs Act had a favorable impact on our effective tax rate and our net income for 2018. We also have benefited from certain other tax provisions, such as those relating to capital expenditure deductions. However, future changes in the U.S. tax laws, including any changes related to capital expenditure deductions or any significant changes to federal tax rates, interest expense deductions, or the taxation of business entities, could have a materially adverse effect on our growth opportunities, business, and results of operations.

Our results of operations may be affected by seasonal factors.

Our productivity may decrease during the winter season when severe winter weather impedes operations. Also, some shippers may reduce their shipments after the winter holiday season. At the same time, operating expenses may increase and fuel efficiency may decline due to engine idling during periods of inclement weather. Harsh weather conditions generally also result in higher accident frequency, increased freight claims, and higher equipment repair expenditures. Generally, demand for our value-added services delivered to existing customers increases during the second calendar quarter of each year as a result of the automotive industry's spring selling season and decreases during the third quarter of each year due to the impact of scheduled OEM customer plant shutdowns in July for vacations and changeovers in production lines for new model years. Our value-added services business is also impacted in the fourth quarter by plant shutdowns during the December holiday period.

Our operations are subject to various environmental laws and regulations, the violation of which could result in substantial fines or penalties.

We are subject to various environmental laws and regulations dealing with the handling of hazardous materials, underground fuel storage tanks, and discharge and retention of storm-water. We operate in industrial areas, where truck terminals and other industrial activities are located, and where groundwater or other forms of environmental contamination could occur. In prior years, we also maintained bulk fuel storage and fuel islands at two of our facilities. Our operations may involve the risks of fuel spillage or seepage, environmental damage, and hazardous waste disposal, among others. If we are involved in a spill or other accident involving hazardous substances, or if we are found to be in violation of applicable laws or regulations, it could have a materially adverse effect on our business and operating results. If we should fail to comply with applicable environmental regulations, we could be subject to substantial fines or penalties and to civil and criminal liability.

We may incur additional operating expenses or liabilities as a result of potential future requirements to address climate change issues.

Federal, state and local governments, as well as some of our customers, are beginning to respond to global warming issues. This increased focus on sustainability may result in new legislation or regulations and customer requirements that could negatively affect us as we may incur additional costs or be required to make changes to our operations in order to comply with any new regulations or customer requirements. Legislation or regulations that potentially impose restrictions, caps, taxes, or other controls on emissions of greenhouse gases such as carbon dioxide, a by-product of burning fossil fuels such as those used in the Company's trucks, could adversely affect our operations and financial results. More specifically, legislative or regulatory actions related to climate change could adversely impact the Company by increasing our fuel costs and reducing fuel efficiency and could result in the creation of substantial additional capital expenditures and operating costs in the form of taxes, emissions allowances, or required equipment upgrades. Any of these factors could impair our operating efficiency and productivity and result in higher operating costs. In addition, revenues could decrease if we are unable to meet regulatory or customer sustainability requirements. These additional costs, changes in operations, or loss of revenues could have a material adverse effect on our business, financial condition and results of operations.

Our business may be disrupted by natural disasters and severe weather conditions causing supply chain disruptions.

Natural disasters such as earthquakes, tsunamis, hurricanes, tornadoes, floods or other adverse weather and climate conditions, whether occurring in the United States or abroad, could disrupt our operations or the operations of our customers or could damage or destroy infrastructure necessary to transport products as part of the supply chain. Specifically, these events may damage or destroy assets, disrupt fuel supplies, increase fuel costs, disrupt freight shipments or routes, and affect regional economies. As a result, these events could make it difficult or impossible for us to provide logistics and transportation services; disrupt or prevent our ability to perform functions at the corporate level; and/or otherwise impede our ability to continue business operations in a continuous manner consistent with the level and extent of business activities prior to the occurrence of the unexpected event, which could adversely affect our business and results of operations or make our results more volatile.

Our information technology systems are subject to certain cyber risks and disasters that are beyond our control.

We depend heavily on the proper functioning and availability of our information, communications, and data processing systems, including operating and financial reporting systems, in operating our business. Our systems and those of our technology and communications providers are vulnerable to interruptions caused by natural disasters, power loss, telecommunication and internet failures, cyber-attack, and other events beyond our control. Accordingly, information security and the continued development and enhancement of the controls and processes designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority for us.

Although our information systems are protected through physical and software security as well as redundant backup systems, they remain susceptible to cyber security risks. Some of our software systems are utilized by third parties who provide outsourced processing services which may increase the risk of a cyber-security incident.

A successful cyber-attack or catastrophic natural disaster could significantly affect our operating and financial systems and could temporarily disrupt our ability to provide required services to our customers, impact our ability to manage our operations and perform vital financial processes, any of which could have a materially adverse effect on our business.

We are subject to certain risks arising from doing business in Mexico.

As we continue to grow our business in Mexico, we are subject to greater risks of doing business internationally, including fluctuations in foreign currencies, changes in the economic strength of Mexico, difficulties in enforcing contractual obligations and intellectual property rights, burdens of complying with a wide variety of international and U.S. export and import laws, and social, political, and economic instability. We also face additional risks associated with our Mexico business, including potential restrictive trade policies and imposition of any import or export tariffs, taxes, duties or fees, as well as potential disruptions or delays at border crossings due to immigration-related issues or other factors. If we are unable to address business concerns related to our international operations in a timely and cost efficient manner, our financial position, results of operations or cash flows could be adversely affected. The agreement permitting cross border movements for both United States and Mexican based carriers in the United States and Mexico presents additional risks in the form of potential increased competition and the potential for increased congestion in our lanes that cross the border between countries.

Our business may be harmed by public health crises, terrorist attacks, future war or anti-terrorism measures.

The rapid spread of a contagious illness such as the coronavirus, or fear of such an event, could significantly disrupt global and domestic supply chains for our customers or result in various travel restrictions, any of which could have a material adverse effect on our business and results of operations. It is unknown how extensive supply chains may be affected by the currently developing situation with the coronavirus. In addition, in order to prevent terrorist attacks, federal, state and municipal authorities have implemented and continue to follow various security measures, including checkpoints and travel restrictions on large trucks. Our international operations in Canada and Mexico may be affected significantly if there are any disruptions or closures of border traffic due to security measures. Such measures may have costs associated with them, which, in connection with the transportation services we provide, we or our owner-operators could be forced to bear. Further, a public health crisis, terrorist attack, war, or risk of such an event also may have an adverse effect on the economy. A decline in economic activity could adversely affect our revenue or restrict our future growth. Instability in the financial markets as a result of a health pandemic, terrorism or war also could affect our ability to raise capital. In addition, the insurance premiums charged for some or all of the coverage currently maintained by us could increase dramatically or such coverage could be unavailable in the future.

We may be unable to successfully integrate businesses we acquire into our operations.

Integrating businesses we acquire may involve unanticipated delays, costs or other operational or financial problems. Successful integration of the businesses we acquire depends on a number of factors, including our ability to transition acquired companies to our management information systems. In integrating businesses we acquire, we may not achieve expected economies of scale or profitability or realize sufficient revenues to justify our investment. We also face the risk that an unexpected problem at one of the companies we acquire will require substantial time and attention from senior management, diverting management's attention from other aspects of our business. We cannot be certain that our management and operational controls will be able to support us as we grow.

Discontinuation, reform or replacement of LIBOR may adversely affect our variable rate debt.

Borrowings under our credit facilities are at variable rates of interest, primarily based on London Interbank Offered Rate (“LIBOR”). LIBOR tends to fluctuate based on general interest rates, rates set by the U.S. Federal Reserve Board and other central banks, the supply of and demand for credit in the London interbank market, and general economic conditions. In July 2017, the Financial Conduct Authority in the U.K. announced a desire to phase out LIBOR as a benchmark by the end of 2021. Financial industry working groups are developing replacement rates and methodologies to transition existing agreements that depend on LIBOR as a reference rate; however, we can provide no assurance that market-accepted rates and transition methodologies will be available and finalized at the time of LIBOR cessation. If clear market standards and transition methodologies have not been developed by the time LIBOR becomes unavailable, we may have difficulty reaching agreement on acceptable replacement rates under our credit facilities. If we are unable to negotiate replacement rates on favorable terms, it could have a material adverse effect on our earnings and cash flows.

Risks Related to Our Common Stock

Because Matthew T. Moroun and Manuel J. Moroun hold a controlling interest in us, the influence of our public shareholders over significant corporate actions is limited, and we are not subject to certain corporate governance standards that apply to other publicly traded companies.

As of December 31, 2019, Matthew T. Moroun, the Chairman of our Board of Directors, and Manuel J. Moroun, a member of our Board of Directors, together own approximately 71% of our outstanding common stock. As a result, the Moroun family has the power to:

- control all matters submitted to our shareholders;
- elect our directors;
- adopt, extend or remove any anti-takeover provisions that are available to us; and
- exercise control over our business, policies and affairs.

This concentration of ownership could limit the price that some investors might be willing to pay for shares of our common stock. Our ability to engage in significant transactions, such as a merger, acquisition or liquidation, will require the consent of the Moroun family. Conflicts of interest could arise between us and the Moroun family, and any conflict of interest may be resolved in a manner that does not favor us. Accordingly, the Moroun family could cause us to enter into transactions or agreements of which our other shareholders would not approve or make decisions with which they may disagree. Because of the level of ownership held by the Moroun family, we have elected to be treated as a controlled company in accordance with the rules of the NASDAQ Stock Market. Accordingly, we are not required to comply with NASDAQ Stock Market rules which would otherwise require a majority of our board to be comprised of independent directors and require our board to have a compensation committee and a nominating and corporate governance committee comprised of independent directors.

The Moroun family may continue to retain control of us for the foreseeable future and may decide not to enter into a transaction in which shareholders would receive consideration for our common stock that is much higher than the then-current market price of our common stock. In addition, the Moroun family could elect to sell a controlling interest in us to a third-party and our other shareholders may not be able to participate in such transaction or, if they are able to participate in such a transaction, such shareholders may receive less than the then current fair market value of their shares. Any decision regarding their ownership of us that the Moroun family may make at some future time will be in their absolute discretion, subject to applicable laws and fiduciary duties.

Our stock trading volume may not provide adequate liquidity for investors.

Although shares of our common stock are traded on the NASDAQ Global Market, the average daily trading volume in our common stock is less than that of other larger transportation and logistics companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of a sufficient number of willing buyers and sellers of the common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the daily average trading volume of our common stock, significant sales of the common stock in a brief period of time, or the expectation of these sales, could cause a decline in the price of our common stock. Additionally, low trading volumes may limit a shareholder’s ability to sell shares of our common stock.

Our ability to pay regular dividends on our common stock is subject to the discretion of our Board of Directors and will depend on, among other things, our financial condition, results of operations, capital requirements, any covenants included in our credit facilities any legal or contractual restrictions on the payment of dividends and other factors the Board of Directors deems relevant.

We have adopted a cash dividend policy which anticipates a total annual dividend of \$0.42 per share of common stock. However, the payment of future dividends will be at the discretion of our Board of Directors and will depend, among other things, on our financial condition, results of operations, capital requirements, any covenants included in our credit facilities, any legal or contractual restrictions on the payment of dividends and other factors the Board of Directors deem relevant. As a consequence of these limitations and restrictions, we may not be able to make, or may have to reduce or eliminate, the payment of dividends on our common stock. Additionally, any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our common stock.

Our articles of incorporation and bylaws have, and under Michigan law are subject to, provisions that could deter or prevent a change of control.

Our articles of incorporation and bylaws contain provisions that might enable our management to resist a proposed takeover of our Company. These provisions could discourage, delay or prevent a change of control of our Company or an acquisition of our Company at a price that our shareholders may find attractive. These provisions also may discourage proxy contests and make it more difficult for our shareholders to elect directors and take other corporate actions. The existence of these provisions could limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- a requirement that special meetings of our shareholders may be called only by our Board of Directors, the Chairman of our Board of Directors, our Chief Executive Officer or the holders of a majority of our outstanding common stock;
- advance notice requirements for shareholder proposals and nominations;
- the authority of our Board of Directors to issue, without shareholder approval, preferred stock with such terms as the Board of Directors may determine, including in connection with our implementation of any shareholders rights plan; and
- an exclusive forum bylaw provision requiring that any derivative action brought on behalf of the corporation, any action asserting a claim of breach of a legal or fiduciary duty and any similar claim under the Michigan Business Corporation Act or our articles of incorporation must be brought exclusively in the Circuit Court of the County of Macomb in the State of Michigan or the United States District Court for the Eastern District of Michigan, Southern Division.

In addition, certain provisions of Michigan law that apply to us could discourage or prevent a change of control or acquisition of our Company.

ITEM 1B: UNRESOLVED SECURITIES & EXCHANGE COMMISSION STAFF COMMENTS

None.

ITEM 2: PROPERTIES

We are headquartered and maintain our corporate administrative offices in Warren, Michigan. We own our corporate administrative offices, as well as 23 terminal yards and other properties in the following locations: Dearborn, Michigan; Romulus, Michigan; Jacksonville, Florida; Garden City, Georgia; Harvey, Illinois; Gary, Indiana; Louisville, Kentucky; Albany, Missouri; Rural Hall, North Carolina; South Kearny, New Jersey; Cleveland, Ohio; Columbus, Ohio; Reading, Ohio; Latty, Ohio; York County, Pennsylvania; Wall, Pennsylvania; Mount Pleasant, South Carolina; Memphis, Tennessee; Dallas, Texas; Houston, Texas; Millwood, West Virginia and Clearfield, Utah.

As of December 31, 2019, we also leased 113 operating, terminal and yard, and administrative facilities in various U.S. cities located in 25 states, in Milton, Ontario; Windsor, Ontario; and in San Luis Potosí, Mexico. Generally, our facilities are utilized by both of our operating segments for various administrative, transportation-related or value-added services. We also deliver value-added services under our logistics segment inside or linked to 29 facilities provided by customers. Certain of our leased facilities are leased from entities controlled by our majority shareholders. These facilities are leased on either a month-to-month basis or extended terms. For more information on our lease arrangements, see Part II, Item 8: Notes 11, 13 and 16 to the Consolidated Financial Statements.

ITEM 3: LEGAL PROCEEDINGS

The Company was plaintiff in a lawsuit that was filed on June 11, 2015 against, among others, Dalton Logistics, Inc. (“Dalton”) in the United States District Court for the Southern District of Texas. The Company was seeking approximately \$1.9 million in damages from a debtor relating to unpaid freight charges. In response to the filing of the complaint, the shareholders of Dalton filed a counterclaim against the Company alleging that the Company, in connection with certain unrelated negotiations with the defendant, breached an alleged agreement to acquire Dalton. The respective claims proceeded to trial and, on July 21, 2017, a jury returned two separate verdicts: one in favor of Universal for \$1.9 million, and a second in favor of the defendant for approximately \$5.7 million. On October 30, 2017, the court entered a judgment against Universal for the \$5.7 million, but ignored the \$1.9 million jury award in favor of Universal. The Company filed an appeal with the United States Court of Appeals for the Fifth Circuit to overturn the verdict and the judgment. On January 3, 2020, the appellate court upheld the verdict and the judgement against Universal. In connection with the ruling, the Company recorded a pre-tax charge to net income of \$2.9 million in the fourth quarter of 2019. The Company expects to fund the \$5.7 million judgement, plus \$0.8 million of accrued interest, in the first quarter of 2020.

As previously disclosed, a predecessor to a subsidiary of the Company was a party to a legal proceeding captioned Denton v. UACL, et al. (the “Denton Litigation”). The Company resolved the Denton Litigation on September 24, 2019 (the “Final Denton Settlement”). Under the terms of the Final Denton Settlement, the Company agreed to pay plaintiffs \$36 million in cash, exclusive of amounts previously paid, based on an opinion issued by the Appellate Court of Illinois First Judicial District on September 24, 2019 affirming the trial court judgment. In connection with the Final Denton Settlement, the Company recorded a pre-tax charge to net income of \$24.8 million in the third quarter of 2019. On October 23, 2019, the Company funded the \$36.0 million payment. The Company’s participation in the Final Denton Settlement does not constitute an admission by the Company of any fault or liability, and the Company does not admit any fault or liability.

The Company is involved in certain other claims and pending litigation arising from the ordinary conduct of business. We also provide accruals for claims within our self-insured retention amounts. Based on the knowledge of the facts, and in certain cases, opinions of outside counsel, in the Company’s opinion the resolution of these claims and pending litigation will not have a material effect on our financial position, results of operations or cash flows. However, if we experience claims that are not covered by our insurance or that exceed our estimated claim reserve, it could increase the volatility of our earnings and have a materially adverse effect on our financial condition, results of operations or cash flows.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is traded on The NASDAQ Global Market under the symbol ULH.

As of March 9, 2020, there were approximately 14 record holders of our common stock, based upon data available to us from our transfer agent. We believe, however, that we have a significantly greater number of shareholders because a substantial number of our common shares are held at The Depository Trust & Clearing Corporation on behalf of our shareholders.

Dividends

On February 21, 2018, our Board of Directors approved an increase in the Company's annual cash dividend policy from \$0.28 per share to \$0.42 per share beginning in 2018. In addition, under our current dividend policy, after taking into account the regular quarterly dividends made during the year, the Board of Directors also evaluates the potential declaration of an annual special dividend payable in the first quarter of each year. The Board of Directors did not declare a special dividend in the first quarter of 2020.

Currently, we anticipate continuing to pay cash dividends on a quarterly basis, but we cannot guarantee that such dividends will be paid in the future. Future dividend policy and the payment of dividends, if any, will be determined by the Board of Directors in light of circumstances then existing, including our earnings, financial condition and other factors deemed relevant by the Board of Directors.

Limitations on our ability to pay dividends are described under the section captioned "Liquidity and Capital Resources – Revolving Credit, Promissory Notes and Term Loan Agreements" in Item 7 of this Form 10-K.

Securities Authorized for Issuance under Equity Compensation Plans

See Part III, Item 12, "Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters" of this Annual Report for a presentation of compensation plans under which equity securities of the Company are authorized for issuance.

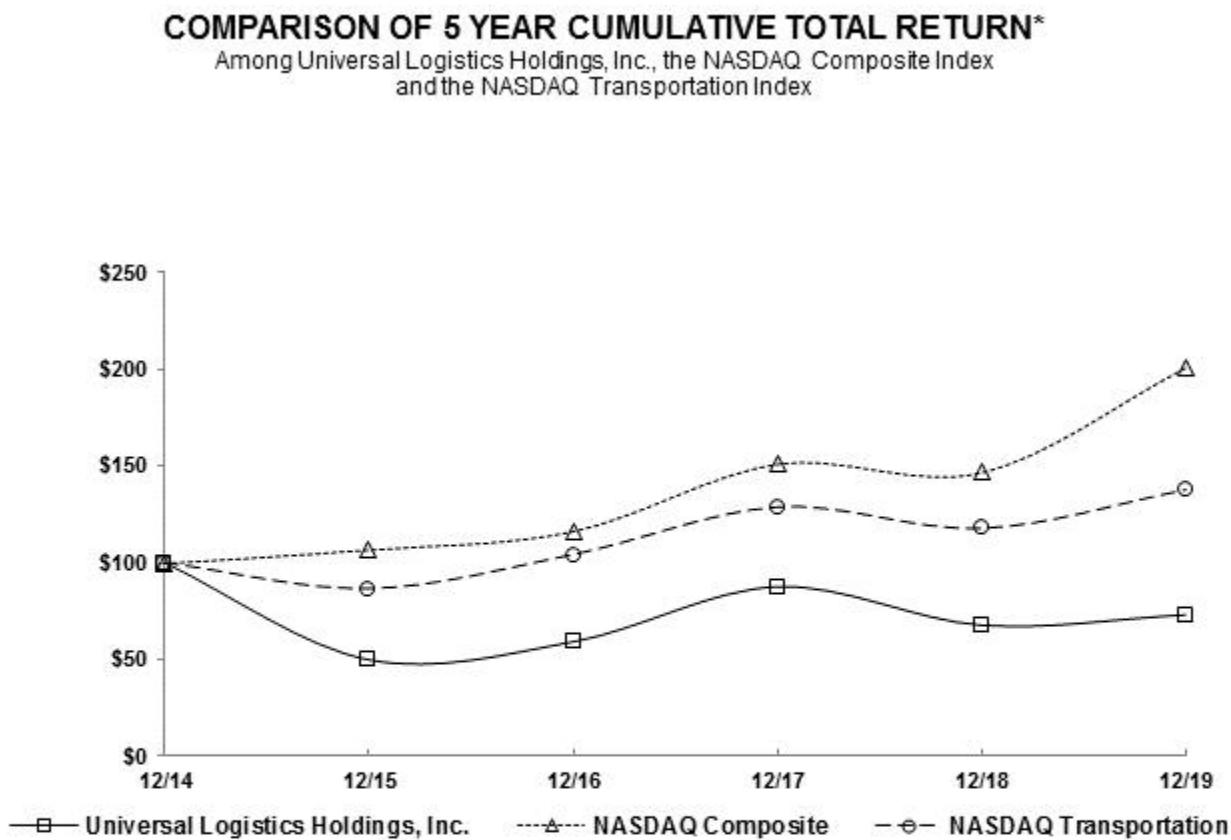
Purchases of Equity Securities by the Issuer

On June 30, 2014, the Company announced that it had been authorized to purchase up to 800,000 shares of its common stock from time to time in the open market. As of December 31, 2019, the Company may purchase 751,153 shares of its common stock under this authorization. No specific expiration date has been assigned to the authorization.

There were no purchases of our equity securities by or on behalf of us or any affiliated purchaser within the fourth quarter of 2019.

Performance Graph

The graph below matches Universal Logistics Holdings, Inc.'s cumulative 5-year total shareholder return on common stock with the cumulative total returns of the NASDAQ Composite index and the NASDAQ Transportation index. The graph tracks the performance of a \$100 investment in our common stock and in each index (with the reinvestment of all dividends) from December 31, 2014 to December 31, 2019.



*\$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
 Fiscal year ending December 31.

	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
Universal Logistics Holdings, Inc.	100.00	49.94	59.30	87.71	67.80	73.20
NASDAQ Composite	100.00	106.96	116.45	150.96	146.67	200.49
NASDAQ Transportation	100.00	86.61	104.22	128.89	117.83	137.84

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ITEM 6: SELECTED FINANCIAL DATA

The following table sets forth the selected historical financial and operating data as of and for the periods presented. The selected historical balance sheet data at December 31, 2019, 2018, 2017, 2016 and 2015 and the selected historical statement of income data for the years ended December 31, 2019, 2018, 2017, 2016 and 2015 have been derived from our audited consolidated financial statements. The selected historical financial and operating data presented below should be read in conjunction with the information included under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Form 10-K. The following financial and operating data may not be indicative of our future performance.

	Years ended December 31,				
	2019	2018	2017	2016	2015
(In thousands, except per share information, operating data and percentages)					
Statements of Income Data:					
Operating revenues	\$ 1,511,998	\$ 1,461,708	\$ 1,216,665	\$ 1,072,751	\$ 1,128,773
Operating expenses:					
Purchased transportation and equipment rent	723,079	716,019	577,485	509,775	567,558
Direct personnel and related benefits	368,243	354,654	314,364	265,316	222,454
Operating supplies and expenses	120,767	122,736	115,420	103,013	113,545
Commission expense	31,204	37,381	33,213	32,350	37,844
Occupancy expense	36,645	30,701	30,575	31,923	27,004
General and administrative (1)	44,497	31,523	31,518	29,368	30,687
Insurance and claims (1)	47,418	30,475	41,881	17,724	21,413
Depreciation and amortization	74,765	54,425	46,995	36,702	34,873
Total operating expenses	<u>1,446,618</u>	<u>1,377,914</u>	<u>1,191,451</u>	<u>1,026,171</u>	<u>1,055,378</u>
Income from operations	65,380	83,794	25,214	46,580	73,395
Interest income	73	76	92	157	55
Interest expense	(17,085)	(14,669)	(9,538)	(8,266)	(9,235)
Other non-operating income	1,818	188	1,373	934	790
Income before for income taxes	50,186	69,389	17,141	39,405	65,005
Income tax (benefit) expense	12,600	17,211	(11,012)	15,161	25,004
Net income	<u>\$ 37,586</u>	<u>\$ 52,178</u>	<u>\$ 28,153</u>	<u>\$ 24,244</u>	<u>\$ 40,001</u>
Earnings per common share:					
Basic	\$ 1.34	\$ 1.84	\$ 0.99	\$ 0.85	\$ 1.37
Diluted	\$ 1.34	\$ 1.84	\$ 0.99	\$ 0.85	\$ 1.37
Weighted average number of common shares outstanding:					
Basic	28,069	28,383	28,425	28,411	29,233
Diluted	28,070	28,390	28,428	28,411	29,235
Dividends declared per common share	<u>\$ 0.42</u>	<u>\$ 0.53</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>
Balance Sheet Data (at end of period):					
Cash and cash equivalents	\$ 7,726	\$ 5,727	\$ 1,672	\$ 1,755	\$ 12,930
Total assets	\$ 987,997	\$ 843,147	\$ 610,592	\$ 570,457	\$ 503,155
Total debt	\$ 459,729	\$ 403,155	\$ 249,239	\$ 262,850	\$ 234,913

	Years ended December 31,				
	2019	2018	2017	2016	2015
(In thousands, except per share information, operating data and percentages)					

Other Data:

EBITDA (2)	\$ 141,963	\$ 138,407	\$ 73,582	\$ 84,216	\$ 109,058
Adjusted EBITDA (2)	\$ 171,955	\$ 147,407	\$ 90,937	\$ 84,216	\$ 109,058
Operating margin (3)	4.3%	5.7%	2.1%	4.3%	6.5%
Adjusted operating margin (2) (3)	6.3%	6.3%	3.5%	4.3%	6.5%
EBITDA margin (2) (3)	9.4%	9.5%	6.0%	7.9%	9.7%
Adjusted EBITDA margin (3)	11.4%	10.1%	7.5%	7.9%	9.7%
Return on average assets (4)	4.1%	7.2%	4.8%	4.5%	7.8%
Average number of employees	6,438	7,283	7,253	5,573	4,397
Average number of full time equivalents	1,487	1,405	1,731	2,172	1,606
Average number of tractors	4,690	4,057	3,996	4,335	4,142
Number of value-added programs	55	50	50	47	49
Number of agents (5)	211	230	232	253	264
Operating revenues per loaded mile (6)	\$ 3.70	\$ 3.38	\$ 2.89	\$ 2.72	\$ 2.96
Operating revenues per load (6)	\$ 657	\$ 859	\$ 822	\$ 730	\$ 809
Average length of haul (in miles) (6)	177	254	284	269	274
Fuel surcharge revenues (where separately identified)	\$ 89,646	\$ 85,061	\$ 59,511	\$ 50,869	\$ 75,743

- (1) See Item 8, Note 16 to the Consolidated Financial Statements for further information on settled legal matters.
- (2) Non-GAAP financial measure. See “Non-GAAP Financial Measures” below for a discussion of our non-GAAP financial measures and a reconciliation of such measures to the most comparable GAAP measure.
- (3) Operating margin, adjusted operating margin, EBITDA margin, and adjusted EBITDA margin are computed by dividing income from operations, adjusted income from operations, EBITDA, and adjusted EBITDA, respectively, by total operating revenues for each of the periods indicated.
- (4) Net income divided by total average assets during the period. Average assets are the sum of our total assets at the end of the fiscal year and our total assets at the end of the prior fiscal year divided by two.
- (5) Includes only those agents who generated at least \$100,000 in operating revenues during the period indicated.
- (6) Includes fuel surcharges, where separately identifiable, and excludes data from our freight forwarding division in order to improve the relevance of the statistical data related to our brokerage services and improve the comparability to our peer companies. Also excludes final mile delivery and shuttle service loads.

Non-GAAP Financial Measures

In addition to providing consolidated financial statements based on generally accepted accounting principles in the United States of America (GAAP), we are providing additional financial measures that are not required by or prepared in accordance with GAAP (non-GAAP). We present adjusted income from operations; earnings before interest, taxes, depreciation and amortization expenses (EBITDA); adjusted EBITDA; adjusted operating margin; EBITDA margin; and adjusted EBITDA margin as supplemental measures of our performance. We define adjusted income from operations as income from operations adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including charges related to certain litigation taken in 2019, 2018 and 2017. We define EBITDA as net income plus (i) interest expense, net, (ii) provision for income taxes and (iii) depreciation and amortization. Adjusted EBITDA is further adjusted to eliminate the impact of certain items that we do not consider indicative of our ongoing operating performance, including charges taken related to certain litigation in 2019, 2018 and 2017. Adjusted operating margin, EBITDA margin, and adjusted EBITDA margin are computed by dividing adjusted income from operations, EBITDA, and adjusted EBITDA, respectively, by total operating revenues. The comparable GAAP measure, operating margin, is computed by dividing income from operations by total operating revenues.

The calculations of adjusted income from operations, EBITDA, and adjusted EBITDA are itemized below. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating adjusted income from operations, EBITDA and adjusted EBITDA, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of adjusted income from operations, EBITDA and adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items.

In accordance with the requirements of Regulation G issued by the Securities and Exchange Commission, we are presenting the most directly comparable GAAP financial measure and reconciling the non-GAAP financial measure to the comparable GAAP measure. Set forth below is a reconciliation of income from operations, the most comparable GAAP measure, to adjusted income from operations; and of net income, the most comparable GAAP measure, to EBITDA and adjusted EBITDA for each of the periods indicated:

	Years ended December 31,				
	2019	2018	2017	2016	2015
(In thousands, except per share information, operating data and percentages)					
Adjusted income from operations					
Income from operations	\$ 65,380	\$ 83,794	\$ 25,214	\$ 46,580	\$ 73,395
Litigation charges (1)	29,992	9,000	17,355	—	—
Adjusted income from operations	<u>\$ 95,372</u>	<u>\$ 92,794</u>	<u>\$ 42,569</u>	<u>\$ 46,580</u>	<u>\$ 73,395</u>
Adjusted EBITDA					
Net income	\$ 37,586	\$ 52,178	\$ 28,153	\$ 24,244	\$ 40,001
Income tax (benefit) expense	12,600	17,211	(11,012)	15,161	25,004
Interest expense, net	17,012	14,593	9,446	8,109	9,180
Depreciation and amortization	<u>74,765</u>	<u>54,425</u>	<u>46,995</u>	<u>36,702</u>	<u>34,873</u>
EBITDA	141,963	138,407	73,582	84,216	109,058
Litigation charges (1)	29,992	9,000	17,355	—	—
Adjusted EBITDA	<u>\$ 171,955</u>	<u>\$ 147,407</u>	<u>\$ 90,937</u>	<u>\$ 84,216</u>	<u>\$ 109,058</u>

(1) Represents charges recorded in 2019, 2018 and 2017 related to certain litigation.

We present adjusted income from operations, EBITDA and adjusted EBITDA, and the related metrics of adjusted operating margin, EBITDA margin and adjusted EBITDA margin, in this Form 10-K because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance.

These performance metrics have limited utility as analytical tools. Some of these limitations are:

- Adjusted income from operations and adjusted EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Adjusted income from operations and adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;
- Adjusted income from operations and adjusted EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements;

- Adjusted income from operations and adjusted EBITDA do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- Other companies in our industry may calculate adjusted income from operations, EBITDA and adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, adjusted income from operations, EBITDA and adjusted EBITDA, and the related metrics of adjusted operating margin, EBITDA margin and adjusted EBITDA margin, should not be considered in isolation or as a substitute for performance measures calculated in accordance with GAAP. We compensate for these limitations by relying primarily on our GAAP results and using these non-GAAP metrics as secondary, supplemental measures.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading asset-light provider of customized transportation and logistics solutions throughout the United States, and in Mexico, Canada and Colombia. We provide a comprehensive suite of transportation and logistics solutions that allow our customers to reduce costs and manage their global supply chains more efficiently. We market our services through a direct sales and marketing network focused on selling our portfolio of services to large customers in specific industry sectors, through a contract network of agents who solicit freight business directly from shippers, and through company-managed facilities and full-service freight forwarding and customs house brokerage offices.

Our network of agents and owner-operators is located throughout the United States and in Ontario, Canada, and we operate, manage or provide services at 119 logistics locations in the United States, Mexico, Canada and Colombia. Twenty-nine of our value-added service operations are located inside customer plants or distribution operations; the other facilities are generally located close to our customers' plants to optimize the efficiency of their component supply chains and production processes. Our facilities and services are often directly integrated into the production processes of our customers and represent a critical piece of their supply chains. To support our asset-light business model, we generally coordinate the duration of real estate leases associated with our value-added services with the end date of the related customer contract associated with such facility, or use month-to-month leases, in order to mitigate exposure to unrecovered lease costs.

We offer our customers a wide range of transportation services by utilizing a diverse fleet of tractors and trailing equipment provided by us, our owner-operators and third-party transportation companies. Our owner-operators provided us with 3,517 tractors and 1,782 trailers. We own 1,731 tractors, 3,932 trailers, 3,293 chassis and 738 containers. Our agents and owner-operators are independent contractors who earn a fixed commission calculated as a percentage of the revenue or gross profit they generate for us and who bring an entrepreneurial spirit to our business. Our transportation services are provided through a network of both union and non-union employee drivers, owner-operators, contract drivers, and third-party transportation companies.

As of December 31, 2019, we employed 6,541 people in the United States, Mexico, Canada, and Colombia, including 2,174 employees subject to collective bargaining agreements. We also engaged contract staffing vendors to supply an average of 1,487 additional personnel on a full-time-equivalent basis.

Our use of agents, owner-operators, third-party providers and contract staffing vendors allows us to maintain both a highly flexible cost structure and a scalable business operation, while reducing investment requirements. These benefits are passed on to our customers in the form of cost savings and increased operating efficiency, while enhancing our cash generation and the returns on our invested capital and assets.

We believe that our flexible business model also offers us substantial opportunities to grow through a mixture of organic growth and acquisitions. We intend to continue our organic growth by recruiting new agents and owner-operators, expanding into new industry verticals and targeting further penetration of our key customers. We believe our integrated suite of transportation and logistics services, our network of facilities in the United States, Mexico, Canada, and Colombia, our long-term customer relationships and our reputation for operational excellence will allow us to capitalize on these growth opportunities. We also expect to continue to make strategic acquisitions of companies that complement our asset light business model, as well as companies that derive a portion of their revenues from asset based operations.

Factors Affecting Our Revenues

Operating Revenues. We generate substantially all of our revenues through fees charged to customers for the transportation of freight and for the customized logistics services we provide. We also derive revenue from fuel surcharges, where separately identifiable, loading and unloading activities, equipment detention, container management and storage and other related services. Operations aggregated in our transportation segment are associated with individual freight shipments coordinated by our agents, company-managed terminals and specialized services operations. In contrast, operations aggregated in our logistics segment deliver value-added services and transportation services to specific customers on a dedicated basis, generally pursuant to contract terms of one year or longer. Our segments are distinguished by the amount of forward visibility we have in regards to pricing and volumes, and also by the extent to which we dedicate resources and company-owned equipment. Fees charged to customers by our full service international freight forwarding and customs house brokerage are based on the specific means of forwarding or delivering freight on a shipment-by-shipment basis.

Our transportation revenues are primarily influenced by fluctuations in freight volumes and shipping rates. The main factors that affect these are competition, available truck capacity, and economic market conditions. Our value-added contract business is substantially driven by the level of demand for outsourced logistics services. Major factors that affect our revenues include changes in manufacturing supply chain requirements, production levels in specific industries, pricing trends due to levels of competition and resource costs in logistics and transportation, and economic market conditions.

We recognize revenue as control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration the Company expects to receive in exchange for its services. For our transportation services businesses, which include truckload, brokerage, intermodal and dedicated services, revenue is recognized over-time as the performance obligations on the in-transit services are completed. For the Company's value-added service businesses, we have elected to use the "right to invoice" practical expedient, reflecting that a customer obtains the benefit associated with value-added services as they are provided. For additional information on revenue recognition, see Item 8, Note 3 to the Consolidated Financial Statements.

Factors Affecting Our Expenses

Purchased transportation and equipment rent. Purchased transportation and equipment rent represents the amounts we pay to our owner-operators or other third party equipment providers to haul freight and, to the extent required to deliver certain logistics services, the cost of equipment leased under short-term contracts from third parties. The amount of the purchased transportation we pay to our owner-operators is primarily based on a contractually agreed-upon percentage of our revenue for each load hauled, net of any rental income we receive by leasing our trailers to owner-operators. The expense also includes the amount of fuel surcharges, where separately identifiable, that we receive from our customers and pass through to our owner-operators. Our strategy is to maintain a highly flexible business model that employs a cost structure that is mostly variable in nature. As a result, purchased transportation and equipment rent is the largest component of our costs and increases or decreases proportionately with changes in the amount of revenue generated by our owner-operators and other third party providers and with the production volumes of our customers. We recognize purchased transportation and equipment rent as the services are provided.

Direct personnel and related benefits. Direct personnel and related benefits include the salaries, wages and fringe benefits of our employees, as well as costs related to contract labor utilized in selling and operating activities. These costs are a significant component of our cost structure and increase or decrease proportionately with the expansion, addition or closing of operating facilities. As of December 31, 2019, approximately 29% of our employees in the United States, Canada and Colombia, and 86% of our employees in Mexico were subject to collective bargaining agreements. Any changes in union agreements will affect our personnel and related benefits cost. The operations in the United States, Mexico and Canada that are subject to collective bargaining agreements have separate, individualized agreements with several different unions that represent employees in these operations. While there are some facilities with multiple unions, each collective bargaining agreement with each union covers a single facility for that union. Such agreements have expiration dates that are generally independent of other collective bargaining agreements and include economics and operating terms tailored to the specific operational requirements of a customer. Our operation in Mexico provides competitive compensation within the Mexican statutory framework for managerial and supervisory personnel.

Operating supplies and expenses. These expenses include items such as fuel, tires and parts repair items primarily related to the maintenance of company owned/leased tractors, trailers and lift equipment, as well as licenses, dock supplies, communication, utilities, operating taxes and other general operating expenses. Because we maintain a flexible business model, our operating expenses generally relate to equipment utilization, fluctuations in customer demand and the related impact on our operating capacity. Our transportation services provided by company owned equipment depend on the availability and pricing of diesel fuel. Although we often include fuel surcharges in our billing to customers to offset increases in fuel costs, other operating costs have been, and may continue to be, impacted by fluctuating fuel prices. We recognize these expenses as they are incurred and the related income as it is earned.

Commission expense. Commission expense represents the amount we pay our agents for generating shipments on our behalf. The commissions we pay to our agents are generally established through informal oral agreements and are based on a percentage of revenue or gross profit generated by each load hauled. Traditionally, commission expense increases or decreases in proportion to the revenues generated through our agents. We recognize commission expense at the time we recognize the associated revenue.

Occupancy expense. Occupancy expense includes all costs related to the lease and tenancy of terminals and operating facilities, except utilities, unless such costs are otherwise covered by our customers. Although occupancy expense is generally related to fluctuations in overall customer demand, our contracting and pricing strategies help mitigate the cost impact of changing production volumes. To minimize potential exposure to inactive or underutilized facilities that are dedicated to a single customer, we strive where possible to enter into lease agreements that are coterminous with individual customer contracts, and we seek contract pricing terms that recover fixed occupancy costs, regardless of production volume. Occupancy expense may also include certain lease termination and related occupancy costs that are accelerated for accounting purposes into the fiscal year in which such a decision was implemented.

General and administrative expense. General and administrative expense includes the salaries, wages and benefits of administrative personnel, related support costs, taxes (other than income and property taxes), adjustments due to foreign currency transactions, bad debt expense, and other general expenses, including gains or losses on the sale or disposal of assets. These expenses are generally not directly related to levels of operating activity and may contain other expenses related to general business operations. We recognize general and administrative expense when it is incurred.

Insurance and claims. Insurance and claims expense represents our insurance premiums and the accruals we make for claims within our self-insured retention amounts. Our insurance premiums are generally calculated based on a mixture of a percentage of line-haul revenue and the size of our fleet. Our accruals have primarily related to cargo and property damage claims. We may also make accruals for personal injuries and property damage to third parties, physical damage to our equipment, general liability and workers' compensation claims if we experience a claim in excess of our insurance coverage. To reduce our exposure to non-trucking use liability claims (claims incurred while the vehicle is being operated without a trailer attached or is being operated with an attached trailer which does not contain or carry any cargo), we require our owner-operators to maintain non-trucking use liability coverage, which the industry refers to as deadhead bobtail coverage, of \$2.0 million per occurrence. Our exposure to liability associated with accidents incurred by other third party providers who haul freight on our behalf is reduced by various factors including the extent to which they maintain their own insurance coverage. Our insurance expense varies primarily based upon the frequency and severity of our accident experience, insurance rates, our coverage limits and our self-insured retention amounts.

Depreciation and amortization. Depreciation and amortization expense relates primarily to the depreciation of owned tractors, trailers, computer and operating equipment, and buildings as well as the amortization of the intangible assets recorded for our acquired customer contracts and customer and agent relationships. We estimate the salvage value and useful lives of depreciable assets based on current market conditions and experience with past dispositions.

Operating Revenues

We broadly group our services into the following categories: truckload services, brokerage services, intermodal services, dedicated services and value-added services. Our truckload, brokerage and intermodal services associated with individual freight shipments coordinated by our agents and company-managed terminals are generally aggregated into our reportable transportation segment, while our dedicated and value-added services to specific customers on a contractual basis make up our logistics segment. The following table sets forth operating revenues resulting from each of these service categories for the years ended December 31, 2019, 2018 and 2017, presented as a percentage of total operating revenues:

	Years ended December 31,		
	2019	2018	2017
Operating revenues:			
Truckload services	16.6%	21.5%	24.9%
Brokerage services	23.5%	25.1%	22.9%
Intermodal services	25.8%	17.2%	12.6%
Dedicated services	9.2%	9.9%	9.8%
Value-added services	24.9%	26.3%	29.8%
Total operating revenues	100.0%	100.0%	100.0%

Results of Operations

The following table sets forth items derived from our Consolidated Statements of Income for the years ended December 31, 2019, 2018 and 2017, presented as a percentage of operating revenues:

	Years ended December 31,		
	2019	2018	2017
Operating revenues	100.0%	100.0%	100.0%
Operating expenses:			
Purchased transportation and equipment rent	47.8	49.0	47.5
Direct personnel and related benefits	24.4	24.3	25.8
Operating supplies and expenses	8.0	8.4	9.5
Commission expense	2.1	2.6	2.7
Occupancy expense	2.4	2.1	2.5
General and administrative	2.9	2.2	2.6
Insurance and claims	3.1	2.1	3.4
Depreciation and amortization	4.9	3.7	3.9
Total operating expenses	95.7	94.3	97.9
Income from operations	4.3	5.7	2.1
Interest and other non-operating income (expense), net	(1.0)	(0.9)	(0.7)
Income before for income taxes	3.3	4.7	1.4
Income tax (benefit) expense	0.8	1.1	(0.9)
Net income	2.5%	3.6%	2.3%

2019 Compared to 2018

Operating revenues. Operating revenues for 2019 increased \$50.3 million, or 3.4%, to \$1,512.0 million from \$1,461.7 million in 2018. The increase in operating revenues is primarily the result of incremental revenues from Universal's recent intermodal acquisitions. Included in operating revenues are separately-identified fuel surcharges of \$89.6 million in 2019 compared to \$85.1 million in 2018. Consolidated income from operations decreased \$18.4 million, or 22.0%, to \$65.4 million for 2019 compared to \$83.8 million during the same period last year. Included in 2019 income from operations were \$30.0 million in litigation related charges compared to \$9.0 million in 2018. Revenues from our transportation segment increased \$64.3 million, or 6.8%, while income from operations decreased \$31.4 million, or 60.8%, compared to the same period last year. The increase in operating revenues was attributable to Universal's recent intermodal acquisitions, while the decrease in operating income was primarily the result of \$24.8 million in litigation charges in our transportation segment during 2019. The transportation segment was further impacted by a soft transportation rate environment throughout the year. In our logistics segment, revenues decreased \$13.6 million, or 2.7%, over the same period last year primarily due to the adverse impact of the United Auto Workers ("UAW") strike at Universal's largest customer during the third and fourth quarters of 2019. Despite the impacts from the strike, income from operations in our logistics segment increased \$16.6 million or 53.2% due to improved operating performance in our dedicated transportation businesses as well as our operations supporting Class 8 heavy-truck production. Additionally, included in 2018 operating income in our logistics segment were \$9.0 million in litigation charges.

Operating revenues from truckload services decreased \$62.2 million to \$251.6 million during 2019, compared to \$313.8 million for the same period last year. Included in truckload revenues during 2019 were \$26.3 million in separately-identified fuel surcharges compared to \$34.3 million during the same period last year. During the year, Universal's average operating revenue per load, excluding fuel surcharges, decreased 1.0% to \$965. There was also an 18.7% decrease in the number of loads hauled. During 2019, Universal hauled 233,829 loads compared to 287,782 during the same period last year.

Revenues during 2019 from brokerage services decreased \$12.6 million, or 3.4%, to \$354.9 million compared to \$367.6 million during the same period last year. The decrease reflects a 10.0% decrease in average operating revenue per load, which was partially offset by an increase in the number of brokerage loads moved. The number of brokerage loads moved during 2019 increased 8.3% to 228,203 compared to 210,713 during the same period last year.

Intermodal services revenues increased \$139.2 million to \$390.3 million during 2019, up from \$251.1 million during the same period last year. Intermodal revenues included \$150.4 million of incremental revenues related to Universal's recent acquisitions. Intermodal revenues for 2019 also included \$47.1 million in separately identified fuel surcharges, compared to \$30.3 million in the same period last year. During 2019, Universal moved 671,184 intermodal loads compared to 455,752 in 2018, an increase of 47.3%, while also increasing its average operating revenue per load, excluding fuel surcharges, by 5.2%.

Operating revenues from dedicated services decreased \$5.7 million in 2019 to \$138.7 million compared to \$144.3 million in the prior year. Included in dedicated revenues in 2019 were \$16.1 million in separately-identified fuel surcharges compared to \$17.9 million during the same period last year. The decrease in operating revenues was primarily attributable to the impact the UAW labor strike had on operations supporting General Motors.

Value-added services revenues decreased \$8.4 million to \$376.5 million during 2019 compared to \$384.9 million in the same period last year. Operations supporting passenger vehicle programs declined during the period due to extended plant shut-downs and reduced production levels during a plant ramp up, as well as halted production during the UAW labor strike. The impact was partially offset by strong growth in our operations supporting heavy-truck production where 2019 revenues increased \$6.7 million compared to the previous year.

Purchased transportation and equipment rent. Purchased transportation and equipment rental costs for 2019 increased by \$7.1 million, or 1.0%, to \$723.1 million from \$716.0 million during the same period last year. Purchased transportation and equipment rent generally increases or decreases in proportion to the revenues generated through owner-operators and other third party providers, and is generally correlated with changes in demand for transportation-related services, including truckload, brokerage, intermodal and to a lesser extent, dedicated services. The absolute increase in purchased transportation and equipment rental costs was primarily the result of an increase in transportation-related service revenues. Universal's 2019 transportation-related service revenues increased 5.4% compared to the same period last year. As a percentage of operating revenues, purchased transportation and equipment rent expense decreased to 47.8% compared to 49.0% in 2018. The decrease was primarily attributable to an increase in the mix of intermodal revenues, where the cost of transportation is typically lower than our other transportation businesses. As a percentage of revenues, intermodal services increased to 25.8% in 2019 compared to 17.2% in 2018. Also contributing to the decrease as a percentage was an increase in the mix of company drivers used in our dedicated operations compared to the use of owner-operators in prior periods.

Direct personnel and related benefits. Direct personnel and related benefits for 2019 increased by \$13.6 million, or 3.8%, to \$368.2 million compared to \$354.7 million during the same period last year. Trends in these expenses are generally correlated with changes in operating facilities and headcount requirements and, therefore, increase and decrease with the level of demand for our value-added services and staffing needs of our operations. However, in 2019, we experienced extended plant shut-downs in operations supporting passenger vehicles, and thus value-added revenues associated with those operations were lower compared to the prior year. Increases in direct personnel and related benefits were primarily driven by increases in labor costs in our dedicated transportation business as well as company-managed brokerage operations. A portion of the increase was also attributable to incremental personnel and related benefits from acquired companies, which totaled \$19.3 million. As a percentage of operating revenues, personnel and related benefits slightly increased to 24.4% for 2019, compared to 24.3% for 2018. The percentage is derived on an aggregate basis from both existing and new programs, and from customer operations at various stages in their lifecycles. Individual operations may be impacted by additional production shifts or by overtime at selected operations. While generalizations about the impact of personnel and related benefits costs as a percentage of total revenue are difficult, we manage compensation and staffing levels, including the use of contract labor, to maintain target economics based on near-term projections of demand for our services.

Operating supplies and expenses. Operating supplies and expenses decreased by \$2.0 million, or 1.6%, to \$120.8 million for 2019 compared to \$122.7 million for 2018. These expenses include items such as fuel, maintenance, cost of materials, communications, utilities and other operating expenses, and generally relate to fluctuations in customer demand. The main elements of the decrease included decreases of \$4.6 million in operating supplies and material costs in operations supporting heavy-truck programs, \$1.5 million in fuel expense on company tractors, \$0.9 million in professional fees, \$0.3 million in utilities, and \$0.3 million in plate expenses. These decreases were partially offset by increases of \$2.2 million in bad debt expense, \$1.7 million in vehicle and other maintenance, \$0.7 million in permit expenses, \$0.6 million in travel and entertainment, and \$0.6 million in communications expenses.

Commission expense. Commission expense for 2019 decreased by \$6.2 million, or 16.5%, to \$31.2 million from \$37.4 million for 2018. Commission expense decreased due to decreased revenue in the agency based truckload business. As a percentage of operating revenues, commission expense decreased to 2.1% for 2019, compared to 2.6% one year earlier.

Occupancy expense. Occupancy expenses increased by \$5.9 million, or 19.4%, to \$36.6 million for 2019. This compares to \$30.7 million for 2018. The increase was primarily attributable to an increase in building rents due to new locations added from recent acquisitions as well as a redundant facility temporarily kept open in preparation of a relocation at of one of our operations supporting heavy-truck production.

General and administrative. General and administrative expense for 2019 increased by \$13.0 million to \$44.5 million from \$31.5 million in 2018. The increase was attributable to a \$7.0 million increase in professional fees and a \$5.9 million increase in salaries, wages, and benefits. Included in the increase in professional fees was a \$5.1 million charge for a previously disclosed legal matter. As a percentage of operating revenues, general and administrative expense was 2.9% for 2019 compared to 2.2% for 2018.

Insurance and claims. Insurance and claims expense for 2019 increased by \$16.9 million to \$47.4 million from \$30.5 million in 2018. As a percentage of operating revenues, insurance and claims increased to 3.1% for 2019 compared to 2.1% for 2018. Included in 2019 were \$24.8 million in pre-tax charges for the settlement of a legal matter. 2018 included \$9.0 million in similar charges. Excluding these items, insurance and claims expense was \$22.6 million in 2019 and \$21.5 million in 2018. The increase in insurance and claims expense, excluding the legal settlements, is primarily due to \$4.0 million of increases in insurance premiums partially offset by \$2.9 million in decrease in cargo claims.

Depreciation and amortization. Depreciation and amortization expense for 2019 increased by \$20.3 million, or 37.4%, to \$74.8 million from \$54.4 million for 2018. Depreciation expense increased \$10.3 million in 2019 and amortization expense increased \$10.0 million. The increase in depreciation expense is attributable to additional cost from the continued recapitalization of our fleet, while the increase in amortization expense is attributable to amortization of intangible assets acquired in connection with Universal's recent acquisitions.

Interest expense, net. Net interest expense was \$17.0 million for 2019 compared to \$14.6 million for 2018. The increase of net interest expense reflects an increase in outstanding borrowing. As of December 31, 2019, our outstanding borrowings totaled \$459.7 million compared to \$403.2 million at the same time last year.

Other non-operating income. Other non-operating income was \$1.8 million for 2019 compared to \$0.2 million for 2018. Included in other non-operating income during 2019 were \$1.5 million of gains on marketable securities compared to \$1.3 million of losses in 2018. Additionally, included in other non-operating income in 2018 were gains of \$1.0 million from life insurance policies.

Income tax (benefit) expense. Income tax expense for 2019 was \$12.6 million, compared to \$17.2 million for 2018, based on an effective tax rate of 25.1% and 24.8% respectively. The decrease in income tax expense in 2019 is primarily the result of a decrease in taxable income.

2018 Compared to 2017

Operating revenues. Operating revenues for 2018 increased \$245.0 million, or 20.1%, to \$1,461.7 million from \$1,216.7 million during 2017. Operating revenues increased due to several factors including significant operations in support of heavy-truck programs, a strong pricing environment across our transportation services and an increase in fuel surcharges. Included in operating revenues are separately-identified fuel surcharges of \$85.1 million for 2018 compared to \$59.5 million for 2017. Also included in operating revenues are \$70.9 million of revenues attributable to the acquisitions of Fore Transportation, Southern Counties, Specialized Rail Services, and Container Connection in 2018. Operating income increased by \$58.6 million to \$83.8 million compared to \$25.2 million during 2017. Included in the 2017 results were \$17.4 million of charges associated with on-going litigation. Operating results for 2018 included \$9.0 million of pre-tax charges for the settlement of a legal matter. The increase in operating income was due to improved performance in both our transportation and logistics segments as well as \$5.1 million of operating income attributable to the acquisitions of Fore Transportation, Southern Counties, Specialized Rail Services, and Container Connection. Revenues from our transportation segment increased \$198.9 million, or 26.5%, and income from operations increased \$37.1 million. The increase in income was primarily attributable to increased revenues and improved operating margins in several of our transportation segment businesses as well as \$5.1 million of operating income attributable to our acquisitions. In our logistics segment, revenues increased \$45.8 million, or 9.9% over 2017, while income from operations increased \$20.5 million. The increase was primarily due to operations supporting heavy truck programs as well as an increase in both shuttle moves and over-the-road loads hauled in our dedicated services. Operating income in our logistics segment was negatively impacted in 2017 by certain large underperforming value-added operations, including a program we ultimately exited in Mexico.

Operating revenues from truckload services increased \$10.9 million to \$313.8 million during 2018, compared to \$302.9 million for 2017. Included in truckload revenues during 2018 were \$34.3 million in separately-identified fuel surcharges compared to \$28.4 million during 2017. During the year, Universal's average operating revenue per load, excluding fuel surcharges, increased 11.6% to \$975, primarily due to an increase in revenue per mile. These increases were partially offset by an 8.5% decrease in the number of loads hauled. During 2018, Universal hauled 287,782 loads compared to 314,530 during 2017.

Revenues during 2018 from brokerage services increased \$89.4 million, or 32.1%, to \$367.6 million compared to \$278.2 million during 2017. The growth is due to increases in the average operating revenue per load and in the number of loads hauled. Overall, Universal's average operating revenue per load from brokerage services during 2018 increased 17.3% to \$1,665, up from \$1,420 in 2017. The number of brokerage loads hauled during 2018 increased 13.4% to 210,713 compared to 185,892 during 2017.

Intermodal services revenues increased \$97.4 million to \$251.1 million during 2018, up from \$153.7 million during 2017. Intermodal revenues included \$70.9 million of revenues from Universal's acquisitions of Fore Transportation, Southern Counties, Specialized

Rail Services, and Container Connection in 2018. The increase reflects a \$14.3 million increase in fuel surcharges and an increase in the number of loads hauled. Compared to 2017, the number of intermodal loads hauled during 2018 increased by 31.3%. The growth is also due to a 21.7% increase in the average operating revenue per load, excluding fuel surcharges, to \$482 per load in 2018, compared to \$396 per load in 2017.

Operating revenues from dedicated services in 2018 increased \$24.6 million to \$144.3 million compared to \$119.8 million in the prior year. Included in dedicated revenues in 2018 were \$17.9 million in separately-identified fuel surcharges compared to \$12.9 million during 2017. The increase was primarily attributable to increases in both shuttle moves and in the number of over-the-road loads hauled.

Value-added services revenues increased \$22.8 million to \$384.9 million during 2018 compared to \$362.1 million in 2017. Operations supporting passenger vehicle programs declined during the period, while those supporting heavy-truck production continued to record strong growth. Operations supporting the heavy truck market continued to positively impact value-added services contributing \$19.9 million of incremental revenues in 2018. Overall, value-added services grew by 6.3% compared to the prior year.

Purchased transportation and equipment rent. Purchased transportation and equipment rental costs for 2018 increased by \$138.5 million, or 24.0%, to \$716.0 million from \$577.5 million during 2017. Purchased transportation and equipment rent generally increases or decreases in proportion to the revenues generated through owner-operators and other third party providers, and is generally correlated with changes in demand for transportation-related services, which includes truckload, brokerage, intermodal and dedicated services. The absolute increase in purchased transportation and equipment rental costs was primarily the result of an increase in transportation-related service revenues. Transportation-related service revenues in 2018 increased 26.0% compared to 2017. As a percentage of operating revenues, purchased transportation and equipment rent expense increased to 49.0% compared to 47.5% during the prior year. The increase as a percentage of operating revenue is due to a change in business mix, primarily the increase of brokerage services, which typically pay higher purchased transportation rates. As a percent of revenue, brokerage services increased to 25.1% in 2018 compared to 22.9% in 2017. Transportation-related revenues increased to 73.7% of operating revenue in 2018 compared to 70.2% in 2017.

Direct personnel and related benefits. Direct personnel and related benefits for 2018 increased by \$40.3 million, or 12.8%, to \$354.7 million compared to \$314.4 million during 2017. Trends in these expenses are generally correlated with changes in operating facilities and headcount requirements and, therefore, increase and decrease with the level of demand for our value-added services and staffing needs of our operations. A portion of the increase was also attributable to \$6.0 million of personnel and related benefits attributable to the acquisitions of Fore Transportation, Southern Counties, Specialized Rail Services, and Container Connection. As a percentage of operating revenues, personnel and related benefits decreased to 24.3% for 2018, compared to 25.8% for 2017. The percentage is derived on an aggregate basis from both existing and new programs, and from customer operations at various stages in their lifecycles. Individual operations may be impacted by additional production shifts or by overtime at selected operations. While generalizations about the impact of personnel and related benefits costs as a percentage of total revenue are difficult, we manage compensation and staffing levels, including the use of contract labor, to maintain target economics based on near-term projections of demand for our services.

Operating supplies and expenses. Operating supplies and expenses increased by \$7.3 million, or 6.3%, to \$122.7 million for 2018 compared to \$115.4 million for 2017. These expenses include items such as fuel, maintenance, cost of materials, communications, utilities and other operating expenses, and generally relate to fluctuations in customer demand. The main elements of the increase are increases of \$7.6 million in fuel expense on company equipment, \$2.1 million in operating supplies and material costs in operations supporting heavy-truck programs, \$1.9 million in professional fees, \$0.9 million in permits, \$0.5 million in license plate expense, and \$0.5 million in communications expense. Partially offsetting the increase in operating supplies and expenses were \$6.1 million of decreases in travel and entertainment. This was primarily due to higher meals costs in 2017 related to extended implementation and higher than anticipated customer production schedules at value-added programs in 2017.

Commission expense. Commission expense for 2018 increased by \$4.2 million, or 12.7%, to \$37.4 million from \$33.2 million for 2017. Commission expense generally increases or decreases in proportion to our transportation-related services, except in cases where we generate a higher proportion of our revenues at company-managed terminals where no commissions are paid. As a percentage of operating revenues, commission expense decreased slightly to 2.6% for 2018, compared to 2.7% one year earlier.

Occupancy expense. Occupancy expenses increased by \$0.1 million, or 0.3%, to \$30.7 million for 2018. This compares to \$30.6 million for 2017. Occupancy expense remained relatively stable, while we experienced a \$0.5 million increase in property taxes which was partially offset by a \$0.4 million decrease in building rents.

General and administrative. General and administrative expense for 2018 remained at \$31.5 million. As a percentage of operating revenues, general and administrative expense was 2.2% for 2018 compared to 2.6% for 2017, as a result of our efforts to keep overhead expenditures stable while growing the business.

Insurance and claims. Insurance and claims expense for 2018 decreased by \$11.4 million to \$30.5 million from \$41.9 million in 2017. As a percentage of operating revenues, insurance and claims decreased to 2.1% for 2018 compared to 3.4% for 2017. Included in 2018 were \$9.0 million in pre-tax charges for the settlement of a legal matter, while 2017 included a \$15.6 million charge for an on-going legal matter. Excluding these items, insurance and claims expense was \$21.5 million in 2018 compared to \$26.3 million in 2017. The decrease in insurance and claims expense, excluding the previously mentioned legal items, is primarily due to a \$2.0 million decrease in premiums and a \$3.6 million decrease in cargo claims.

Depreciation and amortization. Depreciation and amortization expense for 2018 increased by \$7.4 million, or 15.7%, to \$54.4 million from \$47.0 million for 2017. Depreciation expense increased \$7.6 million in 2018 due to elevated levels of capital expenditures in recent years. The overall increase in depreciation and amortization expense was partially offset by reductions in amortization expense as certain intangible assets became fully amortized. The reduction in amortization was partially offset by \$1.9 million of amortization of intangibles related to the Fore Transportation, Southern Counties, Specialized Rail Services, and Container Connection acquisitions in 2018.

Interest expense, net. Net interest expense was \$14.6 million for 2018 compared to \$9.4 million for 2017. The increase of net interest expense reflects an increase in outstanding borrowing and in interest rates on our variable rate debt. As of December 31, 2019, our outstanding borrowings totaled \$403.2 million compared to \$249.2 million at the same time last year.

Other non-operating income. Other non-operating income was \$0.2 million for 2018 compared to \$1.4 million for 2017. Included in other non-operating income during 2018 were \$1.3 million of losses on marketable securities and \$1.0 million of life insurance gains. This compares to \$0.9 million of gains on marketable securities in 2017 and no life insurance proceeds in 2017.

Income tax (benefit) expense. Income tax expense for 2018 was \$17.2 million, compared to a tax benefit of \$11.0 million for 2017, based on an effective tax rate of 24.8% and (64.2%), respectively. The increase in income taxes is due to an increase in operating income in 2018, in addition to a \$18.2 million income tax benefit recorded in the fourth quarter of 2017 as a result of the Tax Cuts and Jobs Act.

Liquidity and Capital Resources

Our primary sources of liquidity are funds generated by operations, loans and extensions of credit under our credit facilities, on margin against our marketable securities and from installment notes, and proceeds from the sales of marketable securities. We use secured, asset lending to fund a substantial portion of purchases of tractors, trailers and material handling equipment.

We employ an asset-light operating strategy which we believe lowers our capital expenditure requirements. In general, our facilities used in our value-added services are leased on terms that are either substantially matched to our customer's contracts, are month-to-month or are provided to us by our customers. We also utilize owner-operators and third-party carriers to provide a significant portion of our transportation and specialized services. A significant portion of the tractors and trailers used in our business are provided by our owner-operators. In addition, our use of agents reduces our overall need for large terminals. As a result, our capital expenditure requirements are limited in comparison to most large transportation and logistics service providers, which maintain significant properties and sizable fleets of owned tractors and trailers.

In 2019, our capital expenditures totaled \$79.8 million. These expenditures primarily consisted of transportation equipment, property and investments in support of our value-added service operations. Our asset-light business model depends somewhat on the customized solutions we implement for specific customers. As a result, our capital expenditures will depend on specific new contracts and the overall age and condition of our owned transportation equipment. In 2020, exclusive of acquisitions of businesses, we expect our capital expenditures to be in the range of 4% to 5% of operating revenues. We expect to make these capital expenditures for the acquisition of transportation equipment, to support our new and existing value-added service operations, and for the acquisition of real property and improvements to our existing terminal yard and container facilities.

We have a cash dividend policy that anticipates a regular dividend of \$0.42 per share of common stock, payable in quarterly increments of \$0.105 per share of common stock. After taking into account the regular quarterly dividends made during the year, the Board of Directors also evaluates the potential declaration of an annual special dividend payable in the first quarter of each year. The Board of Directors did not declare a special dividend in the first quarter of 2020. On February 6, 2020, our Board of Directors declared the regular quarterly cash dividend of \$0.105 per share of common stock payable April 6, 2020 to shareholders of record at the close of business on March 2, 2020. During the year ended December 31, 2019, we paid a total of \$0.53 per common share, or

\$15.0 million. Future dividend policy and the payment of dividends, if any, will be determined by the Board of Directors in light of circumstances then existing, including our earnings, financial condition and other factors deemed relevant by the Board of Directors.

The Company was a party to a legal proceeding captioned Dalton which was resolved on January 3, 2020. In connection with the ruling, the Company expects to fund the \$5.7 million judgement, plus \$0.8 million of accrued interest in the first quarter of 2020.

We expect that our cash flows from operations, working capital and available borrowings will be sufficient to meet our capital commitments, to fund our operational needs for at least the next twelve months, and to fund mandatory debt repayments. Based on the availability of borrowings under our credit facilities, against our marketable security portfolio and other financing sources, and assuming the continuation of our current level of profitability, we do not expect that we will experience any liquidity constraints in the foreseeable future.

We continue to evaluate business development opportunities, including potential acquisitions that fit our strategic plans. There can be no assurance that we will identify any opportunities that fit our strategic plans or will be able to execute any such opportunities on terms acceptable to us. Depending on prospective consideration to be paid for an acquisition, any such opportunities would be financed first from available cash and cash equivalents and availability of borrowings under our credit facilities.

Revolving Credit, Promissory Notes and Term Loan Agreements

Our secured credit facility (the “Credit Facility”) provides for maximum borrowings of \$350 million in the form of a \$150 million term loan and a \$200 million revolver at a variable rate of interest based on LIBOR or a base rate and matures on November 26, 2023. The Credit Facility, which is secured by cash, deposits, accounts receivable, and selected other assets of the applicable borrowers, includes customary affirmative and negative covenants and events of default, as well as financial covenants requiring minimum fixed charge coverage and leverage ratios, and customary mandatory prepayments provisions. Our Credit Facility includes an accordion feature which allows us to increase availability by up to \$100 million upon our request. At December 31, 2019, we were in compliance with all covenants under the Credit Facility, and \$48.8 million was available for borrowing.

A wholly-owned subsidiary issued a series of promissory notes in order to finance transportation equipment (the “Equipment Financing”). The notes issued in connection with the Equipment Financing, which are secured by liens on selected titled vehicles, include certain affirmative and negative covenants, are generally payable in 60 monthly installments and bear interest at fixed rates ranging from 3.09% to 5.13%. At December 31, 2019, we were in compliance with all covenants.

A wholly-owned subsidiary issued a series of promissory notes in order to finance certain purchases of real property (the “Real Estate Financing”). The promissory notes, which are secured by first mortgages and assignment of leases on specific parcels of real estate and improvements, include certain affirmative and negative covenants and are generally payable in 120 monthly installments. Each of the notes bears interest at LIBOR plus 2.25%. At December 31, 2019, we were in compliance with all covenants.

We also maintain a short-term line of credit secured by our portfolio of marketable securities (the “Margin Facility”). It bears interest at LIBOR plus 1.10%. The amount available under the Margin Facility is based on a percentage of the market value of the underlying securities. We did not have any amounts advanced against the line as of December 31, 2019, and the maximum available borrowings were \$4.8 million.

Discussion of Cash Flows

At December 31, 2019, we had cash and cash equivalents of \$7.7 million compared to \$5.7 million at December 31, 2018. Operating activities provided \$128.0 million in net cash and financing activities provided an additional \$16.7 million. During 2019, we used \$143.1 million in investing activities.

The \$128.0 million in net cash provided by operations was primarily attributed to \$37.6 million of net income, which reflects non-cash depreciation and amortization, noncash lease expense, gains on marketable equity securities and equipment sales, amortization of debt issuance costs, stock-based compensation, provisions for doubtful accounts and a change in deferred income taxes totaling \$112.8 million, net. Net cash provided by operating activities also reflects an aggregate increase in net working capital totaling \$22.4 million. The primary drivers behind the increase in working capital were principal reductions in operating lease liabilities during the period, decreases in accruals for insurance and claims, trade accounts payable, accrued expenses and other current liabilities, and increases in prepaid expenses and other assets. These were partially offset by a decrease in trade and other accounts receivables and affiliated transactions. Affiliate transactions increased net cash provided by operating activities by \$0.6 million resulting from a decrease in accounts receivable from affiliates of \$3.5 million and decrease in accounts payable to affiliates of \$2.9 million.

The \$143.1 million in net cash used in investing activities consisted of \$79.8 million in capital expenditures and \$76.0 million for the acquisition of Michael's Cartage and Roadrunner Intermodal, and payment of acquisition related liabilities. These uses were partially offset by \$11.2 million in proceeds from the sale of equipment and \$1.6 million in proceeds from the sale of marketable securities.

Financing activities provided \$16.7 million in net cash during 2019. We paid \$24.8 million for purchases of common stock through a "Dutch auction" tender offer and cash dividends \$15.0 million. At December 31, 2019, we had outstanding borrowings of \$459.7 million compared to \$403.2 million at December 31, 2018. During the period, we had net borrowings on our revolving lines of credit and margin facility totaling \$70.1 million and borrowed an additional \$56.5 million for new equipment. We also made term loan, and equipment and real estate note payments totaling \$70.0 million during the period.

Contractual Obligations

The following summarizes our contractual obligations at December 31, 2019, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (in thousands):

	Total	Payments due by period			
		Less Than 1 Year	1 – 3 Years	3 – 5 Years	More Than 5 Years
Long-term debt	459,729	60,062	96,699	293,004	9,964
Interest on debt (1)	50,790	15,512	24,819	9,777	682
Operating lease obligations (2)	106,984	31,785	33,673	16,977	24,549
Purchase obligations	32,218	32,218	—	—	—
Legal settlement	6,548	6,548	—	—	—
Total	\$ 656,269	\$ 146,125	\$ 155,191	\$ 319,758	\$ 35,195

- (1) Interest payments on debt include fixed rate interest and variable rate interest based on the debt balance and applicable rate at December 31, 2019. Total interest reported includes \$9.9 million of fixed rate interest and \$40.9 million of variable rate interest.
- (2) Certain operating lease obligations in a currency other than the U.S. dollar will be affected by the exchange rate in effect at the time each cash payment is made.

At December 31, 2019, the total amount of gross unrecognized tax benefits was \$0.3 million. This amount is not included in the above table as the Company cannot reasonably estimate the timing of cash settlements, if any, with taxing authorities. At December 31, 2019, the Company has insurance and claims liabilities of \$23.0 million, of which \$9.9 million are covered by insurance. These amounts are not included in the above table as the Company cannot reasonably estimate the timing of cash settlements on these liabilities.

Off-Balance Sheet Arrangements

None.

Legal Matters

We are subject to various legal proceedings and other contingencies, the outcomes of which are subject to significant uncertainty. We accrue for estimated losses if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We use judgment and evaluate, with the assistance of legal counsel, whether a loss contingency arising from litigation should be disclosed or recorded. The outcome of legal proceedings is inherently uncertain, so typically a loss cannot be precisely estimated. Accordingly, if the outcome of legal proceedings is different than is anticipated by us, we would have to record the matter at the actual amount at which it was resolved, in the period resolved, impacting our results of operations and financial position for the period. See Item 8, Note 16 to the Consolidated Financial Statements.

Critical Accounting Policies

Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, operating revenues and operating expenses.

Critical accounting policies are those that are both (1) important to the portrayal of our financial condition and results of operations and (2) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution

of the uncertainties increase, those judgments become even more subjective and complex. In order to provide an understanding about how our management forms its judgments about future events, including the variables and assumptions underlying the estimates, and the sensitivity of those judgments to different circumstances, we have identified our critical accounting policies below.

Revenue Recognition

We recognize revenue as control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration the Company expects to receive in exchange for its services. For our transportation services businesses, which include truckload, brokerage, intermodal and dedicated services, revenue is recognized over-time as the performance obligations on the in-transit services are completed. For the Company's value-added service businesses, we have elected to use the "right to invoice" practical expedient, reflecting that a customer obtains the benefit associated with value-added services as they are provided. For additional information on revenue recognition, see Item 8, Note 3 to the Consolidated Financial Statements.

Allowance for Uncollectible Receivables

The allowance for potentially uncollectible receivables is based on a combination of historical data, cash payment trends, specific customer issues, write-off trends, general economic conditions and other factors. Management continuously monitors these factors to arrive at the estimate of accounts receivable that may be ultimately uncollectible. The receivables analyzed include trade receivables, as well as loans and advances made to owner-operators. All other balances are reviewed on a pooled basis. This analysis requires us to make significant estimates. Changes in the facts and circumstances that these estimates are based upon and changes in the general economic environment could result in a material change to the allowance for uncollectible receivables. These changes include, but are not limited to, deterioration of customers' financial position, changes in our relationships with our customers, agents and owner-operators and unforeseen issues relating to individual receivables. Based on our 2019 allowance for uncollectible receivables, a 10% increase in the allowance would increase our bad debt expense by \$0.3 million.

Insurance and Claim Costs

We maintain auto liability, workers compensation and general liability insurance with licensed insurance carriers. We are self-insured for all cargo and equipment damage claims. Insurance and claims expense represents premiums paid by us and the accruals made for claims within our self-insured retention amounts. A liability is recognized for the estimated cost of all self-insured claims including an estimate of incurred but not reported claims based on historical experience and for claims expected to exceed our policy limits. In addition, legal expenses related to auto liability claims are covered under our policy. We are responsible for all other legal expenses related to claims.

We establish reserves for anticipated losses and expenses related to cargo and equipment damage claims and auto liability claims. The reserves consist of specific reserves for all known claims and an estimate for claims incurred but not reported, and losses arising from known claims ultimately settling in excess of insurance coverage using loss development factors based upon industry data and past experience. In determining the reserves, we specifically review all known claims and record a liability based upon our best estimate of the amount to be paid. In making our estimate, we consider the amount and validity of the claim, as well as our past experience with similar claims. In establishing the reserve for claims incurred but not reported, we consider our past claims history, including the length of time it takes for claims to be reported to us. Based on our past experience, the time between when a claim occurs and when it is reported to us is short. As a result, we believe that the number of incurred but not reported claims at any given point in time is small. These reserves are periodically reviewed and adjusted to reflect our experience and updated information relating to specific claims. As of December 31, 2019, we did not have any reserves for workers' compensation or general liability claims. If we experience claims that are not covered by our insurance or that exceed our estimated claim reserve, it could increase the volatility of our earnings and have a materially adverse effect on our financial condition, results of operations or cash flows. Based on our 2019 reserve for claims incurred but not reported, a 10% increase in claims incurred but not reported, would increase our insurance and claims expense by approximately \$0.5 million.

Valuation of Long-Lived Assets, including Goodwill and Intangible Assets

We are required to test goodwill for impairment annually or more frequently, whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit with goodwill below its carrying amount. We annually test goodwill impairment during the third quarter. Goodwill represents the excess purchase price over the fair value of assets acquired in connection with our acquisitions. We continually assess whether any indicators of impairment exist, which requires a significant amount of judgment. Such indicators may include a sustained significant decline in our share price and market capitalization; a decline in our expected future cash flows; a significant adverse change in legal factors or in the business climate; unanticipated competition; overall weaknesses in our industry; and slower growth rates. Adverse changes in these factors could have a significant impact on the recoverability of goodwill and could have a material impact on our consolidated financial statements. The Company has the option to

first assess qualitative factors such as current performance and overall economic conditions to determine whether or not it is necessary to perform a quantitative goodwill impairment test. If we choose that option, then we would not be required to perform a quantitative goodwill impairment test unless we determine that, based on a qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying value. If we determine that it is more likely than not, or if we choose not to perform a qualitative assessment, we then proceed with the quantitative assessment. Under the quantitative test, if the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its fair value, then an impairment loss is recognized in an amount equal to the excess, up to the value of the goodwill. During the third quarter of 2019, we completed our goodwill impairment testing by performing a quantitative assessment. Based on the results of this test, no impairment loss was recognized. We estimate that a 10% decrease in the fair value of our reporting units would not have caused an impairment loss to be recognized.

We evaluate the carrying value of long-lived assets, other than goodwill, for impairment by analyzing the operating performance and anticipated future cash flows for those assets, whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. We evaluate the need to adjust the carrying value of the underlying assets if the sum of the expected cash flows is less than the carrying value. Our projection of future cash flows, the level of actual cash flows, the methods of estimation used for determining fair values and salvage values can impact impairment. Any changes in management's judgments could result in greater or lesser annual depreciation and amortization expense or impairment charges in the future. Depreciation and amortization of long-lived assets is calculated using the straight-line method over the estimated useful lives of the assets.

Recently Issued Accounting Pronouncements Not Currently Effective

See Item 8: Note 2 to the Consolidated Financial Statements for discussion of new accounting pronouncements.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

Our principal exposure to interest rate risk relates to outstanding borrowing under our Credit Facility, Real Estate Financing and Margin Facility, all of which charge interest at floating rates. Borrowings under the credit agreements with each of the banks bear interest at LIBOR or a base rate, plus an applicable margin. Our Margin Facility bears interest at a floating rate equal to LIBOR plus 1.10%. As of December 31, 2019, we had total variable interest rate borrowings of \$331.2 million. Assuming variable rate debt levels remain at \$331.2 million for a full year, a 100 basis point increase in interest rates on our variable rate debt would increase interest expense approximately \$3.3 million annually.

In connection with the Real Estate Financing, we entered into interest rate swap agreements to fix a portion of the interest rates on our variable rate debt that has a combined notional amount of \$15.5 million at December 31, 2019. Under the swap agreements, the Company receives interest at the one-month LIBOR rate plus 2.25%, and pays a fixed rate. The March 2016 swap (swap A) became effective October 2016, has a rate of 4.16% (amortizing notional amount of \$10.0 million) and expires July 2026, and an additional March 2016 swap (swap B) became effective October 2016, has a rate of 3.83% (amortizing notional amount of \$5.5 million) and expires May 2022. At December 31, 2019, the fair value of the two swap agreements was a liability of \$0.1 million. Since these swap agreements qualify for hedge accounting, the changes in fair value are recorded in other comprehensive income (loss), net of tax.

Included in cash and cash equivalents is approximately \$18,000 in short-term investment grade instruments. The interest rates on these instruments are adjusted to market rates at least monthly. In addition, we have the ability to put these instruments back to the issuer at any time. Accordingly, any future interest rate risk on these short-term investments would not be material.

Commodity Price Risk

Fluctuations in fuel prices can affect our profitability by affecting our ability to retain or recruit owner-operators. Our owner-operators bear the costs of operating their tractors, including the cost of fuel. The tractors operated by our owner-operators consume large amounts of diesel fuel. Diesel fuel prices fluctuate greatly due to economic, political and other factors beyond our control. To address fluctuations in fuel prices, we seek to impose fuel surcharges on our customers and pass these surcharges on to our owner-operators. Historically, these arrangements have not fully protected our owner-operators from fuel price increases. If costs for fuel escalate significantly it could make it more difficult to attract additional qualified owner-operators and retain our current owner-operators. If we lose the services of a significant number of owner-operators or are unable to attract additional owner-operators, it could have a materially adverse effect on our financial condition, results of operations and cash flows.

Exposure to market risk for fluctuations in fuel prices also relates to a small portion of our transportation service contracts for which the cost of fuel is integral to service delivery and the service contract does not have a mechanism to adjust for increases in fuel prices. Increases and decreases in the price of fuel are generally passed on to our customers for which we realize minimal changes in

profitability during periods of steady market fuel prices. However, profitability may be positively or negatively impacted by sudden increases or decreases in market fuel prices during a short period of time as customer pricing for fuel services is established based on market fuel costs. We believe the exposure to fuel price fluctuations would not materially impact our results of operations, cash flows or financial position. Based upon our 2019 fuel consumption, a 10% increase in the average annual price per gallon of diesel fuel would increase our annual fuel expense on company owned tractors by approximately \$2.1 million.

Equity Securities Risk

We hold certain actively traded marketable equity securities, which subjects the Company to fluctuations in the fair market value of its investment portfolio based on current market price. The recorded value of marketable equity securities increased to \$9.4 million at December 31, 2019 from \$9.3 million at December 31, 2018. The increase resulted from an increase in market value of the portfolio of approximately \$1.2 million and purchases of approximately \$0.1 million, offset by sales of marketable equity securities of approximately \$1.6 million, with realized gains on sales of \$0.3 million. A 10% decrease in the market price of our marketable equity securities would cause a corresponding 10% decrease in the carrying amounts of these securities, or approximately \$0.9 million. For additional information with respect to the marketable equity securities, see Item 8, Note 5 to the Consolidated Financial Statements.

Foreign Exchange Risk

In the years ended December 31, 2019 and 2018, 2.1% and 2.4%, respectively, of our revenues were derived from services provided outside the United States, principally in Mexico, Canada and Colombia. Exposure to market risk for changes in foreign currency exchange rates relates primarily to selling services and incurring costs in currencies other than the local currency and to the carrying value of net investments in foreign subsidiaries. As a result, we are exposed to foreign currency exchange rate risk due primarily due to translation of the accounts of our Mexican, Canadian and Colombian operations from their local currencies into U.S. dollars and also to the extent we engage in cross-border transactions. The majority of our exposure to fluctuations in the Mexican peso, Canadian dollar, and Colombian peso is naturally hedged, since a substantial portion of our revenues and operating costs are denominated in each country's local currency. Based on 2019 expenditures denominated in foreign currencies, a 10% decrease in the exchange rates would increase our annual operating expenses by approximately \$1.8 million. Historically, we have not entered into financial instruments for trading or speculative purposes. Short-term exposures to fluctuating foreign currency exchange rates are related primarily to intercompany transactions. The duration of these exposures is minimized by ongoing settlement of intercompany trading obligations.

The net investments in our Mexican, Canadian and Colombian operations are exposed to foreign currency translation gains and losses, which are included as a component of accumulated other comprehensive income in our statement of shareholders' equity. Adjustments from the translation of the net investment in these operations increased equity by approximately \$1.4 million for the year ended December 31, 2019.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Universal Logistics Holdings, Inc.
Warren, Michigan

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Universal Logistics Holdings, Inc. (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, cash flows and shareholders’ equity for each of the three years in the period ended December 31, 2019 and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated March 16, 2020 expressed an unqualified opinion thereon.

Change in Accounting Principles

As discussed in Note 2, the Company changed its method of accounting for leases in 2019 and its methods of accounting for i) revenue from contracts with customers and ii) investments in equity securities in 2018.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2013.

Troy, Michigan
March 16, 2020

UNIVERSAL LOGISTICS HOLDINGS, INC.

Consolidated Balance Sheets

December 31, 2019 and 2018

(In thousands, except share data)

Assets	2019	2018
Current assets:		
Cash and cash equivalents	\$ 7,726	\$ 5,727
Marketable securities	9,369	9,333
Accounts receivable – net of allowance for doubtful accounts of \$2,545 and \$1,772, respectively	210,534	215,991
Other receivables	19,065	19,130
Prepaid expenses and other	19,676	19,830
Due from affiliates	1,705	5,247
Prepaid income taxes	3,768	—
Total current assets	<u>271,843</u>	<u>275,258</u>
Property and equipment, net	339,823	303,234
Operating lease right-of-use asset	87,209	—
Goodwill	168,451	145,152
Intangible assets – net of accumulated amortization of \$78,366 and \$62,624, respectively	116,111	113,775
Deferred income taxes	1,460	2,549
Other assets	3,100	3,179
Total assets	<u>\$ 987,997</u>	<u>\$ 843,147</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 91,909	\$ 92,019
Current portion of long-term debt	59,476	51,903
Current portion of operating lease liabilities	27,484	—
Accrued expenses and other current liabilities	34,825	25,126
Insurance and claims	23,039	31,679
Due to affiliates	14,842	17,764
Income taxes payable	—	2,678
Total current liabilities	<u>251,575</u>	<u>221,169</u>
Long-term liabilities:		
Long-term debt, net of current portion	398,136	348,549
Operating lease liability, net of current portion	61,674	—
Deferred income taxes	65,692	59,228
Other long-term liabilities	5,703	4,902
Total long-term liabilities	<u>531,205</u>	<u>412,679</u>
Shareholders' equity:		
Common stock, no par value. Authorized 100,000,000 shares; 30,970,452 and 30,965,452 shares issued; 27,282,230 and 28,378,827 shares outstanding, respectively	30,972	30,967
Paid-in capital	4,298	4,230
Treasury stock, at cost; 3,688,222 and 2,586,625 shares, respectively	(77,247)	(52,462)
Retained earnings	251,204	231,525
Accumulated other comprehensive income (loss):		
Interest rate swaps, net of income taxes of \$(32) and \$94, respectively	(105)	298
Foreign currency translation adjustments	(3,905)	(5,259)
Total shareholders' equity	<u>205,217</u>	<u>209,299</u>
Total liabilities and shareholders' equity	<u>\$ 987,997</u>	<u>\$ 843,147</u>

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Consolidated Statements of Income

Years ended December 31, 2019, 2018 and 2017

(In thousands, except per share data)

	2019	2018	2017
Operating revenues:			
Truckload services, including related party amounts of \$1,636, \$900 and \$1,100, respectively	\$ 251,574	\$ 313,811	\$ 302,914
Brokerage services	354,940	367,579	278,187
Intermodal services	390,299	251,074	153,726
Dedicated services	138,664	144,348	119,760
Value-added services	376,521	384,896	362,078
Total operating revenues	1,511,998	1,461,708	1,216,665
Operating expenses:			
Purchased transportation and equipment rent, including related party amounts of \$65, \$1,240 and \$35, respectively	723,079	716,019	577,485
Direct personnel and related benefits, including related party amounts of \$31,932, \$38,811 and \$35,743, respectively	368,243	354,654	314,364
Operating supplies and expenses, including related party amounts of \$895, \$2,428 and \$2,652, respectively	120,767	122,736	115,420
Commission expense	31,204	37,381	33,213
Occupancy expense, including related party amounts of \$11,794, \$14,295 and \$17,046, respectively	36,645	30,701	30,575
General and administrative, including related party amounts of \$7,633, \$7,407 and \$6,742, respectively	44,497	31,523	31,518
Insurance and claims, including related party amounts of \$17,570, \$14,246 and \$16,281, respectively	47,418	30,475	41,881
Depreciation and amortization	74,765	54,425	46,995
Total operating expenses	1,446,618	1,377,914	1,191,451
Income from operations	65,380	83,794	25,214
Interest income	73	76	92
Interest expense	(17,085)	(14,669)	(9,538)
Other non-operating income	1,818	188	1,373
Income before income taxes	50,186	69,389	17,141
Income tax expense (benefit)	12,600	17,211	(11,012)
Net income	\$ 37,586	\$ 52,178	\$ 28,153
Earnings per common share:			
Basic	\$ 1.34	\$ 1.84	\$ 0.99
Diluted	\$ 1.34	\$ 1.84	\$ 0.99
Weighted average number of common shares outstanding:			
Basic	28,069	28,383	28,425
Diluted	28,070	28,390	28,428
Dividends declared per common share	<u>\$ 0.42</u>	<u>\$ 0.53</u>	<u>\$ 0.28</u>

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Consolidated Statements of Comprehensive Income
 Years ended December 31, 2019, 2018 and 2017
 (In thousands, except per share data)

	2019	2018	2017
Net Income	\$ 37,586	\$ 52,178	\$ 28,153
Other comprehensive income (loss):			
Unrealized changes in fair value of interest rate swaps, net of income taxes of \$(126), \$31 and \$1, respectively	(403)	101	98
Foreign currency translation adjustments	1,354	(526)	672
Unrealized holding gains on available-for-sale securities arising during the period, net of income taxes of \$0, \$0 and \$(38), respectively (1)	—	—	1,683
Realized gains on available-for-sale securities reclassified into income, net of income taxes of \$0, \$0 and \$384, respectively (1)	—	—	(539)
Total other comprehensive income (loss)	951	(425)	1,914
Total comprehensive income	\$ 38,537	\$ 51,753	\$ 30,067

(1) In accordance with the adoption of ASU 2016-01 on January 1, 2018 (see Note 2), unrealized holding gains and losses on equity securities have been reclassified to income for the current period and to retained earnings for historical amounts recorded in Accumulated Other Comprehensive Income at December 31, 2017.

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Consolidated Statements of Cash Flows
 Years ended December 31, 2019, 2018 and 2017
 (In thousands)

	2019	2018	2017
Cash flows from operating activities:			
Net income	\$ 37,586	\$ 52,178	\$ 28,153
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,765	54,425	46,995
Noncash lease expense	29,904	—	—
Amortization of debt issuance costs	586	1,329	321
(Gain) loss on marketable equity securities	(1,540)	1,306	(923)
(Gain) loss on disposal of property and equipment	(1,245)	(354)	(10)
Gain on life insurance policies	—	(1,025)	—
Write-off of debt issuance costs	—	366	—
Stock-based compensation	73	413	414
Provision for doubtful accounts	3,133	924	1,533
Deferred income taxes	7,161	6,583	(19,014)
Change in assets and liabilities:			
Trade and other accounts receivable	21,798	(26,466)	(29,398)
Prepaid income taxes, prepaid expenses and other assets	(2,230)	2,509	8,051
Accounts payable, accrued expenses, accrued income taxes, insurance and claims and other current liabilities	(13,791)	(2,139)	40,633
Principal reduction in operating lease liabilities	(29,061)	—	—
Due to/from affiliates, net	623	3,238	7,192
Other long-term liabilities	274	1,614	(98)
Net cash provided by operating activities	128,036	94,901	83,849
Cash flows from investing activities:			
Capital expenditures	(79,753)	(66,585)	(63,360)
Proceeds from the sale of property and equipment	11,152	3,897	1,211
Purchases of marketable securities	(92)	(1,228)	(401)
Proceeds from sale of marketable securities	1,596	5,733	1,261
Proceeds from life insurance policies	—	2,583	—
Acquisitions of businesses	(75,963)	(173,599)	—
Net cash used in investing activities	(143,060)	(229,199)	(61,289)
Cash flows from financing activities:			
Proceeds from borrowing - revolving debt	379,458	488,571	316,458
Repayments of debt - revolving debt	(308,821)	(477,667)	(320,833)
Proceeds from borrowing - term debt	56,494	255,169	39,069
Repayments of debt - term debt	(70,016)	(112,157)	(48,305)
Repayments under margin account	(541)	—	—
Dividends paid	(15,042)	(10,930)	(7,960)
Payment of capital lease obligations	—	(92)	(100)
Purchases of treasury stock	(24,785)	(930)	(1,488)
Capitalized financing costs	—	(3,137)	—
Net cash provided by (used in) financing activities	16,747	138,827	(23,159)
Effect of exchange rate changes on cash and cash equivalents	276	(474)	516
Net increase (decrease) in cash	1,999	4,055	(83)
Cash and cash equivalents – January 1	5,727	1,672	1,755
Cash and cash equivalents – December 31	\$ 7,726	\$ 5,727	\$ 1,672

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Consolidated Statements of Cash Flows - Continued
 Years ended December 31, 2019, 2018 and 2017
 (In thousands)

	2019	2018	2017
Supplemental cash flow information:			
Cash paid for interest	\$ 16,349	\$ 13,323	\$ 9,104
Cash paid for income taxes	<u>\$ 12,459</u>	<u>\$ 4,792</u>	<u>\$ 2,207</u>

Non-cash operating and financing activities:

During the year ended December 31, 2019, the Company had non-cash activities resulting from \$2.9 million of declared dividends that were unpaid as of the end of the year.

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Consolidated Statements of Shareholders' Equity
 Years ended December 31, 2019, 2018 and 2017
 (In thousands)

	Common stock	Paid-in capital	Treasury stock	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balances – December 31, 2016	\$ 30,919	\$ 3,451	\$ (50,044)	\$ 166,033	\$ (2,627)	\$ 147,732
Net income	—	—	—	28,153	—	28,153
Comprehensive loss	—	—	—	—	1,914	1,914
Dividends paid (\$0.28 per share)	—	—	—	(7,960)	—	(7,960)
Stock based compensation	24	390	—	—	—	414
Purchases of treasury stock	—	—	(1,488)	—	—	(1,488)
Balances – December 31, 2017	\$ 30,943	\$ 3,841	\$ (51,532)	\$ 186,226	\$ (713)	\$ 168,765
Net income	—	—	—	52,178	—	52,178
Comprehensive loss	—	—	—	—	(425)	(425)
Dividends paid (\$0.385 per share)	—	—	—	(10,930)	—	(10,930)
Cumulative effect adjustment - ASU 2014-09 revenue recognition	—	—	—	228	—	228
Cumulative effect adjustment - ASU 2016-01 financial instruments	—	—	—	3,823	(3,823)	—
Stock based compensation	24	389	—	—	—	413
Purchases of treasury stock	—	—	(930)	—	—	(930)
Balances – December 31, 2018	\$ 30,967	\$ 4,230	\$ (52,462)	\$ 231,525	\$ (4,961)	\$ 209,299
Net income	—	—	—	37,586	—	37,586
Comprehensive income	—	—	—	—	951	951
Dividends paid (\$0.530 per share)	—	—	—	(15,042)	—	(15,042)
Dividends payable (\$0.105 per share)	—	—	—	(2,865)	—	(2,865)
Stock based compensation	5	68	—	—	—	73
Purchases of treasury stock	—	—	(24,785)	—	—	(24,785)
Balances – December 31, 2019	<u>\$ 30,972</u>	<u>\$ 4,298</u>	<u>\$ (77,247)</u>	<u>\$ 251,204</u>	<u>\$ (4,010)</u>	<u>\$ 205,217</u>

See accompanying notes to consolidated financial statements.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Notes to Consolidated Financial Statements

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies

(a) Business

Universal Logistics Holdings, Inc. (“Universal” or the “Company”), through its subsidiaries, is a leading asset-light provider of customized transportation and logistics solutions throughout the United States, and in Mexico, Canada and Colombia. We provide our customers with supply chain solutions that can be scaled to meet their changing demands. We offer our customers a broad array of services across their entire supply chain, including truckload, brokerage, intermodal, dedicated and value-added services. Our customized solutions and flexible business model are designed to provide us with a highly variable cost model.

(b) Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions relating to these entities have been eliminated.

Our fiscal year consists of four quarters, each with thirteen weeks.

Certain immaterial reclassifications have been made to the prior consolidated financial statements in order for them to conform to the December 31, 2019 presentation. These reclassifications had no effect on reported consolidated net income, comprehensive income, earnings per common share, cash flows, total assets, or stockholders' equity as previously reported.

(c) Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions related to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the fair value of assets and liabilities acquired in business combinations; carrying amounts of property and equipment and intangible assets; marketable securities; valuation allowances for receivables; and liabilities related to insurance and claim costs. Actual results could differ from those estimates.

(d) Cash and Cash Equivalents

We consider all highly liquid investments, purchased with a maturity of three months or less, to be cash equivalents. Accounts at banks with an aggregate excess of the amount of checks issued over cash balances are included as accounts payable in current liabilities in the consolidated balance sheets, and changes in such accounts are reported as cash flows from operating activities in the consolidated statements of cash flows.

(e) Marketable Securities

Marketable equity securities are measured at fair value, with changes in fair value recognized in net income. At December 31, 2019 and 2018, the Company's marketable securities, all of which are available-for-sale, consist of common and preferred stocks with readily determinable fair values. The cost of securities sold is based on the specific identification method, and interest and dividends are included in non-operating income (expense). See Note 5 “Marketable Securities” for further information on our portfolio.

(f) Accounts Receivable

Accounts receivable are recorded at the net invoiced amount, net of an allowance for doubtful accounts, and do not bear interest. They include unbilled amounts for services rendered in the respective period but not yet billed to the customer until a future date, which typically occurs within one month. In order to reflect customer receivables at their estimated net realizable value, we record charges against revenue based upon current information. These charges generally arise from rate changes, errors, and revenue adjustments that may arise from contract disputes or differences in calculation methods employed by the customer. The allowance for doubtful accounts is our best estimate of the amount of probable credit losses in our existing accounts receivable. We determine the allowance based on historical write-off experience and the aging of our outstanding accounts receivable. Balances are considered past due based on invoiced terms. Account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote. We do not have any off-balance-sheet credit exposure related to our customers. Accounts receivable from affiliates are shown separately and include trade receivables from the sale of services to affiliates.

UNIVERSAL LOGISTICS HOLDINGS, INC.
Notes to Consolidated Financial Statements – (Continued)
December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued

(g) Inventories

Included in prepaid expenses and other is inventory used in a portion of our value-added service operations. Inventories are stated at net realizable value. Cost is determined using the first-in, first-out method. Provisions for excess and obsolete inventories are based on our assessment of excess and obsolete inventory on a product-by-product basis.

At December 31, inventory consists of the following (in thousands):

	2019	2018
Finished goods	\$ 5,776	\$ 4,920
Raw materials and supplies	1,387	1,831
Total	<u>\$ 7,163</u>	<u>\$ 6,751</u>

(h) Property and Equipment

Property and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows:

<u>Description</u>	<u>Life in Years</u>
Transportation equipment	3 - 15
Other operating assets	3 - 15
Information technology equipment	3 - 5
Buildings and related assets	10 - 39

The amounts recorded for depreciation expense were \$59.0 million, \$48.7 million, and \$41.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Tire repairs, replacement tires, replacement batteries, consumable tools used in our logistics services, and routine repairs and maintenance on vehicles are expensed as incurred. Parts and fuel inventories are included in prepaid expenses and other. We capitalize certain costs associated with vehicle repairs and maintenance that materially extend the life or increase the value of the vehicle or pool of vehicles.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued

(i) Intangible Assets

Intangible assets subject to amortization consist of agent and customer relationships, customer contracts, tradenames, and non-competition agreements that have been acquired in business combinations. These assets are amortized either over the period of economic benefit or on a straight-line basis over the estimated useful lives of the related intangible asset. The estimated useful lives of these intangible assets range from three to nineteen years. The useful lives of acquired trademarks are indefinite and, therefore, not subject to amortization.

Our identifiable intangible assets as of December 31, 2019 and 2018 are as follows (in thousands):

	2019			2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite Lived Intangibles:						
Agent and customer relationships	\$ 164,657	\$ 55,880	\$ 108,777	\$ 150,189	\$ 41,947	\$ 108,242
Customer contracts	20,600	20,600	—	20,600	20,600	—
Tradenames	4,000	1,333	2,667	2,000	—	2,000
Non-compete agreements	2,720	553	2,167	1,110	77	1,033
Indefinite Lived Intangibles:						
Trademarks	2,500	—	2,500	2,500	—	2,500
Total Identifiable Intangible Assets	\$ 194,477	\$ 78,366	\$ 116,111	\$ 176,399	\$ 62,624	\$ 113,775

Estimated amortization expense by year is as follows (in thousands):

2020	\$ 16,137
2021	14,604
2022	12,190
2023	11,313
2024	10,285
Thereafter	49,082
Total	\$ 113,611

The amounts recorded for amortization expense were \$15.7 million, \$5.7 million, and \$6.0 million for the years ended December 31, 2019, 2018 and 2017, respectively.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Notes to Consolidated Financial Statements – (Continued)

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued**(j) Goodwill**

Goodwill represents the excess purchase price over the fair value of assets acquired in connection with the Company's acquisitions. Under Financial Accounting Standards Board ("FASB") Accounting Standards Codification, or ASC, Topic 350 "*Intangibles – Goodwill and Other*", we are required to test goodwill for impairment annually (in our third fiscal quarter) or more frequently, whenever events occur or circumstances change that would more likely than not reduce the fair value of a reporting unit with goodwill below its carrying amount. We have the option to first assess qualitative factors such as current performance and overall economic conditions to determine whether or not it is necessary to perform a quantitative goodwill impairment test. If we choose that option, then we would not be required to perform a quantitative goodwill impairment test unless we determine that, based on a qualitative assessment, it is more likely than not that the fair value of a reporting unit is less than its carrying value. If we determine that it is more likely than not, or if we choose not to perform a qualitative assessment, we then proceed with the quantitative assessment. Under the quantitative test, if the fair value of a reporting unit exceeds its carrying amount, then goodwill of the reporting unit is considered to not be impaired. If the carrying amount of the reporting unit exceeds its fair value, then an impairment loss is recognized in an amount equal to the excess, up to the value of the goodwill. During the third quarter of 2019, we completed our goodwill impairment testing by performing a quantitative assessment. Based on the results of this test, no impairment loss was recognized.

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows (in thousands):

Balance as of January 1, 2018	\$ 74,484
Business acquisitions	70,668
Balance as of December 31, 2018	145,152
Business acquisitions	16,520
Purchase accounting adjustments	6,779
Balance as of December 31, 2019	<u>\$ 168,451</u>

During 2019, the Company made purchase accounting adjustments to the preliminary purchase price allocations of the Company's December 7, 2018 acquisition of Deco Logistics, Inc., d/b/a Container Connection, and Oaktree Logistics, Inc., October 12, 2018 acquisition of Specialized Rail Service, Inc. and August 10, 2018 acquisition of Southern Counties Express, Inc. The adjustments resulted in an increase in goodwill of \$6.8 million, \$1.3 million in current liabilities, and \$1.2 million in deferred tax liabilities, with offsetting decreases in intangible assets of \$3.6 million, \$3.4 million in property and equipment, \$1.2 million in other assets and \$0.1 million in current assets. The Company also paid an additional \$1.0 million in cash.

At December 31, 2019 and 2018, \$112.2 million and \$88.9 million of goodwill was recorded in our transportation segment, respectively. At both December 31, 2019 and 2018, \$56.3 million of goodwill was recorded in our logistics segment.

(k) Long-Lived Assets

Long-lived assets, other than goodwill and indefinite lived intangibles such as property and equipment and purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or group may not be recoverable. If circumstances require a long-lived asset to be tested for possible impairment, we first compare the undiscounted cash flows expected to be generated by a long-lived asset or group to its carrying value. If the carrying value of the long-lived asset or group is deemed to not be recoverable on an undiscounted cash flow basis, an impairment charge is recognized to the extent that the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market prices and independent third-party appraisals. Changes in management's judgment relating to salvage values and/or estimated useful lives could result in greater or lesser annual depreciation expense or impairment charges in the future. Indefinite lived intangibles are tested for impairment annually by comparing the carrying value of the assets to their fair value.

(l) Contingent Consideration

Contingent consideration arrangements granted in connection with a business combination are evaluated to determine whether contingent consideration is, in substance, additional purchase price of an acquired enterprise or compensation for services, use of property or profit sharing. Additional purchase price is added to the fair value of consideration transferred in the business combination and compensation is included in operating expenses in the period it is incurred. Contingent consideration related to additional purchase price is measured to fair value at each reporting date until the contingency is resolved. None of the acquired companies in 2018 or 2019 had contingent consideration arrangements.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Notes to Consolidated Financial Statements – (Continued)

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued

(m) Fair Value of Financial Instruments

For cash equivalents, accounts receivables, accounts payable, and accrued expenses, the carrying amounts are reasonable estimates of fair value as the assets are readily redeemable or short-term in nature and the liabilities are short-term in nature. Marketable securities, consisting of equity securities, are carried at fair market value as determined by quoted market prices. Our revolving credit and term loan agreements consist of variable rate borrowings. The carrying value of these borrowings approximates fair value because the applicable interest rates are adjusted frequently based on short-term market rates. For our equipment promissory notes, the fair values are estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. See Note 10 “Fair Value Measurement and Disclosures” for further information.

(n) Deferred Compensation

Deferred compensation relates to our bonus plans. Annual bonuses may be awarded to certain operating, sales and management personnel based on overall Company performance and achievement of specific employee or departmental objectives. Such bonuses are typically paid in annual installments over a five-year period. All bonus amounts earned by and due to employees in the current year are included in accrued expenses and other current liabilities. Those that are payable in subsequent years are included in other long-term liabilities.

(o) Closing Costs

Our customers may discontinue or alter their business activity in a location earlier than anticipated, prompting us to exit a customer-dedicated facility. We recognize exit costs associated with operations that close or are identified for closure as an accrued liability in the Consolidated Balance Sheets. Such charges include lease termination costs, employee termination charges, asset impairment charges, and other exit-related costs associated with a plan approved by management. If we close an operating facility before its lease expires, costs to terminate a lease are recognized when an early termination provision is exercised, or we record a liability for non-cancellable lease obligations based on the fair value of remaining lease payments, reduced by any existing or prospective sublease rentals. Employee termination costs are recognized in the period that the closure is communicated to affected employees. The recognition of exit and disposal charges requires us to make certain assumptions and estimates as to the amount and timing of such charges. Subsequently, adjustments are made for changes in estimates in the period in which the change becomes known.

(p) Revenue Recognition

Revenue is recognized as control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration the Company expects to receive in exchange for its services.

For our transportation services businesses, which include truckload, brokerage, intermodal and dedicated services, the adoption of the standard changed the timing of revenue recognition from “at delivery” to “over-time” as the performance obligations on the in-transit services are completed. A performance obligation is created when a customer submits a bill of lading for the transportation of goods from origin to destination. Performance obligations are satisfied as the shipments move from origin to destination, and transportation revenue is recognized based on the percentage of the service that has been completed at the end of the reporting period.

Value-added services, which are typically dedicated to individual customer requirements, include material handling, consolidation, sequencing, sub-assembly, cross-dock services, kitting, repacking, warehousing and returnable container management. For our value-added service businesses, the adoption of the standard did not change the timing of revenue recognition. We have elected to use the “right to invoice” practical expedient, reflecting that a customer obtains the benefit associated with value-added services as they are provided.

We are the primary obligor when rendering services, and assume the corresponding credit risk with customers. We have discretion in setting sales prices and, as a result, our earnings may vary. In addition, we have discretion to choose and negotiate terms with our multiple suppliers for the services ordered by our customers. This includes owner-operators with whom we contract to deliver our transportation services. As such, revenue and the related purchased transportation and commissions are recognized on a gross basis. Fuel surcharges, where separately identifiable, of \$89.6 million, \$85.1 million and \$59.5 million for the years ended December 31, 2019, 2018 and 2017, respectively, are included in operating revenues.

See Note 3, “Revenue Recognition,” for more information on revenue recognition.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Notes to Consolidated Financial Statements – (Continued)

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued

(q) Insurance & Claims

Insurance and claims expense represents charges for premiums and the accruals made for claims within our self-insured retention amounts. The accruals are primarily related to auto liability, general liability, cargo and equipment damage, and service failure claims. A liability is recognized for the estimated cost of all self-insured claims including an estimate of incurred but not reported claims based on historical experience and for claims expected to exceed our policy limits. We may also make accruals for personal injury and property damage to third parties, and workers' compensation claims if a claim exceeds our insurance coverage. Such accruals are based upon individual cases and estimates of ultimate losses, incurred but not reported losses, and losses arising from known claims ultimately settling in excess of insurance coverage using loss development factors based upon industry data and past experience. Since the reported accrual is an estimate, the ultimate liability may be materially different from the amount recorded.

If adjustments to previously established accruals are required, such amounts are included in operating expenses in the current period. We maintain insurance with licensed insurance carriers. Legal expenses related to auto liability claims are covered under our insurance policy. We are responsible for all other legal expenses related to claims.

In brokerage arrangements, our exposure to liability associated with accidents incurred by other third-party carriers, who haul freight on our behalf, is reduced by various factors including the extent to which the third party providers maintain their own insurance coverage.

Our insurance expense varies primarily based upon the frequency and severity of our accident experience, insurance rates, coverage limits, and self-insured retention amounts.

(r) Stock Based Compensation

We record compensation expense for the grant of stock based awards. Compensation expense is measured at the grant date, based on the calculated fair value of the award, and recognized as an expense over the requisite service period (generally the vesting period of the grant). See Note 15 "Stock Based Compensation" for further information.

(s) Income Taxes

Deferred income taxes are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We are no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016. In addition, we file income tax returns in various state, local and foreign jurisdictions. Historically, we have been responsible for filing separate state, local and foreign income tax returns for our self and our subsidiaries. We are no longer subject to state or foreign jurisdiction income tax examinations for years before 2015 and 2014, respectively.

We recognize the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We recognize interest related to unrecognized tax benefits in income tax expense and penalties in other operating expenses.

(t) Foreign Currency Translation

The financial statements of the Company's subsidiaries operating in Mexico, Canada and Colombia are prepared to conform to U.S. GAAP and translated into U.S. Dollars by applying a current exchange rate. The local currency has been determined to be the functional currency. Items appearing in the Consolidated Statements of Income are translated using average exchange rates during each period. Assets and liabilities of international operations are translated at period-end exchange rates. Translation gains and losses are reported in accumulated other comprehensive income (loss) as a component of shareholders' equity.

UNIVERSAL LOGISTICS HOLDINGS, INC.

Notes to Consolidated Financial Statements – (Continued)

December 31, 2019, 2018 and 2017

(1) Summary of Significant Accounting Policies—continued

(u) Segment Information

We report our financial results in two reportable segments, the transportation segment and the logistics segment, based on the nature of the underlying customer commitment and the types of investments required to support these commitments. This presentation reflects the manner in which management evaluates our operating segments, including an evaluation of economic characteristics and applicable aggregation criteria.

Operations aggregated in our transportation segment are associated with individual freight shipments coordinated by our agents, company-managed terminals and specialized services operations. In contrast, operations aggregated in our logistics segment deliver value-added services or transportation services to specific customers on a dedicated basis, generally pursuant to contract terms of one year or longer. Other non-reportable operating segments are comprised of the Company's subsidiaries that provide support services to other subsidiaries and to owner-operators, including shop maintenance and equipment leasing.

(v) Concentrations of Credit Risk

Financial instruments, which potentially subject us to concentrations of credit risk, consist principally of cash and cash equivalents, marketable securities and accounts receivable. We maintain our cash and cash equivalents and marketable securities with high quality financial institutions. We perform ongoing credit evaluations of our customers and generally do not require collateral. Our customers are generally concentrated in the automotive, retail and consumer goods, wind energy, building materials, machinery and metals industries. During the fiscal years ended December 31, 2019, 2018 and 2017, aggregate sales in the automotive industry totaled 27%, 36% and 40% of revenue, respectively. In 2019, 2018 and 2017, General Motors accounted for approximately 12%, 13% and 16% of our total operating revenues, respectively. In 2019, sales to our top 10 customers, including General Motors, totaled 39%.

(2) Recent Accounting Pronouncements

On January 1, 2019, the Company adopted Accounting Standards Update (“ASU”) 2016-02, *Leases*. The ASU requires a lessee to recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. In July 2018, the FASB issued additional authoritative guidance providing companies with the option to apply this ASU to new and existing leases within the scope of the guidance as of the beginning of the period of adoption. We elected this transition method of applying the new lease standard on January 1, 2019. In doing so, we also elected the package of practical expedients provided under the guidance; however, we did not elect the hindsight practical expedient when determining the lease term for existing leases. The practical expedient package applies to leases that commenced prior to adoption of the new standard and permits companies not to reassess whether existing or expired contracts are or contain a lease, the lease classification, and any initial direct costs. Upon adoption of the standard, we recorded offsetting lease assets and lease liabilities, resulting in an \$88.8 million increase in total assets, a \$26.0 million increase in total current liabilities and a \$62.8 million increase in total long-term liabilities in our consolidated balance sheet. Subsequent to the adoption on January 1, 2019, the Company identified and recorded an additional ROU asset and corresponding lease liability of \$5.0 million in the quarter ended June 30, 2019 and \$2.5 million in the quarter ended December 31, 2019, respectively, as an out of period adjustment, although each lease was entered into prior to December 31, 2018. The amount of accrued rent as of adoption was not material. Prior period amounts were not adjusted and are reported under the accounting standards in effect for those periods. The adoption of the standard did not have a material impact on our results of operations or cash flows. See Note 13 “Leases” for additional information pertaining to leases.

On January 1, 2019, the Company adopted ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*, which amends existing guidance for reporting comprehensive income to reflect changes resulting from the Tax Cuts and Jobs Act of 2017. The amendment provides the option to reclassify stranded tax effects within accumulated other comprehensive income (AOCI) to retained earnings in each period in which the effect of the change in the U.S. federal corporate income tax rate in the Act is recorded. The adoption of this standard did not have a material impact on our financial condition, results of operations, or cash flows.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(2) Recent Accounting Pronouncements - continued

In June 2016, the FASB issued ASU 2016-13, (“ASU 2016-13”), *Accounting for Credit Losses* (Topic 326). ASU 2016-13 requires the use of an “expected loss” model on certain types of financial instruments. The standard also amends the impairment model for available-for-sale debt securities and requires estimated credit losses to be recorded as allowances instead of reductions to amortized cost of the securities. The new standard will become effective for us beginning with the first quarter 2023, and is not expected to have a material impact on our consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): “Simplifying the Accounting for Income Taxes.” The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The ASU also clarifies and amends existing guidance to improve consistent application among reporting entities. This ASU is effective for fiscal years beginning after December 15, 2020, including interim periods within that reporting period; however, early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

(3) Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers*, using the modified retrospective transition method with a cumulative adjustment to retained earnings of approximately \$0.2 million. Our transportation services businesses include truckload, brokerage, intermodal and dedicated services. The adoption of ASU 2014-09 changed the timing of revenue recognition for transportation services from at delivery to over-time as the performance obligations on the in-transit services are completed. The following table shows the amount by which financial statement lines were affected by the adoption of the new standard.

Consolidated Statement of Income	Year Ended December 31, 2018		
	Under ASC 605	Adjustment	As Reported
Truckload services revenue	\$ 309,884	\$ 3,927	\$ 313,811
Brokerage services revenue	364,644	2,935	367,579
Intermodal services revenue	250,165	909	251,074
Dedicated services revenue	143,977	371	144,348
Purchased transportation and equipment rent expense	709,628	6,391	716,019
Commission expense	37,181	200	37,381
Income tax expense	16,826	385	17,211
Net income	51,012	1,166	52,178

Consolidated Balance Sheet	As of December 31, 2018		
	Under ASC 605	Adjustment	As Reported
Prepaid expenses and other	\$ 17,929	\$ 1,901	\$ 19,830
Accounts payable	90,596	1,423	92,019
Income taxes payable	2,293	385	2,678
Retained earnings	230,359	1,166	231,525

The Company broadly groups its services into the following categories: truckload services, brokerage services, intermodal services, dedicated services and value-added services. We disaggregate these categories and report our service lines separately on the Consolidated Statements of Income.

Truckload services include dry van, flatbed, heavy-haul and refrigerated operations. We transport a wide variety of general commodities, including automotive parts, machinery, building materials, paper, food, consumer goods, furniture, steel and other metals on behalf of customers in various industries.

To complement our available capacity, we provide customers freight brokerage services by utilizing third-party transportation providers to move freight. Brokerage services also include full service domestic and international freight forwarding, and customs brokerage.

Intermodal services include rail-truck, steamship-truck and support services. Our intermodal support services are primarily short-to-medium distance delivery of both international and domestic containers between the port or railhead and the customer and drayage services.

UNIVERSAL LOGISTICS HOLDINGS, INC.
Notes to Consolidated Financial Statements – (Continued)
December 31, 2019, 2018 and 2017

(3) Revenue Recognition—continued

Dedicated services are primarily provided in support of automotive and retail customers using van equipment. Dedicated services also include our final mile and ground expedited services. Our dedicated services are primarily short run or round-trip moves within a defined geographic area.

Transportation services are short-term in nature; agreements governing their provision generally have a term of less than one year. They do not contain significant financing components. In accordance with ASU 2014-09, the Company recognizes revenue over the period transportation services are provided to the customer, including service performed as of the end of the reporting period for loads currently in-transit, in order to recognize the value that is transferred to a customer over the course of the transportation service.

We determine revenue in-transit using the input method, under which revenue is recognized based on the duration of time that has lapsed from the departure date (start of transportation services) to the arrival date (completion of transportation services). Measurement of revenue in-transit requires the application of significant judgment. We calculate the estimated percentage of an order's transit time that is complete at period end, and we apply that percentage of completion to the order's estimated revenue.

Value-added services, which are typically dedicated to individual customer requirements, include material handling, consolidation, sequencing, sub-assembly, cross-dock services, kitting, repacking, warehousing and returnable container management. Value-added revenues are substantially driven by the level of demand for outsourced logistics services. Major factors that affect value-added service revenue includes changes in manufacturing supply chain requirements and production levels in specific industries, particularly the North American automotive and Class-8 heavy-truck industries.

Revenue is recognized as control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration the Company expects to receive in exchange for its services.

For the Company's value-added service businesses, the adoption of ASU 2014-09 did not change the timing of revenue recognition. The contracts in our value-added services businesses are negotiated agreements, which contain both fixed and variable components. The variability of revenues is driven by volumes and transactions, which are known as of an invoice date. Value-added service contracts typically have terms that extend beyond one year, and they do not include financing components. The timing of revenue recognition for value-added services will remain the same, as we have elected to use the "right to invoice" practical expedient, reflecting that a customer obtains the benefit associated with value-added services as they are provided.

The following table provides information related to contract balances associated with our contracts with customers (in thousands):

	December 31, 2019	December 31, 2018
Prepaid expenses and other - contract assets	\$ 1,156	\$ 1,901

We generally receive payment for performance obligations within 45 days of completion of transportation services and 65 days for completion of value-added services. Contract assets in the table above generally relate to revenue in-transit at the end of the reporting period.

Practical expedites

The Company elected to use the following practical expedites that are available under ASC 606: (i) to apply the new revenue standard to a portfolio of contracts (or performance obligations) with similar characteristics, as we reasonably expect that the effects on the financial statements of applying this guidance to the portfolio would not differ materially from applying this guidance to the individual contracts; (ii) to recognize commission expense when incurred, which we consider to be a cost to obtain a contract, because the amortization period is less than one year; and (iii) to recognize revenue in the value-added services portfolio in the amount of consideration to which we have a right to invoice, that corresponds directly with the value to the customer of the service completed to date.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which we recognize revenue at the amount to which we have the right to invoice for services performed.

See also Note 19 for additional information on revenue reported by segment and by geographic region.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(4) Acquisitions

2019 Acquisitions

On November 5, 2019, the Company acquired Roadrunner Intermodal Services, LLC, Morgan Southern, Inc., Wando Trucking, LLC, and Central Cal Transportation, LLC (collectively, “Roadrunner Intermodal”) from Roadrunner Transportation Systems, Inc. Roadrunner Intermodal is a nationwide drayage provider, servicing major port and rail locations throughout the United States. The total cash purchase price was \$54.9 million, subject to post-closing adjustments. The Company used available cash and borrowings on its revolving credit facility to finance the acquisition, and is in the process of finalizing the purchase accounting for this transaction. Approximately \$0.3 million of transaction related costs were incurred in the acquisition.

On April 22, 2019, the Company acquired Michael’s Cartage, Inc. (“Michael’s”). Headquartered in Bridgeview, Illinois, Michael’s provides intermodal drayage services to customers primarily within a 300-mile radius of the Chicagoland area. The total cash purchase price was \$22.0 million, subject to post-closing adjustments. The Company used available cash and borrowings on its revolving credit facility to finance the acquisition, and is in the process of finalizing the purchase accounting for this transaction. Approximately \$0.4 million of transaction related costs were incurred in the acquisition.

The Company accounted for the acquisitions in accordance with ASC 805, “*Business Combinations*.” Assets acquired and liabilities assumed were recorded at their estimated fair value at acquisition, with the remaining unallocated purchase price recorded as goodwill. The goodwill recorded is included in our transportation segment, and is non-deductible for income tax purposes. For each acquisition, the purchase price was allocated to major classes of assets acquired and liabilities assumed at estimated fair values as of the acquisition date. These values are based, in part, upon preliminary appraisals for certain assets and subject to change when additional information concerning final asset and liability values is obtained. The final purchase price allocations may result in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. The preliminary allocation of the purchase price in each transaction is as follows (in thousands):

	Michael's	Roadrunner Intermodal
Current assets	\$ 4,474	\$ 16,002
Property and equipment	2,831	26,414
Goodwill	4,795	11,725
Intangible assets	9,000	12,668
Other assets	1,499	3,599
Current liabilities	(979)	(11,315)
Long-term liabilities	-	(2,439)
Deferred tax liabilities, net	-	(3,280)
	\$ 21,620	\$ 53,374

The intangible assets represent the acquired company’s customer relationships and non-competition agreements. The acquired customer relationships are being amortized over a period of 11 years and the non-competition agreements are being amortized over a period of five years. The Company used the discounted cash flow method to estimate the fair value of these acquired intangible assets.

2018 Acquisitions

On December 7, 2018, the Company acquired all of the outstanding shares of Deco Logistics, Inc., d/b/a Container Connection, and Oaktree Logistics, Inc. (collectively, “Container Connection”). Based in Riverside, California, Container Connection offers harbor drayage services to the Ports of Los Angeles and Long Beach for customers primarily located within the Inland Empire and Central Valley areas. Container Connection also offers warehousing, secured parking and yard space. The total purchase price was \$61.5 million. To finance the acquisition, the Company used loan proceeds under its credit and security agreement. Approximately \$0.4 million of transaction related costs were incurred in the acquisition, which are reflected in general and administrative expenses in the Consolidated Statements of Income.

On October 12, 2018, the Company acquired all of the outstanding shares of Specialized Rail Service, Inc. (“Specialized Rail”). Specialized Rail offers local and regional intermodal drayage services, as well as transloading, cross-docking, warehousing and distribution, and intermodal facility management. Specialized Rail operates a fleet of over 140 tractors and has facilities in Clearfield, Utah and Las Vegas, Nevada. The total cash purchase price was \$12.7 million. To finance the acquisition, the Company used loan proceeds under an amended revolving credit facility. Approximately \$0.3 million of transaction related costs were incurred in the acquisition, which are reflected in general and administrative expenses in the Consolidated Statements of Income.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(4) Acquisitions—continued

On August 10, 2018, the Company acquired all of the outstanding shares of Southern Counties Express, Inc. and certain of its affiliates (collectively, “Southern Counties”). Southern Counties provides full-service harbor drayage, transloading, warehousing, and project cargo services in southern California. The total purchase price was \$65.4 million. To finance the acquisition, the Company used loan proceeds under an amended and restated revolving credit and term loan agreement. Approximately \$0.6 million of transaction related costs were incurred in the acquisition, which are reflected in general and administrative expenses in the Consolidated Statements of Income.

On February 1, 2018, the Company acquired all of the outstanding shares of Fore Transportation, Inc. and certain of its affiliates (collectively, “Fore”). Fore provides its customers with intermodal solutions, including local and regional drayage services. One of the acquired companies owns and leases real property and improvements, including a 28-acre terminal that serves as Fore’s corporate headquarters and a container storage facility. The total cash purchase price was \$35.1 million. To fund the acquisition, the Company used a combination of cash and loan proceeds under its margin credit facility, revolving credit facility and secured real estate financing. Approximately \$0.2 million of transaction related costs were incurred in the acquisition, which are reflected in general and administrative expenses in the Consolidated Statements of Income.

We believe that each acquisition strategically enhances our service offerings in specific geographic regions, and we expect each of them to further diversify our customer base.

The Company accounted for the acquisitions in accordance with ASC 805, “*Business Combinations*.” Assets acquired and liabilities assumed were recorded at their estimated fair value at acquisition, with the remaining unallocated purchase price recorded as goodwill. The goodwill recorded is included in our transportation segment, and is non-deductible for income tax purposes. For each acquisition, the purchase price was allocated to major classes of assets acquired and liabilities assumed at estimated fair values as of the acquisition date. These values are based, in part, upon preliminary appraisals for certain assets and subject to change when additional information concerning final asset and liability values is obtained. The final purchase price allocations may result in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. The allocation of the purchase price in each transaction is as follows (in thousands):

	Container Connection	Specialized Rail	Southern Counties	Fore
Current assets	\$ 6,458	\$ 4,054	\$ 5,359	\$ 6,077
Property and equipment	50	2,710	4,598	10,864
Goodwill	31,699	4,130	31,204	10,414
Intangible assets	31,510	5,342	35,690	12,108
Other assets	-	109	262	-
Current liabilities	(1,102)	(1,992)	(3,027)	(1,234)
Deferred tax liabilities, net	(7,086)	(1,676)	(8,690)	(3,123)
	<u>\$ 61,529</u>	<u>\$ 12,677</u>	<u>\$ 65,396</u>	<u>\$ 35,106</u>

The intangible assets represent the acquired companies’ customer relationships, trade names, and non-competition agreements. The acquired customer relationships are being amortized over a period of seven years to 12 years, tradenames are being amortized over a period of three years, and the non-competition agreements are being amortized over a period of five years. The Company used the discounted cash flow method to estimate the fair value of these acquired intangible assets, and comparable land sales and replacement cost methodology to value land and buildings, respectively.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(4) Acquisitions—continued

The following unaudited pro forma results of operations present consolidated information of the Company as if the 2018 and 2019 Acquisitions were acquired on January 1, 2018 (in thousands, except for share data):

	Pro Forma Twelve Month Ended	
	December 31, 2019	December 31, 2018
Operating revenues	\$ 1,624,219	\$ 1,731,702
Income from operations	\$ 65,013	\$ 103,085
Net income	\$ 36,036	\$ 60,697
Earnings per common share:		
Basic	\$ 1.28	\$ 2.14
Diluted	\$ 1.28	\$ 2.14

The unaudited pro forma consolidated results are presented for illustrative purposes and do not purport to represent what the results of operations would actually have been had we acquired the 2018 and 2019 acquisitions on January 1, 2018. Further, the financial information does not purport to project the future operating results of the Company on a consolidated basis.

For the year ended December 31, 2019, actual revenue and operating income of the 2019 acquired companies was \$32.1 million and \$0.1 million, respectively. For the year ended December 31, 2018, actual revenue and operating income of the 2018 acquired companies was \$70.9 million and \$5.1 million, respectively.

(5) Marketable Securities

Marketable equity securities are carried at fair value, with gains and losses in fair market value included in the determination of net income. The fair value of marketable equity securities is determined based on quoted market prices in active markets, as described in Note 10.

The following table sets forth market value, cost, and unrealized gains (losses) on equity securities at December 31 (in thousands):

	2019	2018
Fair value	\$ 9,369	\$ 9,333
Cost	8,136	11,143
Unrealized gains (losses)	\$ 1,233	\$ (1,810)

The following table sets forth the gross unrealized gains and losses on the Company's marketable securities at December 31 (in thousands):

	2019	2018
Gross unrealized gains	\$ 1,337	\$ 89
Gross unrealized losses	(104)	(1,899)
Net unrealized gains (losses)	\$ 1,233	\$ (1,810)

The following table shows the Company's net realized gains on marketable equity securities (in thousands):

	2019	2018	2016
Realized gain			
Sale proceeds	\$ 1,596	\$ 5,733	\$ 1,261
Cost of securities sold	1,289	5,229	338
Realized gain	\$ 307	\$ 504	\$ 923
Realized gain, net of taxes	\$ 230	\$ 379	\$ 1,516

During the years ended December 31, 2019 and 2018, our marketable equity securities portfolio experienced a net unrealized pre-tax gain (loss) in market value of approximately \$1,233,000 and \$(1,810,000), respectively, which were reported in other non-operating income (expense) for the period.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(6) Accounts Receivable

Accounts receivable amounts appearing in the consolidated financial statements include both billed and unbilled receivables. We bill customers in accordance with contract terms, which may result in a brief timing difference between when revenue is recognized and when invoices are rendered. Unbilled receivables, which usually are billed within one month, totaled \$29.1 million and \$28.8 million at December 31, 2019 and 2018, respectively.

Accounts receivable are presented net of an allowance for doubtful accounts. Following is a summary of the activity in the allowance for doubtful accounts for the years ended December 31 (in thousands):

	2019	2018	2017
Balance at beginning of year	\$ 1,772	\$ 1,330	\$ 1,613
Provision for doubtful accounts	3,133	924	1,533
Acquisition of businesses	350	253	-
Uncollectible accounts written off	(2,710)	(735)	(1,816)
Balance at end of year	<u>\$ 2,545</u>	<u>\$ 1,772</u>	<u>\$ 1,330</u>

(7) Property and Equipment

Property and equipment at December 31 consists of the following (in thousands):

	2019	2018
Transportation equipment	\$ 333,899	\$ 267,094
Land, buildings and related assets	129,819	128,805
Other operating assets	116,191	104,559
Information technology equipment	29,880	26,135
Construction in process	96	7,960
Total property and equipment	<u>609,885</u>	<u>534,553</u>
Less accumulated depreciation	<u>(270,062)</u>	<u>(231,319)</u>
Total property and equipment, net	<u><u>\$ 339,823</u></u>	<u><u>\$ 303,234</u></u>

(8) Accrued Expenses and Other Current Liabilities

Accrued expenses consist of the following items at December 31 (in thousands):

	2019	2018
Payroll related items	\$ 14,390	\$ 11,476
Driver escrow liabilities	5,249	3,923
Legal settlements	6,948	—
Commissions, taxes and other	8,238	9,727
Total	<u><u>\$ 34,825</u></u>	<u><u>\$ 25,126</u></u>

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(9) Debt

Debt is comprised of the following (in thousands):

	Interest Rates at December 31, 2019	December 31,	
		2019	2018
Outstanding Debt:			
Credit and Security Agreement (1)			
Term Loan	3.26%	\$ 142,500	\$ 150,000
Revolver	3.26%	151,225	80,588
Equipment Financing (2)	3.09% to 5.13%	128,512	126,162
Real Estate Financing (3)	4.01%	37,492	45,864
Margin Facility (4)	2.86%	—	541
Unamortized debt issuance costs		(2,117)	(2,703)
		457,612	400,452
Less current portion of long-term debt		59,476	51,903
Total long-term debt, net of current portion		\$ 398,136	\$ 348,549

(1) The Credit and Security Agreement (the “Credit Agreement”) provides for maximum borrowings of \$350 million in the form of a \$150 million term loan and a \$200 million revolver. Term loan proceeds were advanced on November 27, 2018 and mature on November 26, 2023. The term loan will be repaid in consecutive quarterly installments, as defined in the Credit Agreement, commencing March 31, 2019, with the remaining balance due at maturity. Borrowings under the revolving credit facility may be made until and mature on November 26, 2023. At closing, proceeds from the Credit Agreement were used to pay off certain existing indebtedness and to pay fees and expenses associated with the Credit Agreement. Borrowings under the Credit Agreement bear interest at LIBOR or a base rate, plus an applicable margin for each based the Company’s leverage ratio. The Credit Agreement is secured by a first priority pledge of the capital stock of applicable subsidiaries, as well as first priority perfected security interest in cash, deposits, accounts receivable, and selected other assets of the applicable borrowers. The Credit Agreement includes customary affirmative and negative covenants and events of default, as well as financial covenants requiring minimum fixed charge coverage and leverage ratios, and customary mandatory prepayments provisions. At December 31, 2019, we were in compliance with all covenants under the facility, and \$48.8 million was available for borrowing on the revolver.

(2) The Equipment Financing consists of a series of promissory notes issued by a wholly-owned subsidiary in order to finance transportation equipment. The equipment notes, which are secured by liens on selected titled vehicles, include certain affirmative and negative covenants and are generally payable in 60 monthly installments and bear interest at fixed rates ranging from 3.09% to 5.13%. At December 31, 2019, we were in compliance with all covenants.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(9) Debt—continued

(3) The Real Estate Financing consists of a series of promissory notes issued by a wholly-owned subsidiary in order to finance certain real property. The promissory notes, which are secured by first mortgages and assignment of leases on specific parcels of real estate and improvements, include certain affirmative and negative covenants and are generally payable in 120 monthly installments. Each of the notes bears interest at LIBOR plus 2.25%. At December 31, 2019, we were in compliance with all covenants.

(4) The Margin Facility is a short-term line of credit secured by our portfolio of marketable securities. It bears interest at LIBOR plus 1.10%. The amount available under the line of credit is based on a percentage of the market value of the underlying securities. At December 31, 2019 and 2018, the maximum available borrowings under the line of credit were \$4.8 million and \$5.0 million, respectively.

The following table reflects the maturities of our principal repayment obligations as of December 31, 2019 (in thousands):

Years Ending December 31	Term	Revolver	Equipment Financing	Real Estate Financing	Margin Facility	Total
2020	11,250	\$ —	\$ 43,301	\$ 5,511	\$ —	\$ 60,062
2021	11,250	—	32,824	5,511	—	49,585
2022	15,000	—	26,603	5,511	—	47,114
2023	105,000	151,225	18,158	5,511	—	279,894
2024	—	—	7,598	5,512	—	13,110
Thereafter	—	—	28	9,936	—	9,964
Total	\$ 142,500	\$ 151,225	\$ 128,512	\$ 37,492	\$ —	\$ 459,729

The Company is also party to two interest rate swap agreements that qualify for hedge accounting. The swap agreements were executed to fix a portion of the interest rates on its variable rate debt that have a combined notional amount of \$15.5 million at December 31, 2019. Under the swap agreements, the Company receives interest at the one-month LIBOR rate plus 2.25%, and pays a fixed rate. The March 2016 swap (swap A) became effective October 2016, has a rate of 4.16% (amortizing notional amount of \$10.0 million) and expires July 2026, and an additional March 2016 swap (swap B) became effective October 2016, has a rate of 3.83% (amortizing notional amount of \$5.5 million) and expires May 2022. At December 31, 2019 and 2018, the fair value of the two swap agreements was a liability of \$0.1 million and an asset of \$0.4 million, respectively. Since these swap agreements qualify for hedge accounting, the changes in fair value are recorded in other comprehensive income (loss), net of tax. See Note 10, “Fair Value Measurement and Disclosures” for additional information pertaining to interest rate swaps.

(10) Fair Value Measurement and Disclosures

ASC Topic 820, “*Fair Value Measurements and Disclosures*,” defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date and expanded disclosures with respect to fair value measurements.

ASC Topic 820 also establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(10) Fair Value Measurement and Disclosures—continued

We have segregated all financial assets that are measured at fair value on a recurring basis into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the tables below (in thousands):

	December 31, 2019			Fair Value Measurement
	Level 1	Level 2	Level 3	
Assets				
Cash equivalents	\$ 18	\$ —	\$ —	\$ 18
Marketable securities	9,369	—	—	9,369
Total Assets	<u>\$ 9,387</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,387</u>
Liabilities				
Interest rate swaps	\$ —	\$ 137	\$ —	\$ 137
Total Liabilities	<u>\$ —</u>	<u>\$ 137</u>	<u>\$ —</u>	<u>\$ 137</u>
	December 31, 2018			Fair Value Measurement
	Level 1	Level 2	Level 3	
Assets				
Marketable securities	\$ 9,333	\$ —	\$ —	\$ 9,333
Interest rate swaps	—	392	—	392
Total Assets	<u>\$ 9,333</u>	<u>\$ 392</u>	<u>\$ —</u>	<u>\$ 9,725</u>

The valuation techniques used to measure fair value for the items in the tables above are as follows:

- Cash equivalents – This category consists of money market funds which are listed as Level 1 assets and measured at fair value based on quoted prices for identical instruments in active markets.
- Marketable securities – Marketable securities represent equity securities, which consist of common and preferred stocks, are actively traded on public exchanges and are listed as Level 1 assets. Fair value was measured based on quoted prices for these securities in active markets.
- Interest rate swaps – The fair value of our interest rate swaps is determined using a methodology of netting the discounted future fixed cash payments (or receipts) and the discounted expected variable cash receipts (or payments). The variable cash receipts (or payments) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair value measurement also incorporates credit valuation adjustments reflecting both the Company's nonperformance risk and the respective counterparty's nonperformance risk.

Our revolving credit and term loan agreements and our real estate promissory notes all consists of variable rate borrowings. We categorize borrowings under these credit agreements as Level 2 in the fair value hierarchy. The carrying value of these borrowings approximate fair value because the applicable interest rates are adjusted frequently based on short-term market rates.

For our equipment promissory notes with fixed rates, the fair values are estimated using discounted cash flow analyses, based on our current incremental borrowing rates for similar types of borrowing arrangements. We categorize borrowings under this credit agreement as Level 2 in the fair value hierarchy. The carrying values and estimated fair values of these promissory notes at December 31, 2019 is summarized as follows:

	2019	
	Carrying Value	Estimated Fair Value
Equipment promissory notes	\$ 128,512	\$ 130,929

We have not elected the fair value option for any of our financial instruments.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(11) Transactions with Affiliates

CenTra, Inc. (“CenTra”), an affiliate of the Company that is owned by our controlling shareholders, provides administrative support services to Universal in the ordinary course of business, including legal, human resources, tax, and IT infrastructure and related services. The cost of these services is based on the actual or estimated utilization of the specific service.

Universal also purchases other services from CenTra and other affiliates under common control with CenTra. Following is a schedule of cost incurred and included in operating expenses for services provided by affiliates for the years ended December 31 (in thousands):

	2019	2018	2017
Administrative support services	\$ 4,085	\$ 3,094	\$ 2,771
Truck fuel, tolls and maintenance	895	2,428	2,652
Real estate rent and related costs	11,794	14,295	17,046
Insurance and employee benefit plans	53,050	57,370	55,995
Contracted transportation services	65	1,240	35
Total	<u>\$ 69,889</u>	<u>\$ 78,427</u>	<u>\$ 78,499</u>

We pay CenTra the direct variable cost of maintenance, fueling and other operational support costs for services delivered at our affiliate’s trucking terminals that are geographically remote from our own facilities. Such costs are billed when incurred, paid on a routine basis, and reflect actual labor utilization, repair parts costs or quantities of fuel purchased. In connection with our transportation services, we also pay tolls and other fees for international bridge crossings to certain related entities which are under common control with CenTra.

A significant number of our operating locations are located in facilities leased from affiliates. At 28 facilities, occupancy is based on either month-to-month or contractual, multi-year lease arrangements which are billed and paid monthly. Leasing properties provided by an affiliate that owns a substantial commercial property portfolio affords us significant operating flexibility. However, we are not limited to such arrangements. See Note 13, “Leases” for further information regarding the cost of leased properties.

We purchase workers’ compensation, property and casualty, cargo, warehousing and other general liability insurance from an insurance company controlled by our majority shareholders. Our employee health care benefits and 401(k) programs are also provided by this affiliate.

Other services from affiliates, including contracted transportation services, are delivered to us on a per-transaction-basis or pursuant to separate contractual arrangements provided in the ordinary course of business. At December 31, 2019 and 2018, amounts due to affiliates were \$14.8 million and \$17.8 million, respectively. In our Consolidated Balance Sheets, we record our insured claims liability and the related recovery from an affiliate insurance provider in insurance and claims, and other receivables. At December 31, 2019 and 2018, there were \$9.9 million and \$10.5 million, respectively, included in each of these accounts for insured claims.

During 2018, we made purchases of used equipment from an affiliate totaling \$8,300, and purchased wheels and tires from an affiliate for new trailering equipment totaling \$466,000 during the same period. There were no such purchases made during 2019.

Services provided by Universal to Affiliates

We periodically assist CenTra and other affiliates under common control with CenTra by providing selected transportation and logistics services in connection with their specific customer contracts or purchase orders. Truck fueling and administrative expenses are presented net in operating expense. Following is a schedule of services provided to CenTra and affiliates for the years ended December 31 (in thousands):

	2019	2018	2017
Purchased transportation and equipment rent	\$ 1,636	\$ 900	\$ 1,100
Total	<u>\$ 1,636</u>	<u>\$ 900</u>	<u>\$ 1,100</u>

At December 31, 2019 and 2018, amounts due from affiliates were \$1.7 million and \$5.2 million, respectively.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(11) Transactions with Affiliates—continued

During 2019, we also sold a vacant parcel of land to an affiliate for \$2.5 million. The sales price was established by an independent third party appraisal. The Company's basis in the land was \$2.4 million, resulting in a gain of \$0.1 million.

In August 2019, our Board of Directors authorized the repurchase of up to 600,000 shares of our common stock through a "Dutch auction" tender offer. Subject to certain limitations and legal requirements, we could repurchase up to an additional 2% of our outstanding shares. Following the expiration of the tender offer, we accepted 1,101,597 shares tendered through this offer for purchase at a final purchase price of \$22.50 per share, for a total purchase price of approximately \$24.8 million. The tender offer expired on September 13, 2019. The total amount of shares purchased in the tender offer includes 600,000 shares tendered by a director of the Company, Mr. Manuel J. Moroun, and 10,000 shares tendered by the Company's Chief Financial Officer, Mr. Jude Beres. We used funds borrowed under our existing line of credit and from our available cash and cash equivalents to fund the purchase of the accepted shares.

(12) Income Taxes

A summary of income (loss) related to U.S. and non-U.S. operations are as follows (in thousands):

	Year Ended December 31,		
	2019	2018	2017
Operations			
U.S. Domestic	\$ 50,102	\$ 71,441	\$ 28,360
Foreign	84	(2,052)	(11,219)
Total pre-tax income	<u>\$ 50,186</u>	<u>\$ 69,389</u>	<u>\$ 17,141</u>

The provision (benefit) for income taxes attributable to income from continuing operations for the years ended December 31 consists of the following (in thousands):

	2019	2018	2017
Current:			
U.S. Federal	\$ 2,772	\$ 7,266	\$ 5,394
State	2,450	3,556	2,227
Foreign	294	427	688
Total current	<u>5,516</u>	<u>11,249</u>	<u>8,309</u>
Deferred:			
U.S. Federal	6,392	5,873	(14,264)
State	(440)	(855)	(1,113)
Foreign	1,132	944	(3,944)
Total deferred	<u>7,084</u>	<u>5,962</u>	<u>(19,321)</u>
Total	<u>\$ 12,600</u>	<u>\$ 17,211</u>	<u>\$ (11,012)</u>

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law, significantly changing the U.S. tax code by providing for, among other things, lower corporate income tax rates and requiring companies to pay a one-time transition tax on deemed repatriated earnings of foreign subsidiaries. Effective January 1, 2018, the Tax Cuts and Jobs Act permanently reduced the U.S. corporate income tax rate from 35% to 21%. In accordance with U.S. GAAP, the reduction in the enacted rate caused the Company to revalue its ending net deferred tax assets and liabilities and caused the Company to record a provisional tax benefit of \$18.2 million in its consolidated financial statements for the year ended December 31, 2017. With respect to the transition tax on deemed repatriated foreign earnings, the Company determined that, based upon information currently available, the transition tax did not have a material impact on its results of operations, financial position or cash flows.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(12) Income Taxes—continued

Deferred income tax assets and liabilities at December 31 consist of the following (in thousands):

	2019	2018
Domestic deferred tax assets:		
Allowance for doubtful accounts	\$ 602	\$ 425
Other assets	3,355	4,561
Accrued expenses	4,132	4,982
Total domestic deferred tax assets	\$ 8,089	\$ 9,968
Domestic deferred tax liabilities:		
Prepaid expenses	\$ 782	\$ 696
Marketable securities	1,014	1,004
Intangible assets	20,578	25,907
Property and equipment	51,407	41,589
Total domestic deferred tax liabilities	\$ 73,781	\$ 69,196
Net domestic deferred tax liabilities	\$ 65,692	\$ 59,228
Foreign deferred tax assets		
Net operating losses	\$ 3,543	\$ 3,499
Other assets	102	927
Valuation allowance - foreign	(2,185)	(1,877)
Total foreign deferred tax asset	\$ 1,460	\$ 2,549
Net deferred tax liability	\$ 64,232	\$ 56,679

In assessing whether deferred tax assets may be realized in the future, management considers whether it is more likely than not that some portion of such tax assets will not be realized. The deferred tax assets and liabilities were reviewed separately by jurisdictions when measuring the need for valuation allowances. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income (both ordinary income and taxable capital gains) during the periods in which those temporary differences reverse. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Valuation allowances are established when necessary to reduce deferred tax assets when it is more likely than not that a portion or all of the deferred tax assets will not be realized. Based upon the level of historical taxable income, reversal of existing taxable temporary differences, projections for future taxable income over the periods in which the domestic deferred tax assets are expected to reverse, and our ability to generate future capital gains, management believes it is more likely than not that we will realize the benefits of these deductible differences. Thus, no valuation allowance has been established for the domestic deferred tax assets. We had foreign net operating loss carryforward associated with our Mexican subsidiary with a tax effect of \$1.4 million as of December 31, 2019. The net operating loss carryforward will expire in 2027. Although realization is not assured, the Company has concluded that it is more likely than not that the deferred tax asset will be fully realized and as such no valuation allowance has been provided. At December 31, 2019, we also had foreign net operating loss carryforwards associated with our Canadian and German subsidiaries with a tax effect of \$2.2 million. Based on the anticipated earnings projections, management has recorded a full valuation allowance for the deferred tax assets associated with these entities.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(12) Income Taxes—continued

Income tax expense attributable to income from continuing operations differs from the statutory rates as follows:

	2019	2018	2017
Federal statutory rate	21%	21%	35%
Change in tax law	0%	0%	-106%
Non-deductible expense	0%	0%	2%
State, net of federal benefit	3%	3%	4%
Foreign	2%	2%	1%
Other	-1%	-1%	0%
Effective tax rate	25%	25%	-64%

As of December 31, 2019, the total amount of unrecognized tax benefit representing uncertainty in certain tax positions was \$0.3 million. These uncertain tax positions are based on recognition thresholds and measurement attributes for the financial statement recognition and measurements of a tax position taken or expected to be taken in a tax return. Any prospective adjustments to our accrual for uncertain tax positions will be recorded as an increase or decrease to the provision for income taxes and would impact our effective tax rate. At December 31, 2019, there are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits would significantly increase or decrease within 12 months. As of December 31, 2019, the amount of accrued interest and penalties was \$0.1 million and \$0.1 million, respectively.

The changes in our gross unrecognized tax benefits during the years ended December 31 are as follows (in thousands):

	2019	2018	2017
Unrecognized tax benefit – beginning of year	\$ 331	\$ 367	\$ 416
Increases related to prior year tax positions	20	26	22
Increases related to current year tax positions	29	30	9
Decreases related to prior year tax positions	(101)	(92)	(80)
Unrecognized tax benefit – end of year	\$ 279	\$ 331	\$ 367

(13) Leases

We lease office space, warehouses, freight distribution centers, terminal yards and equipment under non-cancelable operating lease arrangements. Except where we deliver services within facilities provided by our customers, we lease warehouse and freight distribution centers used in our logistics operations, often in connection with a specific customer program. Where facilities are substantially dedicated to a single customer and our lease is with an independent property owner, we attempt to align lease terms with the expected duration of the underlying customer program. In most cases, we expect our facility leases will be renewed or replaced by other leases in the ordinary course of business. Where possible, we contractually secure the recovery of certain occupancy costs, including rent, during the term of a customer program.

On January 1, 2019, we adopted ASU 2016-02, Leases, which required us to recognize a right-of-use asset and a corresponding lease liability on our balance sheet for most leases classified as operating leases under previous guidance. Right-of-use assets represent our right to use an underlying asset over the lease term and lease liabilities represent the obligation to make lease payments resulting from the lease agreement. We recognize a right-of-use asset and a lease liability on the effective date of a lease agreement.

We initially record these assets and liabilities based on the present value of lease payments over the lease term using our incremental borrowing rate applicable to the leased asset or the implicit rate in the lease if it is readily determinable. Most of our leases did not provide a readily determinable implicit rate, and therefore we estimated our incremental borrowing rate based on information available at lease commencement. The incremental borrowing rate is defined as the rate of interest that we would have to pay to borrow, on a collateralized basis and over a similar term, an amount equal to the lease payments in a similar economic environment. We elected to utilize a portfolio approach and applied the rates to a portfolio of leases with similar underlying assets and terms. Upon adoption of the new lease standard, discount rates used for existing leases were established at January 1, 2019. ASU 2016-02 was adopted as of the effective date, and as such prior period amounts are reported under the accounting standards in effect for those periods (ASC 840).

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(13) Leases - continued

As of December 31, 2019, our obligations under operating lease arrangements primarily related to the rental of office space, warehouses, freight distribution centers, terminal yards and equipment. Our lease obligations typically do not include options to purchase the leased property, nor do they contain residual value guarantees or material restrictive covenants. Options to extend or terminate an agreement are included in the lease term when it becomes reasonably certain the option will be exercised. As of December 31, 2019, we were not reasonably certain of exercising any renewal or termination options, and as such, no adjustments were made to the right-of-use lease assets or corresponding liabilities.

We did not separate lease and nonlease components of contracts for purposes of determining the right-of-use lease asset and corresponding liability. Variable lease components that do not depend on an index or a rate, and variable nonlease components were also not contemplated in the calculation of the right-of-use asset and corresponding liability. For facility leases, variable lease costs include the costs of common area maintenance, taxes, and insurance for which we pay the lessors an estimate that is adjusted to actual expense on a quarterly or annual basis depending on the underlying contract terms. For equipment leases, variable lease costs may include additional fees associated with using equipment in excess of estimated amounts. Leases with an initial term of 12 months or less, short-term leases, are not recorded on the balance sheet. Lease expense for short-term and long-term operating leases is recognized on a straight-line basis over the lease term.

The following table summarizes our lease costs for the year ended December 31, 2019 and related information (in thousands):

	With Affiliates	With Third Parties	Total
Lease cost			
Operating lease cost	\$ 10,611	\$ 23,464	\$ 34,075
Short-term lease cost	380	3,592	3,972
Variable lease cost	824	2,769	3,593
Sublease income	-	(2,760)	(2,760)
Total lease cost	\$ 11,815	\$ 27,065	\$ 38,880

The following table summarizes other lease related information as of and for the year ended December 31, 2019 (in thousands):

	With Affiliates	With Third Parties	Total
Other information			
Cash paid for amounts included in the measurement of operating leases	\$ 11,628	\$ 21,530	\$ 33,158
Right-of-use asset change due to acquisition of new business	\$ -	\$ 3,661	\$ 3,661
Right-of-use asset change due to lease termination	\$ (15,533)	\$ -	\$ (15,533)
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 20,956	\$ 18,847	\$ 39,803
Weighted-average remaining lease term (in years)	6.9	4.1	5.1
Weighted-average discount rate	8.0%	4.7%	6.1%

Future minimum lease payments under these operating leases as of December 31, 2019, are as follows (in thousands):

	With Affiliates	With Third Parties	Total
Year one	\$ 9,368	\$ 22,417	\$ 31,785
Year two	6,919	13,784	20,703
Year three	4,703	8,267	12,970
Year four	3,712	5,760	9,472
Year five	3,573	3,932	7,505
Thereafter	16,616	7,933	24,549
Total required lease payments	\$ 44,891	\$ 62,093	\$ 106,984
Less amounts representing interest			(17,826)
Present value of lease liabilities			\$ 89,158

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(13) Leases – continued

Under ASC 840, future minimum lease payments with initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2018 were as follows:

Years Ending December 31	With Affiliates	With Third Parties	Total
2019	\$ 9,501	\$ 12,841	\$ 22,342
2020	6,604	10,456	17,060
2021	5,408	3,928	9,336
2022	3,919	1,331	5,250
2023	3,592	833	4,425
Thereafter	8,331	—	8,331
Total required payments	\$ 37,355	\$ 29,389	\$ 66,744

During 2019, the Company determined that the future minimum lease payment schedule included in the 2018 Annual Report on Form 10-K excluded certain lease commitments (see Note 2 “Recent Accounting Pronouncements”). The table understated our lease payments by \$7.5 million in total (\$0.4 million in 2019, \$3.8 million in 2020, \$1.2 million in 2021, \$1.3 million in 2022, and \$0.8 million in 2023). The table above has been revised to reflect the corrected amounts.

Rental expense for facilities, vehicles and other equipment leased from third parties under operating leases was \$22.6 million and \$17.9 million for the years ended December 31, 2018 and 2017, respectively.

(14) Retirement Plans

We offer 401(k) defined contribution plans to our employees. The plans are administered by a company controlled by our principal shareholders and include different matching provisions depending on which subsidiary or affiliate is involved. In the plans available to certain employees not subject to collective bargaining agreements, we matched contributions up to \$600 annually for each employee who is not considered highly compensated through December 31, 2008, after which some matching contributions were suspended as a response to market conditions at certain subsidiaries. Three other 401(k) plans are provided to employees of specific operations and offer matching contributions that range from zero to \$2,080 per participant annually. The total expense for contributions for 401(k) plans, including plans related to collective bargaining agreements, was \$0.7 million, \$0.6 million and \$0.5 million for the years ended December 31, 2019, 2018 and 2017, respectively.

In connection with a collective bargaining agreement that covered 11 Canadian employees at December 31, 2019, we are required to make defined contributions into the Canada Wide Industrial Pension Plan. At December 31, 2019 and 2018, the required contributions totaled approximately \$36,000 and \$39,000, respectively.

(15) Stock Based Compensation

On April 23, 2014, our Board of Directors adopted the 2014 Amended and Restated Stock Incentive Plan, or the Plan. The Plan was approved by our shareholders at the 2014 Annual Meeting and became effective as of the date it was adopted by the Board of Directors. The Plan replaced our 2004 Stock Incentive Plan and carried forward the shares of common stock that remained available for issuance under the 2004 Stock Incentive Plan. The grants may be made in the form of stock options, restricted stock bonuses, restricted stock purchase rights, stock appreciation rights, phantom stock units, restricted stock units or unrestricted common stock. Restricted stock awards currently outstanding under the 2004 Stock Incentive Plan will remain outstanding in accordance with the terms of that plan.

On February 22, 2017 and February 24, 2016, the Company granted 10,000 and 10,000 shares, respectively, of restricted stock to our former Chief Executive Officer. The restricted stock grants have fair values of \$13.45 per share and \$15.55 per share, respectively, based on the closing price of the Company’s stock on each grant date. For each award, 25% of the shares vested immediately on the grant dates, and the remaining shares vest in three equal installments with the final vesting of the 2017 award to occur on March 5, 2020, in each case subject to continued employment with the Company.

On February 20, 2019, the Company granted 44,500 shares of restricted stock to certain of its employees, including 12,000 shares to our former Chief Executive Officer and 10,000 shares to our Chief Financial Officer. The restricted stock grants have a grant date fair value of \$23.56 per share, based on the closing price of the Company’s stock, and will vest in four equal increments on each February 20 in 2020, 2021, 2022 and 2023, in each case subject to continued employment with the Company.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(15) Stock Based Compensation - continued

A grantee's vesting of restricted stock awards may be accelerated under certain conditions, including retirement.

A summary of the status of our non-vested shares as of December 31, 2019, and changes during the year ended December 31, 2019, is presented below:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Non-vested at January 1, 2018	7,500	\$ 14.15
Granted	44,500	\$ 23.56
Vested	(5,000)	\$ 14.50
Forfeited	(5,000)	\$ 23.56
Balance at December 31, 2019	<u>42,000</u>	\$ 22.96

During the years ended December 31, 2019, 2018 and 2017, the total grant date fair value of vested shares recognized as compensation cost was \$73,000, \$413,000, and \$414,000, respectively. As of December 31, 2019, there was \$1.0 million of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized on a straight-line basis over the remaining vesting period. That cost is expected to be recognized on a straight-line basis over the remaining vesting period. As a result, the Company expects to recognize stock-based compensation expense of approximately \$0.3 million in 2020, and \$0.2 million in each year of 2021, 2022 and 2023.

(16) Commitments and Contingencies

Our principal commitments relate to long-term real estate leases and payment obligations to equipment vendors.

The Company was plaintiff in a lawsuit filed on June 11, 2015 against, among others, Dalton Logistics, Inc. (“Dalton”) in the United States District Court for the Southern District of Texas. The Company was seeking approximately \$1.9 million in damages from a debtor relating to unpaid freight charges. In response to the filing of the complaint, the shareholders of Dalton filed a counterclaim against the Company alleging that the Company, in connection with certain unrelated negotiations with the defendant, breached an alleged agreement to acquire Dalton. The respective claims proceeded to trial and, on July 21, 2017, a jury returned two separate verdicts: One in favor of Universal for \$1.9 million, and a second in favor of the defendant for approximately \$5.7 million. On October 30, 2017, the court entered a judgment against Universal for the \$5.7 million, but ignored the \$1.9 million jury award in favor of Universal. The Company filed an appeal with the United States Court of Appeals for the Fifth Circuit to overturn the verdict and the judgment. On January 3, 2020, the appellate court upheld the verdict and the judgement against Universal. In connection with the ruling, the Company recorded a pre-tax charge to net income of \$2.9 million in the fourth quarter of 2019. As of December 31, 2019, the \$5.7 million judgement, plus \$0.8 million of interest has been accrued. The Company expects to fund the judgement and accrued interest in the first quarter of 2020.

As previously disclosed, a predecessor to a subsidiary of the Company was a party to a legal proceeding captioned Denton v. UACL, et al. (the “Denton Litigation”). The Company resolved the Denton Litigation on September 24, 2019 (the “Final Denton Settlement”). Under the terms of the Final Denton Settlement, the Company agreed to pay plaintiffs \$36.0 million in cash, exclusive of amounts previously paid, based on an opinion issued by the Appellate Court of Illinois First Judicial District on September 24, 2019 affirming the trial court judgment. In connection with the Final Denton Settlement, the Company recorded a pre-tax charge to net income of \$24.8 million in the third quarter of 2019. On October 23, 2019, the Company funded the \$36.0 million payment.

The Company is involved in certain other claims and pending litigation arising from the ordinary conduct of business. We also provide accruals for claims within our self-insured retention amounts. Based on the knowledge of the facts, and in certain cases, opinions of outside counsel, in the Company's opinion the resolution of these claims and pending litigation will not have a material effect on our financial position, results of operations or cash flows. However, if we experience claims that are not covered by our insurance or that exceed our estimated claim reserve, it could increase the volatility of our earnings and have a materially adverse effect on our financial condition, results of operations or cash flows.

At December 31, 2019, approximately 29% of our employees in the United States, Canada and Colombia are subject to collective bargaining agreements that are renegotiated periodically, of which 21% are subject to contracts that expire in 2020. Of our employees in Mexico, 92% are subject to such collective bargaining agreements, and our contract expiring in 2020 is currently being negotiated.

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(17) Earnings Per Share

Basic earnings per common share amounts are based on the weighted average number of common shares outstanding, excluding outstanding non-vested restricted stock. Diluted earnings per common share include dilutive common stock equivalents determined by the treasury stock method. For the years ended December 31, 2019, 2018 and 2017, there were 910, 6,912 and 2,922 weighted average non-vested shares of restricted stock, respectively, included in the denominator for the calculation of diluted earnings per share.

For the year ended December 31, 2019 and 2017, 44,500 and 2,500 shares, respectively, were excluded from the calculation of diluted earnings per share because such shares were anti-dilutive. For the year ended December 31, 2018, no shares were excluded from the calculation of diluted earnings per share.

(18) Quarterly Financial Data (unaudited)

	2019			
	1st quarter	2nd quarter	3rd quarter	4th quarter
(in thousands, except per share information)				
Operating revenue	\$ 377,406	\$ 383,175	\$ 375,486	\$ 375,931
Operating income	26,513	30,716	(7,352)	15,503
Income before income taxes	23,097	26,714	(11,268)	11,643
Income tax expense	5,800	6,742	(2,848)	2,906
Net income	<u>\$ 17,297</u>	<u>\$ 19,972</u>	<u>\$ (8,420)</u>	<u>\$ 8,737</u>
Earnings per common share:				
Basic	\$ 0.61	\$ 0.70	\$ (0.30)	\$ 0.32
Diluted	\$ 0.61	\$ 0.70	\$ (0.30)	\$ 0.32
Weighted average number of common shares outstanding:				
Basic	28,380	28,383	28,263	27,282
Diluted	28,381	28,385	28,264	27,283
	2018			
	1st quarter	2nd quarter	3rd quarter	4th quarter
(in thousands, except per share information)				
Operating revenue	\$ 335,113	\$ 365,925	\$ 374,292	\$ 386,378
Operating income (loss)	17,104	26,252	22,530	17,908
Income (loss) before income taxes	14,156	23,634	19,973	11,626
Income tax (benefit) expense	3,722	5,965	4,918	2,606
Net income (loss)	<u>\$ 10,434</u>	<u>\$ 17,669</u>	<u>\$ 15,055</u>	<u>\$ 9,020</u>
Earnings per common share:				
Basic	\$ 0.37	\$ 0.62	\$ 0.53	\$ 0.32
Diluted	\$ 0.37	\$ 0.62	\$ 0.53	\$ 0.32
Weighted average number of common shares outstanding:				
Basic	28,386	28,395	28,382	28,370
Diluted	28,393	28,402	28,392	28,374

UNIVERSAL LOGISTICS HOLDINGS, INC.
 Notes to Consolidated Financial Statements – (Continued)
 December 31, 2019, 2018 and 2017

(19) Segment Reporting

We report our financial results in two reportable segments, the transportation segment and the logistics segment, based on the nature of the underlying customer commitment and the types of investments required to support these commitments. This presentation reflects the manner in which management evaluates our operating segments, including an evaluation of economic characteristics and applicable aggregation criteria.

Operations aggregated in our transportation segment are associated with individual freight shipments coordinated by our agents, company-managed terminals and specialized services operations. In contrast, operations aggregated in our logistics segment deliver value-added services or transportation services to specific customers on a dedicated basis, generally pursuant to contract terms of one year or longer. Other non-reportable operating segments are comprised of the Company's subsidiaries that provide support services to other subsidiaries and to owner-operators, including shop maintenance and equipment leasing.

The following tables summarize information about our reportable segments as of and for the fiscal years ended December 31, 2019, 2018 and 2017 (in thousands):

2019	<u>Transportation</u>	<u>Logistics</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 1,013,548	\$ 497,315	\$ 1,135	\$ 1,511,998
Eliminated inter-segment revenues	(1,921)	(835)	—	(2,756)
Depreciation and amortization	39,239	33,670	1,856	74,765
Income from operations	20,226	47,694	(2,540)	65,380
Capital expenditures	18,830	58,547	2,376	79,753
Total assets	618,931	348,972	20,094	987,997
2018	<u>Transportation</u>	<u>Logistics</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 949,242	\$ 510,918	\$ 1,548	\$ 1,461,708
Eliminated inter-segment revenues	(1,673)	(12,451)	—	(14,124)
Depreciation and amortization	27,128	26,125	1,172	54,425
Income from operations	51,634	31,136	1,024	83,794
Capital expenditures	32,267	33,312	1,006	66,585
Total assets	525,906	298,455	18,786	843,147
2017	<u>Transportation</u>	<u>Logistics</u>	<u>Other</u>	<u>Total</u>
Operating revenues	\$ 750,302	\$ 465,070	\$ 1,293	\$ 1,216,665
Eliminated inter-segment revenues	(1,064)	(8,095)	—	(9,159)
Depreciation and amortization	17,661	29,136	198	46,995
Income from operations	14,512	10,597	105	25,214
Capital expenditures	12,330	50,597	433	63,360
Total assets	291,736	293,773	25,083	610,592

We provide a portfolio of transportation and logistics services to a wide range of customers throughout the United States and in Mexico, Canada and Colombia. Revenues attributed to geographic areas are as follows (in thousands):

	<u>Year Ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
United States	\$ 1,480,637	\$ 1,426,897	\$ 1,179,115
Mexico	16,100	18,716	24,346
Canada	13,552	14,188	11,538
Colombia	1,709	1,907	1,666
Total	\$ 1,511,998	\$ 1,461,708	\$ 1,216,665

UNIVERSAL LOGISTICS HOLDINGS, INC.
Notes to Consolidated Financial Statements – (Continued)
December 31, 2019, 2018 and 2017

(19) Segment Reporting—continued

Net long-lived property and equipment assets by geographic area are presented in the table below (in thousands):

	Year Ended December 31,	
	2019	2018
United States	\$ 319,348	\$ 284,321
Mexico	19,587	18,612
Canada	242	295
Colombia	646	6
Total	\$ 339,823	\$ 303,234

(20) Subsequent Events

On February 6, 2020, our Board of Directors declared the regular quarterly cash dividend of \$0.105 per share of common stock, payable to shareholders of record at the close of business on March 2, 2020 and is expected to be paid on April 6, 2020. Declaration of future cash dividends is subject to final determination by the Board of Directors each quarter after its review of our financial condition, results of operations, capital requirements, any legal or contractual restrictions on the payment of dividends and other factors the Board of Directors deems relevant.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A: CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of December 31, 2019 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets;
- (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Changes in Internal Control over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2019, which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Annual Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in *Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission*, which is commonly referred to as the 2013 framework.

The scope of management's assessment as of December 31, 2019 did not include an assessment of the internal controls over financial reporting during 2019 for Roadrunner Intermodal Services, LLC, Morgan Southern, Inc., Wando Trucking, LLC, or Central Cal Transportation, LLC (collectively, "Roadrunner Intermodal") or Michael's Cartage, Inc. (collectively the "Acquired Companies"), each of which was acquired during 2019. Management has excluded from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 the Acquired Companies' internal control over financial reporting associated with total assets of \$83.5 million, operating revenues of \$32.1 million and net income of \$0.1 million, all of which are included in the consolidated financial statements Universal Logistics Holdings, Inc. as of and for the year ended December 31, 2019. For the fiscal year ending December 31, 2020, the scope of management's assessment on internal control over financial reporting will include the Acquired Companies' operations.

Based on the Company's assessment, management has concluded that its internal control over financial reporting was effective as of December 31, 2019. The Company's independent registered public accounting firm, BDO USA LLP, has issued an audit report on the Company's internal control over financial reporting, which appears below.

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Universal Logistics Holdings, Inc.
Warren, Michigan

Opinion on Internal Control over Financial Reporting

We have audited Universal Logistics Holdings, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the three years in the period ended December 31, 2019, and the related notes and our report dated March 16, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Report on Internal Control over Financial Reporting". Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

As indicated in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting", management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Roadrunner Intermodal Services, LLC, Morgan Southern, Inc., Wando Trucking, LLC, or Central Cal Transportation, LLC (collectively, "Roadrunner Intermodal") or Michael's Cartage, Inc. (collectively the "Acquired Companies"), which were acquired in 2019 and which are included in the consolidated balance sheet of Universal Logistics Holdings, Inc. as of December 31, 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the year then ended. The Acquired Companies had \$83.5 million of total assets as of December 31, 2019, and \$32.1 million and \$0.1 million of revenues and net income, respectively, for the year then ended. Management did not assess the effectiveness of internal control over financial reporting of the Acquired Companies because of the timing of the acquisitions which were completed on various dates in 2019. Our audit of internal control over financial reporting of Universal Logistics Holdings, Inc. also did not include an evaluation of the internal control over financial reporting of the Acquired Companies.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ BDO USA, LLP

Troy, Michigan
March 16, 2020

ITEM 9B: OTHER INFORMATION

None.

PART III

Portions of the information required by Part III of Form 10-K are, pursuant to General Instruction G(3) of Form 10-K, incorporated by reference from our definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020. We will, within 120 days of the end of our fiscal year, file with the Securities and Exchange Commission a definitive proxy statement pursuant to Regulation 14A.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020.

ITEM 11: EXECUTIVE COMPENSATION

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020.

The following table presents information about equity plans under which equity securities of the Company are authorized for issuance at December 31, 2019:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance
Equity compensation plans approved by security holders	42,000	\$ — (1)	162,380
Equity compensation plans not approved by security holders	—	\$ —	—
Total	42,000	\$ — (1)	162,380

(1) Reflects shares to be issued under restricted stock bonus awards, which do not have an exercise price. As of December 31, 2019, the Company has no outstanding options, warrants or rights that require payment of an exercise price.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020.

ITEM 14: PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this Item is incorporated herein by reference to the definitive Proxy Statement to be filed pursuant to Regulation 14A for our Annual Meeting of Shareholders to be held on April 30, 2020.

PART IV

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(1) Financial Statements

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(2) Financial Statement Schedules

Financial statement schedules have been omitted since they are either not required, not applicable, or the information is otherwise included elsewhere in this Form 10-K.

(3) Exhibits

Exhibit No.	Description
2.1	Stock Purchase Agreement dated as of August 10, 2018 among Mason Dixon Intermodal, Inc., The Brian and Rocio Griley Family Trust u/t/d March 18, 2008 and Donald Griley Irrevocable Trust f/b/o Patrick Griley u/t/d March 1, 2008 (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on August 16, 2018)
2.2	Stock Purchase Agreement dated as of December 7, 2018 among Mason Dixon Intermodal, Inc., James H. Horvitz, Robert Sweet, The Horvitz Family Special Needs Gift Trust, dated July 18, 2014, (each a "Seller" and collectively the "Sellers"), Robin L. Horvitz, and J. Horvitz in his capacity as representative of the Sellers (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on December 11, 2018)
3.1	Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-1 filed on November 15, 2004)
3.2	Amendment to Restated Articles of Incorporation (incorporated by reference to Exhibit 3(i)-1 and 3(i)-2 to the Registrant's Current Report on Form 8-K filed on November 1, 2012)
3.3	Certificate of Amendment to Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on May 2, 2016)
3.4	Fifth Amended and Restated Bylaws, effective December 13, 2019 (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on December 16, 2019)
4.1	Specimen Common Share Certificate (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-1 filed on November 15, 2004)
4.2*	Description of Capital Stock of the Registrant
4.3	Amended and Restated Registration Rights Agreement among the Registrant, Matthew T. Moroun, the Manuel J. Moroun Revocable Trust and the M.J. Moroun 2012 Annuity Trust (incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K filed July 26, 2012)
10.1+	Consulting Agreement between the Registrant and Manuel J. Moroun (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 26, 2013)
10.2+	Amendment No. 1 to Consulting Agreement, dated April 26, 2018, with Manuel J. Moroun (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on April 27, 2018)
10.3+	Employment Agreement between the Registrant and Jeff Rogers (incorporated by reference to Exhibit 10.3 to the Registrant's Annual Report on Form 10-K filed on March 16, 2015)

Exhibit No.	Description
10.4	Service Level Agreement between the Registrant and Data System Services, LLC (incorporated by reference to Exhibit 10.7 to the Registrant's Annual Report on Form 10-K filed on March 16, 2015)
10.5+	2014 Amended and Restated Stock Option and Incentive Plan (incorporated by reference to Appendix A to the Registrant's Schedule 14A filed on April 29, 2014)
10.6+	Form of Restricted Stock Bonus Award Agreement under the 2014 Amended and Restated Stock Option and Incentive Plan (incorporated by reference to Exhibit B of Appendix A to the Registrant's Schedule 14A filed on April 29, 2014)
10.7	Credit and Security Agreement dated as of November 27, 2018 among Universal Management Services, Inc., Cavalry Logistics, LLC, Fore Transportation, Inc., Logistics Insight Corp., Mason Dixon Intermodal, Inc., Southern Counties Express, Inc., Specialized Rail Service, Inc., Universal Logistics Solutions International, Inc., Universal Specialized, Inc., Universal Truckload, Inc., Westport Axle Corp., and Westport Machining, LLC, as borrowers, certain subsidiaries of Universal Logistics Holdings, Inc., as guarantors, and KeyBank National Association as administrative agent and lender (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on November 29, 2018)
10.8	Loan and Financing Agreement dated as of February 1, 2018 between UTSI Finance and Flagstar (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed on February 6, 2018)
10.9	Promissory Note dated as of February 1, 2018 by UTSI Finance in favor of Flagstar (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed on February 6, 2018)
10.10	Commercial Mortgage dated as of February 1, 2018 between UTSI Finance and Flagstar (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed on February 6, 2018)
10.11	Amendment No. 2 to Master Security Agreement, dated as of April 24, 2018, with Key Equipment Finance, a division of KeyBank National Association (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on April 27, 2018)
10.12+	Employment Agreement between the Registrant and Tim Phillips (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed on January 14, 2020)
10.13+*	Separation Agreement between the Registrant and Jeff Rogers
21.1*	Subsidiaries of the Registrant
23.1*	Consent of BDO USA LLP, independent registered public accounting firm
24*	Powers of Attorney (see signature page)
31.1*	Chief Executive Officer certification, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Chief Financial Officer certification, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Chief Executive Officer and Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Schema Document
101.CAL*	XBRL Calculation Linkbase Document
101.DEF*	XBRL Definition Linkbase Document
101.LAB*	XBRL Labels Linkbase Document
101.PRE*	XBRL Presentation Linkbase Document

+ Indicates a management contract, compensatory plan or arrangement.

* Filed herewith.

** Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Universal Logistics Holdings, Inc.
(Registrant)

By: /s/ Jude Beres
Jude Beres, Chief Financial Officer

Date: March 16, 2020

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Tim Phillips and Jude Beres, jointly and severally, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signatures	Title	Date
<u>/s/ Tim Phillips</u> Tim Phillips	Chief Executive Officer (Principal Executive Officer)	March 16, 2020
<u>/s/ Jude Beres</u> Jude Beres	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	March 16, 2020
<u>/s/ Matthew T. Moroun</u> Matthew T. Moroun	Chairman of the Board	March 16, 2020
<u>/s/ Manuel J. Moroun</u> Manuel J. Moroun	Director	March 16, 2020
<u>/s/ Grant Belanger</u> Grant Belanger	Director	March 16, 2020
<u>/s/ Frederick P. Calderone</u> Frederick P. Calderone	Director	March 16, 2020
<u>/s/ Daniel J. Deane</u> Daniel J. Deane	Director	March 16, 2020
<u>/s/ Clarence W. Gooden</u> Clarence W. Gooden	Director	March 16, 2020
<u>/s/ Michael A. Regan</u> Michael A. Regan	Director	March 16, 2020
<u>/s/ Richard P. Urban</u> Richard P. Urban	Director	March 16, 2020
<u>/s/ H.E. "Scott" Wolfe</u> H. E. "Scott" Wolfe	Director	March 16, 2020